MURATA
SEMIANNUAL REPORT

For the six months ended September 30, 2006

Innovator in Electronics

Murata Manufacturing Co., Ltd.

To Our Shareholders

We would like to report to you the financial status overview, concurrently with the delivery of the semiannual report for the fiscal year ending in March 2007.

During the six-month period under review, the global electronic market enjoyed a significant growth in demand for electronic components, due to vibrant developments in the production of major products such as mobile phones, personal computers, and digital AV equipment. The functional sophistication of electronic equipment also contributed to the upward trend.

Looking at the market environment segmented by application, the key mobile phone segment within the communication equipment market marked an increase in demand in advanced countries for sophisticated terminals such as third-generation phones and Bluetooth®-equipped models. Demand for mobile phones continued to run strong in China, India, and other emerging economies.

In the market for computers and peripheral equipment, demand for notebook computers continued to ride high, while dual-core MPUs found an increasing use. In the AV equipment market, sales of flat-panel TVs using LCDs or plasma display panels (PDPs) were brisk. The automotive electronics market was highlighted by a growing use of electronics in automobiles.

The Murata Group responded to this market environment by aggressively increasing production capacity for key products to deal with growing demand, while focusing on improving customer service. To cope with falling product prices, we improved profitability and strengthened the business base by further developing cost reduction activities such as productivity improvement, while pushing forward with the commercialization of new, high-value added products.

As a result, for the semiannual period, net sales increased 21.1% compared with the corresponding period of 2005 to 277,155 million Yen, operating income increased 42.9% from the same period of last year to 54,118 million Yen, income before income taxes increased 44.6% from a year earlier to 56,884 million Yen and net income increased 36.5% year on year to 33,843 million Yen.

Net sales by product category for the six-month period under review compared with the figures for the same period of 2005 are as follows:

[Capacitors]

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

In the period under review, chip monolithic ceramic capacitors, the main product in this category, showed very strong sales, as large-capacitance products grew sharply in all applications including AV equipment, communication equipment and computers and peripheral equipment. Small-sized products also marked a significant sales growth in applications for communication equipment. The increasing use of dual-core MPUs led to a major sales gain in application-specific capacitors for computers and peripheral equipment.

As a result, overall net sales increased 26.2% from a year earlier, to 102,445 million Yen.

[Piezoelectric Components]

The piezoelectric components category includes ceramic filters, ceramic resonators, SAW (Surface Acoustic Wave) filters, piezoelectric sensors and piezoelectric buzzers.

In the period under review, sales of SAW filters for use in communication equipment grew well above the figures for the same period of last year. Piezoelectric sensors achieved an increase in the sales of products for shock-detection use in HDDs. Ceramic resonators posted a gain in sales for car electronics, but sales of ceramic resonators for use in AV equipment and computers and peripheral products suffered a decline. Ceramic filters for use in AV equipment also dropped in sales.

As a result, overall sales posted a year-on-year growth of 9.9%, to 38,973 million Yen.

[Microwave Devices]

These devices include multilayer ceramic devices, Bluetooth® modules, dielectric filters, isolators and connectors.

In the period under review, Bluetooth® modules grew dramatically in sales, far surpassing the figures for the same period of 2005. This is due to strong demand for mobile phones. Sales of isolators and connectors for communication equipment also increased sharply. In contrast, there was a decline in the sales of multilayer ceramic devices and dielectric filters for communication equipment.

As a result, overall net sales increased 42.3% year on year, to 59,930 million Yen.

[Module Products]

This product category includes circuit modules and power supplies.

In the period under review, sales of power supplies grew substantially, primarily in those for AV equipment such as flat-panel TVs and computers and peripheral equipment. In the circuit modules product line, sales of terrestrial digital tuners for mobile phones increased. But sales of VCOs (voltage controlled oscillators) for communication equipment fell steeply. Submodules for communication equipment also suffered a loss.

As a result, overall net sales increased 0.9% year on year to 28,059 million Yen.

[Other Products]

Other products include EMI suppression filters, coils, sensors, and resistors.

In the period under review, EMI suppression filters for AV and communication equipment posted a significant increase over the same period in 2005, while chip coils for communication equipment also grew sharply. Among resistors, thermistors for use in communication equipment posted an increase in sales.

As a result, overall net sales posted a 12.7% year on year increase to 46,834 million Yen.

Yasutaka Murata
President
Statutory Representative Director

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

Selected Financial Data (Unaudited)

Murata Manufacturing Co., Ltd. and Subsidiaries
Six months ended September 30, 2006, 2005 and 2004

	Millions of yen except per share amounts			Thousands of U.S. dollars except per share amounts (Note)
	2006	2005	2004	**2006**
Net sales	**¥277,155**	¥228,937	¥218,333	**$2,348,771**
Operating costs and expenses	**223,037**	191,053	180,158	**1,890,144**
Operating income	**54,118**	37,884	38,175	**458,627**
Other income	**2,766**	1,446	1,463	**23,441**
Income before income taxes	**56,884**	39,330	39,638	**482,068**
Net income	**33,843**	24,794	24,859	**286,805**
Amounts per share:				
Earnings per share				
Basic	**¥152.50**	¥110.97	¥108.67	**$1.29**
Diluted	**152.47**	110.97	108.67	**1.29**
Cash dividends	**40.00**	25.00	25.00	**0.34**
Current assets	**653,393**	601,428	595,177	**5,537,229**
Property, plant and equipment less accumulated depreciation	**252,624**	226,849	229,291	**2,140,881**
Total assets	**952,827**	857,531	855,290	**8,074,805**
Shareholders' equity	**780,799**	719,980	706,885	**6,616,941**
Capital investment	**41,910**	21,624	27,650	**355,169**
Number of employees	**28,426**	26,719	26,718	

Note: The U.S. dollar amounts in this report represent translation of Japanese yen for convenience only at the rate of ¥118=U.S.$1.

SEGMENT INFORMATION (UNAUDITED)

Murata Manufacturing Co., Ltd. and Subsidiaries
Six months ended September 30, 2006 and 2005

Geographic Segment Information

	Millions of yen					
2006	Japan	The Americas	Europe	Asia	Corporate and eliminations	Consolidated
Unaffiliated customers	**¥118,356**	**¥22,130**	**¥25,804**	**¥110,865**	**–**	**¥277,155**
Intersegment	**110,581**	**4**	**0**	**11,612**	**¥(122,197)**	**–**
Total revenue	**228,937**	**22,134**	**25,804**	**122,477**	**(122,197)**	**277,155**
Operating expenses	**184,523**	**23,843**	**24,722**	**114,523**	**(124,574)**	**223,037**
Operating income (loss)	**44,414**	**(1,709)**	**1,082**	**7,954**	**2,377**	**54,118**

	Millions of yen					
2005	Japan	The Americas	Europe	Asia	Corporate and eliminations	Consolidated
Unaffiliated customers	¥110,946	¥17,990	¥23,294	¥76,707	–	¥228,937
Intersegment	78,540	5	9	9,322	¥(87,876)	–
Total revenue	189,486	17,995	23,303	86,029	(87,876)	228,937
Operating expenses	158,969	17,369	22,280	81,838	(89,403)	191,053
Operating income	30,517	626	1,023	4,191	1,527	37,884

	Thousands of U.S.dollars					
2006	Japan	The Americas	Europe	Asia	Corporate and eliminations	Consolidated
Unaffiliated customers	**$1,003,017**	**$187,542**	**$218,678**	**$939,534**	**–**	**$2,348,771**
Intersegment	**937,127**	**34**	**0**	**98,407**	**$(1,035,568)**	**–**
Total revenue	**1,940,144**	**187,576**	**218,678**	**1,037,941**	**(1,035,568)**	**2,348,771**
Operating expenses	**1,563,754**	**202,059**	**209,509**	**970,534**	**(1,055,712)**	**1,890,144**
Operating income (loss)	**376,390**	**(14,483)**	**9,169**	**67,407**	**20,144**	**458,627**

Overseas Sales

	Millions of yen			
2006	The Americas	Europe	Asia and Others	Total
Overseas sales	**¥22,740**	**¥36,510**	**¥147,298**	**¥206,548**
Consolidated sales				**277,155**
Percentage	**8.2%**	**13.2%**	**53.1%**	**74.5%**

	Millions of yen			
2005	The Americas	Europe	Asia and Others	Total
Overseas sales	¥20,517	¥31,982	¥111,106	¥163,605
Consolidated sales				228,937
Percentage	9.0%	14.0%	48.5%	71.5%

	Thousands of U.S.dollars			
2006	The Americas	Europe	Asia and Others	Total
Overseas sales	**$192,712**	**$309,407**	**$1,248,288**	**$1,750,407**
Consolidated sales				**2,348,771**

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

PRODUCTION, ORDER AND BACKLOG BY PRODUCT (UNAUDITED)

Murata Manufacturing Co., Ltd. and Subsidiaries
Six months ended September 30, 2006 and 2005

	2006 Millions of yen	2006 Component ratio	2005 Millions of yen	2005 Component ratio	2006 Thousands of U.S.dollars
Production by Product		%		%	
Capacitors	**¥108,037**	**37.5**	¥ 80,241	34.9	**$ 915,568**
Piezoelectric Components	**39,951**	**13.9**	34,332	15.0	**338,568**
Microwave Devices	**63,205**	**21.9**	43,849	19.1	**535,636**
Module Products	**27,918**	**9.7**	28,275	12.3	**236,593**
Other Products	**48,821**	**17.0**	42,865	18.7	**413,737**
Total	**¥287,932**	**100.0**	¥229,562	100.0	**$2,440,102**

Notes: 1. Figures are based on production quantity and sales price to customers.
2. Exclusive of consumption taxes
3. Production amounts of the foreign subsidiaries were translated into Japanese yen at average exchange rates for each period.
4. The tables by product indicate production, order and backlog of electronics components and related products.
5. The total production and backlog in Capacitors for this semiannual period have increased greatly compared to the previous semiannual period because the order performed well in the Companies' main market such as AV market, communication market and computers and peripherals equipment market. Also, the total production and order in Microwave Devices for this semiannual period have increased greatly compared to the previous semiannual period, with Bluetooth® modules growing over the previous semiannual period in mobile phone market.

	2006 Millions of yen	2006 Component ratio	2005 Millions of yen	2005 Component ratio	2006 Thousands of U.S.dollars
Order by Product		%		%	
Capacitors	**¥109,327**	**38.3**	¥ 85,350	36.3	**$ 926,500**
Piezoelectric Components	**39,692**	**13.9**	35,646	15.2	**336,373**
Microwave Devices	**61,255**	**21.5**	42,039	17.9	**519,110**
Module Products	**27,708**	**9.7**	29,258	12.4	**234,814**
Other Products	**47,513**	**16.6**	42,700	18.2	**402,652**
Total	**¥285,495**	**100.0**	¥234,993	100.0	**$2,419,449**

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

	2006 Millions of yen	2006 Component ratio	2005 Millions of yen	2005 Component ratio	2006 Thousands of U.S.dollars
Backlog by Product		%		%	
Capacitors	**¥ 27,541**	**45.2**	¥ 17,067	35.9	**$ 233,398**
Piezoelectric Components	**7,997**	**13.2**	6,345	13.3	**67,771**
Microwave Devices	**7,507**	**12.3**	6,464	13.6	**63,619**
Module Products	**7,021**	**11.5**	8,401	17.7	**59,500**
Other Products	**10,825**	**17.8**	9,245	19.5	**91,737**
Total	**¥ 60,891**	**100.0**	¥ 47,522	100.0	**$ 516,025**

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

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

Murata Manufacturing Co., Ltd. and Subsidiaries
As of September 30, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note2)
	2006	2005	**2006**
ASSETS			
Current assets:			
Cash	**¥ 25,986**	¥ 30,917	**$ 220,220**
Time deposits	**68,755**	85,648	**582,670**
Total cash and cash equivalents	**94,741**	116,565	**802,890**
Marketable securities (Note 3)	**331,895**	302,401	**2,812,669**
Notes and accounts receivable:			
Trade notes	**8,067**	10,717	**68,365**
Trade accounts	**117,462**	90,058	**995,441**
Allowance for doubtful notes and accounts	**(1,464)**	(982)	**(12,407)**
Inventories	**75,803**	61,662	**642,398**
Deferred income taxes	**19,729**	16,516	**167,195**
Prepaid expenses and other	**7,160**	4,491	**60,678**
Total current assets	**653,393**	601,428	**5,537,229**
Property, plant and equipment:			
Land	**40,909**	41,016	**346,686**
Buildings	**210,418**	206,155	**1,783,203**
Machinery and equipment	**451,882**	427,636	**3,829,509**
Construction in progress	**22,077**	6,287	**187,093**
Total	**725,286**	681,094	**6,146,491**
Accumulated depreciation	**(472,662)**	(454,245)	**(4,005,610)**
Net property, plant and equipment	**252,624**	226,849	**2,140,881**
Investments and other assets:			
Investments (Note 3)	**18,193**	15,351	**154,178**
Deferred income taxes	**5,620**	4,284	**47,627**
Long-term receivables, advances and other	**22,997**	9,619	**194,890**
Total investments and other assets	**46,810**	29,254	**396,695**
Total	**¥952,827**	¥857,531	**$8,074,805**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings	**¥ 8,900**	¥ 5,173	**$ 75,424**
Trade notes payable	**5,452**	807	**46,203**
Trade accounts payable	**29,205**	22,095	**247,500**
Accrued payroll and bonuses	**19,930**	18,054	**168,898**
Income taxes payable	**22,242**	13,672	**188,492**
Accrued expenses and other	**28,335**	20,803	**240,127**
Total current liabilities	**114,064**	80,604	**966,644**
Long-term liabilities:			
Long-term debt	**25**	1,028	**212**
Termination and retirement benefits	**46,804**	47,777	**396,644**
Deferred income taxes	**10,456**	7,462	**88,610**
Other	**679**	680	**5,754**
Total long-term liabilities	**57,964**	56,947	**491,220**
Commitments and contingent liabilities (Note 5)			
Shareholders' equity (Note 8):			
Common stock			
Authorized 581,000,000 shares in 2006 and 2005; Issued 225,263,592 shares in 2006 and 2005	**69,377**	69,377	**587,941**
Capital surplus	**102,306**	102,222	**867,000**
Retained earnings	**626,652**	574,688	**5,310,610**
Accumulated other comprehensive income (loss):			
Unrealized gains on securities	**5,552**	4,787	**47,051**
Minimum pension liability adjustments	**(571)**	(873)	**(4,839)**
Unrealized losses on derivative instruments	**(194)**	(159)	**(1,644)**
Foreign currency translation adjustments	**(3,815)**	(11,356)	**(32,331)**
Total accumulated other comprehensive income (loss)	**972**	(7,601)	**8,237**
Treasury stock, at cost 3,324,723 shares in 2006 and 3,362,111 shares in 2005	**(18,508)**	(18,706)	**(156,847)**
Total shareholders' equity	**780,799**	719,980	**6,616,941**
Total	**¥952,827**	¥857,531	**$8,074,805**

See notes to consolidated financial statements (unaudited).

Consolidated Statements of Income and Retained Earnings (Unaudited)

Murata Manufacturing Co., Ltd. and Subsidiaries
Six months ended September 30, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note2)
	2006	2005	2004	**2006**
Net sales	**¥277,155**	¥228,937	¥218,333	**$2,348,771**
Operating costs and expenses:				
Cost of sales	**164,380**	139,057	129,765	**1,393,051**
Selling, general and administrative (Note 1.q)	**38,348**	34,769	34,067	**324,983**
Research and development	**20,309**	17,227	16,326	**172,110**
Total operating costs and expenses	**223,037**	191,053	180,158	**1,890,144**
Operating income	**54,118**	37,884	38,175	**458,627**
Other income (expenses):				
Interest and dividend income	**1,803**	1,103	844	**15,280**
Interest expense	**(130)**	(67)	(71)	**(1,102)**
Foreign currency exchange gain (loss)	**(320)**	10	(494)	**(2,712)**
Other - net	**1,413**	400	1,184	**11,975**
Other income (expenses) - net	**2,766**	1,446	1,463	**23,441**
Income before income taxes	**56,884**	39,330	39,638	**482,068**
Income taxes:				
Current	**23,840**	14,285	17,958	**202,034**
Deferred	**(799)**	251	(3,179)	**(6,771)**
	23,041	14,536	14,779	**195,263**
Net income	**33,843**	24,794	24,859	**286,805**
Retained earnings:				
Balance at beginning of period	**601,685**	555,512	571,478	**5,099,025**
Cash dividends -				
¥40.0 ($0.34) per share in 2006, ¥25.0 per share in 2005 and 2004	**(8,876)**	(5,618)	(5,741)	**(75,220)**
Balance at end of period	**¥626,652**	¥574,688	¥590,596	**$5,310,610**
	Yen			U.S. dollars (Note2)
Amounts per share (Note 4):				
Basic earnings per share	**¥152.50**	¥110.97	¥108.67	**$1.29**
Diluted earnings per share	**¥152.47**	¥110.97	¥108.67	**$1.29**
Cash dividends per share	**¥40.00**	¥25.00	¥25.00	**$0.34**

See notes to consolidated financial statements (unaudited).

Consolidated Statements of Comprehensive Income (Unaudited)

Murata Manufacturing Co., Ltd. and Subsidiaries
Six months ended September 30, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note2)
	2006	2005	2004	**2006**
Net income	**¥33,843**	¥24,794	¥24,859	**$286,805**
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on securities	**(440)**	1,133	(565)	**(3,729)**
Minimum pension liability adjustments	**(42)**	90	(104)	**(356)**
Unrealized gains (losses) on derivative instruments	**(161)**	27	(108)	**(1,364)**
Foreign currency translation adjustments	**834**	2,834	4,461	**7,068**
Other comprehensive income	**191**	4,084	3,684	**1,619**
Comprehensive income	**¥34,034**	¥28,878	¥28,543	**$288,424**

See notes to consolidated financial statements (unaudited).

Consolidated Statements of Cash Flows (Unaudited)

Murata Manufacturing Co., Ltd. and Subsidiaries
Six months ended September 30, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note2)
	2006	2005	2004	**2006**
Operating activities:				
Net income	**¥ 33,843**	¥ 24,794	¥ 24,859	**$ 286,805**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	**21,871**	20,435	19,649	**185,347**
Losses on sales and disposal of property, plant and equipment	**204**	254	603	**1,729**
Impairment losses on long-lived assets	**–**	360	1,733	**–**
Gains on sales of securities	**(2)**	(70)	(466)	**–**
Provision for termination and retirement benefits, less payments	**(575)**	623	2,256	**(4,873)**
Deferred income taxes	**(799)**	251	(3,179)	**(6,771)**
Changes in assets and liabilities:				
Decrease (increase) in trade notes and accounts receivable	**(12,235)**	(11,489)	2,574	**(103,686)**
Increase in inventories	**(9,021)**	(1,977)	(3,469)	**(76,449)**
Decrease (increase) in prepaid expenses and other	**(1,287)**	(267)	3,014	**(10,907)**
Increase (decrease) in trade notes and accounts payable	**5,343**	4,167	(1,174)	**45,280**
Increase in accrued payroll and bonuses	**687**	605	33	**5,822**
Increase (decrease) in income taxes payable	**4,333**	(2,039)	1,724	**36,720**
Increase in accrued expenses and other	**6,917**	794	2,917	**58,619**
Other-net	**3,015**	(123)	(230)	**25,534**
Net cash provided by operating activities	**52,294**	36,318	50,844	**443,170**
Investing activities:				
Capital expenditures	**(41,910)**	(21,624)	(27,650)	**(355,169)**
Payment for purchases of investments and other	**(2,034)**	(2,442)	(380)	**(17,237)**
Net decrease (increase) in marketable securities	**(16,499)**	29,948	(3,725)	**(139,822)**
Proceeds from sales of property, plant and equipment	**207**	776	61	**1,754**
Proceeds from sales of investments	**10**	116	573	**84**
Acquisition of subsidiaries, net of cash acquired	**(15,387)**	–	–	**(130,398)**
Other	**1**	2	4	**8**
Net cash provided by (used in) investing activities	**(75,612)**	6,776	(31,117)	**(640,780)**
Financing activities:				
Net increase (decrease) in short-term borrowings	**478**	(199)	(334)	**4,051**
Repayment of long-term debt	**(500)**	–	–	**(4,237)**
Dividends paid	**(8,876)**	(5,618)	(5,741)	**(75,220)**
Payment for purchases of treasury stock	**(19)**	(15,589)	(16,854)	**(161)**
Other	**212**	(1)	(4)	**1,796**
Net cash used in financing activities	**(8,705)**	(21,407)	(22,933)	**(73,771)**
Effect of exchange rate changes on cash and cash equivalents	**381**	1,207	2,459	**3,229**
Net increase (decrease) in cash and cash equivalents	**(31,642)**	22,894	(747)	**(268,152)**
Cash and cash equivalents at beginning of period	**126,383**	93,671	61,904	**1,071,042**
Cash and cash equivalents at end of period	**¥ 94,741**	¥116,565	¥ 61,157	**$ 802,890**
Additional cash flow information:				
Interest paid	**¥ 124**	¥ 66	¥ 72	**$ 1,051**
Income taxes paid	**19,497**	16,332	16,192	**165,229**

See notes to consolidated financial statements (unaudited).

Liquidity in Hand

	Millions of yen			Thousands of U.S. dollars (Note2)
	2006	2005	2004	**2006**
Cash and cash equivalents at end of period	**¥ 94,741**	¥ 116,565	¥ 61,157	**$ 802,890**
Marketable securities	**331,895**	302,401	361,176	**2,812,669**
Liquidity in hand	**¥ 426,636**	¥ 418,966	¥ 422,333	**$ 3,615,559**

1.Summary of Significant Accounting Policies

(a) Nature of operations

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

(b) Basis of financial statements

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

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

(c) Principles of consolidation

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

(d) Cash and cash equivalents

The Companies consider cash and time deposits 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."

(i) Revenue recognition

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

(j) Advertising expenses

Advertising costs are expensed as incurred. Advertising expenses for the six months ended September 30, 2006 and 2005 were ¥765 million ($6,483 thousand) and ¥786 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 4.

(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," SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133," SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" and SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140." These standards establish accounting and reporting standards for derivative instruments and for hedging activities, and require that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value.

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

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

(n) Stock-based Compensation

Prior to April 1, 2006, the Company accounted 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" permitted 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.

Effective April 1, 2006, the Company accounts for stock-based awards to employees in accordance with SFAS No.123 (revised 2004), "Share-Based Payment" ("SFAS No.123R"), using the modified prospective application. 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 on or after the effective date. Stock-based compensation for the six months ended September 30, 2006 was ¥53 million ($449 thousand).

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 for the six months ended September 30, 2005.

	Millions of yen
	2005
Net Income	
Reported	¥ 24,794
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(69)
Pro forma	¥ 24,725

	Yen
	2005
Earnings per Share —Net income	
Reported	
Basic earnings per share	¥ 110.97
Diluted earnings per share	110.97
Pro forma	
Basic earnings per share	¥ 110.66
Diluted earnings per share	110.66

(o) Shipping and Handling costs

Shipping and Handling costs which were included in selling, general and administrative expenses for the six months ended September 30, 2006 and 2005 were ¥2,771 million ($23,483 thousand) and ¥2,445 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 ¥360 million of impairment loss in selling, general and administrative expenses for the six months ended September 30, 2005.

In the six months ended September 30, 2005, 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.

(r) Goodwill and other intangible assets

The Companies account for goodwill and other intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." In accordance with this statement, goodwill is not amortized and is instead tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives.

And also this statement requires that an intangible asset that is determined to have indefinite useful life will not be amortized and will be instead tested at least annually for impairment until its useful life is determined to be no longer indefinite.

(s) 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.

(t) Reclassifications

Certain items in prior years' financial statements have been reclassified to conform to the presentation for the six months ended September 30, 2006.

(u) New Accounting Standard

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 clarifies the definitions of fair value, which were different among the many accounting pronouncements that require or permit fair value measurement. SFAS No. 157 defines fair value as the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market, clarifies that valuation techniques are consist with the market approach, income approach, and/or cost approach, and requires companies to apply them consistently. SFAS No. 157 also expands disclosures about the use of fair value to measure assets and liabilities. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and the Companies will adopt this statement as of April 1, 2008. The Companies are currently evaluating the impact of adoption of this statement on the Companies' consolidated financial statement as of the required effective date.

In September 2006, FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)." SFAS No. 158 requires companies to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position, and requires companies to measure the funded status of a plan as of the date of its year-end statement of financial position. The recognition of the funded status of a defined benefit postretirement plan and the required disclosures are effective as of the end of the fiscal year ending after December 15, 2006, and the measurement as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The Companies will adopt the former as of March 31, 2007, and the latter as of April 1, 2008. The Companies are currently evaluating the impact of adoption of this statement on the Companies' consolidated financial statement as of the required effective date.

In June 2006, the FASB issued FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109." FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006 and the Companies will adopt this interpretation as of April 1, 2007. The Companies are currently evaluating the impact of adoption of this interpretation on the Companies' consolidated financial statements as of the required effective date.

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 ¥118 to $1, the approximate rate of exchange at September 30, 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 September 30, 2006 and 2005 were as follows:

	Millions of yen			
	2006			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:				
Governmental debt securities	**¥ 25,539**	**¥ 36**	**¥ 10**	**¥ 25,565**
Private debt securities	**306,513**	**406**	**589**	**306,330**
Total	**¥332,052**	**¥ 442**	**¥ 599**	**¥331,895**
Non-current:				
Equity securities	**¥ 4,734**	**¥9,724**	**¥ 24**	**¥ 14,434**
Investment trusts	**600**	**3**	**–**	**603**
Total	**¥ 5,334**	**¥9,727**	**¥ 24**	**¥ 15,037**

	Millions of yen			
	2005			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:				
Governmental debt securities	¥ 33,479	¥ 148	¥ 1	¥ 33,626
Private debt securities	268,713	238	176	268,775
Total	¥302,192	¥ 386	¥ 177	¥302,401
Non-current:				
Equity securities	¥ 4,739	¥8,087	¥ 12	¥ 12,814
Total	¥ 4,739	¥8,087	¥ 12	¥ 12,814

	Thousands of U.S. dollars			
	2006			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:				
Governmental debt securities	**$ 216,432**	**$ 305**	**$ 85**	**$ 216,652**
Private debt securities	**2,597,568**	**3,441**	**4,992**	**2,596,017**
Total	**$2,814,000**	**$ 3,746**	**$ 5,077**	**$2,812,669**
Non-current:				
Equity securities	**$ 40,118**	**$82,407**	**$ 203**	**$ 122,322**
Investment trusts	**5,085**	**25**	**–**	**5,110**
Total	**$ 45,203**	**$82,432**	**$ 203**	**$ 127,432**

The aggregate carrying amounts of the equity securities that do not have a readily determinable fair value at September 30, 2006 and 2005, which were valued at cost, were ¥3,156 million ($26,746 thousand) and ¥2,537 million, respectively. They were not included in the above schedule.

Contractual maturities of debt securities as of Sptember 30, 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	Cost	Fair Value	Cost	Fair Value
Within one year	**¥130,577**	**¥130,566**	**$1,106,585**	**$1,106,491**
After one year through five years	**201,475**	**201,329**	**1,707,415**	**1,706,178**
Total	**¥332,052**	**¥331,895**	**$2,814,000**	**$2,812,669**

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

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Proceeds from sales	**¥ 13**	¥ 116	**$ 110**
Gross realized gains	**2**	70	**17**
Gross realized losses	**3**	–	**25**

4. Amounts per Share

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

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Net income	**¥33,843**	¥24,794	**$286,805**

	Numbers of shares	
	2006	2005
Average common shares outstanding	**221,927,434**	223,431,626
Dilutive effect of stock options	**42,868**	341
Diluted common shares outstanding	**221,970,302**	223,431,967

	Yen		U.S. dollars
	2006	2005	**2006**
Earnings per share:			
Basic	**¥152.50**	¥110.97	**$ 1.29**
Diluted	**152.47**	110.97	**1.29**

5. Commitments and Contingent Liabilities

Outstanding commitments at September 30, 2006 and 2005 for the purchase of property, plant and equipment approximated ¥13,933 million ($118,076 thousand) and ¥8,317 million, respectively. At September 30, 2006 and 2005, the Companies were contingently liable for trade accounts receivable discounted and transferred to banks of ¥333 million ($2,822 thousand) and ¥309 million, respectively, which were accounted for as sales when discounted and transferred.

6. 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 September 30, 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 September 30, 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 September 30, 2006 and 2005 were ¥23,070 million ($195,508 thousand) and ¥9,629 million compared with carrying amounts of ¥22,997 million ($194,890 thousand) and ¥9,619 million, respectively.

Forward exchange contracts

The Companies had ¥24,819 million ($210,331 thousand) and ¥14,769 million in notional amounts of forward exchange contracts outstanding as of September 30, 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 September 30, 2006 and 2005, which equal the carrying amounts, were a liability of ¥547 million ($4,636 thousand) and ¥375 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 period are expected to be recognized in earnings within the next three months.

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

Concentration of Credit Risk

A significant portion of the Companies' sales is dependent upon and concentrated in the electronics industry, especially telecommunications equipment. The Companies generally extend credit to their customers, therefore, collection of receivables could be affected by developments in the electronics industry. However, the Companies closely monitor extensions of credit and have never experienced significant credit losses.

7. Acquisition

On April 28, 2006, 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 ¥15,538 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.

Business results of SyChip, Inc. were included in the Companies’ consolidated financial statements after the acquisition date.

8. Subsequent Events

The Board of Directors of the Company resolved in October 2006 to pay a cash dividend of ¥40.0 ($0.34) per share or a total of ¥8,878 million ($75,237 thousand) to shareholders of record as of September 30, 2006.

Certificate by Chief Financial Officer

I, Yoshitaka Fujita as chief financial officer of the Company do hereby certify, to the best of my knowledge and after reasonable investigation, that, in my opinion, the consolidated balance sheets as of September 30, 2006, and the related consolidated statements of income and retained earnings and cash flows for the six months then ended present fairly the financial position of the Company and consolidated subsidiaries as of September 30, 2006, and the results of their operations and the changes in their cash flows for the six months then ended.

Yoshitaka Fujita
Corporate Senior Executive Vice President
Member of the Board of Directors

Company Data (Murata Manufacturing Co., Ltd.)

Date of Incorporation: December 23, 1950

Head Office:
10-1, Higashikotari 1-chome, Nagaokakyo-shi, Kyoto
617-8555 Japan
Phone: 81-75-951-9111

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

Common stock: ¥69,376 million

Number of Issued Shares: 225,263 thousand

Number of Shareholders: 72,133

Number of Employees (Consolidated): 28,426

Stock Exchange Listings:
Tokyo Stock Exchange
Osaka Securities Exchange
Stock Exchange of Singapore

Transfer Agent:
Mizuho Trust & Banking Co., Ltd.
2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-8670
Phone: 81-3-5213-5213

Offices and Plants:

Tokyo Branch
29-12, 3-chome, Shibuya, Shibuya-ku, Tokyo 150-0002
Phone: 81-3-5469-6111

Yokaichi Plant
4-4-1, Higashiokino, Higashiomi-shi, Shiga 527-8558 Japan
Phone: 81-748-22-5500

Yasu Plant
2288, Oshinohara, Yasu-shi, Shiga 520-2393 Japan
Phone: 81-77-587-5111

Yokohama Technical Center
18-1, Hakusan 1-chome, Midori-ku, Yokohama-shi,
Kanagawa 226-0006 Japan
Phone: 81-45-931-7111

muRata *Innovator in Electronics*

Murata Manufacturing Co., Ltd.