Annual Report

Year Ended March 31, 2006

Murata Manufacturing Co., Ltd.

Profile

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

Products

Mobile Communications

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

SWITCHPLEXER®

Automotive Electronics

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

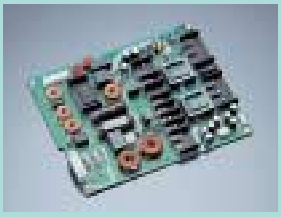
Antenna Coil for Smart Keyless Entry

Computers

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

Shock Sensors

Digital Home Electronics



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

Switching Power Supplies
for Flat Panel Displays

Contents

Cautionary Statement on Forward-looking Statements

Some information in this annual report may constitute forward-looking statements concerning Murata Manufacturing Co., Ltd. and its Group companies' projections, plans, policies, strategies, schedules, and decisions. These forward-looking statements are not historical facts; rather, they represent the assumptions of the Murata Group based on information currently available and sound judgment. Actual results may differ materially from expectations due to various risks and uncertainties. Therefore, readers are requested not to rely on these forward-looking statements as the sole basis for evaluating the Group. The Company has no obligation to revise its forward-looking statements as a result of new information, future events or otherwise. Risks and uncertainties that may affect actual results include, but are not limited to, the following: (1) the economic conditions of the Company's business environment, and market trends, the supply-demand balance, and price fluctuations in electronic equipment and components fields; (2) price fluctuations and insufficient supply of raw materials; (3) exchange rate fluctuations; (4) the Group's ability to provide a stable supply of new products that are compatible with the rapid technological changes of the electronic components market, as well as the ability to design products and develop services that satisfy customers; (5) changes in the market value of the Group's financial assets; (6) drastic legal, political, and social changes in the Group's business environment; and (7) other uncertainties and contingencies. Please note that the Group has no obligation to revise its forward-looking statements published in this report and make public announcements on such changes.

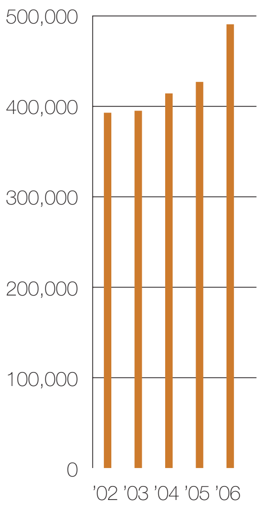
Five-Year Consolidated
Financial Highlights

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2002-2006

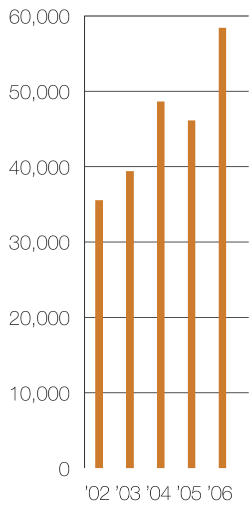
	Millions of yen except per share amounts					Thousands of U.S. dollars except per share amounts (Note)
	2006	2005	2004	2003	2002	2006
Net sales	¥490,784	¥424,468	¥414,247	¥394,955	¥394,775	$4,194,735
Operating costs and expenses	400,945	354,953	340,037	335,768	343,774	3,426,880
Operating income	89,839	69,515	74,210	59,187	51,001	767,855
Other income (expenses)	1,841	3,390	4,475	(93)	1,407	15,735
Income before income taxes and cumulative effect of changes in accounting principle	91,680	72,905	78,685	59,094	52,408	783,590
Net income	58,448	46,578	48,540	39,467	34,999	499,556
Amounts per share:						
Earnings per share						
Basic	¥ 262.49	¥ 204.99	¥ 208.46	¥ 163.47	¥ 143.91	$ 2.24
Diluted	262.47	204.99	208.46	163.47	143.34	2.24
Cash dividends	55.00	50.00	50.00	50.00	50.00	0.47
Current assets	641,387	592,836	590,355	575,768	545,881	5,481,940
Property, plant and equipment less accumulated depreciation	232,877	225,735	221,964	234,117	269,392	1,990,402
Total assets	909,641	850,748	844,115	834,313	839,372	7,774,709
Shareholders' equity	755,394	712,309	700,937	692,090	726,236	6,456,359
Capital investment	51,040	48,033	33,088	18,161	34,591	436,239
Number of employees	26,956	25,924	26,469	26,435	27,386	

Note: The U.S. dollar amounts in this report represent translation of Japanese yen for convenience only at the rate of ¥117=U.S.$1.
* The operating income for the year ended March 31, 2004 includes gain amounting to Yen 11,693 million related to the transfer of the substitutional portion of the Contributory Termination and Retirement Plans to the government. In the Consolidated Statement of Income, the difference between the substitutional portion of the accumulated benefit obligation and the related plan assets, amounting to Yen 18,000 million, is indicated as "Subsidy from the government related to the transfer of the substitutional portion of the Contributory Termination and Retirement Plans to the government".

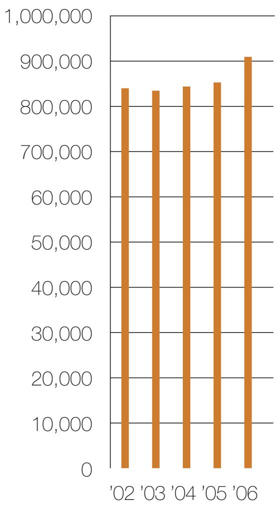
Net sales
(Millions of yen)



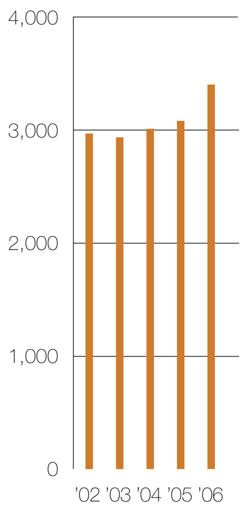
Net income
(Millions of yen)



Total assets
(Millions of yen)



Shareholders' equity per share*1 (Yen)



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

To Our Shareholders

Performance for Fiscal Year Ended March 2006

Favorable Market Conditions, Combined With Greater Demand for Electronic Components

During the period under review, the global electronics market posted steady growth, while demand for electronic components expanded significantly. We can identify two major reasons for this strong demand. First, demand from first-time buyers for mobile phones and desktop PCs grew in Brazil, Russia, India, and China (BRICs) and other emerging economies. In these countries, higher demand for, and production of, mobile phones and PCs directly triggered a rise in demand for electronic components.

The second factor is the increasing use of digital technology, as well as the rising performance and the expanding applications of electronic devices in industrial countries. Although demand from first-time buyers of mobile phones and PCs is declining in these countries, growing demand to replace these products with more advanced models has boosted demand for electronic components. Specific trends include the rising popularity of third-generation and Bluetooth®*-enabled cell phones; the shift in demand from desktop PCs to laptop PCs and those featuring a dual-core central processing unit (CPU); and the growing use of digital home electronics such as flat-screen televisions and mobile audio players. These trends point to more growth in demand for smaller capacitors with more capacitance, and in the number of electronic components required by various products, thus triggering a greater expansion of markets in which Murata operates.

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

Double-digit Growth in Both Net Sales and Profit

Owing to these favorable market conditions, for the year ended March 31, 2006, net sales increased 15.6% year on year to ¥490,784 million (US$4,194,735 thousand), operating income soared 29.2% to ¥89,839 million (US$767,855 thousand), and net income jumped 25.5% to ¥58,448 million (US$499,556 thousand)–all posting double-digit growth. The earnings per share (EPS) after dilution was ¥262.47, and the return on equity (ROE) was 8.0%.

By product category, the sales increase was largely attributable to a substantial increase in capacitors, Murata's mainstay products, as well as Bluetooth® modules, which tripled from the previous fiscal year. Meanwhile, by application, we recorded steady growth in the communications category, achieving a strong performance in the mobile phones segment and in components for PCs and hard disk drives (HDD). Finally, by area, Asia and Others far surpassed all other regions by posting a year-on-year increase of 32.7%.

In terms of profit, positive factors included higher production volume due to sales expansion; further improvements in productivity and cost reduction; a more competitive lineup that features a greater ratio of sales from new products; and a weak yen. Although we saw an increase in depreciation and amortization expenses and selling, general and administrative expenses, growth rates were lower than for sales.

Outlook for the Fiscal Year Ending March 31, 2007

Market Conditions Expected to Remain Strong

In the fiscal year ending March 31, 2007, we expect to see production of major electronics products to continue expanding. In parallel, demand for electronic components is projected to steadily grow. Especially, the mobile phones market is poised to grow further. Expansion will be driven by higher demand in emerging economies and sophisticated functions for mobile phones due to the rising popularity of third-generation mobile phone services and Bluetooth®-equipped handsets. Furthermore, the markets for audio/visual equipment, which includes the rapidly growing flat-screen television category, as well as PCs and automotive electronics, are expected to sustain growth.

Aiming for Another Year of Double-Digit Growth in Net Sales and Profit

Based on this outlook, for fiscal 2007, the Murata Group projects net sales to increase 10.0% to ¥540,000 million, operating income to rise 13.5% to ¥102,000 million, and net income to grow 12.9% to ¥66,000 million. In addition, we are planning capital expenditures of ¥80,000 million, 56.7% higher than fiscal 2006, largely for the purpose of reinforcing production capabilities and constructing production facilities.* By taking advance steps to bolster our production capacity, we are endeavoring to boost our competitive edge in the market.

*These forward-looking statements are current as of 29th April, 2006.

Main Management Issues for Growth

Reinforce Production Capabilities

Due to the world's expanding demand for electronic components, it has become imperative for the Murata Group to reinforce its production capabilities. To this end, in fiscal 2007, we will take proactive steps and make a substantially higher capital investment of ¥80,000 million.

Our capital expenditures in fiscal 2007 will include ¥45,000 million to make improvements to our production facilities. Specifically, we will focus on strengthening production of capacitors, where demand is expected to expand, as well as noise suppression products, microwave components, and Bluetooth® modules. Moreover, we will invest ¥20,000 million in the construction of production facilities for capacitors, microwave components, power supplies, and even raw materials to prepare for growth in the next two to three years.

Bolster Operations in China

During fiscal 2006, overseas sales accounted for 72.7% of net sales on a consolidated basis. The majority of these products were sold in China and other Asian countries, where U.S. and European electronics manufacturers are building factories, triggering a sharp rise in demand for components.

Seizing this opportunity, the Murata Group will bolster its operational framework–encompassing all phases from production to sales–in China, a region which has become a major production base for electronics manufacturers.

In fiscal 2006, we completed a production facility for chip monolithic ceramic capacitors in Wuxi. This location features an integrated production line encompassing all phases from preparing raw materials to packaging. Moreover, we established a company specializing in the production of power supplies in Shenzhen. Through these and other efforts, we are taking steady steps to expand and reinforce our production activities in China.

On the management front, we launched a company in Shanghai that manages and controls marketing bases in the Chinese economic zone to achieve efficient business activities. This addition serves to strengthen our marketing framework in the region, which promises further expansion of demand.

Achieve 40% in the Ratio of New Products to Net Sales

In recent years, prices of electronic components have been dropping at an average of around 10% every year. Recognizing the implications of this trend, the Murata Group is working quickly to improve the ratio of high value-added new products to net sales, as they are not easily impacted by falling prices. To achieve this, we have maintained a high ratio of R&D expenses to net sales of between 7 and 8%. Under the principle of "vertical integration of technologies," we allocate R&D resources among the three fields of materials, process, and product design.

When I became president in 1991, new products accounted for only 15% of net sales. However, by focusing on the creation of new products, we brought the figure up to 30% by 2000. Building on this progress, we have established the goal of 40%. Our efforts in fiscal 2006 have taken us a step closer to the target by raising this ratio to 37%.

Acquisition of SyChip, Inc. to Expand the Module Business

In April 2006, the Murata Group purchased SyChip, Inc., which is based in the U.S. state of Texas, a venture capital-backed company established by former employees of Lucent Technologies. The total investment, representing the purchase of stock, and stock options, was approximately US$137 million.

SyChip specializes in the development, design, and sales of chip-size modules for wireless communications such as Voice over IP (VoIP). The acquisition of SyChip allows Murata to supply modules for wireless communications in a lucrative market that includes VoIP applications. This acquisition also gives us access to SyChip's Integrated Passive Device (IPD) technology, which uses silicon for module substrates so that components can be formed on the substrate's surface. This makes it possible to fabricate smaller and thinner modules. Furthermore, SyChip provides software support to major clients. Murata will leverage this company's software technology and expertise in support services to reinforce its own existing business in modules for wireless communications, including wireless local area network (W-LAN) and Bluetooth®. SyChip's strength also lies in its operations in China, which Murata hopes to exploit in the field of software technology.

Corporate Social Responsibility Activities

Corporate Governance and Compliance

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

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

Environmental Activities

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

Murata's Financial Policies

Returning Earnings to Shareholders: Dividends and Share Repurchases

In returning profits to shareholders, Murata's basic policy is to strive for consistent dividend growth. For the year ended March 31, 2006, we paid total cash dividends of ¥70 per share, a ¥20 increase year on year. We also repurchase our own shares whenever appropriate. In fiscal 2006, Murata repurchased 2,812 thousand shares at a cost of ¥15,576 million. Over the four years since July 2002, we have repurchased 22,325 thousand shares at a cost of ¥122,900 million.

Policy on Dividends for Fiscal 2007

In light of projected consolidated results and retained earnings, for the fiscal year ending March 31, 2007, Murata plans to pay an annual dividend of ¥80 per share (comprising interim and year-end dividends of ¥40 per share), an increase of ¥10. These figures reflect our view of the current business environment and our projections for fiscal 2007.

We appreciate your continued understanding and advice as we work to achieve our goals.

July 2006

Yasutaka Murata
President
Statutory Representative Director

General Business Review

Performance and Achievements of the Group

Overall General Condition

During the period under review, the global electronic market was brisk from the summer onward for mobile phones, personal computers, and digital audio/video equipment. As a result, the volume of demand for electronic components for the year as a whole grew strongly over the previous year.

Looking at the market environment segmented by application, in the key mobile phone segments within the telecommunication equipment market, demand for mobile phones was robust in newly developing markets such as China, India, Russia, and Brazil throughout the period. In the advanced countries, too, replacement demand was strong as consumers moved to buy third-generation mobile phones and other models with sophisticated features such as compatibility with Bluetooth®*. In the computers and peripheral equipment market, demand for notebook computers and hard disk drives grew strongly. In the audio/video equipment market, sales of flat-panel TVs using LCDs or plasma display panels (PDPs) were brisk. In the automotive electronics market, in addition to the growing popularity of car navigation systems, the use of electronics in automobiles increased, such as safety equipment.

The Murata Group responded to this market environment by increasing production capacity to deal with growing demand, while focusing on improving customer service by expanding its marketing network.

Although product prices continued to decline, the Murata Group also focused on improving profitability and strengthening its corporate infrastructure by promoting cost reduction activities such as productivity improvements, while pushing forward with the commercialization of new, high-value added products.

The Murata Group Results

	Millions of yen					
Years ended March 31	2006		2005		Growth	
	Amount	*1	Amount	*1	Amount	*2
Net sales	¥490,784	100.0%	¥424,468	100.0%	¥ 66,316	15.6%
Cost of sales	295,958	60.3%	255,604	60.2%	40,354	15.8%
Selling, general and administrative expenses	70,291	14.3%	66,504	15.7%	3,787	5.7%
Reserch and development expenses	34,696	7.1%	32,845	7.7%	1,851	5.6%
Operating income	89,839	18.3%	69,515	16.4%	20,324	29.2%
Other income (expenses)-net	1,841	0.4%	3,390	0.8%	(1,549)	(45.7%)
Income before income taxes	91,680	18.7%	72,905	17.2%	18,775	25.8%
Income taxes	33,232	6.8%	26,327	6.2%	6,905	26.2%
Net income	¥ 58,448	11.9%	¥ 46,578	11.0%	¥ 11,870	25.5%

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

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

[Net Sales]

Sales increased 15.6% year on year to ¥490,784 million.

Among the above, the product sales of electronic components and peripheral products, the main business, reached ¥489,129 million.

By region, in comparison with the previous period, product sales in the Asia/Other segment grew 32.7% year on year to ¥247,995 million, largely owing to strong growth in sales of components for telecommunications equipment, computers and peripheral equipment in China and the ASEAN countries.

Sales of telecommunications equipment and computers also increased in the Americas, with total sales for this geographic segment rising 7.4% year on year to ¥41,665 million. Sales in Europe were up 2.4% year on year to ¥65,944 million, mainly due to growth in sales to our distributors. In Japan, sales of components for telecommunications equipment, computers and peripheral equipment declined, but an increase was recorded in sales of audio/video equipment and automotive electronics, with total sales edging up by 0.5% year on year to ¥133,525 million.

[Operating income]

Operating income increased 29.2% year on year to ¥89,839 million.

The operating margin (the ratio of operating income to net sales) improved by 1.9 percentage points over the previous year to 18.3%, as the positive effects of higher revenue, ongoing new product introductions, initiatives to reduce the cost of goods sold through cost cutting activities, and the weakening of the yen against the U.S. dollar – a depreciation of ¥5.77 compared to the previous year – outweighed the negative effects of price decline.

[Income before Income Taxes]

Income before income taxes increased 25.8% year on year to ¥91,680 million.

[Net income]

Net income was up 25.5% year on year to ¥58,448 million. The corporate tax rate increased by 0.1 percentage points from the year-earlier level to 36.2%.

Capital Investment, Depreciation and Amortization

During the period under review, the Group made capital investments totaling ¥51,040 million. This breaks down to ¥31,544 million to expand and rationalize production facilities, ¥6,943 million to expand research and development facilities and ¥4,903 million in the purchase of land and buildings.

There were no major abandonments or sales that had a noteworthy impact on production capacity. Depreciation and amortization increased 6.5% from the previous fiscal year to ¥45,139 million.

Financial Position

Total assets as of March 31, 2006 increased ¥58,893 million from a year earlier to ¥909,641 million.

Liquidity in hand (cash, time deposits, and marketable securities in current assets) increased ¥13,044 million from the previous year to ¥439,564 million. Notes and accounts receivable rose ¥24,387 million, inventories increased ¥7,412 million, and property, plant and equipment climbed ¥7,142 million.

Shareholders' equity increased ¥43,085 million compared to the end of the previous year. However, due to the large increase in total assets, the ratio of shareholders' equity to total assets was 83.0%, down 0.7 of a percentage point from a year earlier.

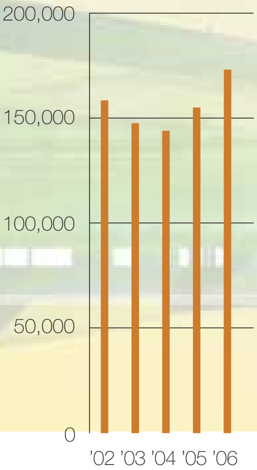
Review of Operations by Product Category

Sales by Product Category

Years ended March 31	Millions of yen					
	2006		2005		Growth	
	Amount	*1	Amount	*1	Amount	*2
Capacitors	¥173,598	35.5%	¥155,489	36.8%	¥ 18,109	11.6%
Piezoelectric Components	73,242	15.0%	70,576	16.7%	2,666	3.8%
Microwave Devices	97,178	19.9%	65,646	15.5%	31,532	48.0%
Module Products	58,303	11.9%	53,838	12.7%	4,465	8.3%
Other Products	86,808	17.7%	77,465	18.3%	9,343	12.1%
Net sales	¥489,129	100.0%	¥423,014	100.0%	¥ 66,115	15.6%

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

Capacitors

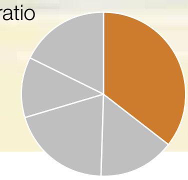


This product category includes monolithic ceramic capacitors, ceramic disc capacitors, and trimmer capacitors.

For the period under review, sales of chip monolithic ceramic capacitors, the main product in this category, exceeded prior-year levels, as large capacitance capacitors grew sharply based on demand for audio/video equipment, telecommunications equipment and computers and peripheral equipment. Small-sized products also saw sharp sales growth for use in telecommunications equipment. Application-specific capacitors for computer and peripheral equipment also posted a strong sales gain.

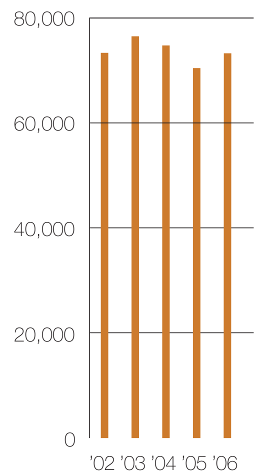
As a result, overall sales increased 11.6% year on year, to ¥173,598 million.

Composition ratio
35.5%



Chip Monolithic Ceramic Capacitors

Piezoelectric Components

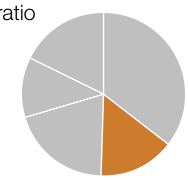


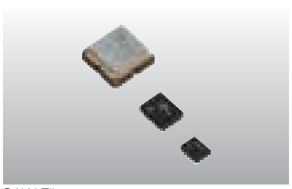
This product category includes ceramic filters, ceramic resonators, surface acoustic wave filters, piezoelectric sensors and piezoelectric buzzers.

For the period under review, sales of surface acoustic wave filters for use in telecommunications equipment saw an increase year on year. Sales of piezoelectric sensors for shock-detection use in HDDs grew strongly. On the other hand, sales of ceramic resonators for use in audio/video equipment, computers and peripheral products declined, and sales of ceramic filters for use in audio/video and telecommunications equipment dropped.

As a result, overall sales recorded a year on year gain of 3.8%, to ¥73,242 million.

Composition ratio
15.0%

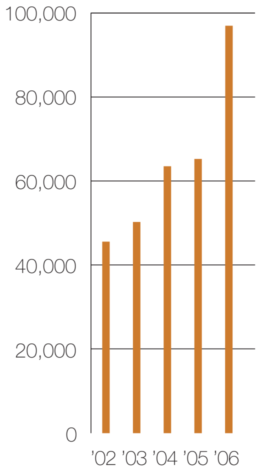




SAW Filters

Microwave Devices

Sales
(Millions of yen)

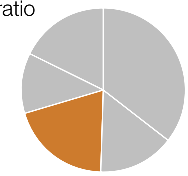


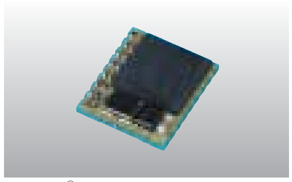
This product category includes multilayer ceramic devices, Bluetooth® modules, dielectric filters, isolators and connectors.

For the period under review, sales of Bluetooth® modules for mobile phones grew strongly to approximately three times the previous year's level. Sales of multiplayer ceramic devices for use in telecommunications equipment grew in Europe. In contrast, sales of dielectric filters and isolators for use in telecommunications equipment declined.

As a result, overall sales increased 48.0% year on year, to ¥97,178 million.

Composition ratio
19.9%

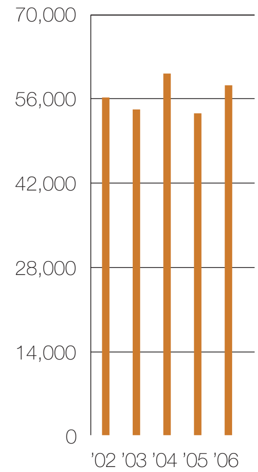




Bluetooth® Modules

Module Products

Sales
(Millions of yen)

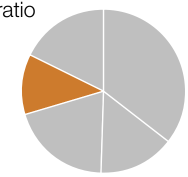


This product category includes circuit modules and power supplies.

For the period under review, sales of power supplies grew briskly, primarily for use in audio/video equipment such as LCD- TVs. In the circuit modules product line, sales of module products for wireless LAN and VCOs (voltage control oscillators) increased, while sales of submodules for telecommunications equipment fell steeply.

As a result, overall sales increased 8.3% year on year to ¥58,303 million.

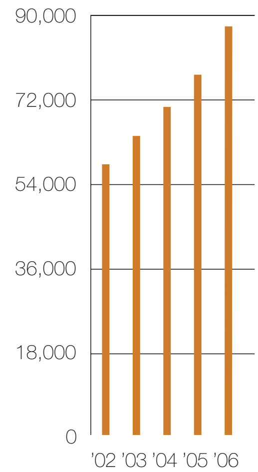
Composition ratio
11.9%



Terrestrial Digital Tuners for Mobile Phones

Other Products

Sales
(Millions of yen)

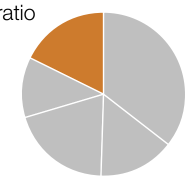


This product category includes EMI suppression filters, coils, sensors, and resistors.

For the period under review, sales of EMI suppression filters for audio/video and telecommunications equipment increased year on year, while sales of chip coils for telecommunications equipment and computers and peripheral equipment also grew. Sales of sensors exceeded prior–years levels greatly, due to the upsurge of piezoelectric gyroscopes used for detecting digital camera vibration. In addition, sales of resistors exceeded prior-year-levels, with growth primarily in chip-type thermistors.

As a result, overall sales posted a 12.1% year on year increased to ¥86,808 million.

Composition ratio
17.7%



Piezoelectric Vibrating Gyroscopes
(GYROSTAR®)

Review of Operations by Application

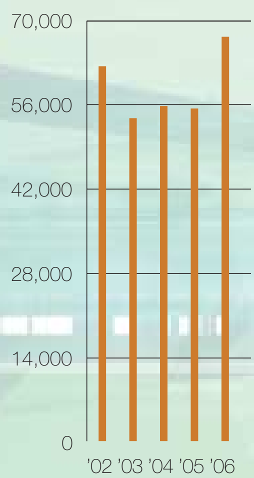
Sales by Application (based on the company's estimate)

Years ended March 31	Millions of yen					
	2006		2005		Growth	
	Amount	*1	Amount	*1	Amount	*2
AV	¥ 62,420	12.8%	¥ 55,408	13.1%	¥ 7,012	12.7%
Communications	204,214	41.7%	168,026	39.7%	36,188	21.5%
Computers and Peripherals	102,277	20.9%	87,397	20.7%	14,880	17.0%
Automotive Electronics	54,870	11.2%	51,529	12.2%	3,341	6.5%
Home and Others	65,348	13.4%	60,654	14.3%	4,694	7.7%
Net sales	¥489,129	100.0%	¥423,014	100.0%	¥ 66,115	15.6%

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

Audio/Visual

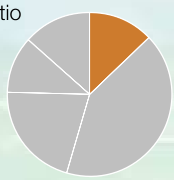
Sales
(Millions of yen)



Sales of components for visual equipment surpassed that of the previous year, buoyed by strong growth of components for LCD televisions, digital still cameras, and digital video cameras, as well as higher sales of components for portable game devices and other products. Likewise, in audio equipment, a significant increase in sales of components for portable digital audio players combined with healthy sales of components for home audio/visual equipment, resulted in a year-on-year increase.

As a result, overall sales rose 12.7% year on year, to ¥62,420 million.

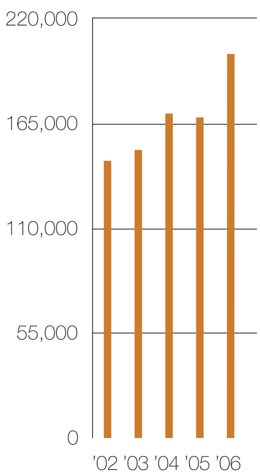
Composition ratio
12.8%



Switching Power Supplies for Flat Panel Displays

Communications

Sales
(Millions of yen)

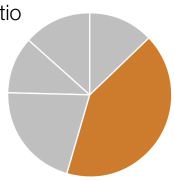


In the mobile phones segment, a significant sales increase was posted for Bluetooth® modules specially designed for major manufacturers, as well as for third-generation devices and those using the Global System for Mobile Communications (GSM) standard. This growth offset the weakening demand for personal digital communications (PDC) and Time Division Multiple Access (TDMA) devices. As a result, sales of components for mobile phones recorded a substantial increase.

In other segments, sales of components for Personal Handyphone Systems (PHSs) dropped in Japan, while an increase was posted in China. In addition, components for wireless local area network (LAN), cordless phones, and data cards rose, compensating for a decline in sales of components for base stations in Japan and Europe.

As a result, overall sales increased 21.5% year on year to ¥204,214 million.

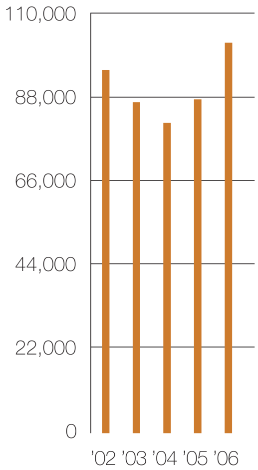
Composition ratio
41.7%



(Back) Dielectric Duplexers (GIGAFIL®)
(Front left) SAW Filters
(Front right) SAW Duplexers

Computers and Peripherals

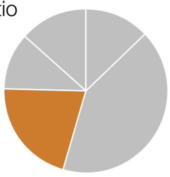
Sales
(Millions of yen)



Sales of components for laptop PCs and motherboards in China grew sharply, due to the high production volume of finished products. Likewise, the segment posted brisk sales of components for microprocessor units (MPU) to major customers, surpassing the figure posted the previous fiscal year. Furthermore, sales of components for hard disk drives (HDD) recorded a significant increase in ASEAN countries, while sales of those for personal digital assistance (PDA) devices grew, owing to strong production by major Taiwanese customers. Finally, the segment reported higher sales of components for printers, mainly ink jet printers.

As a result, overall sales increased 17.0% year on year, to ¥102,277 million.

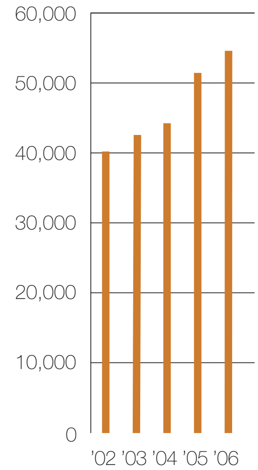
Composition ratio
20.9%



Chip Ferrite Beads
Chip Common Mode Choke Coils
Chip Coils

Automotive Electronics

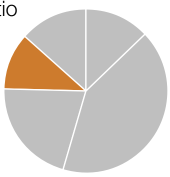
Sales
(Millions of yen)



Sales of components for electronic control units (ECU) and comfort units, such as seat position memory systems and door auto lock systems, grew compared to the previous fiscal year, especially in Europe. There was a big increase in sales of components for car navigation systems in Japan and Europe. In addition, sales of components for car audio products rose substantially in all regions except Europe.

As a result, overall sales increased 6.5% year on year to ¥54,870 million.

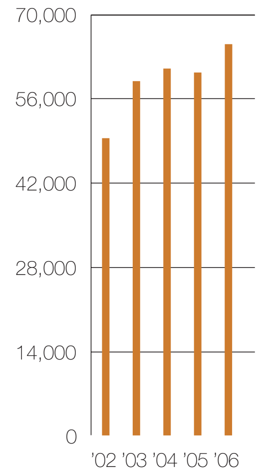
Composition ratio
11.2%



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

Home Electronics and Others

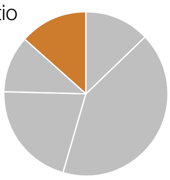
Sales
(Millions of yen)



While sales in Japan dropped, the segment posted higher sales to China, Europe, and the Americas.

As a result, overall sales increased 7.7% year on year, to ¥65,348 million.

Composition ratio
13.4%



Piezoelectric Vibrating Gyroscopes
(GYROSTAR®)

Research & Development

Based on the principle, "New quality electronic equipment begins with new quality components, and new quality components begin with new quality materials," Murata employs an integrated production system, encompassing all stages from materials procurement to the delivery of finished products. To ensure the proper operation of this system, Murata conducts R&D activities that vertically integrate materials, processing, design, and production technologies.

In recent years, the world's electronics industry has witnessed rapid progress in the development of smaller and thinner devices featuring more sophisticated and diverse capabilities. Furthermore, growing markets for products based on high-frequency and digital technologies, especially wireless equipment such as mobile communication devices and computers, have created demand for new types of components. Meanwhile, environmental measures, such as cutting CO_2 emissions to prevent global warming and reducing the use of environmentally hazardous substances, are becoming widespread. In response to these trends, the Murata Group has built frameworks and systems for environmental management that adhere to the Restriction of Hazardous Substances (RoHS) Directive.* Aiming to supply products that are smaller, have more layers and handle higher frequencies, Murata is developing high-frequency and noise suppression components as well as circuit modules and other products that are smaller and designed as chips. This endeavor complements Murata's design efforts to reduce the use of raw materials and promote the Design for the Environment (DfE)** initiatives.

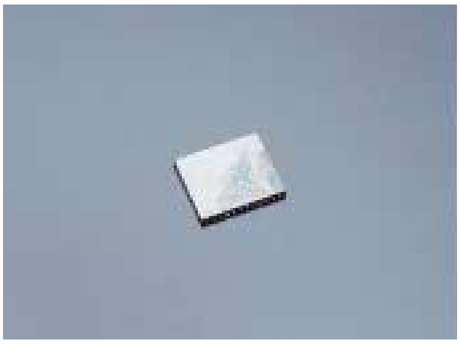
Murata's R&D framework comprises (1) the Headquarters R&D Division, consisting of the Research & Development Unit, the Materials Research & Development Center, the Production Head Division, and the Research Center for Next Generation Technology, and (2) the Development Division of the Product Marketing Head Division. The Yasu Plant Development Group is Murata's largest R&D base, which develops electronics materials such as ceramics and plastics, production and processing technologies, and a variety of new products. The Yokohama Technical Center Development Group develops electronic components and circuit modules for communications products. Finally, the core management functions of the Product Marketing Head Division are centralized at headquarters to collect and share information on market trends and user requests. The division of responsibilities between the Headquarters R&D Division and the Product Marketing Division enables Murata to conduct R&D activities by vertically integrating materials, processing, and design technologies.

The Murata Group's mainstay businesses are the development, manufacture, and sales of electronic components and related products. All products are similar in terms of applications, production methods, processing, market categories, and sales methods. Due to these similarities, R&D activities for these products are discussed collectively in this report. During the past fiscal year, R&D expenses totaled ¥34,696 million. Major R&D achievements are as follows:

*A directive enacted in July 2006 in the European Union (EU) restricting the use of lead, cadmium, mercury, hexavalent chromium, polybrominated biphenyl (PBB), and polybrominated diphenyl ether (PBDE) flame retardants in electrical and electronic equipment

**Environmental activities have gained momentum in recent years. The DfE program promotes the development and design procedures that reduce the use of raw materials, energy consumption, and emissions during manufacture of products. It also aims to conserve energy used by products and ensure safety when the products are discarded.

Receivers for One-Segment ISDB-T Broadcasting


Terrestrial Digital Tuners for Mobile Phones

One-segment ISDB-T broadcasting* for mobile devices has launched on April 1, 2006. In response to it, Murata has produced small modules for the reception of this new type of digital terrestrial broadcasting. Equipped with a high-performance tuner(RF) IC, a high-linearity LNA, and a filtering circuitry for suppressing interfering signals, these modules feature extreme high sensitivity.

In addition, a trap filter at the RF input eliminates mobile phone's transmitting signals at 900MHz band, so that mobile communication does not prevent TV reception. Volume production has begun in November, 2005.

*In digital terrestrial broadcasting (ISDB-T) in Japan, one segment among 13 segments in a TV channel is dedicated to the mobile reception, Only one segment is enough because screens on mobile devices are so small that it does not require high definition or sound quality,

Monolithic Ceramic Capacitors (JIS 3216 (3.2mm × 1.6mm), 100μF)


Chip Monolithic Ceramic Capacitors

By combining technologies that make ceramic capacitors thinner while increasing layers with technologies that enable high dispersion of materials, Murata has substantially increased capacitance per unit of volume. This breakthrough made possible two types of monolithic ceramic capacitors with the following features: (1) JIS 3216, 100μF, 6.3V, and operating temperature up to 85°C; and (2) JIS 3216, 100μF, 4V, and operating temperature up to 125°C.

Compared to JIS 3225 (3.2mm × 2.5mm), these new capacitors are approximately 64% and 40% smaller in size and volume, respectively. This makes them suitable for use in small, high-precision electronic devices.

Heat generated by recently introduced electronic devices often causes the operating temperature to exceed 85°C. The new capacitors with features described in (2) above resolve this problem. That means they can withstand the high-temperature environments created by flat panel displays, laptop PCs, and power supplies. Volume production of these capacitors began in June 2005.

Corporate Governance

Approach to Corporate Governance

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

Implementation of Measures for Corporate Governance

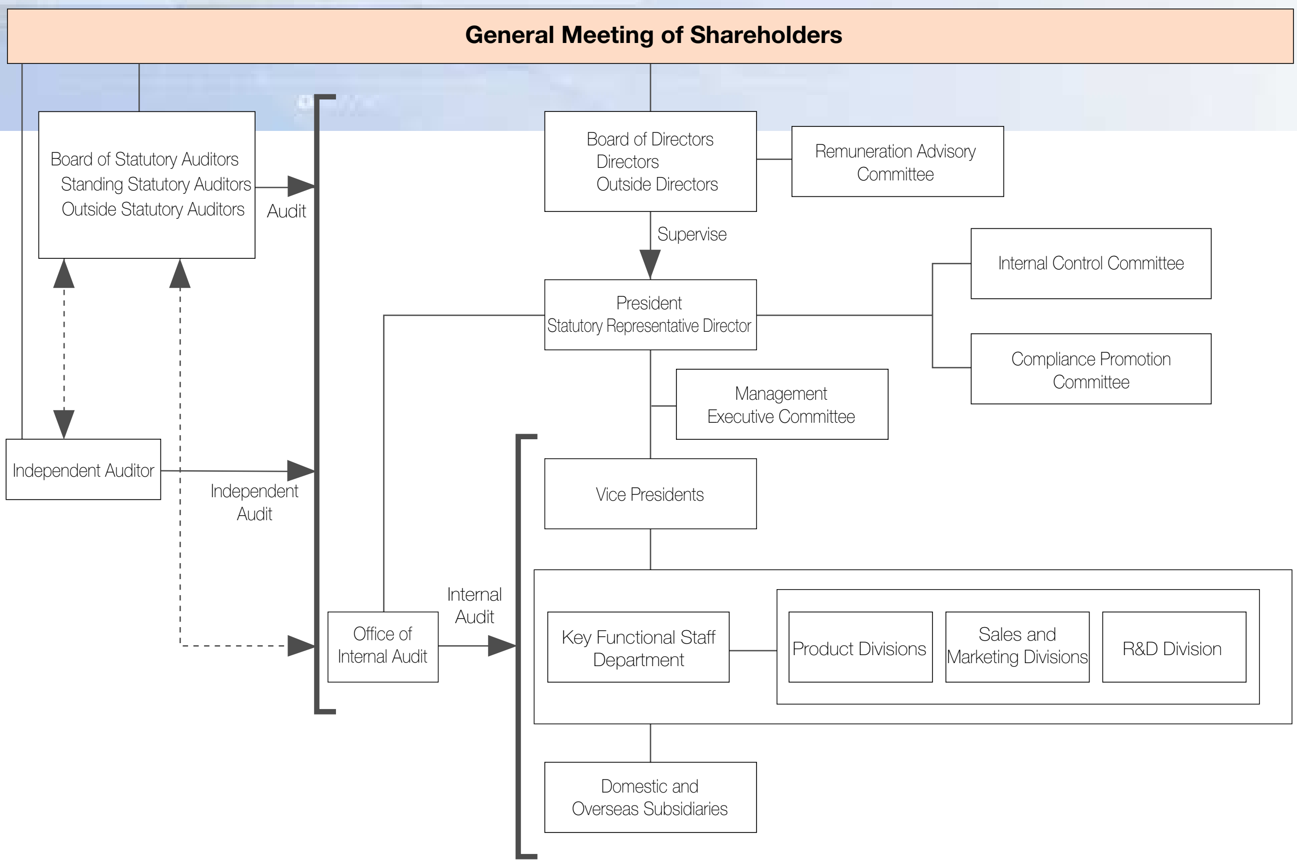
Basic Corporate Structure

The Company has adopted a statutory auditor system. As of June 29, 2006, the Company's Board of Directors is comprised of 9 directors, 2 of whom are from outside the Company. The Company has 5 statutory auditors, 3 of whom are external statutory auditors. The Company has also introduced a system of vice presidents, under which it has separated corporate decision-making on management policies and critical corporate activities and management of day-to-day business operations to further reinforce supervisory and operational functions. The Board focuses on its primary responsibilities of making decisions on management policies and critical business operations, as well as monitoring the performance of the statutory representative directors. In addition, the Executive Conference functions as a deliberative body to assist the Board of Directors and President in their decision-making. Its members comprise Statutory Representative Directors, and other directors who occupy Senior Vice President positions or above. A Remuneration Advisory Committee, including an outside director, was also established.

Statutory auditors attend Board of Directors' meetings and other important meetings. Statutory auditors are further responsible for conducting detailed audits of the performance of directors from the standpoint of legal compliance and adequacy, including inspections of the operations and finances of the Company.

In addition, we have the Internal Control Committee to develop and implement an internal control system. We also have the Compliance Promotion Committee to develop and implement a compliance system.

Organizational Chart of the Company



Development of Internal Control and Risk Management Systems

In order to ensure the efficacy of the Murata Group's internal control system, the Internal Control Committee has been established to provide comprehensive supervision and administration of internal control. Under its supervision and control, related divisions collaborate in developing and operating a Group-wide internal control system to guarantee reliable financial reporting. In addition, the Murata Group strives to develop and further strengthen its internal control system so that it ensures timely and appropriate disclosure of corporate information. To this end, a Disclosure Task Force has been established under the oversight of the Internal Control Committee to decide which information requires disclosure and, if so, deliberate the content of disclosure materials.

In compliance, the Murata Group has enacted the "Corporate Ethics Policy and Code of Conduct" so that Directors and all the Murata Group employees base their business activities on higher ethical principles. This code outlines corporate ethical standards and specific codes of conduct from legal and ethical standpoints. The Compliance Promotion Committee was established to ensure compliance with these codes of conduct, and to prevent violation of ethis, laws, and regulations. Moreover, an in-house and external reporting system has been established to handle compliance issues on a case-by-case basis, and deliberate, supervise, and respond in a timely and appropriate manner whenever compliance issues arise.

In terms of risk management, the Murata Group has a comprehensive organizational framework that establishes risk management guidelines, covering topics including risk identification, assessment, and countermeasures. Each core operational division also takes responsibility for managing risks in its everyday tasks and preventing the occurrence of problems.

Collaboration Between the Statutory Auditors and the Office of Internal Audit

The Key Functional Staff Department (comprising the General Administration, Personnel & Industrial Relations, Accounting & Controller Department and others) at the head office regularly advises and monitors the day-to-day operations of the entire Murata Group. Meanwhile, the Office of Internal Audit, directly under the President, oversees internal audits, and devises and operates an auditing system applicable to the entire Group. This office closely works with the statutory auditors and the Board of Statutory Auditors by holding regular meetings and reporting on the plan for internal audits and progress.

Collaboration Between the Statutory Auditors and the Independent Auditor

The Company has signed an agreement with Deloitte Touche Tohmatsu, under which Ikuo Yoshikawa, Designated Partner and Engagement Partner, and Koichiro Tsukuda, Designated Partner and Engagement Partner, both of whom are certified public accountants, take charge of the audit, along with 11 certified public accountants, 6 assistant certified public accountants, and 4 other assistants. The Company is audited pursuant to the Securities and Exchange Law and the "Law Concerning Special Measures under the Commercial Code with respect to Audit, etc. of Corporations (Kabushiki-Kaisha) of Japan." The Company also clarifies various issues related to accounting procedures and auditing whenever necessary. The independent auditor also closely collaborates with the statutory auditors and the Board of Statutory Auditors by holding regular meetings and reporting on the plan for internal audits and progress. Finally, to ensure effective auditing, the statutory auditors accompany the independent auditor when it conducts on-site audits at the Company.

Relationship Between Outside Directors and External Auditors

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

Compensation to Directors and Statutory Auditors

Compensation paid to directors and statutory auditors during the period under review (April 1, 2005 to March 31, 2006) was as follows:

Item	Director	Auditor	Total
Compensation approved at the General Meeting of Shareholders (in millions of yen)	320	58	379
Appropriation of retained earnings as bonuses for directors and statutory auditors (in millions of yen)	110	--	110
Retirement benefits to directors and statutory auditors (in millions of yen)	99	3	103
Total (in millions of yen)	530	62	592

Notes:
1. Compensation approved at the General Meeting of Shareholders includes non-monetary compensation (¥2 million).
2. The above figures exclude ¥22 million as employee salaries and bonuses received by directors who concurrently serve as vice presidents.
3. As of the date of the Ordinary General Meeting of Shareholders in June 2004, the Company abolished retirement benefits for directors and statutory auditors. Based on the resolution made at the meeting, an amount commensurate to the retirement benefits payable as of the date of the meeting was paid to each director and statutory auditor upon his or her retirement.

Members of the Board (as of July 1, 2006)

Board of the Directors

Yasutaka Murata
Tsuneo Murata
Yoshitaka Fujita
Ichiro Nozaki
Seiichi Arai
Yukio Sakabe
Atsushi Inoue
Koji Tajika (Outside Director)
Yasuro Tanahashi (Outside Director)

Statutory Representative Directors

President
  Yasutaka Murata
Executive Deputy President
  Tsuneo Murata

Statutory Auditors

Standing Statutory Auditors
  Toshio Taji
  Motohiko Nakayama
Statutory Auditors
  Keiichi Yokobori (Outside Director)
  Tetsuya Hiraoka (Outside Director)
  Go Kawada (Outside Director)

Vice Presidents

Corporate Senior Executive Vice President
  Yoshitaka Fujita
Senior Executive Vice Presidents
  Ichiro Nozaki
  Seiichi Arai
Executive Vice Presidents
  Yukio Sakabe
  Atsushi Inoue
  Harufumi Mandai
Senior Fellow
  Yohei Ishikawa
Senior Vice Presidents
  Shinji Ushiro
  Hideharu Ieki
Vice Presidents
  Kazuya Togawa
  Hideo Sakamoto
  Fumio Sasaki
  Koji Makino
Fellow
  Michio Kadota

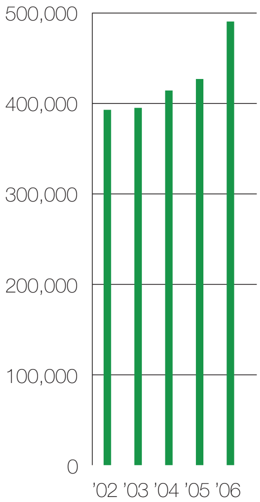
Financial Data Section

Contents

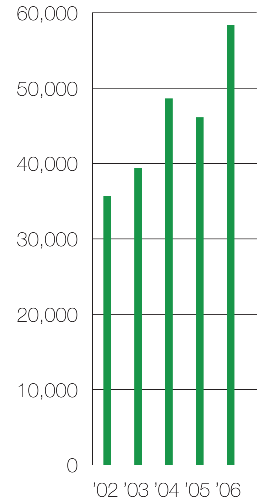
Financial Data

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2002–2006

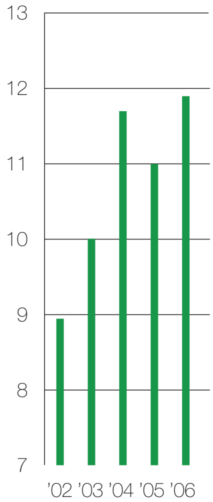
Net sales
(Millions of yen)



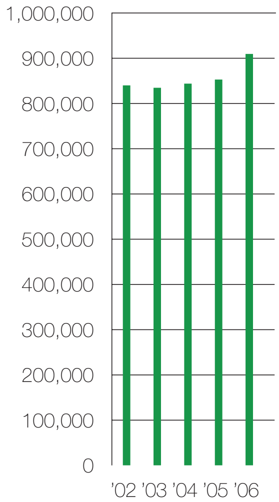
Net income
(Millions of yen)



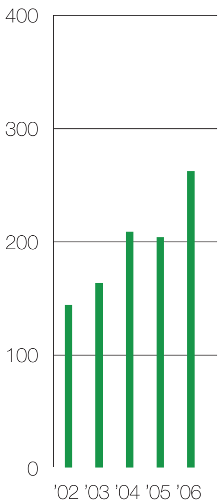
Return on net sales
(%)



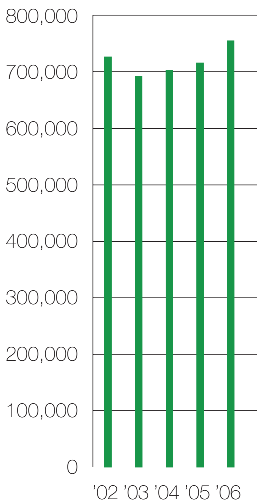
Total assets
(Millions of yen)



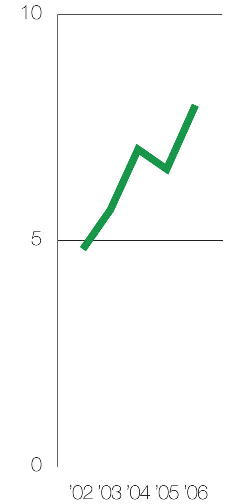
Diluted earnings per share*1 (Yen)



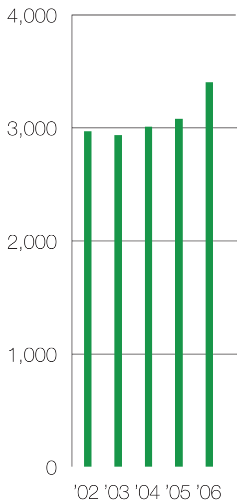
Shareholders' equity
(Millions of yen)



Return on equity (ROE)
(%)

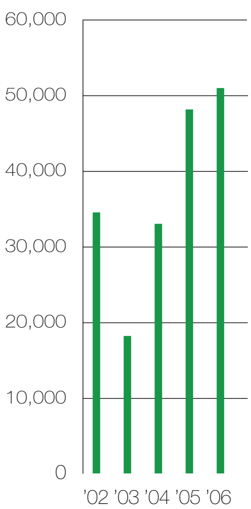


Shareholders' equity per share*2 (Yen)

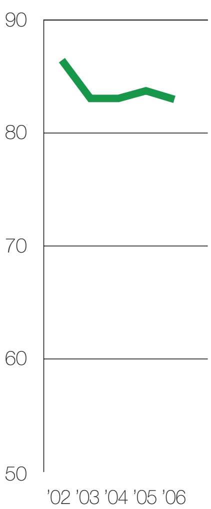


*1 Based on the average number of common shares outstanding and common equivalent shares outstanding such as those related to the Company's convertible bonds matured in March 2002 and stock options.
*2 Based on the number of common shares outstanding at term-end.

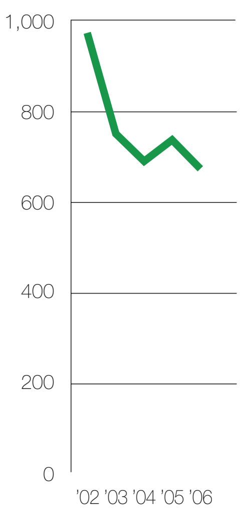
Capital investment
(Millions of yen)



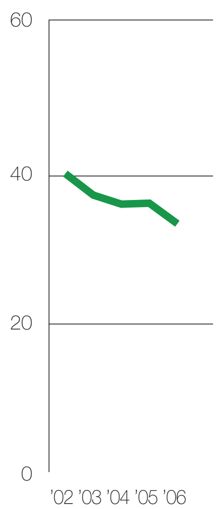
Shareholders' equity ratio (%)



Current ratio
(%)



Fixed assets ratio
(%)



Segment Information

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

Geographic Segment Information

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

2005	Millions of yen					
	Japan	The Americas	Europe	Asia	Corporate and eliminations	Consolidated
Unaffiliated customers	¥207,626	¥ 35,159	¥ 47,782	¥133,901	–	¥424,468
Intersegment	137,370	41	54	18,784	¥(156,249)	–
Total revenue	344,996	35,200	47,836	152,685	(156,249)	424,468
Operating expenses	286,224	35,071	46,276	145,522	(158,140)	354,953
Operating income	58,772	129	1,560	7,163	1,891	69,515
Assets	340,314	18,893	22,419	71,696	397,426	850,748

2006	Thousands of U.S. dollars					
	Japan	The Americas	Europe	Asia	Corporate and eliminations	Consolidated
Unaffiliated customers	$1,913,615	$321,069	$413,940	$1,546,111	–	$4,194,735
Intersegment	1,557,453	68	111	167,701	$(1,725,333)	–
Total revenue	3,471,068	321,137	414,051	1,713,812	(1,725,333)	4,194,735
Operating expenses	2,865,333	299,376	394,564	1,620,368	(1,752,761)	3,426,880
Operating income	605,735	21,761	19,487	93,444	27,428	767,855
Assets	3,068,838	169,504	200,273	833,299	3,502,795	7,774,709

Overseas Sales

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

2005	Millions of yen			
	The Americas	Europe	Asia and Others	Total
Overseas sales	¥ 38,799	¥ 64,429	¥186,866	¥290,094
Consolidated sales				424,468
Percentage	9.1%	15.2%	44.0%	68.3%

2006	Thousands of U.S. dollars			
	The Americas	Europe	Asia and Others	Total
Overseas sales	$356,111	$563,624	$2,119,615	$3,039,350
Consolidated sales				4,194,735

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

Production, Order and Backlog by Product

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

	Millions of yen	Component ratio	Ratio against the previous year	Thousands of U.S. dollars
	2006			
Production by Product		%	%	
Capacitors	¥173,663	35.1	7.7	$1,484,299
Piezoelectric Components	71,241	14.4	0.3	608,897
Microwave Devices	101,616	20.5	54.4	868,513
Module Products	58,661	11.9	10.4	501,376
Other Products	89,362	18.1	15.4	763,778
Total	¥494,543	100.0	15.4	$4,226,863

*1 Figures are based on production quantity and sales price to customers.
*2 Exclusive of consumption taxes
*3 Production amounts of the foreign subsidiaries were translated into Japanese yen at average exchange rates for periods.
*4 The tables by product indicate production, order and backlog of electronics components and related products. The total production and order in Microwave Device for this year have increased greatly compared to the previous year, with Bluetooth® modules growing over the previous year.

Bluetooth is a registered trademark of Bluetooth SIG, Inc., U.S.A.

	Millions of yen	Component ratio	Ratio against the previous year	Thousands of U.S. dollars
	2006			
Order by Product		%	%	
Capacitors	¥181,349	36.3	19.6	$1,549,991
Piezoelectric Components	74,365	14.9	7.8	635,598
Microwave Devices	96,819	19.3	48.1	827,513
Module Products	58,721	11.7	10.5	501,889
Other Products	88,852	17.8	17.0	759,419
Total	¥500,106	100.0	20.5	$4,274,410

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

	Millions of yen	Component ratio	Ratio against the previous year	Thousands of U.S. dollars
	2006			
Backlog by Product		%	%	
Capacitors	¥ 20,659	40.0	60.0	$176,573
Piezoelectric Components	7,278	14.1	18.2	62,205
Microwave Devices	6,182	12.0	(5.5)	52,838
Module Products	7,372	14.3	6.0	63,008
Other Products	10,146	19.6	25.2	86,718
Total	¥ 51,637	100.0	27.0	$441,342

*1 Figures are based on backlog quantity and sales price to customers.
*2 Exclusive of consumption taxes
*3 The total backlog in Capacitors for this year has increased greatly compared to the previous year. Because the order performed well, mainly in Asia, in the Companies' main market such as mobile phone market, computers and peripheral equipment market.

Capital Investment

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

1) Capital Investment for the fiscal year ended March 2006 amounted to ¥51,040 million (US$436,239 Thousand). Major capital investment included the expansion of Domestic subsidiaries, and R&D facility.

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

2006	Millions of yen				
	Land	Buildings	Machinery and equipment	Construction in progress	Total
Parent Company					
Plant, Office and other					
Head Office in Kyoto	¥ 170	¥ 1,353	¥ 1,114	¥ 56	¥ 2,695
Yokaichi Plant in Shiga	442	5,421	5,640	2,220	13,724
Yasu Plant in Shiga	7,260	12,371	9,165	360	29,157
Yokohama Plant in Kanagawa	2,654	2,423	1,010	0	6,089
Other	6,926	1,422	123	2	8,475

2006	Millions of yen				
	Land	Buildings	Machinery and equipment	Construction in progress	Total
Domestic subsidiaries					
Company Name					
Fukui Murata Manufacturing Co., Ltd.	¥ 2,025	¥ 9,569	¥ 18,798	¥ 1,435	¥ 31,827
Izumo Murata Manufacturing Co., Ltd.	1,161	8,111	11,971	2,392	23,635
Murata Land & Building Co., Ltd.	4,734	12,483	35	–	17,252
Okayama Murata Manufacturing Co., Ltd.	–	5,709	6,426	360	12,495
Kanazawa Murata Manufacturing Co., Ltd.	1,261	4,629	5,545	330	11,765
Toyama Murata Manufacturing Co., Ltd.	1,471	2,884	4,986	294	9,635

2006	Millions of yen				
	Land	Buildings	Machinery and equipment	Construction in progress	Total
Foreign subsidiaries					
Company Name					
Murata Electronics Singapore (Pte.) Ltd.	–	¥ 3,794	¥ 5,511	¥ 71	¥ 9,376
Wuxi Murata Electronics Co., Ltd.	–	1,687	1,993	1,621	5,301
Murata Electronics (Thailand), Ltd.	¥ 132	1,050	2,487	41	3,710
Beijing Murata Electronics Co., Ltd.	–	808	917	1	1,726

Consolidated Balance Sheets

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

	Millions of yen		Thousands of U.S. dollars (Note 2)
ASSETS	2006	2005	2006
Current assets:			
Cash	¥ 33,877	¥ 30,964	$ 289,547
Time deposits	92,506	62,707	790,650
Total cash and cash equivalents	126,383	93,671	1,080,197
Marketable securities (Note 3)	313,181	332,849	2,676,761
Notes and accounts receivable:			
Trade notes	9,036	12,202	77,231
Trade accounts	103,119	75,566	881,359
Allowance for doubtful notes and accounts	(1,156)	(723)	(9,880)
Inventories (Note 4)	66,419	59,007	567,683
Deferred income taxes (Note 9)	18,627	16,060	159,205
Prepaid expenses and other	5,778	4,204	49,384
Total current assets	641,387	592,836	5,481,940
Property, plant and equipment:			
Land	40,909	41,248	349,650
Buildings	205,752	202,974	1,758,564
Machinery and equipment	437,714	420,253	3,741,145
Construction in progress	13,992	5,647	119,590
Total	698,367	670,122	5,968,949
Accumulated depreciation	(465,490)	(444,387)	(3,978,547)
Net property, plant and equipment	232,877	225,735	1,990,402
Investments and other assets:			
Investments (Note 3)	19,674	12,818	168,154
Deferred income taxes (Note 9)	4,657	10,482	39,803
Long-term receivables, advances and other	11,046	8,877	94,410
Total investments and other assets	35,377	32,177	302,367
Total	¥909,641	¥850,748	$7,774,709

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 2) 2006
Current liabilities:			
Short-term borrowings (Note 5)	¥ 8,556	¥ 5,068	$ 73,128
Trade notes payable	1,794	651	15,334
Trade accounts payable	27,089	18,017	231,530
Accrued payroll and bonuses	19,225	17,426	164,316
Income taxes payable	17,863	15,682	152,675
Accrued expenses and other	20,587	20,992	175,957
Total current liabilities	95,114	77,836	812,940
Long-term liabilities:			
Long-term debt (Note 5)	526	1,029	4,496
Termination and retirement benefits (Notes 6)	47,296	47,306	404,239
Deferred income taxes (Note 9)	10,631	11,484	90,863
Other	680	784	5,812
Total long-term liabilities	59,133	60,603	505,410
Commitments and contingent liabilities (Note 13)			
Shareholders' equity (Notes 8 and 15):			
Common stock (authorized 581,000,000 shares in 2006 and 2005; issued 225,263,592 shares in 2006 and 2005)	69,377	69,377	592,966
Capital surplus	102,228	102,222	873,743
Retained earnings	601,685	555,512	5,142,607
Accumulated other comprehensive income (loss):			
Unrealized gains on securities	5,992	3,654	51,214
Minimum pension liability adjustments	(529)	(963)	(4,522)
Unrealized losses on derivative instruments	(33)	(186)	(282)
Foreign currency translation adjustments	(4,649)	(14,190)	(39,735)
Total accumulated other comprehensive income (loss)	781	(11,685)	6,675
Treasury stock, at cost 3,356,091 shares in 2006 and 547,987 shares in 2005	(18,677)	(3,117)	(159,632)
Total shareholders' equity	755,394	712,309	6,456,359
Total	¥909,641	¥850,748	$7,774,709

Consolidated Statements of Income

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2006	2005	2004	2006
Net sales	¥490,784	¥424,468	¥414,247	$4,194,735
Operating costs and expenses:				
Cost of sales	295,958	255,604	257,402	2,529,555
Selling, general and administrative (Note 1.q)	70,291	66,504	66,472	600,778
Research and development	34,696	32,845	34,163	296,547
Subsidy from the government (Note 6)	–	–	(18,000)	–
Total operating costs and expenses	400,945	354,953	340,037	3,426,880
Operating income	89,839	69,515	74,210	767,855
Other income (expenses):				
Interest and dividend income	2,326	1,750	1,643	19,880
Gains on sales of securities	71	1,449	79	607
Interest expense	(201)	(129)	(94)	(1,718)
Foreign currency exchange gain (loss)	(1,730)	(560)	1,654	(14,786)
Other-net	1,375	880	1,193	11,752
Other income (expenses)-net	1,841	3,390	4,475	15,735
Income before income taxes	91,680	72,905	78,685	783,590
Income taxes (Note 9)	33,232	26,327	30,145	284,034
Net income	¥ 58,448	¥ 46,578	¥ 48,540	$ 499,556

	Yen			U.S. dollars (Note 2)
Amounts per share (Note 11):				
Basic earnings per share:	¥ 262.49	¥ 204.99	¥ 208.46	$ 2.24
Diluted earnings per share:	¥ 262.47	¥ 204.99	¥ 208.46	$ 2.24
Cash dividends per share	¥ 55.00	¥ 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, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2006	2005	2004	2006
Net income	¥ 58,448	¥ 46,578	¥ 48,540	$499,556
Other comprehensive income (loss), net of tax (Note 12):				
Unrealized gains on securities	2,338	49	3,487	19,983
Minimum pension liability adjustments	434	74	9,018	3,709
Unrealized gains (losses) on derivative instruments	153	(288)	81	1,308
Foreign currency translation adjustments	9,541	3,537	(8,425)	81,547
Other comprehensive income	12,466	3,372	4,161	106,547
Comprehensive income	¥ 70,914	¥ 49,950	¥ 52,701	$606,103

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Number of common shares issued	Millions of yen				
		Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock
Balance at March 31, 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, ¥50.00 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)
Purchases of treasury stock at cost						(27,172)
Retirement of treasury stock	(9,000,000)			(51,138)		51,138
Net income				46,578		
Cash dividends, ¥50.00 per share				(11,406)		
Other comprehensive income, net of tax					3,372	
Balance at March 31, 2005	225,263,592	69,377	102,222	555,512	(11,685)	(3,117)
Purchases of treasury stock at cost						(15,609)
Exercise of stock options			6			49
Net income				58,448		
Cash dividends, ¥55.00 per share				(12,275)		
Other comprehensive income, net of tax					12,466	
Balance at March 31, 2006	225,263,592	¥ 69,377	¥102,228	¥601,685	¥ 781	¥ (18,677)

	Thousands of U.S. dollars (Note 2)				
	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock
Balance at March 31, 2005	$592,966	$873,692	$4,747,966	$ (99,872)	$ (26,641)
Purchases of treasury stock at cost					(133,410)
Exercise of stock options		51			419
Net income			499,556		
Cash dividends, $0.47 per share			(104,915)		
Other comprehensive income, net of tax				106,547	
Balance at March 31, 2006	$592,966	$873,743	$5,142,607	$ 6,675	$(159,632)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2006	2005	2004	2006
Operating activities:				
Net income	¥ 58,448	¥ 46,578	¥ 48,540	$ 499,556
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	45,139	42,384	44,649	385,803
Losses on sales and disposals of property, plant and equipment	315	1,112	848	2,692
Impairment losses on long-lived assets	639	1,767	–	5,462
Gains on sales of securities	(71)	(1,449)	(79)	(607)
Subsidy from the government (Note 6)	–	–	(18,000)	–
Provision for termination and retirement benefits, less payments	704	4,016	13,410	6,017
Deferred income taxes	(1,347)	(3,231)	1,558	(11,513)
Changes in assets and liabilities:				
Decrease (increase) in trade notes and accounts receivable	(19,895)	7,005	(11,966)	(170,043)
Increase in inventories	(5,302)	(3,705)	(2,674)	(45,316)
Decrease (increase) in prepaid expenses and other	(1,447)	3,627	(4,031)	(12,368)
Increase (decrease) in trade notes and accounts payable	10,001	(1,018)	4,658	85,479
Increase (decrease) in accrued payroll and bonuses	1,698	(350)	1,393	14,513
Increase (decrease) in income taxes payable	2,058	(30)	(4,548)	17,590
Increase (decrease) in accrued expenses and other	633	(6,944)	8,037	5,410
Other–net	431	533	(1,046)	3,684
Net cash provided by operating activities	92,004	90,295	80,749	786,359
Investing activities:				
Capital expenditures	(51,040)	(48,033)	(33,088)	(436,239)
Payment for purchases of investments and other	(4,299)	(1,055)	(4,841)	(36,744)
Net decrease (increase) in marketable securities	17,929	24,996	(13,722)	153,239
Increase in long–term deposits	(1,000)	–	–	(8,547)
Proceeds from sales of property, plant and equipment	817	309	185	6,983
Proceeds from sales of investments	119	1,799	187	1,017
Other	5	8	8	43
Net cash used in investing activities	(37,469)	(21,976)	(51,271)	(320,248)
Financing activities:				
Net increase in short–term borrowings	2,458	70	1,669	21,009
Proceeds from long–term debt	–	–	1,000	–
Repayment of long–term debt	(500)	–	–	(4,274)
Dividends paid	(12,275)	(11,406)	(11,725)	(104,915)
Payment for purchases of treasury stock	(15,609)	(27,172)	(32,129)	(133,410)
Other	53	(6)	(4)	453
Net cash used in financing activities	(25,873)	(38,514)	(41,189)	(221,137)
Effect of exchange rate changes on cash and cash equivalents	4,050	1,962	(4,158)	34,616
Net increase (decrease) in cash and cash equivalents	32,712	31,767	(15,869)	279,590
Cash and cash equivalents at beginning of year	93,671	61,904	77,773	800,607
Cash and cash equivalents at end of year	¥126,383	¥ 93,671	¥ 61,904	$1,080,197
Additional cash flow information:				
Interest paid	¥ 192	¥ 127	¥ 90	$ 1,641
Income taxes paid	32,503	29,903	33,162	277,803
Non-cash financing activities:				
Decrease in retained earnings due to retirement of treasury stock	–	¥ 51,138	¥ 53,230	–

See notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

(a) Nature of operations

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

(b) Basis of financial statements

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

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

(c) Principles of consolidation

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

(d) Cash and cash equivalents

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

(e) Marketable securities and investments

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

(f) Inventories

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

(g) Property, plant and equipment

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

(h) Termination and retirement benefits

Termination and retirement benefits are accounted for in accordance with SFAS No.87, "Employers' Accounting for Pensions."

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 "Acounting 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 years ended March 31, 2006, 2005 and 2004 were ¥1,871 million ($15,991 thousand), ¥1,594 million and ¥1,478 million, respectively.

(k) Taxes on Income

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

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

(l) Earnings per share

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

(m) Derivatives

The Companies account for their derivative instruments and hedging activities in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133" and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." 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 held for a hedge 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 companies also have the derivative financial instruments not designated as hedges. The companies record these derivatives on the balance sheet at fair value. The changes in fair value are recognized currently in earnings.

(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
	2006	2005	2006
Net Income			
Reported	¥ 58,448	¥ 46,578	$499,556
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(131)	(149)	(1,120)
Pro forma	¥ 58,317	¥ 46,429	$498,436

	Yen		U.S. dollars
	2006	2005	2006
Earnings per Share–Net income			
Reported			
Basic earnings per share	¥ 262.49	¥ 204.99	$ 2.24
Diluted earnings per share	262.47	204.99	2.24
Pro forma			
Basic earnings per share	¥ 261.90	¥ 204.33	$ 2.24
Diluted earnings per share	261.90	204.33	2.24

(o) Shipping and Handling costs

Shipping and Handling costs which were included in selling, general and administrative expenses for the years ended March 31, 2006, 2005 and 2004 were ¥5,106 million ($43,641 thousand), ¥4,322 million and ¥3,864 million, respectively.

(p) Consideration given by a vendor to a customer

The Companies account for consideration given to a customer as a reduction of revenue in accordance with EITF No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer or Reseller of the Vendor's Products." EITF No. 01-9 defines the income statement classification of consideration given by a vendor to a customer or reseller of the vendor's products.

(q) Impairment or Disposal of Long-Lived Assets

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

The Companies recognized ¥639 million ($5,462 thousand) and ¥1,767 million of impairment losses in selling, general and administrative expenses for the years ended March 31, 2006 and 2005, respectively.

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

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

(r) 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) New Accounting Standards

In November 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 151, “Inventory Costs – an amendment of ARB No. 43, Chapter 4.” SFAS No. 151 requires that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) be recognized as current-period charges and that the allocation of fixed production overheads to inventory be based on the normal capacity of the production facilities. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005 and the Companies will adopt this statement as of April 1, 2006. The adoption is not expected to have a material effect on the Companies’ consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), “Share-Based Payment” (“SFAS No. 123R”). SFAS No. 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost is recognized over the period during which an employee is required to provide service in exchange for the award. SFAS No. 123R is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005 and the Companies will adopt this statement as of April 1, 2006. The Companies are currently evaluating the impact of adoption of this statement on the Companies’ consolidated financial statements as of the required effective date.

In May 2005, the FASB issued SFAS No. 154, “Accounting Changes and Error Corrections–a replacement of APB Opinion No. 20 and FASB Statement No. 3.” SFAS No. 154 replaces APB Opinion No. 20, “Accounting Changes” and SFAS No. 3, “Reporting Accounting Changes in Interim Financial Statements”, and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods’ financial statement of a voluntary change in accounting principle. It also applies to changes required by an accounting pronouncement that does not include specific transition provisions. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Companies will adopt this statement as of April 1, 2006. The effect on the Companies' consolidated financial statements of applying SFAS No. 154 will depend on the change of accounting principle, if any, in a future period.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments –an amendment of FASB Statements No. 133 and 140." SFAS No. 155 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", and permits entities to measure at fair value in its entirety a hybrid financial instrument containing an embedded derivative that would otherwise be required to be bifurcated from its host contract in accordance with SFAS No. 133. SFAS No. 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Companies will adopt this statement as of April 1, 2007. The adoption is not expected to have a material effect on the Companies' consolidated financial statements.

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 ¥117 to $1, the approximate rate of exchange at March 31, 2006. 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, 2006 and 2005 were as follows:

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

	Millions of yen			
	2005			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:				
Governmental debt securities	¥ 40,719	¥ 252	¥ 1	¥ 40,970
Private debt securities	291,421	551	93	291,879
Total	¥332,140	¥ 803	¥ 94	¥332,849
Non-current:				
Equity securities	¥ 4,785	¥ 5,686	¥ 1	¥ 10,470
Total	¥ 4,785	¥ 5,686	¥ 1	¥ 10,470

	Thousands of U.S. dollars			
	2006			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:				
Governmental debt securities	$ 270,325	$ 128	$ 478	$ 269,975
Private debt securities	2,415,239	778	9,231	2,406,786
Total	$2,685,564	$ 906	$ 9,709	$2,676,761
Non-current:				
Equity securities	$ 40,496	$ 96,769	–	$ 137,265
Investment trusts	5,128	–	$ 0	5,128
Total	$ 45,624	$ 96,769	$ 0	$ 142,393

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, 2006 and 2005 were as follows:

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

	Millions of yen			
	2005			
	Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Current:				
Governmental debt securities	¥ 6,406	¥ 1	¥ 803	¥ 0
Private debt securities	64,693	66	13,623	27
Total	¥ 71,099	¥ 67	¥ 14,426	¥ 27
Non-current:				
Equity securities	¥ 106	¥ 1	–	–
Total	¥ 106	¥ 1	–	–

	Thousands of U.S. dollars			
	2006			
	Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Current:				
Governmental debt securities	$ 107,017	$ 478	–	–
Private debt securities	1,673,034	8,770	$152,180	$ 461
Total	$1,780,051	$ 9,248	$152,180	$ 461
Non-current:				
Investment trusts	$ 5,128	$ 0	–	–
Total	$ 5,128	$ 0	–	–

The Companies did not recognize other-than-temporary impairment loss on debt securities which have a fair value below original cost as of March 31, 2006, as the Companies have the intention and ability to hold such securities until the maturity dates and as the issuers of the securities have favorable credit rating. In addition, the Companies did not recognize impairment losses on investment trusts with unrealized losses in consideration of the severity and duration of the decline in value.

The aggregate carrying amounts of equity securities that do not have a readily determinable fair value at March 31, 2006 and 2005, which were valued at cost, were ¥3,014 million ($25,761 thousand) and ¥2,348 million, respectively. For the year ended 2006, equity securities of ¥2,944 million ($25,162 thousand) were not evaluated for impairment because (a) the Companies did not identify any events or changes in circumstances that might have a significant adverse effect on the fair value of the securities and (b) the Companies determined that it was not practicable to estimate the fair value of the securities.

Contractual maturities of debt securities as of March 31, 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	Cost	Fair Value	Cost	Fair Value
Within one year	¥134,023	¥134,009	$1,145,496	$1,145,376
After one year through five years	179,188	178,172	1,531,521	1,522,838
After five years	1,000	1,000	8,547	8,547
Total	¥314,211	¥313,181	$2,685,564	$2,676,761

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

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Proceeds from sales	¥ 119	¥ 5,964	¥ 6,853	$ 1,017
Gross realized gains	71	1,449	79	607
Gross realized losses	–	38	101	–

4. Inventories

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Finished products	¥ 29,593	¥ 26,821	$252,931
Work-in-process	22,449	20,843	191,872
Materials and supplies	14,377	11,343	122,880
Total	¥ 66,419	¥ 59,007	$567,683

5. Short-Term Borrowings and Long-Term Debt

Short-Term Borrowings at March 31, 2006 and 2005 consisted of the following:

	Millions of yen	Weighted-Average Interest Rate	Millions of yen	Weighted-Average Interest Rate	Thousands of U.S. dollars
	2006		2005		2006
Bank loans	¥ 8,556	1.9%	¥ 5,068	2.1%	$ 73,128

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of yen	Weighted-Average Interest Rate	Millions of yen	Weighted-Average Interest Rate	Thousands of U.S. dollars
	2006		2005		2006
Unsecured bank loans, due 2009	¥ 500	0.3%	¥ 1,000	0.3%	$ 4,274
Other	28	3.5	31	3.5	239
Total	528	0.5	1,031	0.4	4,513
Less: Portion due within one year	2	3.9	2	3.9	17
Total	¥ 526	0.5%	¥ 1,029	0.4%	$ 4,496

The aggregate future maturities of long-term debt outstanding at March 31, 2006 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 2	$ 17
2008	2	17
2009	502	4,291
2010	2	17
2011	2	17
2012 and thereafter	18	154
Total	¥ 528	$ 4,513

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

6. Termination and Retirement Benefits

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

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

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

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 for the year ended March 31, 2004. The transfer resulted in the companies recording a subsidy from the government of ¥18,000 million 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 and a settlement loss of ¥10,687 million. The transfer increased operating income by ¥11,693 million. The net amount of the derecognition of previously accrued salary progression and the settlement loss is allocated to Cost of sales of ¥2,489 million, Selling, general and administrative of ¥2,405 million, and Research and development of ¥1,413 million.

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
	2006	2005	2006
Change in benefit obligation:			
Benefit obligation at beginning of year	¥ 97,732	¥ 94,407	$835,316
Service cost	5,260	5,687	44,957
Interest cost	1,737	1,838	14,846
Amendments	(9,346)	–	(79,880)
Actuarial loss	692	163	5,914
Benefits paid	(1,041)	(967)	(8,897)
Settlement paid	(3,192)	(3,396)	(27,282)
Benefit obligation at end of year	91,842	97,732	784,974
Change in plan assets:			
Fair value of plan assets at beginning of year	48,800	46,869	417,094
Actual return on plan assets	9,853	2,055	84,213
Employer contribution	3,202	1,916	27,367
Benefits paid	(1,041)	(967)	(8,897)
Settlement paid	(869)	(1,073)	(7,427)
Fair value of plan assets at end of year	59,945	48,800	512,350
Funded status	(31,897)	(48,932)	(272,624)
Unrecognized actuarial loss	9,751	20,050	83,342
Unrecognized prior service benefit	(24,215)	(16,757)	(206,966)
Net amount recognized	¥ (46,361)	¥ (45,639)	$(396,248)
Amounts recognized in the consolidated balance sheet consist of:			
Termination and retirement benefits	¥ (47,296)	¥ (47,306)	$(404,239)
Minimum pension liability adjustments, before tax	935	1,667	7,991
Net amount recognized	¥ (46,361)	¥ (45,639)	$(396,248)
Accumulated benefit obligation at end of year	¥ 85,749	¥ 86,445	$732,897

Accumulated benefit obligations for all of the Companies' termination and retirement plans were in excess of their plan assets at March 31, 2006 and 2005.

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
	2006	2005	2004	2006
Service cost	¥ 5,260	¥ 5,687	¥ 5,882	$ 44,957
Interest cost	1,737	1,838	2,548	14,846
Expected return on plan assets	(972)	(925)	(1,051)	(8,307)
Amortization of transition obligation	–	–	133	–
Recognized actuarial loss	2,104	2,965	6,721	17,983
Amortization of prior service benefit	(1,888)	(1,315)	(1,219)	(16,137)
Derecognition of previously accrued salary progression	–	–	(4,380)	–
Settlement loss	–	–	10,687	–
Net periodic benefit cost	¥ 6,241	¥ 8,250	¥ 19,321	$ 53,342

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 10% of the larger of the projected benefit obligation or plan assets are being amortized over five years.

In the year ended March 31, 2006, due to the agreement reached between labor and management concerning the revision of pension and severance plans, the Company applied for the approval of the revision to the MHLW on April 27, 2005. On July 1, 2005, the Company introduced a severance plan based on the employee's position and assessment of performance and also started a pension plan in which the pension benefit is linked with the market interest rate. The revisions reduced the projected benefit obligation by ¥9,346 million ($79,880 thousand) in April 2005, which is being amortized as an unrecognized prior service benefit on a straight-line basis over the average remaining service period of the Company's employees, approximately sixteen years.

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:

	2006	2005
Discount rate	2.0%	2.0%
Compensation increase rate	2.0~3.1%	2.0%

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

	2006	2005	2004
Discount rate	2.0%	2.0%	2.0%
Compensation increase rate	2.0~3.1%	2.0%	2.0%
Expected long-term rate of return on plan assets	2.0%	2.0%	2.0%

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

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

The Companies' benefit plan weighted-average asset allocations at March 31, 2006 and 2005 by asset category were as follows:

	2006	2005
Equity securities	46.6%	48.9%
Debt securities	30.1	24.1
Life insurance company general accounts	16.2	25.0
Other	7.1	2.0
	100.0%	100.0%

Equity securities include common stock of the Company in the amounts of ¥74 million ($632 thousand) (0.12% of total plan assets) and ¥49 million (0.10% of total plan assets) at March 31, 2006 and 2005, respectively.

Plan assets are invested for the purpose of achieving a sufficient rate of return to maintain pension plan assets for future payment of benefits to plan participants. Considering the expected rate of return on invested assets, a related standard deviation, and a related correlation coefficient, the Companies believe the current asset allocation is adequate for purposes of meeting investment objectives. For achieving the expected rate of return on plan assets on a mid-term to long-term basis, the Companies select optimal investing institutions by invested asset category and entrust the investment of plan assets to them. The Companies revise the asset allocation when and to the extent considered necessary. The asset allocation of the Company's plan assets which account for most of plan assets at March 31, 2006 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 ¥3,344 million ($28,581 thousand) to their defined benefit plans in the year ending March 31, 2007.

The future benefit payments are expected as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 3,696	$ 31,590
2008	3,487	29,803
2009	3,714	31,744
2010	3,908	33,402
2011	3,849	32,897
2012–2016	22,208	189,812

7. Stock-based Compensation

In the years ended March 31, 2006 and 2005, the Company authorized the grant of options to purchase common stock of the Company to employees of the Company and its subsidiaries under a fixed stock option plan.

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

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

A summary of the Company's fixed stock option plan activity and related information for the years ended March 31, 2006 and 2005 was as follows:

	2006		2005		2006
		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	213,100	¥ 6,312	141,600	¥ 6,576	$ 53.95
Granted	73,800	5,686	71,500	5,789	48.60
Exercised	(8,800)	6,277	–	–	53.65
Forfeited	(1,200)	6,785	–	–	57.99
Outstanding at end of year	276,900	¥ 6,144	213,100	¥ 6,312	$ 52.51
Options exercisable at end of year	131,800	6,593	72,100	7,264	56.35
Weighted average fair value of options granted during the year		¥ 1,586		¥ 1,934	$ 13.56

The following summarizes information about fixed stock options outstanding and options excercisable at March 31, 2006:

Yen	Options Outstanding	Years	Yen	U.S. dollars
Range of Excercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Excercise Price	Weighted-Average Excercise Price
¥ 7,264	68,700	2.33	¥ 7,264	$ 62.09
5,863	63,100	3.33	5,863	50.11
5,789	71,300	4.33	5,789	49.48
5,686	73,800	5.33	5,686	48.60
¥ 5,686~¥ 7,264	276,900	3.88	¥ 6,144	$ 52.51

Yen	Options Excercisable	Yen	U.S. dollars
Range of Excercise Prices	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Excercise Price
¥ 7,264	68,700	¥ 7,264	$ 62.09
5,863	63,100	5,863	50.11
5,789	–	–	–
5,686	–	–	–
¥ 5,686~¥ 7,264	131,800	¥ 6,593	$ 56.35

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

Weighted-average assumptions:	2006	2005
Risk Free interest rate (%)	0.39	0.62
Expected lives (years)	4.00	4.00
Expected volatility (%)	43.10	49.60
Expected dividend (%)	1.11	0.90

8. Shareholders' Equity

Through May 1, 2006, Japanese companies are subject to the Commercial Code of Japan (the "Code").

The Code requires that all shares of common stock be issued 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 are required to be presented 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 by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. 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 amounts of additional paid-in capital and legal reserve of the Company are ¥107,666 million ($920,222 thousand) and ¥7,900 million ($67,521 thousand) as of March 31, 2006, respectively.

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥211,388 million ($1,806,735 thousand) as of March 31, 2006, based on the amount recorded in the Company's general books of account.

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

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

(a) Dividends

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

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

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

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

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

(c) Treasury stock and treasury stock acquisition rights

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

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock.

9. Income Taxes

The provision for income taxes for the years ended March 31, 2006, 2005 and 2004, consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Current	¥ 34,579	¥ 29,558	¥ 28,587	$295,547
Deferred	(1,347)	(3,231)	1,558	(11,513)
Provision for income taxes	¥ 33,232	¥ 26,327	¥ 30,145	$284,034

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:

	2006	2005	2004
Normal Japanese statutory rates	40.4%	40.4%	41.7%
Increase (decrease) in taxes resulting from:			
Tax credits	(3.9)	(5.2)	(4.2)
Permanently non-deductible items	0.1	0.2	0.1
Net change in valuation allowance for deferred tax assets	(0.1)	(0.7)	(0.7)
Effect of enacted future tax rate reduction on deferred taxes	–	–	0.5
Other-net	(0.3)	1.4	0.9
Effective tax rates	36.2%	36.1%	38.3%

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 for the effect of the tax rate decrease on net deferred tax balances, for the year ended March 31, 2004.

The approximate effect of temporary differences and tax loss carryforwards that gave rise to deferred tax balances at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Intercompany profits	¥ 2,658	¥ 1,872	$ 22,718
Termination and retirement benefits	18,936	18,600	161,846
Enterprise taxes	1,440	1,164	12,308
Compensated absences	1,676	1,662	14,325
Inventory valuation	2,102	2,606	17,966
Tangible and intangible assets	6,598	6,013	56,393
Accrued bonuses	5,295	4,820	45,256
Other temporary differences	6,770	6,093	57,863
Tax loss carryforwards	130	293	1,111
Total	45,605	43,123	389,786
Valuation allowance	(1,221)	(1,293)	(10,436)
Total	¥ 44,384	¥ 41,830	$379,350
Deferred tax liabilities:			
Undistributed earnings of foreign subsidiaries	¥ 20,476	¥ 17,363	$175,008
Marketable securities and investments adjustments	3,533	1,987	30,197
Tangible and intangible assets	808	686	6,906
Other temporary differences	6,914	6,832	59,094
Total	¥ 31,731	¥ 26,868	$271,205

The total valuation allowance decreased ¥72 million ($615 thousand) and ¥478 million for the years ended March 31, 2006 and 2005, respectively.

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, 2006 and 2005.

Certain subsidiaries have tax loss carryforwards approximating ¥473 million ($4,043 thousand) available to reduce future taxable income at March 31, 2006, which will expire substantially in the period from 2007 to 2013.

The Company and its 22 domestic subsidiaries have adopted the consolidated taxation system of Japan from the year ended March 31, 2006. In accordance with SFAS No. 109, the Company offset deferred tax assets and liabilities related to corporation income tax of the Company and the domestic subsidiaries. The deferred tax assets and liabilities indicated in the balance sheet at March 31, 2006 decreased by ¥6,455 million ($55,171 thousand) as a result of the adoption of the consolidated taxation system.

10. Foreign Operations

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

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Net sales	¥266,891	¥216,842	¥200,306	$2,281,120
Net assets	142,612	119,956	119,087	1,218,906

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
	2006	2005	2004	2006
Net income	¥ 58,448	¥ 46,578	¥ 48,540	$499,556

	Numbers of shares		
	2006	2005	2004
Average common shares outstanding	222,669,988	227,225,426	232,853,787
Dilutive effect of stock options	18,216	–	1,706
Diluted common shares outstanding	222,688,204	227,225,426	232,855,493

	Yen			U.S. dollars
	2006	2005	2004	2006
Earnings per share:				
Basic	¥ 262.49	¥ 204.99	¥ 208.46	$ 2.24
Diluted	262.47	204.99	208.46	2.24

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

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

	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

	Thousands of U.S. dollars		
	2006		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Unrealized gains on securities:			
Unrealized holding gains arising during period	$ 33,154	$ (13,393)	$ 19,761
Reclassification adjustment for losses included in net income	376	(154)	222
	33,530	(13,547)	19,983
Minimum pension liability adjustments	6,256	(2,547)	3,709
Unrealized losses on derivative instruments:			
Unrealized holding losses arising during period	(11,521)	4,624	(6,897)
Reclassification adjustment for losses included in net income	13,769	(5,564)	8,205
	2,248	(940)	1,308
Foreign currency translation adjustments	97,171	(15,624)	81,547
Other comprehensive income	$139,205	$ (32,658)	$106,547

13. Commitments and Contingent Liabilities

Outstanding commitments at March 31, 2006 and 2005 for the purchase of property, plant and equipment approximated ¥13,412 million ($114,632 thousand) and ¥7,258 million, respectively.

At March 31, 2006 and 2005, the Companies were contingently liable for trade accounts receivable discounted and transferred to banks of ¥460 million ($3,932 thousand) and ¥376 million, respectively, which were accounted for as sales when discounted and transferred.

14. Financial Instruments and Concentration of Credit Risk

In the normal course of its business, the Companies invest in various financial assets and incur various financial liabilities. The Companies also enter into agreements for derivative financial instruments to manage their exposure to fluctuations in foreign currency exchange rates. The fair value estimates of financial instruments presented below are not necessarily indicative of the amounts the Companies might pay or receive from actual market transactions. The Companies had the following financial assets and liabilities at March 31, 2006 and 2005:

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, 2006 and 2005.

(2) Marketable securities and Investments

Fair value is primarily based on quoted market prices or estimated using discounted cash flow analysis, based on the market interest rates currently available to the Companies for instruments with similar terms and maturities. The fair values of marketable securities and investments are presented in Note 3.

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

Fair value is primarily based on dealer quotes for the same or similar instruments. The fair values of applicable long-term receivables, advances and other assets at March 31, 2006 and 2005 were ¥11,102 million ($94,889 thousand) and ¥8,884 million compared with carrying amounts of ¥11,046 million ($94,410 thousand) and ¥8,877 million, respectively.

Derivative Financial Instruments

(1) Forward exchange contracts

The Companies had ¥16,532 million ($141,299 thousand) and ¥18,969 million in notional amounts of forward exchange contracts outstanding as of March 31, 2006 and 2005, respectively, in order to hedge the foreign currency risk of various sales and supply transactions, accounts receivable and accounts payable, which transactions are expected to occur within the next three months.

The estimated fair values of the Companies' forward exchange contracts at March 31, 2006 and 2005, which equal the carrying amounts, were a liability of ¥78 million ($667 thousand) and ¥447 million, respectively.

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

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

(2) Derivative instruments not designated as hedges

The companies own securities that contain an embedded credit default swap as part of trading activities. The embedded derivative instruments are separated from the host contracts and accounted for as derivative instruments. The fair values of the embedded derivative instruments at March 31, 2006, which equal the carrying amounts, were a liability of ¥4 million ($34 thousand).

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

On April 28, 2006 (US time), Murata Electronics North America, Inc. ("MEA"), a wholly-owned subsidiary of Murata Manufacturing Co., Ltd. acquired a US venture backed company, SyChip, Inc. ("SyChip") as MEA's wholly-owned subsidiary. Acquisition price is approximately $137 million as the total consideration for outstanding shares and stock options issued by SyChip.

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

The Companies are in the process of purchase price allocation to assets acquired and liabilities assumed.

The Board of Directors of the Company intends to propose for approval to pay a cash dividend of ¥40 ($0.34) per share to shareholders of record as of March 31, 2006, or a ¥8,876 million ($75,863 thousand) at the shareholders' meeting in June 2006.

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, 2006 and 2005, 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, 2006, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In our opinion, except for the omission of certain segment information as discussed in the preceding paragraph, such consolidated financial statements present fairly, in all material respects, the financial position of Murata Manufacturing Co., Ltd. and subsidiaries as of March 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, 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 2, 2006

Member of
Deloitte Touche Tohmatsu

Subsidiaries and Affiliates (as of July 1, 2006)

Branch
Tokyo Branch: Shibuya-ku, Tokyo

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

Number of Subsidiaries
Consolidated: 57 (24 in Japan and 33 overseas)

Domestic Subsidiaries
Fukui Murata Manufacturing Co., Ltd.
Izumo Murata Manufacturing Co., Ltd.
Toyama Murata Manufacturing Co., Ltd.
Komatsu Murata Manufacturing Co., Ltd.
Kanazawa Murata Manufacturing Co., Ltd.
Okayama Murata Manufacturing Co., Ltd.
and 18 other companies

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

Europe
Murata Europe Management B.V. (Netherlands)
Murata Electronics (Netherlands) B.V. (Netherlands)
Murata Elektronik GmbH (Germany)
Murata Electronics (UK) Limited (U.K.)
Murata Electronique SAS (France)
Murata Electronics Switzerland AG (Switzerland)
Murata Elettronica S.p.A. (Italy)
and 3 other companies

Asia
Beijing Murata Electronics Co., Ltd. (China)
Murata Electronics Trading (Tianjin) Co., Ltd. (China)
Wuxi Murata Electronics Co., Ltd. (China)
Murata（China）Investment Co., Ltd.
Murata Electronics Trading (Shanghai) Co., Ltd. (China)
Shenzhen Murata Technology Co., Ltd (China)
Murata Electronics Trading (Shenzhen) Co., Ltd. (China)
Hong Kong Murata Electronics Company, Limited (Hong Kong, China)
Korea Murata Electronics Company, Limited (Korea)
Taiwan Murata Electronics Co., Ltd. (Taiwan)
Murata Electronics Singapore (Pte.) Ltd. (Singapore)
Murata Electronics Philippines Inc. (Philippines)
Murata Electronics (Thailand), Ltd. (Thailand)
Thai Murata Electronics Trading, Ltd. (Thailand)
Murata Electronics (Malaysia) Sdn. Bhd. (Malaysia)
Murata Trading (Malaysia) Sdn. Bhd. (Malaysia)
and 1 other company

Company Information (as of March 31, 2006)

Trade Name
Murata Manufacturing Co., Ltd.

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

Common Stock
¥69,376 million (as of March 31, 2006)

President and Statutory Representative Director
Yasutaka Murata

Sales Amount
Consolidated Basis: ¥490,784 million
(as of March 31, 2006)
Parent Co. Basis: ¥422,578 million
(as of March 31, 2006)

Number of Employees
Consolidated Basis: 26,956
Parent Co. Basis: 5,415

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

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

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

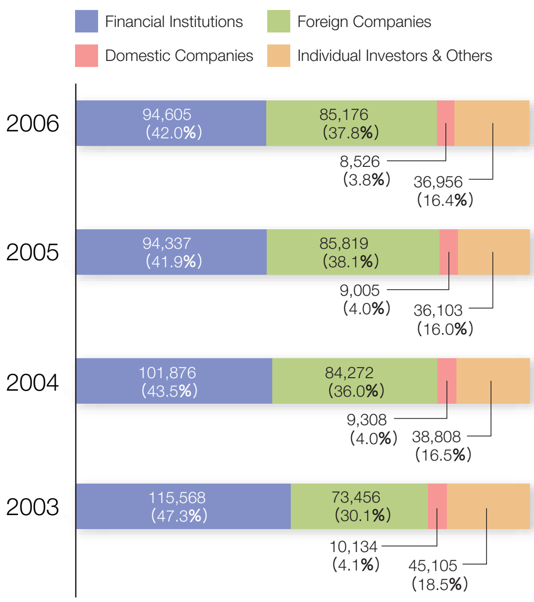
Stock Information

Major Shareholders

Name	Number of Shares	Share of voting rights
The Chase Manhattan Bank N.A., London	16,419	7.4
Japan Trustee Services Bank, Ltd. (trust account)	10,120	4.6
Nippon Life Insurance Company	9,685	4.4
The Master Trust Bank of Japan, Ltd. (trust account)	9,134	4.1
State Street Bank and Trust Company	7,738	3.5
Meiji Yasuda Life Insurance Company	5,610	2.5
The Bank of Kyoto, Ltd.	5,260	2.4
State Street Bank and Trust Company 505103	4,188	1.9
The Shiga Bank, Ltd.	3,551	1.6
Japan Trustee Services Bank, Ltd. (trust account 4)	3,035	1.4
Total	74,743	33.7

Note: The Company holds 3,356,091 shares of its own stock in Treasury. As these shares do not confer voting rights, the Company has been excluded from mention in the above table of major shareholders.

Number of Shares Outstanding



Innovator
in Electronics

Murata
Manufacturing Co., Ltd.

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