MURATA SEMIANNUAL REPORT

For the six months ended September 30, 2005

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 2006.

The world electronic equipment market, during the first half of this period, continued to suffer from a drop in electronic component prices. However, production of major electronic equipment such as mobile phones and personal computers picked up smoothly in the spring, stimulating electronic component demand greatly in the latter half of the period.

Sales for mobile phones, a mainstream product of the communications market, grew in developing nations such as China, India, Russia and Brazil. In developed nations, demand expanded for mobile phones with advanced features, such as third generation models and Bluetooth® models.

In the computer and peripheral market, demand for notebook computers and peripherals remained strong. In the AV equipment market, digital AV equipment such as LCD flat panel televisions performed well. The automotive electronics market grew, as installation of electrical equipment increased in developed nations.

Under such market conditions, Murata has dealt with expansion of demand by reinforcing its production capacity for its mainstream products, fortified its sales system in the expanding East Asian region, and strived to improve customer service. Also, to deal with the drop in product prices, we promoted cost reduction activities including improvement of productivity and advanced commercialization of smaller, advanced featured and technologically amalgamated new high added-value products, to improve profitability and strengthen our business infrastructure.

As a result, for the semiannual period, net sales was 228,937 million yen (a 4.9% increase from the previous semiannual period), operating income was 37,884 million yen (a 0.8% decrease from the previous semiannual period), income before income taxes was 39,330 million yen (a 0.8% decrease from the previous semiannual period) and net income was 24,794 million yen (a 0.3% decrease from the previous semiannual period).

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

[Capacitors]
Our main product in this category, chip monolithic ceramic capacitors, in spite of the product price drop, gained a great deal in every application, especially for large capacity models in AV equipment and computer and peripheral applications. In addition, application specific models picked up for computer and peripheral applications. This helped increase net sales from the previous semiannual period. Meanwhile, performance of ceramic capacitors with lead terminals was below the previous semiannual period.
As a result, the total sales in this category increased by 1.1% from the previous semiannual period to 81,191 million yen.

[Piezoelectric Components]
Sales of ceramic filters, especially for AV equipment and communications equipment, suffered a great decline. Sales of ceramic resonators also declined for AV equipment, computer and peripheral applications. SAW filters picked up for communications equipment application in Europe, the USA and China, surpassing the level of the previous semiannual report. Piezoelectric sensors gained greatly for computer and peripheral applications.
As a result, the total sales in this category decreased by 2.8% from the previous semiannual period to 35,456 million yen.

[Microwave Devices]
Bluetooth® modules gained greatly in the mobile phone application to be about three times as much as the previous semiannual period. Meanwhile, among multilayer devices, sales of module products decreased for communications equipment application, and chip type products performed worse than in the previous semiannual period. Isolators suffered a decline for communications equipment application in Japan and Korea.
As a result, the total sales in this category increased by 29.3% from the previous semiannual period to 42,116 million yen.

[Module Products]
Power supplies performed well for AV equipment applications including LCD televisions, resulting in an increase from the previous semiannual period. Meanwhile, for circuit modules, while sales of voltage control oscillators (VCOs) picked up for communications equipment application, sales of communications equipment sub-modules declined greatly.
As a result, the total sales in this category decreased by 1.6% from the previous semiannual period to 27,811 million yen.

[Other Products]
EMI suppression filters for communications equipment application performed well. Sensor sales picked up for Japanese AV equipment application to greatly surpass sales in the previous semiannual period. Meanwhile, although sales of chip coils picked up for computer and peripheral applications, they were poor for communications and AV equipment applications resulting in a decline from the previous semiannual period. For resistors, thermistors and high-voltage resistors declined from the previous semiannual period.
As a result, the total sales in this category increased by 3.9% from the previous semiannual period to 41,557 million yen.

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

Selected Financial Data (Unaudited)

Murata Manufacturing Co., Ltd. and Subsidiaries
Six months ended September 30, 2005, 2004 and 2003

	Millions of yen except per share amounts			Thousands of U.S. dollars except per share amounts (Note)
	2005	2004	2003	**2005**
Net sales	**¥228,937**	¥218,333	¥198,713	**$2,025,991**
Operating costs and expenses	**191,053**	180,158	172,705	**1,690,734**
Operating income	**37,884**	38,175	26,008	**335,257**
Other income	**1,446**	1,463	2,541	**12,796**
Income before income taxes	**39,330**	39,638	28,549	**348,053**
Net income	**24,794**	24,859	18,001	**219,416**
Amounts per share:				
Earnings per share				
Basic	**¥110.97**	¥108.67	¥76.85	**$0.98**
Diluted	**110.97**	108.67	76.85	**0.98**
Cash dividends	**25.00**	25.00	25.00	**0.22**
Current assets	**601,428**	595,177	582,545	**5,322,372**
Property, plant and equipment less accumulated depreciation	**226,849**	229,291	225,044	**2,007,513**
Total assets	**857,531**	855,290	834,660	**7,588,770**
Shareholders' equity	**719,980**	706,885	696,828	**6,371,504**
Capital investment	**21,624**	27,650	12,346	**191,363**
Number of employees	**26,719**	26,718	26,604	

Note: The U.S. dollar amounts in this report represent translation of Japanese yen for convenience only at the rate of ¥113=U.S.$1.

Segment Information (Unaudited)

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

Geographic Segment Information

2005	Japan	The Americas	Europe	Asia	Corporate and eliminations	Consolidated
	Millions of yen					
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**

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

2005	Japan	The Americas	Europe	Asia	Corporate and eliminations	Consolidated
	Thousands of U.S.dollars					
Unaffiliated customers	**$981,823**	**$159,203**	**$206,142**	**$678,823**	**–**	**$2,025,991**
Intersegment	**695,044**	**44**	**80**	**82,496**	**$(777,664)**	**–**
Total revenue	**1,676,867**	**159,247**	**206,222**	**761,319**	**(777,664)**	**2,025,991**
Operating expenses	**1,406,805**	**153,707**	**197,169**	**724,230**	**(791,177)**	**1,690,734**
Operating income	**270,062**	**5,540**	**9,053**	**37,089**	**13,513**	**335,257**

Overseas Sales

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

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

2005	The Americas	Europe	Asia and Others	Total
	Thousands of U.S.dollars			
Overseas sales	**$181,566**	**$283,027**	**$983,239**	**$1,447,832**
Consolidated sales				**2,025,991**

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, 2005 and 2004

	Millions of yen 2005	Component ratio 2005	Millions of yen 2004	Component ratio 2004	Thousands of U.S.dollars 2005
Production by Product		%		%	
Capacitors	**¥ 80,241**	**34.9**	¥ 84,187	37.6	**$ 710,098**
Piezoelectric Components	**34,332**	**15.0**	36,890	16.5	**303,823**
Microwave Devices	**43,849**	**19.1**	32,766	14.7	**388,044**
Module Products	**28,275**	**12.3**	28,577	12.8	**250,221**
Other Products	**42,865**	**18.7**	41,265	18.4	**379,336**
Total	**¥229,562**	**100.0**	¥223,685	100.0	**$2,031,522**

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. 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.

	Millions of yen 2005	Component ratio 2005	Millions of yen 2004	Component ratio 2004	Thousands of U.S.dollars 2005
Order by Product		%		%	
Capacitors	**¥ 85,350**	**36.3**	¥ 78,219	36.7	**$ 755,310**
Piezoelectric Components	**35,646**	**15.2**	35,552	16.7	**315,451**
Microwave Devices	**42,039**	**17.9**	31,610	14.8	**372,027**
Module Products	**29,258**	**12.4**	28,656	13.4	**258,920**
Other Products	**42,700**	**18.2**	39,314	18.4	**377,876**
Total	**¥234,993**	**100.0**	¥213,351	100.0	**$2,079,584**

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

	Millions of yen 2005	Component ratio 2005	Millions of yen 2004	Component ratio 2004	Thousands of U.S.dollars 2005
Backlog by Product		%		%	
Capacitors	**¥17,067**	**35.9**	¥14,679	33.1	**$151,035**
Piezoelectric Components	**6,345**	**13.3**	6,815	15.4	**56,151**
Microwave Devices	**6,464**	**13.6**	5,858	13.2	**57,204**
Module Products	**8,401**	**17.7**	8,061	18.2	**74,345**
Other Products	**9,245**	**19.5**	8,933	20.1	**81,814**
Total	**¥47,522**	**100.0**	¥44,346	100.0	**$420,549**

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, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note2)
	2005	2004	**2005**
ASSETS			
Current assets:			
Cash	**¥ 30,917**	¥ 23,297	**$ 273,602**
Time deposits	**85,648**	37,860	**757,947**
Total cash and cash equivalents	**116,565**	61,157	**1,031,549**
Marketable securities (Note 3)	**302,401**	361,176	**2,676,115**
Notes and accounts receivable:			
Trade notes	**10,717**	13,359	**94,841**
Trade accounts	**90,058**	79,380	**796,974**
Allowance for doubtful notes and accounts	**(982)**	(843)	**(8,690)**
Inventories	**61,662**	58,994	**545,681**
Deferred income taxes	**16,516**	17,143	**146,159**
Prepaid expenses and other	**4,491**	4,811	**39,743**
Total current assets	**601,428**	595,177	**5,322,372**
Property, plant and equipment:			
Land	**41,016**	41,176	**362,974**
Buildings	**206,155**	197,933	**1,824,381**
Machinery and equipment	**427,636**	419,021	**3,784,389**
Construction in progress	**6,287**	9,586	**55,637**
Total	**681,094**	667,716	**6,027,381**
Accumulated depreciation	**(454,245)**	(438,425)	**(4,019,868)**
Net property, plant and equipment	**226,849**	229,291	**2,007,513**
Investments and other assets:			
Investments (Note 3)	**15,351**	12,417	**135,850**
Deferred income taxes	**4,284**	9,693	**37,911**
Long-term receivables, advances and other	**9,619**	8,712	**85,124**
Total investments and other assets	**29,254**	30,822	**258,885**
Total	**¥857,531**	¥855,290	**$7,588,770**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings	**¥ 5,173**	¥ 4,869	**$ 45,779**
Trade notes payable	**807**	1,262	**7,142**
Trade accounts payable	**22,095**	17,262	**195,531**
Accrued payroll and bonuses	**18,054**	17,788	**159,770**
Income taxes payable	**13,672**	17,423	**120,991**
Accrued expenses and other	**20,803**	30,439	**184,097**
Total current liabilities	**80,604**	89,043	**713,310**
Long-term liabilities:			
Long-term debt	**1,028**	1,030	**9,097**
Termination and retirement benefits	**47,777**	45,839	**422,805**
Deferred income taxes	**7,462**	11,709	**66,036**
Other	**680**	784	**6,018**
Total long-term liabilities	**56,947**	59,362	**503,956**
Commitments and contingent liabilities (Note 5)			
Shareholders' equity (Note 7):			
Common stock			
Authorized 581,000,000 shares in 2005 and 590,000,000 shares in 2004;			
Issued 225,263,592 shares in 2005 and 234,263,592 shares in 2004	**69,377**	69,377	**613,956**
Additional paid-in capital	**102,222**	102,222	**904,619**
Retained earnings	**574,688**	590,596	**5,085,735**
Accumulated other comprehensive income (loss):			
Unrealized gains on securities	**4,787**	3,040	**42,363**
Minimum pension liability adjustments	**(873)**	(1,141)	**(7,726)**
Unrealized losses on derivative instruments	**(159)**	(6)	**(1,407)**
Foreign currency translation adjustments	**(11,356)**	(13,266)	**(100,495)**
Total accumulated other comprehensive loss	**(7,601)**	(11,373)	**(67,265)**
Treasury stock, at cost 3,362,111 shares in 2005 and 7,641,719 shares in 2004	**(18,706)**	(43,937)	**(165,541)**
Total shareholders' equity	**719,980**	706,885	**6,371,504**
Total	**¥857,531**	¥855,290	**$7,588,770**

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, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note2)
	2005	2004	2003	**2005**
Net sales	**¥228,937**	¥218,333	¥198,713	**$2,025,991**
Operating costs and expenses:				
Cost of sales	**139,057**	129,765	123,736	**1,230,593**
Selling, general and administrative (Note 1.q)	**34,769**	34,067	32,572	**307,690**
Research and development	**17,227**	16,326	16,397	**152,451**
Total operating costs and expenses	**191,053**	180,158	172,705	**1,690,734**
Operating income	**37,884**	38,175	26,008	**335,257**
Other income (expenses):				
Interest and dividend income	**1,103**	844	966	**9,761**
Gains on sales of securities	**70**	466	74	**619**
Interest expense	**(67)**	(71)	(41)	**(593)**
Foreign currency exchange gain (loss)	**10**	(494)	744	**89**
Other - net	**330**	718	798	**2,920**
Other income - net	**1,446**	1,463	2,541	**12,796**
Income before income taxes	**39,330**	39,638	28,549	**348,053**
Income taxes:				
Current	**14,285**	17,958	13,136	**126,416**
Deferred	**251**	(3,179)	(2,588)	**2,221**
	14,536	14,779	10,548	**128,637**
Net income	**24,794**	24,859	18,001	**219,416**
Retained earnings:				
Balance at beginning of period	**555,512**	571,478	587,893	**4,916,036**
Retirement of 10,000,000 shares of treasury stock	**–**	–	(53,230)	**–**
Cash dividends -				
¥25.0 ($0.22) per share in 2005, 2004 and 2003	**(5,618)**	(5,741)	(5,886)	**(49,717)**
Balance at end of period	**¥574,688**	¥590,596	¥546,778	**$5,085,735**

	Yen			U.S. dollars (Note2)
Amounts per share (Note 4):				
Basic earnings per share	**¥110.97**	¥108.67	¥76.85	**$0.98**
Diluted earnings per share	**¥110.97**	¥108.67	¥76.85	**$0.98**
Cash dividends per share	**¥25.00**	¥25.00	¥25.00	**$0.22**

See notes to consolidated financial statements (unaudited).

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Murata Manufacturing Co., Ltd. and Subsidiaries
Six months ended September 30, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note2)
	2005	2004	2003	**2005**
Net income	**¥24,794**	¥24,859	¥18,001	**$219,416**
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on securities	**1,133**	(565)	1,600	**10,027**
Minimum pension liability adjustments	**90**	(104)	4,548	**796**
Unrealized gains (losses) on derivative instruments	**27**	(108)	28	**239**
Foreign currency translation adjustments	**2,834**	4,461	(4,697)	**25,080**
Other comprehensive income	**4,084**	3,684	1,479	**36,142**
Comprehensive income	**¥28,878**	¥28,543	¥19,480	**$255,558**

See notes to consolidated financial statements (unaudited).

Consolidated Statements of Cash Flows (Unaudited)

Murata Manufacturing Co., Ltd. and Subsidiaries
Six months ended September 30, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note2)
	2005	2004	2003	**2005**
Operating activities:				
Net income	**¥ 24,794**	¥ 24,859	¥ 18,001	**$ 219,416**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	**20,435**	19,649	20,840	**180,841**
Losses on sales and disposal of property, plant and equipment	**254**	603	317	**2,248**
Impairment losses on long-lived assets	**360**	1,733	–	**3,186**
Gains on sales of securities	**(70)**	(466)	(74)	**(619)**
Provision for termination and retirement benefits, less payments	**623**	2,256	3,029	**5,513**
Deferred income taxes	**251**	(3,179)	(2,588)	**2,221**
Changes in assets and liabilities:				
Decrease (increase) in trade notes and accounts receivable	**(11,489)**	2,574	(9,083)	**(101,673)**
Decrease (increase) in inventories	**(1,977)**	(3,469)	898	**(17,496)**
Decrease (increase) in prepaid expenses and other	**(267)**	3,014	(619)	**(2,363)**
Increase (decrease) in trade notes and accounts payable	**4,167**	(1,174)	1,395	**36,876**
Increase in accrued payroll and bonuses	**605**	33	199	**5,354**
Increase (decrease) in income taxes payable	**(2,039)**	1,724	(7,762)	**(18,044)**
Increase in accrued expenses and other	**794**	2,917	3,000	**7,027**
Other-net	**(123)**	(230)	(1,370)	**(1,089)**
Net cash provided by operating activities	**36,318**	50,844	26,183	**321,398**
Investing activities:				
Capital expenditures	**(21,624)**	(27,650)	(12,346)	**(191,363)**
Payment for purchases of investments and other	**(2,442)**	(380)	(8)	**(21,611)**
Net decrease (increase) in marketable securities	**29,948**	(3,725)	(5,860)	**265,027**
Proceeds from sales of property, plant and equipment	**776**	61	57	**6,867**
Proceeds from sales of investments and other	**116**	573	109	**1,027**
Other	**2**	4	(1)	**18**
Net cash provided by (used in) investing activities	**6,776**	(31,117)	(18,049)	**59,965**
Financing activities:				
Net increase (decrease) in short-term borrowings	**(199)**	(334)	1,404	**(1,760)**
Dividends paid	**(5,618)**	(5,741)	(5,886)	**(49,717)**
Payment for purchases of treasury stock	**(15,589)**	(16,854)	(8,856)	**(137,956)**
Other	**(1)**	(4)	(5)	**(9)**
Net cash used in financing activities	**(21,407)**	(22,933)	(13,343)	**(189,442)**
Effect of exchange rate changes on cash and cash equivalents	**1,207**	2,459	(2,613)	**10,681**
Net increase (decrease) in cash and cash equivalents	**22,894**	(747)	(7,822)	**202,602**
Cash and cash equivalents at beginning of period	**93,671**	61,904	77,773	**828,947**
Cash and cash equivalents at end of period	**¥116,565**	¥ 61,157	¥ 69,951	**$1,031,549**
Additional cash flow information:				
Interest paid	**¥ 66**	¥ 72	¥ 40	**$ 584**
Income taxes paid	**16,332**	16,192	20,979	**144,531**
Non-cash financing activities:				
Decrease in retained earnings due to retirement of treasury stock	**–**	–	53,230	**–**

See notes to consolidated financial statements (unaudited).

Liquidity in Hand

	Millions of yen			Thousands of U.S. dollars (Note2)
	2005	2004	2003	**2005**
Cash and cash equivalents at end of period	**¥ 116,565**	¥ 61,157	¥ 69,951	**$ 1,031,549**
Marketable securities	**302,401**	361,176	348,801	**2,676,115**
Liquidity in hand	**¥ 418,966**	¥ 422,333	¥ 418,752	**$ 3,707,664**

1.Summary of Significant Accounting Policies

(a) Nature of operations

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

(b) Basis of financial statements

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

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

(c) Principles of consolidation

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

(d) Cash and cash equivalents

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

(e) Marketable securities and investments

Under SFAS No.115, "Accounting for Certain Investments in Debt and Equity Securities," the Companies classify all debt securities and marketable equity securities as available-for-sale and 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 or market. The average cost method is used to determine costs for approximately 95% of the inventories, and the first-in, first-out (FIFO) method is used for substantially all other inventories.

(g) Property, plant and equipment

Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment has been principally computed using the declining-balance method (straight-line method for certain overseas subsidiaries) based upon the estimated useful lives of the assets.

The range of useful lives is principally from 10 to 50 years for buildings and from 4 to 10 years for machinery and equipment.

(h) Termination and retirement benefits

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

(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, 2005 and 2004 were ¥786 million ($6,956 thousand) and ¥621 million, respectively.

(k) Taxes on income

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

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

The Company and its 22 domestic subsidiaries have adopted the consolidated taxation system of Japan from the six months ended September 30, 2005. 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 decreased by ¥6,609 million ($58,487 thousand) as a result of the adoption of the consolidated taxation system.

(l) Earnings per share

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

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
	2005	2004	**2005**
Net Income			
Reported	**¥ 24,794**	¥ 24,859	**$ 219,416**
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	**(69)**	(76)	**(611)**
Pro forma	**¥ 24,725**	¥ 24,783	**$ 218,805**

	Yen		U.S. dollars
	2005	2004	**2005**
Earnings per Share —Net income			
Reported			
Basic earnings per share	**¥ 110.97**	¥ 108.67	**$ 0.98**
Diluted earnings per share	**110.97**	108.67	**0.98**
Pro forma			
Basic earnings per share	**¥ 110.66**	¥ 108.33	**$ 0.98**
Diluted earnings per share	**110.66**	108.33	**0.98**

(o) Shipping and Handling costs

Shipping and Handling costs which were included in selling, general and administrative expenses for the six months ended September 30, 2005 and 2004 were ¥2,445 million ($21,637 thousand) and ¥2,186 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 ($3,186 thousand) and ¥1,733 million of impairment loss in selling, general and administrative expenses for the six months ended September 30, 2005 and 2004, respectively.

In the six months ended September 30, 2005, the Companies reviewed certain long-lived assets for impairment. As a result, certain long-lived assets 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 six months ended September 30, 2004, 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) Reclassifications

Certain items in prior years' financial statements have been reclassified to conform to the presentation for the six months ended September 30, 2005.

(t) New Accounting Standard

In May 2005, the Financial Accounting Standards Board ("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.

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 ¥113 to $1, the approximate rate of exchange at September 30, 2005. 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, 2005 and 2004 were as follows:

	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**

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

	Thousands of U.S. dollars			
	2005			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:				
Governmental debt securities	**$ 296,274**	**$ 1,310**	**$ 9**	**$ 297,575**
Private debt securities	**2,377,991**	**2,106**	**1,557**	**2,378,540**
Total	**$2,674,265**	**$ 3,416**	**$ 1,566**	**$2,676,115**
Non-current:				
Equity securities	**$ 41,938**	**$71,566**	**$ 106**	**$ 113,398**
Total	**$ 41,938**	**$71,566**	**$ 106**	**$ 113,398**

The aggregate carrying amounts of the equity securities that do not have a readily determinable fair value at September 30, 2005 and 2004, which were valued at cost, were ¥2,537 million ($22,452 thousand) and ¥2,343 million, respectively. They were not included in the above schedule.

Contractual maturities of debt securities as of Sptember 30, 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	Cost	Fair Value	Cost	Fair Value
Within one year	**¥126,779**	**¥126,829**	**$1,121,938**	**$1,122,381**
After one year through five years	**172,408**	**172,570**	**1,525,734**	**1,527,168**
After five years	**3,005**	**3,002**	**26,593**	**26,566**
Total	**¥302,192**	**¥302,401**	**$2,674,265**	**$2,676,115**

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

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Proceeds from sales	**¥ 116**	¥1,192	**$ 1,027**
Gross realized gains	**70**	466	**619**
Gross realized losses	**–**	3	**–**

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
	2005	2004	**2005**
Net income	**¥24,794**	¥24,859	**$219,416**

	Numbers of shares	
	2005	2004
Average common shares outstanding	**223,431,626**	228,763,628
Dilutive effect of stock options	**341**	2,397
Diluted common shares outstanding	**223,431,967**	228,766,025

	Yen		U.S. dollars
	2005	2004	**2005**
Earnings per share:			
Basic	**¥110.97**	¥108.67	**$ 0.98**
Diluted	**110.97**	108.67	**0.98**

5. Commitments and Contingent Liabilities

Outstanding commitments at September 30, 2005 and 2004 for the purchase of property, plant and equipment approximated ¥8,317 million ($73,602 thousand) and ¥5,715 million, respectively. At September 30, 2005 and 2004, the Companies were contingently liable for trade accounts receivable discounted and transferred to banks of ¥309 million ($2,735 thousand) and ¥222 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, 2005 and 2004 :

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, 2005 and 2004.

(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, 2005 and 2004 were ¥9,629 million ($85,212 thousand) and ¥8,722 million compared with carrying amounts of ¥9,619 million ($85,124 thousand) and ¥8,712 million, respectively.

Derivative Instruments

(1) Forward exchange contracts

The Companies had ¥14,769 million ($130,699 thousand) and ¥11,352 million in notional amounts of forward exchange contracts outstanding as of September 30, 2005 and 2004, respectively, in order to hedge the foreign currency risk of various intercompany supply contracts, accounts receivable and accounts payable, which transactions are expected to occur within the next three months.

The estimated fair values of the Companies' forward exchange contracts at September 30, 2005 and 2004, which equal the carrying amounts, were a liability of ¥375 million ($3,319 thousand) and ¥18 million, respectively.

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

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

(2) Derivative instruments not designated as hedges

The companies have the securities that contain the embedded credit default swap as a 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 September 30, 2005, which equal the carrying amounts, were an asset of ¥4 million.

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. Subsequent Events

The Board of Directors of the Company resolved in October 2005 to pay a cash dividend of ¥30.0 ($0.27) per share or a total of ¥6,657 million ($58,912 thousand) to shareholders of record as of September 30, 2005.

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, 2005, 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, 2005, and the results of their operations and the changes in their cash flows for the six months then ended.

Yoshitaka Fujita

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

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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: 80,089

Number of Employees (Consolidated): 26,719

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

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Innovator in Electronics

Murata Manufacturing Co., Ltd.

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