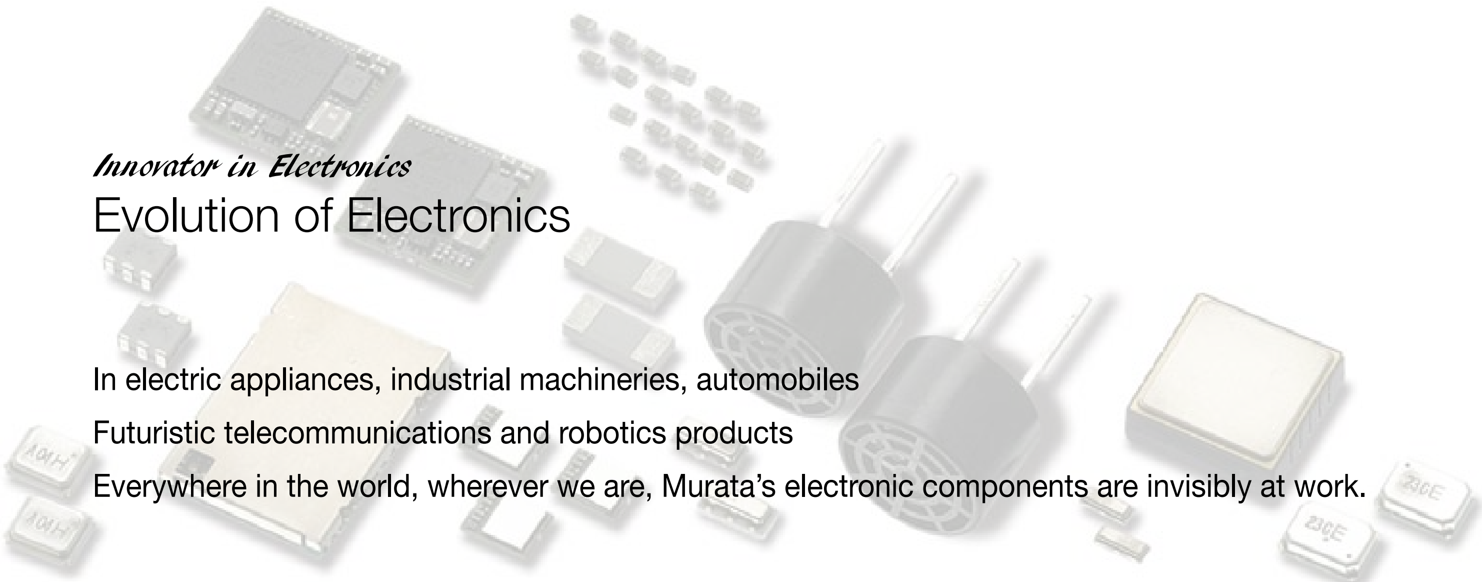
Murata Manufacturing Co., Ltd.

2008 Annual Report

Year Ended March 31, 2008



Innovator in Electronics

Evolution of Electronics

In electric appliances, industrial machineries, automobiles
Futuristic telecommunications and robotics products
Everywhere in the world, wherever we are, Murata's electronic components are invisibly at work.

In 1944, Murata started out as an electronic component manufacturer developing titanium oxide (TiO_2)-based ceramic capacitors. When barium titanate ($BaTiO_3$), a material with an exceptionally high dielectric constant, was discovered almost simultaneously in Japan, the USA and the Soviet Union, Murata immediately set out to explore its applications. Murata further embarked upon research and development of various new materials including lead zirconate titanate [$Pb(ZrTi)O_3$] with high piezoelectric properties. Murata has since evolved into a world-class electronic component manufacturer developing and commercializing a wide array of ceramic-based electronic components.

"New quality electronic equipment begins with new quality components, and new quality components begin with new quality materials". This has been Murata's basic principle since its foundation. When new features are in demand, we always go back to the very basics of searching for the most appropriate material. This philosophy has been enabled Murata to develop numerous unique products.

Our daily life is supported by many kinds of electronic equipment, such as PCs, mobile phones and appliances. They are continuously evolving to become more compact and more effective.

The driving force behind their evolution is countless ever-changing electronic components. Murata, as an "Innovator in Electronics", supports the infrastructure of our electronic society by developing new electronic components and technologies.

Contents

Cautionary Statement on Forward-looking Statements

This report contains forward-looking statements concerning Murata Manufacturing Co., Ltd. and its Group companies' projections, plans, policies, strategies, schedules, and decisions. These forward-looking statements are not historical facts; rather, they represent the assumptions of the Murata Group based on information currently available and certain assumptions we deem as reasonable. Actual results may differ materially from expectations due to various risks and uncertainties. Readers are therefore requested not to rely on these forward-looking statements as the sole basis for evaluating the Group. The Company has no obligation to revise any of the forward-looking statements as a result of new information, future events or otherwise.

Risks and uncertainties that may affect actual results include, but are not limited to, the following: (1) economic conditions of the Company's business environment, and trends, supply-demand balance, and price fluctuations in the markets for electronic equipment and components; (2) price fluctuations and insufficient supply of raw materials; (3) exchange rate fluctuations; (4) the Group's ability to provide a stable supply of new products that are compatible with the rapid technical innovation of the electronic components market and to continue to design and develop products and services that satisfy customers; (5) changes in the market value of the Group's financial assets; (6) drastic legal, political, and social changes in the Group's business environment; and (7) other uncertainties and contingencies.

Five-Year Consolidated Financial Highlights

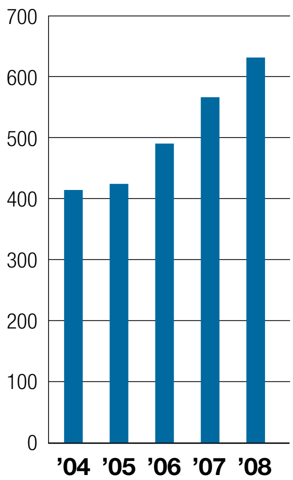
Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2004-2008

	Millions of yen except per share amounts					Thousands of U.S. dollars except per share amounts (Note)
	2008	2007	2006	2005	2004	**2008**
Net sales	**¥ 631,655**	¥ 566,805	¥490,784	¥424,468	¥414,247	**$ 6,316,550**
Operating costs and expenses	**515,903**	453,440	400,945	354,953	340,037	**5,159,030**
Operating income	**115,752**	113,365	89,839	69,515	74,210	**1,157,520**
Other income (expenses)-net	**6,078**	4,638	1,841	3,390	4,475	**60,780**
Income before income taxes	**121,830**	118,003	91,680	72,905	78,685	**1,218,300**
Net income	**77,413**	71,309	58,448	46,578	48,540	**774,130**
Amounts per share:						
Earnings per share						
Basic	**¥349.09**	¥321.29	¥262.49	¥204.99	¥208.46	**$3.49**
Diluted	**349.05**	321.22	262.47	204.99	208.46	**3.49**
Cash dividends	**100.00**	80.00	55.00	50.00	50.00	**1.00**
Current assets	**627,555**	672,912	641,387	592,836	590,355	**6,275,550**
Net property, plant and equipment	**346,149**	283,944	232,877	225,735	221,964	**3,461,490**
Total assets	**1,030,349**	1,014,965	909,641	850,748	844,115	**10,303,490**
Shareholders' equity	**844,230**	822,893	755,394	712,309	700,937	**8,442,300**
Capital investment	**125,557**	99,651	51,040	48,033	33,088	**1,255,570**
Number of employees	**34,067**	29,392	26,956	25,924	26,469	

Note: The U.S. dollar amounts in this report represent translation of Japanese yen for convenience only at the rate of ¥100=U.S.$1.
* Operating income for the year ended March 31, 2004 includes gain amounting to ¥11,693 million related to the transfer of the substitutional portion of the Contributory Termination and Retirement Plans to the government.

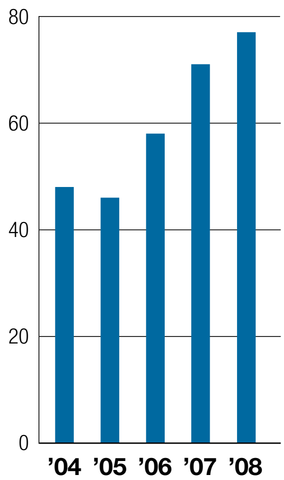
Net sales

(Billions of yen)



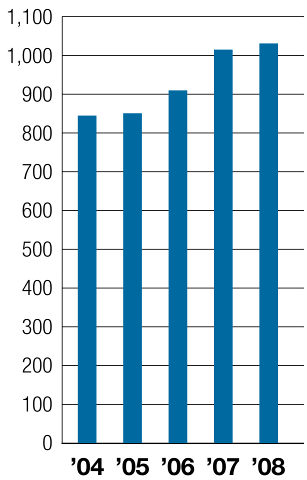
Net income

(Billions of yen)



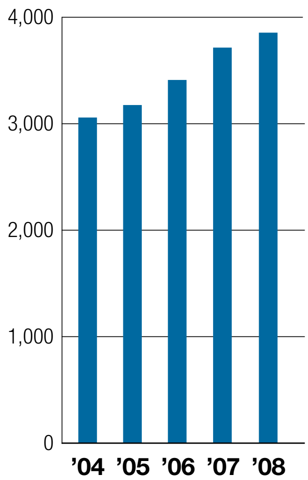
Total assets

(Billions of yen)



Shareholders' equity per share*1

(Yen)



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

To Our Shareholders

Tsuneo Murata
President
Statutory Representative Director

Performance for Fiscal Year Ended March 31, 2008

Vibrant market for electronic equipment, electronic components also strong

During the period under review, although there were some corrections in certain markets after January in addition to the normal seasonal effects, the global electronic equipment market enjoyed a significant growth in demand for electronic components for the whole year. This was due to vibrant developments in the production of key products such as mobile phones, personal computers, and digital audio/video (AV) equipment. The functional sophistication of electronic equipment also contributed to the upward trend in electronic components.

The key mobile phone segment within the communication equipment market saw an increase in demand in advanced countries for high-performance handsets such as third-generation phones. Demand for mobile phones continued to run strong in emerging economies. In the market for computers and peripheral equipment, demand for laptop computers and peripherals remained strong. In the audio/video (AV) equipment market, sales of flat-panel TVs and game consoles were brisk. The automotive electronics market was highlighted by a growing use of electronics in automobiles.

Three consecutive years of growth in sales and profits, net sales at all-time high

The Murata Group responded to this market environment by aggressively increasing production capacity for key products and improving customer services in response to growing demand.

In November 2007 we completed a new building for producing microwave devices at Kanazawa Murata Manufacturing Co., Ltd. The new production building was built to enhance our platform for producing and developing microwave devices, in response to the increasing demand for parts in association with the global growth in the mobile communication equipment market. In January 2008 we completed a new production building at Izumo Murata Manufacturing Co., Ltd. in order to boost our production capacity for large capacitance chip monolithic ceramic capacitors, for which demand is surging.

Meanwhile, in response to falling product prices, we strengthened our business base by further implementing cost reduction activities such as productivity improvement, while pushing forward with the commercialization of new, high value-added products.

As a result, net sales for the period under review, increased 11.4% compared to the previous year to ¥631,655 million, operating income increased 2.1% to ¥115,752 million, while net income increased 8.6% to ¥77,413 million. This marked the third consecutive year of increased revenue and profits, and net sales marked a record high.

In terms of net sales by product category, chip monolithic ceramic capacitors, the main product in the capacitor category, showed a large increase in sales. Large capacitance products saw a significant growth in sales in all applications, including audio/video equipment, communication equipment, and computers and peripheral equipment. Small-sized products also marked significant sales growth in applications for communication equipment. In the piezoelectric components category, sales of SAW (surface acoustic wave) filters for use in mobile phones grew significantly, and sales of sensors for shock detection use in HDDs also increased. There was also an increase in sales of multi-layer ceramic devices for communication equipment, and noise-reducing EMI suppression filters and chip coils for communication equipment. In the power supplies area, sales increased significantly due to the acquisition of the Power Electronics Division of C&D Technologies, Inc. of the United States.

By region, net sales in the Asia and Others market grew significantly, owing to the dramatic growth in sales in China of components for audio/video equipment, communication equipment, and computers and peripheral equipment. There was also a steady growth in sales in Japan, Europe and the Americas.

Compared to the 11.4% year on year growth in net sales, operating income increased by 2.1% from a year earlier. While there were a number of positive factors, including an increase in net sales, cost reduction, and the ongoing introduction of new products, profits were squeezed by the negative impact of falling product prices, the increase in depreciation expenses due to capital investment in response to growing demand, and the strengthening of the yen against the U.S. dollar.

Outlook for operating results in fiscal year ending March 31, 2009

Demand will be firm; but strong yen, increase in depreciation expenses and drop in product prices will result in lower profits

For the year ending March 31, 2009, we forecast consolidated net sales to increase 4.5% year on year to ¥660,000 million. Although we expect that the growth in demand for major electronics equipment in the year ending March 31, 2009 will be slower than that of the previous year, steady growth is expected to continue. We expect operating income to drop 30.9% year on year to ¥80,000 million, and net income to decline 31.5% to ¥53,000 million. The increase in net sales, ongoing introduction of new products, and cost reduction will be overshadowed by the following negative effects: an appreciation of the yen against the U.S. dollar by an average of ¥14 for the year, an increase of depreciation expenses by approximately ¥10,000 million from a year earlier, continuing price declines due to fierce competition, and an increase in upfront investment, particularly research and development expenses.

In terms of capital investment, we are planning to spend ¥75,000 million in the fiscal year ending March 31, 2009. This compares with capital investment of ¥99,651 million in the fiscal year ended March 31, 2007, and ¥125,557 million in the fiscal year ended March 31, 2008, during which large amounts of investments were made. The year on year decline expected for the upcoming year is mainly due to an expected decline in investment in buildings and production equipment.

Realizing middle- to long-term growth

Market will continue to exhibit steady growth

The global electronic equipment market has many areas which are expected to grow. This growth will be attributable to the spread of third generation mobile phone service and terrestrial digital broadcasting in developed countries, increasing handset demand in emerging regions, the growth of short-range wireless communications systems, the spread of personal computers and larger demand for computer upgrades, the spread of LCD televisions, portable media players, game consoles and other digital audio/video equipment, and growing use of electronics in automobiles. On top of the growth in the electronic equipment market, demand for electronic parts is expected to grow firmly going forward, due to progress with electronic equipment becoming digital and more functionally sophisticated.

Introduction of new products aimed at growth, alliances with other companies

Amid this environment, we will bolster our existing businesses and, in order to expand our business area, we will continue to proactively launch new products and build business alliances with other companies in the field, all with a view of achieving growth over the middle- to long-term horizon.

We are actively exploiting our technological ability to develop and commercialize new products in advance of our customers' needs. Examples of this commitment include chip monolithic ceramic capacitors, filters for microwave devices, sensors, antennas, and short-range wireless communication modules. In particular, we want to bolster our development of both large-capacitance and small-sized chip monolithic ceramic capacitors. We are developing lithium ion secondary batteries as a core new business, and have built a prototype production line in this area. Murata Group has secured a high profit ratio by continuously introducing new products. In the year ended March 31, 2008, new products accounted for 32% of our sales, and we will continue to develop new products with the aim of achieving a new product sales ratio of 40%.

Meanwhile, in terms of alliances with other companies, in 2007 we acquired the Power Electronics Division of C&D Technologies, Inc. of the United States. With this acquisition, we will expand our product lineup in the power supply market and also look to expand our business by entering into new markets in this field. While less than one year has passed since the acquisition, we are gradually seeing the benefits of this alliance, including joint design and development as well as joint purchasing of materials. Going forward, we will be proactive in making corporate acquisitions, entering into business alliances, and otherwise effectively utilizing external resources.

CSR initiatives

Basic CSR philosophy

The Murata Group believes that it is important that we contribute to realizing a sustainable society by fulfilling our corporate responsibilities from economic, environmental and social perspectives.

From an economic perspective, we emphasize appropriately returning to all stakeholders of the profits generated by supplying customers with valuable products.

From an environmental perspective, we focus on global warming prevention, waste reduction and measures to handle chemical substances. As a means of creating a sustainable regional environment, we protect forests by working with people and related organizations such as forest unions in regional areas to take care of forests which are no longer cared for.

On the social front, our first priority is to fulfill our responsibility to our customers by providing a stable supply of products and maintaining stringent quality control. Employee satisfaction ranks alongside customer satisfaction as a point of focus for Murata. We aim to manage the company in such a way that corporate growth is achieved by all employees carrying out their work with a sense of inspiration while demonstrating their full potential. To achieve this, it is important for our people to share the same values and inspiration. We also promote communication between management and employees, as well as among employees themselves. As one form of communication, the President's blog is read by the employees. As another CSR initiative, we offer environmental and natural science education programs to students at elementary schools and junior high schools in areas in which we operate, and these programs have been highly acclaimed by the students and teachers at the schools.

Corporate governance

Corporate governance is one of the highest priorities of the management of the Murata Group. Taking into consideration the interests of all stakeholders, we have addressed this priority by building a sound corporate management structure and system. Specific actions include improving management efficiency, strengthening management supervisory functions and ensuring thorough compliance with all relevant laws and regulations. Moreover, we established an Internal Control Committee which functions as an advisory body to the President in order to ensure appropriate business operations and assess the effectiveness of the company's internal controls. The Internal Control Committee maintains and continuously improves the internal control system in order to comply with the Japan SOX Law* to ensure the reliability of financial reporting and the appropriateness of business operations.

As regards compliance, we established a Compliance Promotion Committee, which also functions as an advisory body to the President, and have assigned compliance promotion leaders in every department to thoroughly educate employees about compliance.

Basic philosophy about returning profits to shareholders

Murata's basic policy of profit distribution to shareholders is to prioritize the sharing of profits through payment of dividends, and to steadily raise them by increasing profits per share, while enhancing Murata's long-term corporate value and strengthening its corporate strength.

For the year ended March 31, 2008, we paid an interim dividend of ¥50 per share, and a year-end dividend of ¥50 per share, bringing the total dividend for the year to ¥100 per share, an increase of ¥10 from the previous year.

For the fiscal year ending March 31, 2009, considering consolidated results forecasts and the accumulation of retained earnings, we plan to pay an annual dividend of ¥100 per share (comprising interim and year-end dividends of ¥50 per share),

which is the same amount as the annual dividend for the previous fiscal year. The per share dividend amount is based on our view of the current business environment and our forecasts for operating results for the upcoming fiscal year.

Murata repurchases its own shares whenever appropriate to improve capital efficiency. During the fiscal year ended March 31, 2008, we purchased ¥15,000 million, or 2,595,000 shares of Murata stock.

Finally, we look forward to your continued understanding and support.

July 2008

Tsuneo Murata
President
Statutory Representative Director

*Japan SOX Law: A law that requires listed companies and their consolidated subsidiaries to enhance accounting auditing systems and strengthen internal controls.

General Business Review

Performance and Achievements of the Group

Overall market situation

During the period under review, although there were some adjustments in certain markets in addition to normal seasonal decline after the beginning of the new calendar year, the global electronic market enjoyed a significant growth in demand for electronic components for the whole year, 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. Demand for mobile phones continued to run strong in emerging economies. In the market for computers and peripheral equipment, demand for notebook computers and peripherals remained strong. In the AV equipment market, sales of flat-panel TVs and game consoles 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.

Overall performance

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

The Murata Group Results

	Millions of yen					
Years ended March 31	**2008**		2007		Growth	
	Amount	***1**	Amount	*1	Amount	*2
Net sales	**¥631,655**	**100.0%**	¥566,805	100.0%	¥64,850	11.4%
Cost of sales	**387,842**	**61.4%**	335,869	59.3%	51,973	15.5%
Selling, general and administrative expenses	**85,780**	**13.6%**	78,901	13.9%	6,879	8.7%
Research and development expenses	**42,281**	**6.7%**	38,670	6.8%	3,611	9.3%
Operating income	**115,752**	**18.3%**	113,365	20.0%	2,387	2.1%
Other income (expenses)-net	**6,078**	**1.0%**	4,638	0.8%	1,440	31.0%
Income before income taxes	**121,830**	**19.3%**	118,003	20.8%	3,827	3.2%
Income taxes	**44,417**	**7.0%**	46,694	8.2%	(2,277)	(4.9%)
Net income	**¥ 77,413**	**12.3%**	¥ 71,309	12.6%	¥ 6,104	8.6%

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

Net Sales

Net sales increased 11.4% year on year to ¥631,655 million. The contribution of electronic components, which represent the Group's core business, amounted to ¥629,534 million. By region, net sales in the Asia and Others market grew 14.2% year on year to ¥349,154 million owing to the dramatic growth in the sales of components for AV equipment, communication equipment, and computers and peripheral equipment in China. Net sales in Japan rose 7.9% year on year to ¥153,832 million, mainly due to the sales growth in components for communication equipment. In Europe, sales rose 3.4% from a year earlier to ¥72,860 million, as sales of components for computers and peripheral equipment, and automotive electronics increased. Sales of components for communication equipment, and computers and peripheral equipment increased in the Americas, with net sales from this geographic segment rising 16.4% to ¥53,688 million.

Operating income

Operating income increased 2.1% year on year to ¥115,752 million, compared to the 11.4% growth of net sales.
Higher net sales, the ongoing introduction of new products, initiatives to reduce the cost of goods sold through cost cutting activities, were overshadowed by the negative effects of price declines, increase of depreciation expenses due to the capital investment to deal with the growing demand, and the strengthening of the yen against the U.S. dollar—an average appreciation of 2.75 Yen compared to the previous fiscal year.

Income before income taxes

Income before income taxes increased 3.2% from a year earlier to ¥121,830 million.

Net income

Net income increased 8.6% year on year to ¥77,413 million.

Capital Investment, Depreciation and Amortization

During the period under review, the Group made capital investments totaling ¥125,557 million, an increase of ¥25,906 million, or 26.0% from the previous year. The increase was due mainly to the expansion and rationalization of production facilities, and the purchase of buildings.
There were no major abandonments or sales that would have a noteworthy impact on production capacity. Depreciation and amortization increased 30.7% from the previous fiscal year to ¥65,134 million.

Financial Position

Total assets as of March 31, 2008 increased ¥15,384 million from March 31, 2007 to ¥1,030,349 million. Liquidity in hand (cash, time deposits, and marketable securities) declined ¥72,898 million from the end of the previous fiscal year to ¥354,559 million. Inventories increased ¥28,573 million and property, plant and equipment climbed ¥62,205 million.
Shareholders’ equity increased ¥21,337 million compared to the end of last year. As the increase of shareholders’ equity was larger than that of total assets, the ratio of shareholders’ equity to total assets rose 0.8 percentage points from March 31, 2007 to 81.9%.

Review of Operations by Product Category

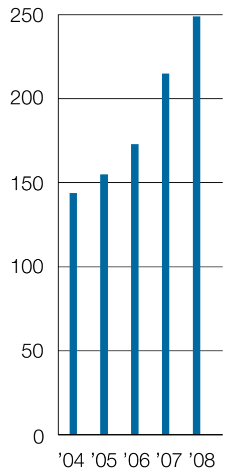
Sales by Product Category

	Millions of yen					
Years ended March 31	**2008**		2007		Growth	
	Amount	***1**	Amount	*1	Amount	*2
Capacitors	**¥249,388**	**39.6%**	¥215,255	38.1%	¥34,133	15.9%
Piezoelectric Components	**92,736**	**14.7%**	81,585	14.4%	11,151	13.7%
Microwave Devices	**105,421**	**16.7%**	114,108	20.2%	(8,687)	(7.6%)
Module Products	**79,072**	**12.6%**	59,306	10.5%	19,766	33.3%
Other Products	**102,917**	**16.4%**	94,601	16.8%	8,316	8.8%
Net sales	**¥629,534**	**100.0%**	¥564,855	100.0%	¥64,679	11.5%

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

Capacitors

Sales
(Billions of yen)

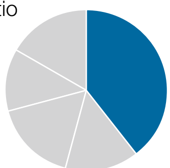


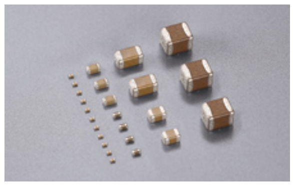
This capacitor category includes monolithic ceramic capacitors, ceramic disc capacitors, and trimmer capacitors.

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. On the other hand, sales of application-specific capacitors for computers and peripheral equipment declined.

As a result, overall net sales increased 15.9% from a year earlier, to ¥249,388 million.

Composition ratio
39.6%

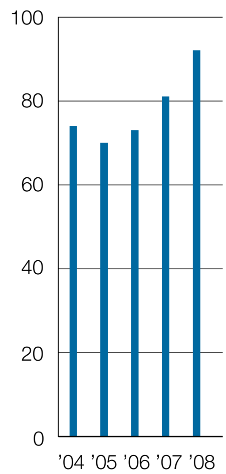




Chip Monolithic Ceramic Capacitors

Piezoelectric Components

Sales
(Billions of yen)

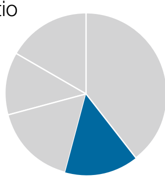


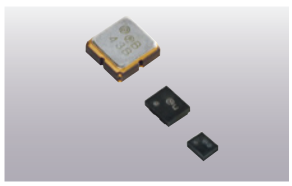
The piezoelectric components category includes SAW (Surface Acoustic Wave) filters, ceramic resonators, piezoelectric sensors, ceramic filters and piezoelectric buzzers.

In the period under review, sales of SAW filters for use in communication equipment grew well above the figures for the previous year. In piezoelectric sensors, sales of sensors for shock-detection use in HDDs and sales of ultrasonic sensors for car electronics increased. Sales of ceramic resonators for use in computers and peripheral products suffered a decline. Ceramic filters for use in AV equipment and communication equipment also dropped sharply in sales.

As a result, overall net sales posted a year-on-year growth of 13.7%, to ¥92,736 million.

Composition ratio
14.7%

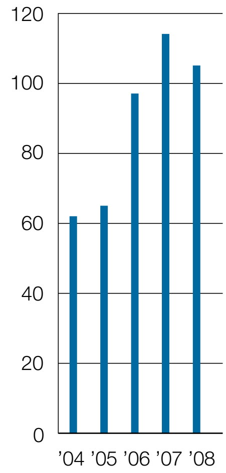




SAW Filters

Microwave Devices

Sales
(Billions of yen)

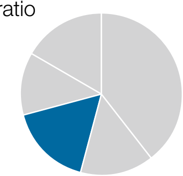


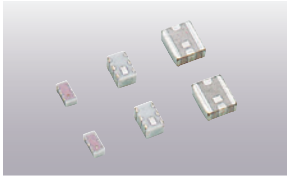
These devices include short-range wireless communication modules (including Bluetooth® modules), multilayer ceramic devices, connectors, isolators and dielectric filters.

In the period under review, sales of short-range wireless communication modules declined sharply. Although the sales of modules for wireless LAN increased, there was a significant drop in the sales of modules for Bluetooth®. Sales of multilayer ceramic devices, connectors, and isolators for communication equipment increased sharply.

As a result, overall net sales decreased 7.6% year on year, to ¥105,421 million.

Composition ratio
16.7%

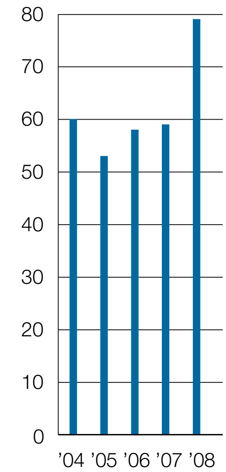




Multilayer Ceramic Devices

Module Products

Sales
(Billions of yen)

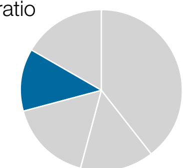


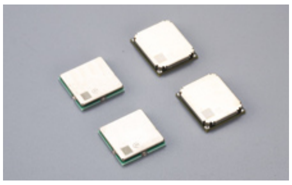
This product category includes power supplies and circuit modules.

In the period under review, in the circuit module product line, sales of terrestrial digital tuners for mobile phones and modules for communication equipment increased sharply. Sales of power supplies grew well above the figures for the previous year owing to the contribution of the newly consolidated Murata Power Solutions, Inc. of the United States and 17 other companies. The consolidation is due to the acquisition of the Power Electronics Division of C&D Technologies, Inc. of the United States on August 31, 2007.

As a result, overall net sales increased 33.3% year on year to ¥79,072 million.

Composition ratio
12.6%

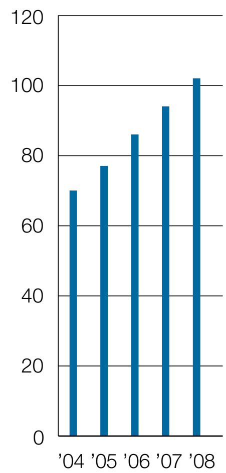




Terrestrial Digital Tuners for Mobile Phones

Other Products

Sales
(Billions of yen)

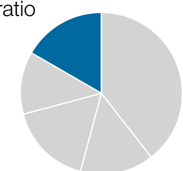


Other products include EMI suppression filters, coils, sensors, and resistors.

In the period under review, sales of EMI suppression filters for AV and communication equipment increased. Sales of chip coils grew sharply, due to strong demand for communication equipment. Among sensors, gyroscopes for use in AV equipment posted an increase in sales.

As a result, overall net sales posted an 8.8% year on year increase to ¥102,917 million.

Composition ratio
16.4%



Piezoelectric Vibrating Gyroscopes
(GYROSTAR®)

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

Review of Operations by Application

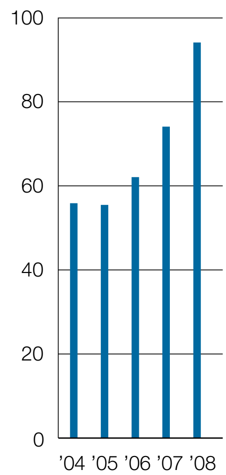
Sales by Application (based on the company's estimate)

	Millions of yen					
Years ended March 31	**2008**		2007		Growth	
	Amount	***1**	Amount	*1	Amount	*2
AV	**¥ 94,275**	**15.0%**	¥ 74,373	13.2%	¥19,902	26.8%
Communications	**252,261**	**40.1%**	230,615	40.8%	21,646	9.4%
Computers and Peripherals	**136,679**	**21.7%**	117,199	20.7%	19,480	16.6%
Automotive Electronics	**67,358**	**10.7%**	61,453	10.9%	5,905	9.6%
Home and Others	**78,961**	**12.5%**	81,215	14.4%	(2,254)	(2.8%)
Net sales	**¥629,534**	**100.0%**	¥564,855	100.0%	¥64,679	11.5%

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

Products for Audio and Video Devices

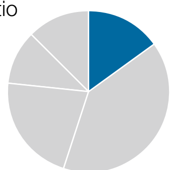
Sales
(Billions of yen)

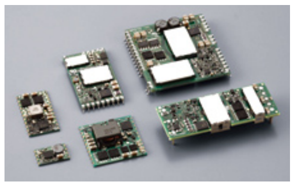


Capacitors, power supplies and noise suppression filters for LCD and plasma televisions all performed well. Products for game consoles enjoyed substantial growth, and products used in digital cameras experienced growth as well, led by gyroscopes for image stabilization. In the audio market, sales of products used in mobile media players increased significantly.

As a result, sales of products for audio and video devices increased 26.8% over the previous year, to ¥94,275 million.

Composition ratio
15.0%

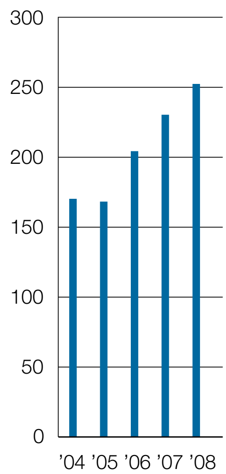




DC-DC Converters

Products for Communication Devices

Sales
(Billions of yen)

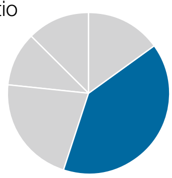


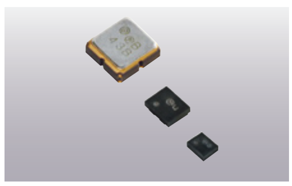
In this core market, sales of products for mobile phones increased by approximately 10% over last year. In terms of specific products, sales of SAW (Surface Acoustic Wave) filters rose considerably due to growing demand and large gains in our market share. Sales of capacitors, especially compact models, multilayer devices, chip coils, communication device modules, terrestrial digital tuners and other products also increased substantially. However, sales of Bluetooth® modules recorded a marked decline.

In other communication device segments, products for wireless LANs performed well, and power supplies for base stations and other applications also contributed to an increase in sales owing to the contribution of the newly consolidated Murata Power Solutions, Inc. of the United States and 17 other companies. The consolidation is due to the acquisition of the Power Electronics Division of C&D Technologies, Inc. of the United States on August 31, 2007.

As a result, sales of products for communication devices increased 9.4% over the previous year, to ¥252,261 million.

Composition ratio
40.1%



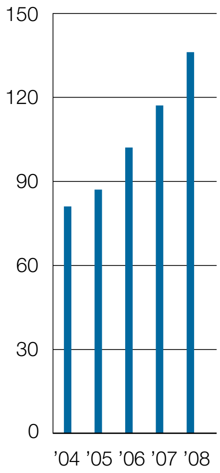


SAW Filters

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

Products for Computers and Peripherals

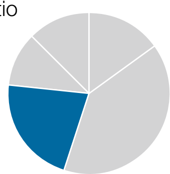
Sales
(Billions of yen)

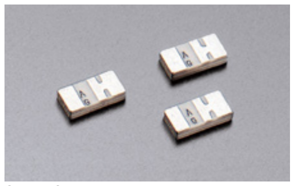


This market saw higher sales of large-capacity capacitors for personal computers. In peripheral devices, sales of shock sensors for hard-disk drives rose considerably, and power supplies for printers also performed well. Murata Power Solutions, Inc. of the United States and 17 other companies again contributed to an increase in sales with its power supplies for industrial devices. Although sales of large-capacity capacitors for MPUs increased, sales of low-ESL capacitors declined due to a change in the product mix.

As a result, sales of products used in computers and peripheral devices increased 16.6% over the previous year, to ¥136,679 million.

Composition ratio
21.7%

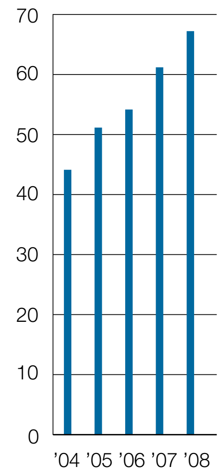




Shock Sensors

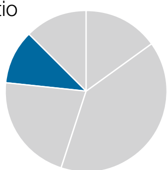
Products for Automotive Electronics

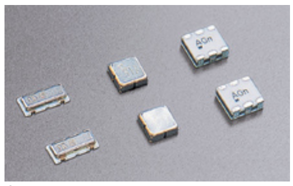
Sales
(Billions of yen)



With car navigation systems growing in popularity and increasing use of on-board electronics, sales in this segment rose 9.6% over last year, to ¥67,358 million.

Composition ratio
10.7%

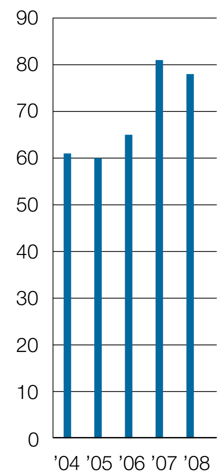




Ceramic Discriminators
SAW Resonators
Ceramic Filters (CERAFIL®) for TPMS

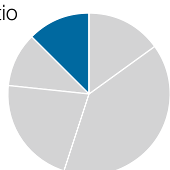
Products for Home Electronics and Others

Sales
(Billions of yen)



As sales of products for distributors and other applications declined, sales in this segment decreased 2.8% from the previous year, to ¥78,961 million.

Composition ratio
12.5%



Research & Development

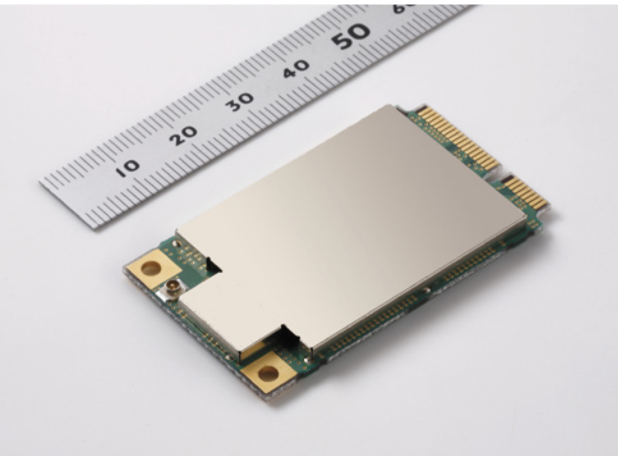
The Murata Group firmly believes that new electronic equipment starts with new electronic components, and that new components start with new materials. Guided by this principle, we employ an integrated production system that encompasses every stage of the manufacturing process, from materials to finished products. In support of this production system, we conduct R&D activities with an emphasis on the vertical integration of materials, process, design, and production engineering technologies.

In recent years, as evidenced in mobile phones and flat-screen TVs, there has been rapid progress in the development of smaller and thinner devices featuring more sophisticated and diverse capabilities. Meanwhile, environmental measures, such as reduction of CO_2 emissions that cause global warming, environmentally harmful materials that cause global pollution, and rare metal usage, are becoming ever more important. In response to these trends, the Murata Group has not only built frameworks and systems for environmental management that adhere to the RoHS Directive (in Europe and China), but is also directing efforts to meet REACH, EuP, and other standards. Aiming to supply smaller products by using multi-layer technologies and micro-wave technologies, Murata is also providing for the needs of our customers by developing high-frequency and noise suppression components as well as circuit modules and other products that are designed as chip profile. This will significantly help reduce the energy consumption as well as the volume of raw materials used in manufacturing.

In order to further the development of products in new business areas, such as lithium ion secondary batteries, a new R&D building has been built at the Yasu Plant. Moreover, a development building has also been completed on the grounds of the company headquarters. Conveniently located, this addition will provide an environment for development of wireless modules within a framework that maintains close contact with our customers.

The Murata Group's mainstay business consists of the development, manufacture and sale of electronic components and related products. All the products in this business are similar in terms of applications, production methods, processing, markets and sales methods. Due to these similarities, R&D activities for these products are discussed collectively in this report. Research and development expenditure during the fiscal year under review totaled ¥42,281 million. Major R&D achievements for the term are summarized below.

Commercialization of UWB*1 Wireless Modules for Laptop Computers

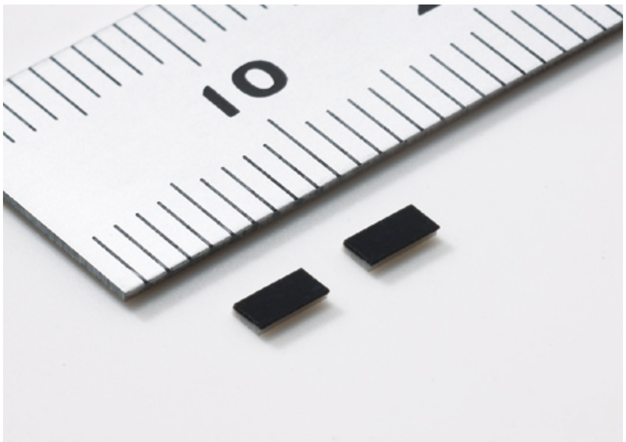


UWB Wireless Modules

Murata has developed and commercialized the industry's first UWB*1 wireless module that conforms to Certified Wireless USB specifications for PCI Express*2 and WHCI*3. PCs equipped with this wireless module have been released for sale by PC makers since February 2008. Use of the UWB technology enables high-speed data communication over short distances using extremely weak radio wave output. Ideal for multi-path communication, this technology also boasts stable communication performance and high-speed communication with low power consumption. In the future, we plan to develop modules that comply with the radio wave laws of other countries, as well as modules for PC-peripheral applications, including digital cameras, PDA, and mobile phones.

*1: Abbreviation for Ultra Wide Band. A wireless communication system that uses an extremely wide bandwidth of 500MHz and above.
*2: PCI (Peripheral Component Interconnect). Input/output interface for a serial transmission system developed with an aim of replacing computer buses.
*3: Abbreviation for Wireless Host Controller Interface, a set of wireless USB host controller specifications developed by Intel.

Development of MAGICSTRAP™ RFID Strap



MAGICSTRAP™ RFID Strap

Murata has developed the MAGICSTRAP™ RFID strap that makes possible a wide range of traceability management and security uses, and has begun marketing the technology in Japan and abroad. Up to now, an assembly location accuracy within a few μm was required for the conduction of antennas and ICs. With the Magic Strap, however, strict position accuracy is no longer required, and electronic tags can be incorporated using a general adhesive or thin double-sided tape. Additionally the strap can be placed and reflow-soldered as SMD component on PWB in the use of electrical equipments, which contributes the traceability and production control. The strap supports all radio-wave spectrums used for RFID in Europe, the U.S. and Japan, thus enabling worldwide use with a single design.

Joint Development of Wireless Quick Battery Charger System

Wireless Quick Battery Charger System

Murata and Seiko Epson have agreed to jointly develop a "wireless quick battery charger system" capable of offering a substantially shorter charging time. Mobile devices such as mobile phones, portable audio players, and notebook PCs have become increasingly sophisticated, which causes them to consume greater quantities of electric power. Thus it is anticipated that the frequency with which charging must be done will increase in the future. The thin, compact "wireless quick battery charger system" being jointly developed by Murata and Seiko Epson will be a revolutionary product that will shorten the charging time from the one to two hours currently required by existing systems down to ten to fifteen minutes. A wireless charger makes it possible for devices that would ordinarily require their own dedicated charging units to share a single charging unit.

Corporate Governance

Approach to Corporate Governance

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

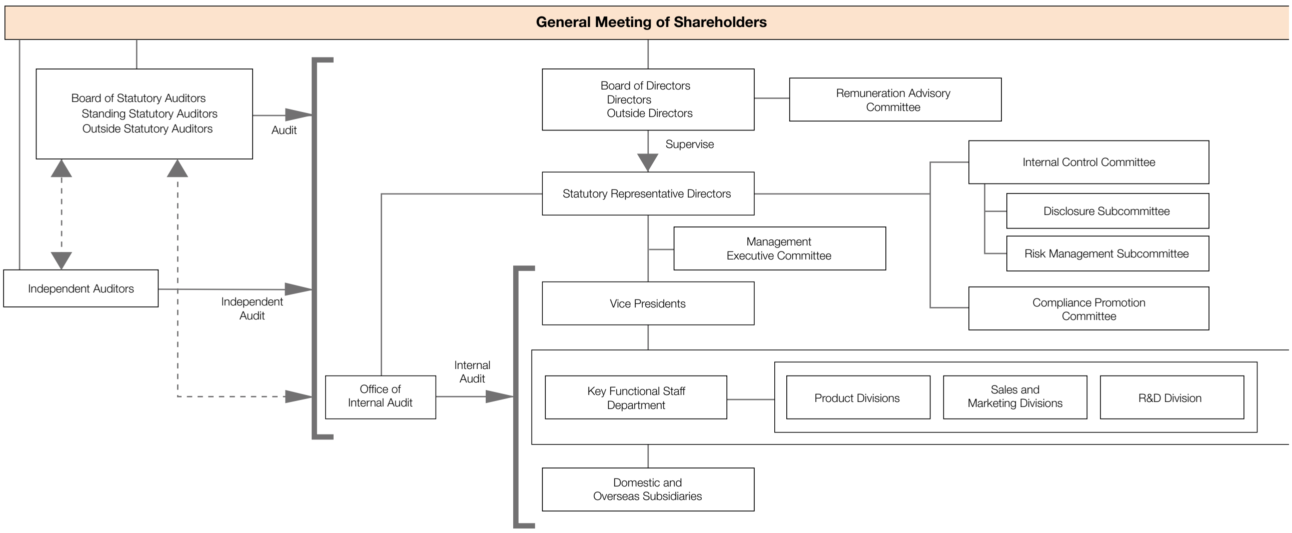
Implementation of Measures for Corporate Governance Basic Corporate Structure

The Company has adopted the board of statutory auditors system. As of June 27, 2008, the Company's Board of Directors was comprised of 10 Directors, 2 of whom are from outside the Company. The Company has 5 Statutory Auditors, 3 of whom are Outside Statutory Auditors. The Company has also introduced a system of vice presidents, under which it has separated corporate decision-making on management policies and critical corporate activities and management of day-to-day business operations to further reinforce supervisory and operational functions. The Board focuses on its primary responsibilities of making decisions on management policies and critical business operations, as well as monitoring the performance of duties by Directors. In addition, the Management Executive Committee functions as a deliberative body to assist the Board of Directors and Statutory Representative Directors in their decision-making. Comprised of Statutory Representative Directors, and other directors who occupy Executive Vice President positions or above, the conference deliberates and receives reports concerning matters stipulated by internal company regulations. Regarding compensation for Directors and Vice Presidents, the Company also has a Remuneration Advisory Committee as an advisory body of the Board of Directors. The committee, which includes Outside Directors, is responsible for evaluating, reviewing and revising the remuneration system for Directors and Vice Presidents.

Auditing policies and plans are set by the Board of Statutory Auditors. Based on these guidelines, Statutory Auditors attend Board of Directors' meetings and other important meetings. Statutory Auditors are further responsible for conducting detailed audits of the performance of Directors from the standpoint of legal compliance and adequacy, including inspections of the operations and finances of the Company.

In addition, we have the Internal Control Committee, which was established as an advisory body to Statutory Representative Directors for the purpose of the maintenance and continuous improvement of the system for assuring appropriateness of operations (internal control system). We also have the Compliance Promotion Committee, which serves as another advisory body to Statutory Representative Directors, to develop and implement a compliance system.

Organizational Chart of the Company



Development of Internal Control System

The Company shares "Murata Philosophy" as the basic management philosophy of the Murata Group. Furthermore, we have specified regulations and procedures for decision-making, and based on these we discuss business management of subsidiaries with subsidiaries. At the same time, a multitude of information is shared regarding business management of the Murata Group. Moreover, each core operational division and department (General Administration, Personnel & Industrial Relations, and Accounting & Controller Department, etc.) specifies the framework, procedures and decision-making standards for all operational tasks so that operations are conducted appropriately and efficiently. These divisions and departments also provide appropriate guidance to subsidiaries as necessary. Our independent internal audit department (the Office of Internal Audit) evaluates and monitors whether operations in the Murata Group are being conducted appropriately and efficiently in accordance with laws and regulations and the Company's internal regulations.

The Internal Control Committee evaluates the status of development and operation of the internal control system to ensure appropriate Company operations. Furthermore, regarding the internal control reporting system required by the Financial Instruments and Exchange Law, the Committee is working with relevant divisions to evaluate the internal control system and, based on this, to maintain and constantly improve the internal control system so as to ensure the reliability of financial reporting. In addition, the Disclosure Subcommittee, established under the Internal Control Committee, discusses the necessity and details of timely disclosures of corporate information. The Company therefore has a management system in place for the timely and appropriate disclosure of corporate information.

In respect of compliance, the Company has enacted the "Murata Corporate Ethics Policy and Code of Conduct" and compliance-related regulations so that Directors, Vice Presidents and employees base their business activities on higher ethical principles and in accordance with laws and regulations, and the Articles of Incorporation of each Group company. The code, which is thoroughly disseminated throughout the Group, outlines corporate ethical standards and specific codes of conduct from legal and ethical standpoints. The Compliance Promotion Committee was established to ensure compliance with these codes of conduct, and to prevent violations of ethics, laws, and regulations. Moreover, in order to deal with compliance-related problems appropriately, report acceptance points are established internally and externally, and measures are taken to ensure no disadvantage to persons who report.

In terms of risk management, each core operational division and department conducts risk management. Furthermore, the Risk Management Subcommittee in the Internal Control Committee discusses Group-wide risk management systems and policies. This Subcommittee evaluates, implements and develops responses to the various risks related to conducting business activities. In addition, the company has set up an organization in charge of Group-wide risk management. This organization establishes regulations pertaining to risk management, including the identification, assessment and response to risks. This organization also instructs and makes recommendations to each core operational division and department.

Murata also promotes CSR-oriented management on a Group-wide basis to ensure that it fulfills its corporate social responsibilities. We have an organizational body that is responsible for developing CSR activities and this body coordinates its efforts in cooperation with other Company organizations in charge of internal control, compliance and so forth.

Collaboration Between the Statutory Auditors and the Office of Internal Audit

The organizationally independent internal auditing department (the Office of Internal Audit) stays abreast and grants confirmation of the auditing policies and plans formulated by each core operational division (e.g., General Administration, Personnel & Industrial Relations, and Accounting & Controller Department). The office also oversees audits performed under the Group's internal control system (internal audits), evaluating the effectiveness of these audits after they are conducted, among other tasks.

As examples of the regular and close cooperation between the Statutory Auditors and the Office of Internal Audit, the Statutory Auditors and the Board of Statutory Auditors present the Board of Statutory Auditors' auditing policies and plans to the Office of Internal Audit to ensure the effectiveness of audits conducted by Statutory Auditors. The Statutory Auditors and the Board of Statutory Auditors also receive reports from the Office of Internal Audit on internal audit plans, implementation, and other matters concerning the internal auditing system. The Statutory Auditors and the Board of Statutory Auditors maintain regular and close links with the Office of Internal Audit as regards holding discussions about the adequacy of the audits performed by both the Statutory Auditors and the Board of Statutory Auditors.

Collaboration Between the Statutory Auditors and the Independent Auditors

The Company has signed an agreement with Deloitte Touche Tohmatsu, under which Ikuo Yoshikawa, Designated Partner and Engagement Partner, and Koichiro Tsukuda, Designated Partner and Engagement Partner, both of whom are certified public accountants, take charge of the audit, along with 13 certified public accountants, 10 assistant certified public accountants, and 11 other assistants. The Company is audited pursuant to the Financial Instruments and Exchange Act and the Corporate Law. The Company also clarifies various issues related to accounting procedures and auditing whenever necessary. The independent auditor also closely collaborates with the Statutory Auditors and the Board of Statutory Auditors by holding regular meetings and reporting on the plan for audits and progress. Finally, to ensure effective auditing, the Statutory Auditors accompany the independent auditors when they conduct on-site audits at the Company.

Relationship Between Outside Directors and Outside Statutory Auditors

The Company has no conflict of interests with the 2 Outside Directors and 3 Outside Statutory Auditors.

Compensation to Directors and Statutory Auditors

Compensation paid to directors and statutory auditors during the period under review (April 1, 2007 to March 31, 2008) was as follows:

Item	Compensation (millions of yen)
Directors (incl. Outside Directors)	458 (20)
Statutory auditors (incl. Outside Statutory Auditors)	59 (21)
Total (incl. Outside Directors and Statutory Auditors)	518 (41)

Notes:
1. The figures in the table exclude employee salaries and bonuses received by Directors who concurrently serve as Vice Presidents.
2. The figures in the table exclude the following.
Based on the resolution made at the Ordinary General Meeting of Shareholders in 2004, the retirement benefit was paid ¥55 million to Directors and ¥7 million to Statutory Auditors upon his or her retirement.
As of March 31, 2008, the balance of the retirement benefit based on the resolution made at the Ordinary General Meeting of Shareholders in 2004 was ¥598 million for 7 Directors and ¥2 million for 1 Statutory Auditor, which will be paid on his or her retirement.
3. In addition to the above, ¥2 million in compensation expenses related to stock options granted to Directors and Statutory Auditors ahead of the implementation of the Corporate Law was posted to the consolidated statement of income for the period under review. No stock options were granted in the period under review.

Compensation to Independent Auditors

Details of the compensation paid to the Company's Independent Auditors, Deloitte Touche Tohmatsu, are as follows.

	Item	Compensation (millions of yen)
(1)	Compensation for services under Article 2, Paragraph 1 of the Certified Public Accountant Law of Japan (in millions of yen)	76
(2)	Compensation other than the above (in millions of yen)	22

Notes:
1. The audit contract between the Company and the independent auditors does not distinguish between compensation for audits based on the Corporate Law and compensation for audits based on the Financial Instruments and Exchange Act, etc. Accordingly, the figure for (1) in the above table includes the sum of these amounts.
2. The Company pays compensation to the independent auditors for simulated evaluation of internal control over financial reporting and other services that are not services defined by Article 2, Paragraph 1 of the Certified Public Accountants Law of Japan.

Summary of Limited Liability Agreements

For the liabilities for damages prescribed in Article 423, Paragraph 1 of the Corporate Law, the Company has concluded limited liability agreements with its Outside Directors and Outside Statutory Auditors. The upper limit of liability the agreements set is equivalent to the minimum prescribed in Article 425, Paragraph 1 of the Corporate Law.

Prescribed Number of Directors

The Company has prescribed in the Articles of Incorporation that the number of Directors shall be no more than 15.

Resolution Regarding Repurchase of the Company's Own Shares

In accordance with the provisions of Paragraph 2 of Article 165 of the Corporate Law, the Company has prescribed in the Articles of Incorporation that it may repurchase its own shares through market transactions or other methods pursuant to Paragraph 2 of the said Article by a resolution of the Board of Directors. The purpose of this provision is to enable execution of flexible management that responds to changes in the business environment.

Interim Dividends

The Company's Articles of Incorporation stipulate that the Company may, by a resolution of the Board of Directors, pay interim dividends to the shareholders or registered share pledgees whose names appear or are recorded as such on the register of shareholders as of the end of September 30 each year, in accordance with the provisions of Paragraph 5 of Article 454 of the Corporate Law. This allows the Company flexibility in returning profits to shareholders.

Requirements for Special Resolutions at the General Meeting of Shareholders

Resolutions stipulated in Paragraph 2 of Article 309 of the Corporate Law shall be adopted by at least two-thirds of the votes of shareholders present at the meeting, where those shareholders have at least one-third of the voting rights of the shareholders who are entitled to exercise their voting rights thereat. Similarly, in accordance with the provisions of Article 341 of the Corporate Law, the Company has prescribed in the Articles of Incorporation that resolutions for the appointment of directors and statutory auditors shall be adopted by a simple majority of the votes of shareholders present at the meeting, where those shareholders have at least one-third of the voting rights of the shareholders who are entitled to exercise their voting rights thereat. The purpose of these provisions is to better ensure a quorum.

Members of the Board (as of July 1, 2008)

Board of Directors

Yasutaka Murata
Tsuneo Murata
Yoshitaka Fujita
Yukio Sakabe
Seiichi Arai
Atsushi Inoue
Hideharu Ieki
Koji Makino
Yasuro Tanahashi (Outside Director)
Hiroaki Yoshihara (Outside Director)

Statutory Representative Directors

Chairman
Yasutaka Murata
President
Tsuneo Murata
Executive Deputy President
Yoshitaka Fujita

Statutory Auditors

Standing Statutory Auditors
Motohiko Nakayama
Kunisaburo Tomono
Statutory Auditors
Tetsuya Hiraoka (Outside Auditor)
Go Kawada (Outside Auditor)
Hideki Yamada (Outside Auditor)

Vice Presidents

Corporate Senior Executive Vice President
Yukio Sakabe
Senior Executive Vice President
Seiichi Arai
Executive Vice Presidents
Atsushi Inoue
Harufumi Mandai
Senior Fellow
Yohei Ishikawa
Executive Vice Presidents
Shinji Ushiro
Hideharu Ieki
Vice Presidents
Kazuya Togawa
Hideo Sakamoto
Koji Makino
Fellow
Michio Kadota
Vice Presidents
Nobuo Tanaka
Hiroshi Takagi
Masao Nishimura
Masaro Ito
Kiminori Yamauchi
Yukio Hamaji

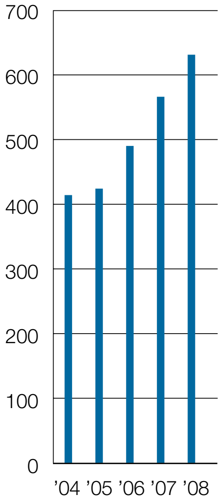
Financial Data Section

Contents

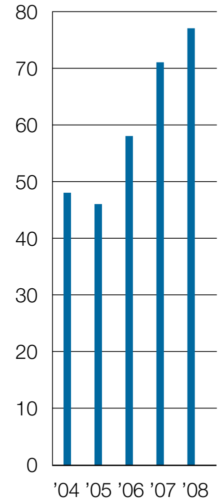
Financial Data

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2004–2008

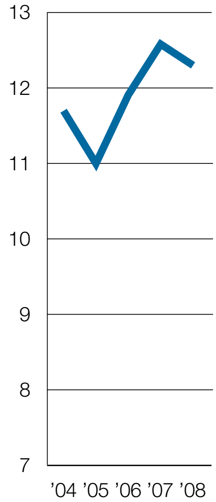
Net sales
(Billions of yen)



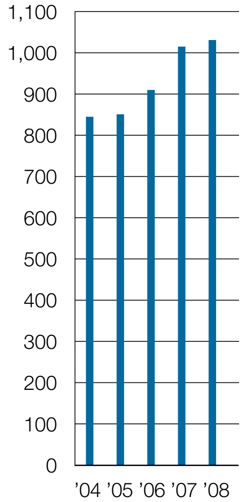
Net income
(Billions of yen)



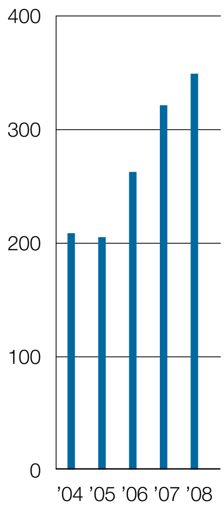
Return on net sales
(%)



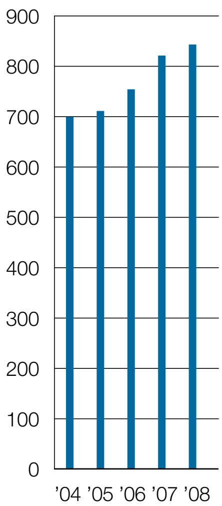
Total assets
(Billions of yen)



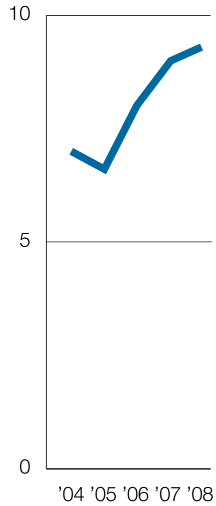
Diluted earnings per share*1 (Yen)



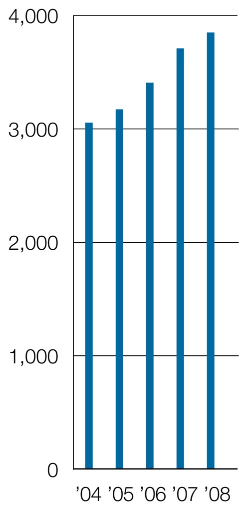
Shareholders’ equity
(Billions of yen)



Return on equity (ROE)
(%)

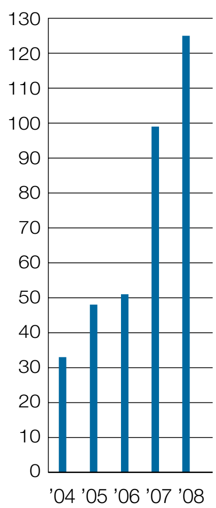


Shareholders’ equity per share*2 (Yen)

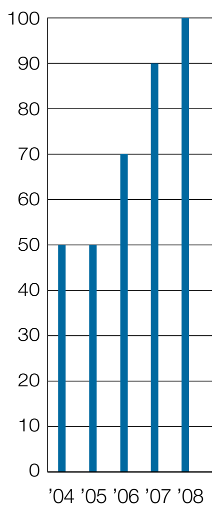


*1 Based on the average number of common shares outstanding and common equivalent shares outstanding such as those related to stock options.
*2 Based on the number of common shares outstanding at term-end.

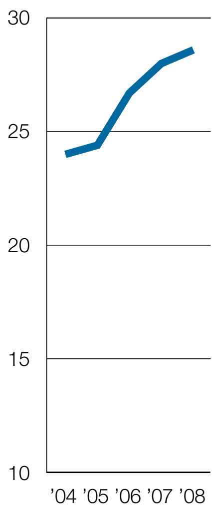
Capital investment
(Billions of yen)



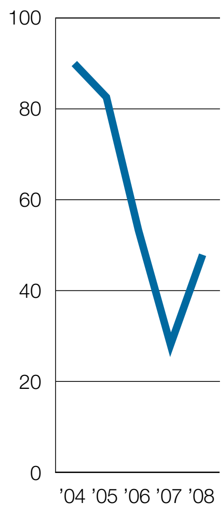
Dividend per share
(Yen)



Dividend payout ratio
(%)



Total return ratio*3
(%)



*3 The ratio of the total of Dividend payments and Share buyback to Net income.

Segment Information

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2008 and 2007

Geographic Segment Information

	Millions of yen					
2008	Japan	The Americas	Europe	Asia	Corporate and eliminations	Consolidated
Unaffiliated customers	¥243,349	¥ 55,376	¥ 58,099	¥274,831	–	¥631,655
Intersegment	262,452	635	519	27,265	¥(290,871)	–
Total revenue	505,801	56,011	58,618	302,096	(290,871)	631,655
Operating costs and expenses	412,205	54,469	53,553	286,547	(290,871)	515,903
Operating income	93,596	1,542	5,065	15,549	–	115,752
Assets	529,023	34,030	27,931	134,809	304,556	1,030,349

	Millions of yen					
2007	Japan	The Americas	Europe	Asia	Corporate and eliminations	Consolidated
Unaffiliated customers	¥233,284	¥ 45,858	¥ 51,713	¥235,950	–	¥566,805
Intersegment	233,178	9	2	25,519	¥(258,708)	–
Total revenue	466,462	45,867	51,715	261,469	(258,708)	566,805
Operating costs and expenses	376,097	46,991	49,380	244,488	(263,516)	453,440
Operating income (loss)	90,365	(1,124)	2,335	16,981	4,808	113,365
Assets	445,817	29,924	21,941	121,029	396,254	1,014,965

	Thousands of U.S. dollars					
2008	Japan	The Americas	Europe	Asia	Corporate and eliminations	Consolidated
Unaffiliated customers	$2,433,490	$ 553,760	$ 580,990	$2,748,310	–	$6,316,550
Intersegment	2,624,520	6,350	5,190	272,650	$(2,908,710)	–
Total revenue	5,058,010	560,110	586,180	3,020,960	(2,908,710)	6,316,550
Operating costs and expenses	4,122,050	544,690	535,530	2,865,470	(2,908,710)	5,159,030
Operating income	935,960	15,420	50,650	155,490	–	1,157,520
Assets	5,290,230	340,300	279,310	1,348,090	3,045,560	10,303,490

Overseas Sales

	Millions of yen			
2008	The Americas	Europe	Asia and Others	Total
Overseas sales	¥ 53,688	¥ 72,860	¥349,154	¥475,702
Consolidated sales				631,655
Percentage	8.5%	11.5%	55.3%	75.3%

	Millions of yen			
2007	The Americas	Europe	Asia and Others	Total
Overseas sales	¥ 46,112	¥ 70,444	¥305,675	¥422,231
Consolidated sales				566,805
Percentage	8.2%	12.4%	53.9%	74.5%

	Thousands of U.S. dollars			
2008	The Americas	Europe	Asia and Others	Total
Overseas sales	$ 536,880	$ 728,600	$3,491,540	$4,757,020
Consolidated sales				6,316,550

Note: The segment information is based on accounting principles generally accepted in Japan.

Production, Order and Backlog by Product

Murata Manufacturing Co., Ltd. and Subsidiaries
Year ended March 31, 2008

	Millions of yen	Component ratio	Ratio against the previous year	Thousands of U.S. dollars
	2008			
Production by Product		%	%	
Capacitors	¥268,118	40.6	15.3	$2,681,180
Piezoelectric Components	97,711	14.8	15.3	977,110
Microwave Devices	105,848	16.0	(9.0)	1,058,480
Module Products	79,658	12.1	34.8	796,580
Other Products	109,365	16.5	10.6	1,093,650
Total	¥660,700	100.0	11.7	$6,607,000

*1 Figures are based on production quantity and sales price to customers.
*2 Exclusive of consumption taxes
*3 Production amounts of the foreign subsidiaries were translated into Japanese yen at average exchange rates for periods.
*4 The tables by product indicate production, order and backlog of electronics components and related products.
*5 The total production, order and backlog in Module Products for this year have increased greatly compared to the previous year. This is partly because due to the acquisition of the Power Electronics Division of C&D technologies, Inc. the company completed on August 31, 2007, Murata Power Solutions, Inc. of the United States and 17 other companies were newly consolidated, and this acquisition has greatly contributed to the growth of them.

	Millions of yen	Component ratio	Ratio against the previous year	Thousands of U.S. dollars
	2008			
Order by Product		%	%	
Capacitors	¥240,587	38.4	7.2	$2,405,870
Piezoelectric Components	92,580	14.8	13.2	925,800
Microwave Devices	110,107	17.6	(3.2)	1,101,070
Module Products	79,965	12.7	34.4	799,650
Other Products	103,673	16.5	10.2	1,036,730
Total	¥626,912	100.0	9.3	$6,269,120

*1 Figures are based on order quantity and sales price to customers.
*2 Exclusive of consumption taxes
*3 The total backlog in Microwave Devices for this year has increased greatly compared to the previous year because the order of short-range wireless communication modules and multilayer ceramic devices performed well at the term end in the latter half of the year.

	Millions of yen	Component ratio	Ratio against the previous year	Thousands of U.S. dollars
	2008			
Backlog by Product		%	%	
Capacitors	¥ 21,037	36.5	(29.5)	$210,370
Piezoelectric Components	7,341	12.7	(2.1)	73,410
Microwave Devices	10,523	18.2	80.3	105,230
Module Products	8,437	14.6	11.8	84,370
Other Products	10,356	18.0	7.9	103,560
Total	¥ 57,694	100.0	(4.3)	$576,940

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

Capital Investment

Murata Manufacturing Co., Ltd. and Subsidiaries
Year ended March 31, 2008

1) Capital Investment for the fiscal year ended March 2008 amounted to ¥125,557 million ($1,255,570 thousand). Major capital investment included expansion and rationalization of production facilities, construction of buildings and expansion of R&D facilities.

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

	Millions of yen				
2008	Land	Buildings	Machinery and equipment	Construction in progress	Total
Parent Company					
Plant, Office and other					
Head Office in Kyoto	¥ 168	¥ 1,768	¥ 2,564	¥ 152	¥ 4,654
Yokaichi Plant in Shiga	468	6,405	8,111	991	15,976
Yasu Plant in Shiga	6,974	21,931	13,990	4,116	47,012
Yokohama Technical Center in Kanagawa	3,002	2,504	1,039	4	6,551
Other	6,745	1,059	76	65	7,945

	Millions of yen				
2008	Land	Buildings	Machinery and equipment	Construction in progress	Total
Domestic subsidiaries					
Company Name					
Fukui Murata Manufacturing Co., Ltd.	¥ 2,025	¥13,572	¥27,523	¥ 3,075	¥46,195
Izumo Murata Manufacturing Co., Ltd.	1,377	14,239	21,251	6,690	43,557
Kanazawa Murata Manufacturing Co., Ltd.	1,261	10,663	16,683	7,100	35,707
Okayama Murata Manufacturing Co., Ltd.	–	9,046	10,437	2,412	21,895
Murata Land & Building Co., Ltd.	4,734	13,111	27	–	17,872
Toyama Murata Manufacturing Co., Ltd.	1,471	3,034	6,797	483	11,785

	Millions of yen				
2008	Land	Buildings	Machinery and equipment	Construction in progress	Total
Foreign subsidiaries					
Company Name					
Wuxi Murata Electronics Co., Ltd.	–	¥ 3,578	¥ 7,129	¥ 1,060	¥11,767
Murata Electronics Singapore (Pte.) Ltd.	–	3,662	5,401	170	9,233
Shenzhen Murata Technology Co., Ltd.	–	3,144	1,329	–	4,473
Murata Electronics (Thailand), Ltd.	¥ 246	879	2,140	33	3,298

Consolidated Balance Sheets

Murata Manufacturing Co., Ltd. and Subsidiaries
March 31, 2008 and 2007

ASSETS	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 2) 2008
Current assets:			
Cash	**¥ 36,783**	¥ 29,133	**$ 367,830**
Time deposits	**76,599**	77,903	**765,990**
Marketable securities (Note 3)	**241,177**	320,421	**2,411,770**
Notes and accounts receivable:			
Trade notes	**7,059**	7,347	**70,590**
Trade accounts	**121,537**	121,896	**1,215,370**
Allowance for doubtful notes and accounts	**(1,125)**	(1,810)	**(11,250)**
Inventories (Note 4)	**114,647**	86,074	**1,146,470**
Deferred income taxes (Note 9)	**21,169**	22,889	**211,690**
Prepaid expenses and other	**9,709**	9,059	**97,090**
Total current assets	**627,555**	672,912	**6,275,550**
Property, plant and equipment:			
Land	**41,284**	41,107	**412,840**
Buildings	**258,588**	225,310	**2,585,880**
Machinery and equipment	**536,292**	480,449	**5,362,920**
Construction in progress	**33,511**	25,519	**335,110**
Total	**869,675**	772,385	**8,696,750**
Accumulated depreciation	**(523,526)**	(488,441)	**(5,235,260)**
Net property, plant and equipment	**346,149**	283,944	**3,461,490**
Investments and other assets:			
Investments (Note 3)	**11,493**	17,122	**114,930**
Deferred income taxes (Note 9)	**7,713**	6,442	**77,130**
Long-term receivables, advances and other (Notes 6 and 16)	**37,439**	34,545	**374,390**
Total investments and other assets	**56,645**	58,109	**566,450**
Total assets	**¥1,030,349**	¥1,014,965	**$10,303,490**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 2) 2008
Current liabilities:			
Short-term borrowings (Note 5)	**¥ 17,999**	¥ 13,114	**$ 179,990**
Trade notes payable	**6,426**	4,380	**64,260**
Trade accounts payable	**37,315**	33,723	**373,150**
Accrued payroll and bonuses	**22,527**	20,806	**225,270**
Income taxes payable	**12,612**	29,465	**126,120**
Accrued expenses and other (Note 6)	**28,031**	30,032	**280,310**
Total current liabilities	**124,910**	131,520	**1,249,100**
Long-term liabilities:			
Long-term debt (Note 5)	**19**	24	**190**
Termination and retirement benefits (Note 6)	**44,820**	40,390	**448,200**
Deferred income taxes (Note 9)	**15,748**	19,452	**157,480**
Other	**622**	686	**6,220**
Total long-term liabilities	**61,209**	60,552	**612,090**
Commitments and contingent liabilities (Note 13)			
Shareholders' equity (Notes 8 and 17):			
Common stock (authorized 581,000,000 shares in 2008 and 2007; issued 225,263,592 shares in 2008 and 2007)	**69,377**	69,377	**693,770**
Capital surplus	**102,403**	102,363	**1,024,030**
Retained earnings	**710,453**	655,240	**7,104,530**
Accumulated other comprehensive income (loss):			
Unrealized gains on securities	**2,954**	5,368	**29,540**
Pension liability adjustments (Note 6)	**645**	8,466	**6,450**
Unrealized gains (losses) on derivative instruments	**16**	(29)	**160**
Foreign currency translation adjustments	**(8,517)**	384	**(85,170)**
Total accumulated other comprehensive income (loss)	**(4,902)**	14,189	**(49,020)**
Treasury stock, at cost 5,842,969 shares in 2008 and 3,281,042 shares in 2007	**(33,101)**	(18,276)	**(331,010)**
Total shareholders' equity	**844,230**	822,893	**8,442,300**
Total liabilities and shareholders' equity	**¥1,030,349**	¥1,014,965	**$10,303,490**

Consolidated Statements of Income

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2008	2007	2006	**2008**
Net sales	**¥631,655**	¥566,805	¥490,784	**$6,316,550**
Operating costs and expenses:				
Cost of sales	**387,842**	335,869	295,958	**3,878,420**
Selling, general and administrative	**85,780**	78,901	70,291	**857,800**
Research and development	**42,281**	38,670	34,696	**422,810**
Total operating costs and expenses	**515,903**	453,440	400,945	**5,159,030**
Operating income	**115,752**	113,365	89,839	**1,157,520**
Other income (expenses):				
Interest and dividend income	**4,866**	3,898	2,326	**48,660**
Interest expense	**(537)**	(342)	(201)	**(5,370)**
Foreign currency exchange loss	**(32)**	(1,908)	(1,730)	**(320)**
Other-net	**1,781**	2,990	1,446	**17,810**
Other income (expenses)-net	**6,078**	4,638	1,841	**60,780**
Income before income taxes	**121,830**	118,003	91,680	**1,218,300**
Income taxes (Note 9)	**44,417**	46,694	33,232	**444,170**
Net income	**¥ 77,413**	¥ 71,309	¥ 58,448	**$ 774,130**

	Yen			U.S. dollars (Note 2)
Amounts per share (Note 11):				
Basic earnings per share	**¥349.09**	¥ 321.29	¥ 262.49	**$3.49**
Diluted earnings per share	**¥349.05**	¥ 321.22	¥ 262.47	**$3.49**
Cash dividends per share	**¥100.00**	¥ 80.00	¥ 55.00	**$1.00**

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2008	2007	2006	**2008**
Net income	**¥77,413**	¥ 71,309	¥ 58,448	**$774,130**
Other comprehensive income (loss), net of tax (Note 12):				
Unrealized gains (losses) on securities	**(2,414)**	(624)	2,338	**(24,140)**
Minimum pension liability adjustments	**–**	(31)	434	**–**
Pension liability adjustments	**(7,821)**	–	–	**(78,210)**
Unrealized gains on derivative instruments	**45**	4	153	**450**
Foreign currency translation adjustments	**(8,901)**	5,033	9,541	**(89,010)**
Other comprehensive income (loss)	**(19,091)**	4,382	12,466	**(190,910)**
Comprehensive income	**¥58,322**	¥ 75,691	¥ 70,914	**$583,220**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2008, 2007 and 2006

	Number of common shares issued	Millions of yen: Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock
Balance at March 31, 2005	225,263,592	¥69,377	¥102,222	¥555,512	¥ (11,685)	¥ (3,117)
Purchases of treasury stock at cost						(15,609)
Exercise of stock options			6			49
Net income				58,448		
Cash dividends, ¥55.00 per share				(12,275)		
Other comprehensive income, net of tax					12,466	
Balance at March 31, 2006	225,263,592	69,377	102,228	601,685	781	(18,677)
Purchases of treasury stock at cost						(53)
Exercise of stock options			54			454
Stock-based compensation expense			81			
Net income				71,309		
Cash dividends, ¥80.00 per share				(17,754)		
Other comprehensive income, net of tax					4,382	
Adjustment to initially apply FASB Statement No. 158, net of tax					9,026	
Balance at March 31, 2007	**225,263,592**	**69,377**	**102,363**	**655,240**	**14,189**	**(18,276)**
Purchases of treasury stock at cost						**(15,035)**
Exercise of stock options			**21**			**210**
Stock-based compensation expense			**19**			
Net income				**77,413**		
Cash dividends, ¥100.00 per share				**(22,200)**		
Other comprehensive loss, net of tax					**(19,091)**	
Balance at March 31, 2008	**225,263,592**	**¥69,377**	**¥102,403**	**¥710,453**	**¥ (4,902)**	**¥(33,101)**

	Thousands of U.S. dollars (Note 2): Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock
Balance at March 31, 2007	**$693,770**	**$1,023,630**	**$6,552,400**	**$ 141,890**	**$(182,760)**
Purchases of treasury stock at cost					**(150,350)**
Exercise of stock options		**210**			**2,100**
Stock-based compensation expense		**190**			
Net income			**774,130**		
Cash dividends, $1.00 per share			**(222,000)**		
Other comprehensive loss, net of tax				**(190,910)**	
Balance at March 31, 2008	**$693,770**	**$1,024,030**	**$7,104,530**	**$ (49,020)**	**$(331,010)**

Consolidated Statements of Cash Flows

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2008	2007	2006	**2008**
Operating activities:				
Net income	**¥ 77,413**	¥ 71,309	¥ 58,448	**$ 774,130**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	**65,134**	49,817	45,139	**651,340**
Losses on sales and disposals of property, plant and equipment	**740**	461	315	**7,400**
Impairment losses on long-lived assets	**–**	428	639	**–**
Gains on sales of securities	**(8)**	(143)	(71)	**(80)**
Provision for termination and retirement benefits, less payments	**(1,650)**	(792)	704	**(16,500)**
Deferred income taxes	**4,895**	(2,179)	(1,347)	**48,950**
Changes in assets and liabilities:				
Increase in trade notes and accounts receivable	**(280)**	(14,186)	(19,895)	**(2,800)**
Increase in inventories	**(25,628)**	(18,584)	(5,302)	**(256,280)**
Increase in prepaid expenses and other	**(61)**	(3,024)	(1,447)	**(610)**
Increase in trade notes and accounts payable	**3,730**	8,620	10,001	**37,300**
Increase in accrued payroll and bonuses	**1,518**	1,498	1,698	**15,180**
Increase (decrease) in income taxes payable	**(16,704)**	11,490	2,058	**(167,040)**
Increase (decrease) in accrued expenses and other	**(2,856)**	9,116	633	**(28,560)**
Other–net	**114**	2,280	431	**1,140**
Net cash provided by operating activities	**106,357**	116,111	92,004	**1,063,570**
Investing activities:				
Capital expenditures	**(125,557)**	(99,651)	(51,040)	**(1,255,570)**
Payment for purchases of investments and other	**(7,435)**	(4,437)	(4,299)	**(74,350)**
Net decrease (increase) in marketable securities	**79,731**	(5,072)	17,929	**797,310**
Increase in long–term deposits	**(4,000)**	(1,000)	(1,000)	**(40,000)**
Decrease in long-term deposits	**2,000**	–	–	**20,000**
Proceeds from sales of property, plant and equipment	**644**	374	817	**6,440**
Proceeds from sales of investments	**997**	1,195	119	**9,970**
Acquisition of subsidiaries, net of cash acquired	**(9,623)**	(15,390)	–	**(96,230)**
Increase in time deposits	**(2,365)**	(881)	–	**(23,650)**
Other	**17**	20	5	**170**
Net cash used in investing activities	**(65,591)**	(124,842)	(37,469)	**(655,910)**
Financing activities:				
Net increase in short–term borrowings	**4,517**	4,025	2,458	**45,170**
Repayment of long–term debt	**–**	(500)	(500)	**–**
Dividends paid	**(22,200)**	(17,754)	(12,275)	**(222,000)**
Payment for purchases of treasury stock	**(15,035)**	(53)	(15,609)	**(150,350)**
Proceeds from exercise of stock options	**231**	508	55	**2,310**
Other	**(5)**	(3)	(2)	**(50)**
Net cash used in financing activities	**(32,492)**	(13,777)	(25,873)	**(324,920)**
Effect of exchange rate changes on cash and cash equivalents	**(4,293)**	2,280	4,050	**(42,930)**
Net increase (decrease) in cash and cash equivalents	**3,981**	(20,228)	32,712	**39,810**
Cash and cash equivalents at beginning of year	**106,155**	126,383	93,671	**1,061,550**
Cash and cash equivalents at end of year	**¥110,136**	¥106,155	¥126,383	**$1,101,360**
Additional cash flow information:				
Interest paid	**¥ 505**	¥ 331	¥ 192	**$ 5,050**
Income taxes paid	**56,611**	37,335	32,503	**566,110**
Additional cash and cash equivalents information:				
Cash	**¥ 36,783**	¥ 29,133	¥ 33,877	**$ 367,830**
Time deposits	**76,599**	77,903	92,506	**765,990**
Time deposits with the original maturities over three months	**(3,246)**	(881)	–	**(32,460)**
Cash and cash equivalents at end of year	**¥110,136**	¥106,155	¥126,383	**$1,101,360**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Murata Manufacturing Co., Ltd. and
Subsidiaries

1. Summary of Significant Accounting Policies

(a) Nature of operations

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

(b) Basis of financial statements

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

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

(c) Principles of consolidation

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

(d) Cash and cash equivalents

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

(e) Marketable securities and investments

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

(f) Inventories

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

(g) Property, plant and equipment

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

(h) Termination and retirement benefits

Termination and retirement benefits are accounted for in accordance with SFAS No.87, "Employers' Accounting for Pensions" and 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)." The Companies will adopt the measurement date provisions of SFAS No. 158 as of April 1, 2008.

(i) Revenue recognition

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

(j) Advertising expenses

Advertising costs are expensed as incurred. Advertising expenses for the years ended March 31, 2008, 2007 and 2006 were ¥2,354 million ($23,540 thousand), ¥2,050 million and ¥1,871 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.

Effective April 1, 2007, the Companies account for uncertainty in income taxes in accordance with 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.

(l) Earnings per share

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

(m) Derivatives

The Companies account for their derivative instruments and hedging activities in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," 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 Accounting Principles Board ("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 years ended March 31, 2008 and 2007 were ¥19 million ($190 thousand) and ¥81 million, respectively. There is no tax effect on the stock-based compensation.

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 year ended March 31, 2006.

	Millions of yen
	2006
Net Income	
Reported	¥58,448
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(131)
Pro forma	¥58,317

	Yen
	2006
Earnings per Share–Net income	
Reported	
Basic earnings per share	¥262.49
Diluted earnings per share	262.47
Pro forma	
Basic earnings per share	¥261.90
Diluted earnings per share	261.90

(o) Shipping and Handling costs

Shipping and Handling costs which were included in selling, general and administrative expenses for the years ended March 31, 2008, 2007 and 2006 were ¥5,953 million ($59,530 thousand), ¥5,895 million and ¥5,106 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 Emerging Issues Task Force (“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 ¥428 million and ¥639 million of impairment losses in selling, general and administrative expenses for the years ended March 31, 2007 and 2006, respectively.

In the year ended March 31, 2007, the Companies reviewed certain long-lived asset for impairment. As a result, certain land of a subsidiary, which was not expected to be used due to the change of certain business plans, was considered to be impaired. The fair value of this asset was determined by considering the estimate of future cash flow.

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

(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 is not amortized but is 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) New accounting standards

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, the 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 the 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. On March 31, 2007, the Companies adopted the recognition of the funded status of a defined benefit postretirement plan and the required disclosures with SFAS No.158. The Companies will adopt the measurement date provisions of SFAS No. 158 as of April 1, 2008. Adoption of this accounting standard is expected to have no effect on the Companies’ consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115.” SFAS No. 159 permits companies to choose to measure many financial assets and liabilities at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected shall be recognized in earnings of each reporting period. SFAS No. 159 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 December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS No. 141R”). SFAS No. 141R establishes principles and requirements for how the acquirer recognizes and measures the assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree, and the goodwill acquired. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008, and the Companies will adopt this statement as of April 1, 2009. 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 December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51.” SFAS No. 160 establishes accounting and reporting standards for the ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the measurement at fair value of any retained noncontrolling equity investment when a subsidiary is deconsolidated. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008, and the Companies will adopt this statement as of April 1, 2009. 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 March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133." SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008 and the Companies will adopt this statement as of April 1, 2009. Adoption of this accounting standard is expected to have no effect on the Companies' consolidated financial statements.

2. Translation of Japanese Yen Amounts into U.S. Dollar Amounts

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for convenience of readers outside of Japan and have been made at the rate of ¥100 to $1, the approximate rate of exchange at March 31, 2008. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at the above or any other rate.

3. Marketable Securities and Investments

The cost, gross unrealized gains, gross unrealized losses and fair value for available-for-sale securities by major security type, at March 31, 2008 and 2007 were as follows:

	Millions of yen			
	2008			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:				
Governmental debt securities	¥ 17,335	¥ 88	¥ 0	¥ 17,423
Private debt securities	223,565	957	768	223,754
Total	¥240,900	¥1,045	¥768	¥241,177
Non-current:				
Equity securities	¥ 4,616	¥5,020	¥ 40	¥ 9,596
Investment trusts	600	4	–	604
Total	¥ 5,216	¥5,024	¥ 40	¥ 10,200

	Millions of yen			
	2007			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:				
Governmental debt securities	¥ 21,617	¥ 17	¥ 16	¥ 21,618
Private debt securities	299,015	341	553	298,803
Total	¥320,632	¥ 358	¥569	¥320,421
Non-current:				
Equity securities	¥ 4,634	¥9,439	–	¥ 14,073
Investment trusts	600	3	–	603
Total	¥ 5,234	¥9,442	–	¥ 14,676

	Thousands of U.S. dollars			
	2008			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:				
Governmental debt securities	$ 173,350	$ 880	$ 0	$ 174,230
Private debt securities	2,235,650	9,570	7,680	2,237,540
Total	$2,409,000	$10,450	$7,680	$2,411,770
Non-current:				
Equity securities	$ 46,160	$50,200	$ 400	$ 95,960
Investment trusts	6,000	40	–	6,040
Total	$ 52,160	$50,240	$ 400	$ 102,000

The fair value and gross unrealized losses for available-for-sale securities by major security type and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2008 and 2007 were as follows:

	Millions of yen			
	2008			
	Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Current:				
Governmental debt securities	¥ 14	¥ 0	–	–
Private debt securities	20,970	523	¥73,729	¥ 245
Total	¥20,984	¥ 523	¥73,729	¥ 245
Non-current:				
Equity securities	¥ 384	¥ 40	–	–
Total	¥ 384	¥ 40	–	–

	Millions of yen			
	2007			
	Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Current:				
Governmental debt securities	¥ 7,065	¥ 4	¥ 4,054	¥ 12
Private debt securities	58,724	87	146,424	466
Total	¥ 65,789	¥ 91	¥150,478	¥ 478

	Thousands of U.S. dollars			
	2008			
	Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Current:				
Governmental debt securities	$ 140	$ 0	–	–
Private debt securities	209,700	5,230	$737,290	$2,450
Total	$209,840	$5,230	$737,290	$2,450
Non-current:				
Equity securities	$ 3,840	$ 400	–	–
Total	$ 3,840	$ 400	–	–

The Companies did not recognize other-than-temporary impairment loss on debt securities which have a fair value below original cost as of March 31, 2008, as the Companies have the intention and ability to hold such securities until the maturity dates and as the issuers of the securities have favorable credit rating.

The aggregate carrying amounts of equity securities that do not have a readily determinable fair value at March 31, 2008 and 2007, which were valued at cost, were ¥1,293 million ($12,930 thousand) and ¥2,446 million, respectively. For the year ended 2008, equity securities of ¥1,182 million ($11,820 thousand) were not evaluated for impairment because (a) the Companies did not identify any events or changes in circumstances that might have a significant adverse effect on the fair value of the securities and (b) the Companies determined that it was not practicable to estimate the fair value of the securities.

Contractual maturities of debt securities as of March 31, 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	Cost	Fair Value	Cost	Fair Value
Within one year	¥ 79,632	¥ 79,562	$ 796,320	$ 795,620
After one year through five years	161,268	161,615	1,612,680	1,616,150
After five years	–	–	–	–
Total	¥240,900	¥241,177	$2,409,000	$2,411,770

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

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Proceeds from sales	**¥997**	¥ 2,401	¥ 119	**$9,970**
Gross realized gains	**8**	143	71	**80**
Gross realized losses	**14**	8	–	**140**

4. Inventories

Inventories at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Finished products	**¥ 54,330**	¥ 38,653	**$ 543,300**
Work-in-process	**37,748**	29,565	**377,480**
Materials and supplies	**22,569**	17,856	**225,690**
Total	**¥114,647**	¥ 86,074	**$1,146,470**

5. Short-Term Borrowings and Long-Term Debt

Short-Term Borrowings at March 31, 2008 and 2007 consisted of the following:

	Millions of yen	Weighted-Average Interest Rate	Millions of yen	Weighted-Average Interest Rate	Thousands of U.S. dollars
	2008		2007		**2008**
Bank loans	**¥ 17,999**	**4.2%**	¥ 13,114	2.0%	**$179,990**

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen	Weighted-Average Interest Rate	Millions of yen	Weighted-Average Interest Rate	Thousands of U.S. dollars
	2008		2007		**2008**
Long-term loan payable	**¥ 21**	**3.4%**	¥ 26	3.4%	**$ 210**
Total	**21**	**3.4**	26	3.4	**210**
Less: Portion due within one year	**2**	**3.8**	2	3.7	**20**
Total	**¥ 19**	**3.4%**	¥ 24	3.4%	**$ 190**

The aggregate future maturities of long-term debt outstanding at March 31, 2008 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥ 2	$ 20
2010	2	20
2011	2	20
2012	2	20
2013	1	10
2014 and thereafter	12	120
Total	¥ 21	$210

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

6. Termination and Retirement Benefits

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

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

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

On March 31, 2007, the Companies adopted the recognition of the funded status of defined benefit pension and other postretirement plans and the required disclosures with 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)." The Companies had recognized a minimum pension liability, if the accumulated benefit obligations exceed the fair value of plan assets in accordance with SFAS No. 87, "Employers' Accounting for Pensions". However, after adoption of SFAS No. 158, the overfunded or underfunded status of defined benefit pension and other postretirement plans are recognized as an asset or liability in the statement of financial position, with an adjustment to accumulated other comprehensive income (loss). The adoption of SFAS No. 158 had no impact on the results of operations.

The Companies will adopt the measurement date provisions of SFAS No. 158 as of April 1, 2008.

The incremental effect of applying the recognition provisions of SFAS No. 158 on the individual line items in the balance sheet as of March 31, 2007 was as follows:

	Millions of yen		
	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Deferred income taxes (current asset)	¥ 22,340	¥ 549	¥ 22,889
Long-term receivables, advances and other	25,575	8,970	34,545
Deferred income taxes (non-current asset)	6,571	(129)	6,442
Accrued expenses and other	(30,023)	(9)	(30,032)
Termination and retirement benefits	(46,578)	6,188	(40,390)
Deferred income taxes (non-current liability)	(12,909)	(6,543)	(19,452)
Minimum pension liability adjustments	560	(560)	–
Pension liability adjustments	–	(8,466)	(8,466)

The following table summarizes the financial status of the termination and retirement plans and the amounts recognized in the financial statements at March 31:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Change in benefit obligation:			
Benefit obligation at beginning of year	**¥ 96,795**	¥ 91,842	**$ 967,950**
Service cost	**5,606**	5,296	**56,060**
Interest cost	**1,862**	1,786	**18,620**
Amendments	**–**	(1,534)	**–**
Actuarial loss	**1,798**	3,015	**17,980**
Benefits paid	**(1,172)**	(1,115)	**(11,720)**
Settlement paid	**(2,370)**	(2,495)	**(23,700)**
Acquisition	**125**	–	**1,250**
Benefit obligation at end of year	**102,644**	96,795	**1,026,440**
Change in plan assets:			
Fair value of plan assets at beginning of year	**64,013**	59,945	**640,130**
Actual return on plan assets	**(8,015)**	2,040	**(80,150)**
Employer contribution	**4,260**	3,595	**42,600**
Benefits paid	**(1,172)**	(1,115)	**(11,720)**
Settlement paid	**(591)**	(452)	**(5,910)**
Fair value of plan assets at end of year	**58,495**	64,013	**584,950**
Funded status at end of year	**¥(44,149)**	¥(32,782)	**$ (441,490)**
Amounts recognized in the consolidated balance sheet consist of:			
Long-term receivables, advances and other	**¥ 2,145**	¥ 8,970	**$ 21,450**
Accrued expenses and other	**(1,474)**	(1,362)	**(14,740)**
Termination and retirement benefits	**(44,820)**	(40,390)	**(448,200)**
Net amount recognized	**¥(44,149)**	¥ (32,782)	**$ (441,490)**
Accumulated benefit obligation at end of year	**¥ 98,459**	¥ 92,587	**$ 984,590**

Accumulated benefit obligations for all of the Companies' termination and retirement plans were in excess of their plan assets at March 31, 2008 and 2007.

Amounts recognized in accumulated other comprehensive income (loss) at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Actuarial loss	**¥ 20,797**	¥ 9,649	**$ 207,970**
Prior service benefit	**(21,823)**	(23,811)	**(218,230)**
Pension liability adjustments, before tax	**¥ (1,026)**	¥ (14,162)	**$ (10,260)**

Net periodic benefit cost for the years ended March 31:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Service cost	**¥ 5,606**	¥ 5,296	¥ 5,260	**$ 56,060**
Interest cost	**1,862**	1,786	1,737	**18,620**
Expected return on plan assets	**(1,274)**	(1,193)	(972)	**(12,740)**
Amortization of prior service benefit	**(1,988)**	(1,938)	(1,888)	**(19,880)**
Recognized actuarial loss	**255**	853	2,104	**2,550**
Net periodic benefit cost	**¥ 4,461**	¥ 4,804	¥ 6,241	**$ 44,610**

Other amounts recognized in other comprehensive income for the years ended March 31:

	Millions of yen	Thousands of U.S. dollars
	2008	**2008**
Actuarial loss	**¥ 11,403**	**$114,030**
Amortization of prior service benefit	**1,988**	**19,880**
Recognized actuarial loss	**(255)**	**(2,550)**
Total recognized in other comprehensive income	**¥ 13,136**	**$131,360**

The estimated prior service cost and net loss for the termination and retirement benefit plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year are a gain of ¥1,988 million ($19,880 thousand) and a loss of ¥2,134 million ($21,340 thousand), respectively.

The unrecognized actuarial gains and losses in excess of 10% of the larger of the projected benefit obligation or plan assets are being amortized over five years.

The following assumptions were utilized to calculate the actuarial present value of the benefit obligation as of March 31:

	2008	2007
Discount rate	**2.0%**	2.0%

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

	2008	2007	2006
Discount rate	**2.0%**	2.0%	2.0%
Compensation increase rate	**–**	–	2.0~3.1%
Expected long-term rate of return on plan assets	**2.0%**	2.0%	2.0%

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

Compensation increase rate for the years ended March 31, 2008 and 2007 are not used in the calculation of benefit obligation and net periodic benefit cost under the point system.

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

The Companies' benefit plan weighted-average asset allocations at March 31, 2008 and 2007 by asset category were as follows:

	2008	2007
Equity securities	**39.1%**	47.1%
Debt securities	**33.6**	29.3
Life insurance company general accounts	**19.5**	16.4
Other	**7.8**	7.2
	100.0%	100.0%

Equity securities include common stock of the Company in the amounts of ¥31 million ($310 thousand) (0.05% of total plan assets) and ¥116 million (0.18% of total plan assets) at March 31, 2008 and 2007, respectively.

Plan assets are invested for the purpose of achieving a sufficient rate of return to maintain pension plan assets for future payment of benefits to plan participants. Considering the expected rate of return on invested assets, a related standard deviation, and a related correlation coefficient, the Companies believe the current asset allocation is adequate for purposes of meeting investment objectives. For achieving the expected rate of return on plan assets on a mid-term to long-term basis, the Companies select optimal investing institutions by invested asset category and entrust the investment of plan assets to them. The Companies revise the asset allocation when and to the extent considered necessary. The asset allocation of the Company's plan assets which account for most of plan assets at March 31, 2008 consists of 42% of equity securities, 50% of debt securities and life insurance company general accounts, and 8% of other.

The Companies expect to contribute ¥3,349 million ($33,490 thousand) to their defined benefit plans in the year ending March 31, 2009.

The future benefit payments are expected as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥ 3,340	$ 33,400
2010	3,653	36,530
2011	3,701	37,010
2012	3,762	37,620
2013	3,849	38,490
2014-2018	23,932	239,320

7. Stock-based Compensation

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

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

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

A summary of the Company's fixed stock option plan activity and related information for the year ended March 31, 2008 was as follows:

		Yen	Years	Millions of yen
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Fixed Options				
Outstanding at beginning of year	195,300	¥ 6,111		
Granted	–	–		
Exercised	(37,700)	6,119		
Forfeited	–	–		
Outstanding at end of year	157,600	6,110	2.14	–
Options exercisable at end of year	157,600	¥ 6,110	2.14	–

	U.S. dollars	Thousands of U.S. dollars
	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Fixed Options		
Outstanding at beginning of year	$61.11	
Granted	–	
Exercised	61.19	
Forfeited	–	
Outstanding at end of year	61.10	–
Options exercisable at end of year	$61.10	–

The Company has not granted any options for the years ended March 31, 2008 and 2007, respectively. The weighted-average grant-date fair value of options granted during the year ended March 31, 2006 was ¥1,586.

The total intrinsic value of options exercised during the years ended March 31, 2008, 2007 and 2006 was ¥86 million ($860 thousand), ¥173 million and ¥10 million, respectively.

As of March 31, 2008, there was no unrealized compensation expense.

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

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

8. Shareholders' Equity

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

(a) Dividends

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

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

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

The amount available for dividends under the Corporate Law was ¥245,245 million ($2,452,450 thousand) as of March 31, 2008, based on the amount recorded in the parent company's general books of account.

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

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

(c) Treasury stock and treasury stock acquisition rights

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

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

9. Income Taxes

The provision for income taxes for the years ended March 31, 2008, 2007 and 2006, consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Current	**¥ 39,522**	¥ 48,873	¥ 34,579	**$ 395,220**
Deferred	**4,895**	(2,179)	(1,347)	**48,950**
Provision for income taxes	**¥ 44,417**	¥ 46,694	¥ 33,232	**$ 444,170**

The effective income tax rates of the Company and subsidiaries differ from the normal Japanese statutory rates as follows for the years ended March 31:

	2008	2007	2006
Normal Japanese statutory rates	**40.4%**	40.4%	40.4%
Increase (decrease) in taxes resulting from:			
Tax credits	**(3.1)**	(2.6)	(3.9)
Permanently non-deductible items	**0.0**	0.7	0.1
Net change in valuation allowance for deferred tax assets	**(0.2)**	0.6	(0.1)
Other-net	**(0.6)**	0.5	(0.3)
Effective tax rates	**36.5%**	39.6%	36.2%

The approximate effects of temporary differences and tax loss carryforwards that gave rise to deferred tax balances at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Deferred tax assets:			
Intercompany profits	**¥ 4,353**	¥ 4,618	**$ 43,530**
Termination and retirement benefits	**16,844**	12,412	**168,440**
Enterprise taxes	**1,173**	2,142	**11,730**
Compensated absences	**1,867**	1,745	**18,670**
Inventory valuation	**2,305**	2,682	**23,050**
Tangible and intangible assets	**8,600**	7,638	**86,000**
Accrued bonuses	**6,088**	5,868	**60,880**
Other temporary differences	**9,211**	8,963	**92,110**
Tax loss carryforwards	**2,883**	2,149	**28,830**
Total	**53,324**	48,217	**533,240**
Valuation allowance	**(1,670)**	(1,967)	**(16,700)**
Total	**¥51,654**	¥46,250	**$516,540**
Deferred tax liabilities:			
Undistributed earnings of foreign subsidiaries	**¥25,438**	¥23,987	**$254,380**
Marketable securities and investments adjustments	**1,458**	3,124	**14,580**
Tangible and intangible assets	**3,920**	1,874	**39,200**
Other temporary differences	**7,872**	7,430	**78,720**
Total	**¥38,688**	¥36,415	**$386,880**

The total valuation allowance decreased ¥297 million ($2,970 thousand) for the year ended March 31, 2008 and increased ¥746 million for the year ended March 31, 2007.

Based upon the level of historical taxable income and projections for future taxable income over the periods which the net deductible temporary differences are expected to reverse, management believes it is more likely than not that the Companies will realize the benefits of these deferred tax assets, net of existing valuation allowances at March 31, 2008 and 2007.

Certain subsidiaries have tax loss carryforwards approximating ¥9,438 million ($94,380 thousand) available to reduce future taxable income at March 31, 2008, which will expire substantially in the period from 2009 to 2027.

The Companies adopted FIN No. 48 on April 1, 2007. In accordance with FIN No. 48, the Companies identified unrecognized tax benefits of ¥148 million ($1,480 thousand) as of April 1, 2007, and had no cumulative effect adjustment to the April 1, 2007, balance of retained earnings.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Millions of yen	Thousands of U.S. dollars
Balance at April 1, 2007	¥148	$1,480
Additions based on tax positions related to the current year	35	350
Additions for tax positions of prior years	57	570
Other	(34)	(340)
Balance at March 31, 2008	¥206	$2,060

Total amount of unrecognized tax benefits, if recognized, would reduce the effective tax rate.

The Japanese tax authority completed the audit of the consolidated income tax of the Company and the domestic subsidiaries which adopt the consolidated taxation system for the years before 2006. And the tax authorities completed the tax audit of the major foreign subsidiaries for the years before 2002. The Companies believe unrecognized tax benefits are reasonably estimated, but unrecognized tax benefits will change as a result of the tax examination. As of March 31, 2008, the Companies did not anticipate the material change of unrecognized tax benefits in the next 12 months.

The Companies classify interest and penalties related to unrecognized tax benefits in income taxes in the consolidated statement of income. The Companies had ¥156 million ($1,560 thousand) in accrued interest and penalties in the consolidated balance sheet as of March 31, 2008. The Companies recognized ¥41 million ($410 thousand) for the payment of interest and penalties in the consolidated statement of income for the year ended March 31, 2008.

10. Foreign Operations

Net sales and Shareholders' equity of foreign subsidiaries were as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Net sales	**¥388,696**	¥333,521	¥266,891	**$3,886,960**
Shareholders' equity	**166,284**	156,638	142,612	**1,662,840**

11. Amounts per Share

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

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Net income	**¥77,413**	¥71,309	¥58,448	**$774,130**

	Numbers of shares		
	2008	2007	2006
Average common shares outstanding	**221,754,208**	221,948,319	222,669,988
Dilutive effect of stock options	**29,227**	46,480	18,216
Diluted common shares outstanding	**221,783,435**	221,994,799	222,688,204

	Yen			U.S. dollars
	2008	2007	2006	**2008**
Earnings per share:				
Basic	**¥349.09**	¥321.29	¥262.49	**$3.49**
Diluted	**349.05**	321.22	262.47	**3.49**

12. Comprehensive Income

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

	Millions of yen		
	2008		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Unrealized gains (losses) on securities:			
Unrealized holding losses arising during period	¥ (4,075)	¥1,646	¥ (2,429)
Reclassification adjustment for losses included in net income	25	(10)	15
	(4,050)	1,636	(2,414)
Pension liability adjustments	(13,136)	5,315	(7,821)
Unrealized gains (losses) on derivative instruments:			
Unrealized holding gains arising during period	2,100	(848)	1,252
Reclassification adjustment for gains included in net income	(2,025)	818	(1,207)
	75	(30)	45
Foreign currency translation adjustments	(10,842)	1,941	(8,901)
Other comprehensive loss	¥(27,953)	¥8,862	¥(19,091)

	Millions of yen		
	2007		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Unrealized gains (losses) on securities:			
Unrealized holding losses arising during period	¥ (945)	¥ 382	¥ (563)
Reclassification adjustment for gains included in net income	(103)	42	(61)
	(1,048)	424	(624)
Minimum pension liability adjustments	(51)	20	(31)
Unrealized gains (losses) on derivative instruments:			
Unrealized holding losses arising during period	(1,438)	586	(852)
Reclassification adjustment for losses included in net income	1,437	(581)	856
	(1)	5	4
Foreign currency translation adjustments	5,377	(344)	5,033
Other comprehensive income	¥ 4,277	¥ 105	¥4,382

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

	Thousands of U.S. dollars		
	2008		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Unrealized gains (losses) on securities:			
Unrealized holding losses arising during period ...	$ (40,750)	$16,460	$ (24,290)
Reclassification adjustment for losses included in net income	250	(100)	150
	(40,500)	16,360	(24,140)
Pension liability adjustments....................	(131,360)	53,150	(78,210)
Unrealized gains (losses) on derivative instruments:			
Unrealized holding gains arising during period	21,000	(8,480)	12,520
Reclassification adjustment for gains included in net income................	(20,250)	8,180	(12,070)
	750	(300)	450
Foreign currency translation adjustments	(108,420)	19,410	(89,010)
Other comprehensive loss	$(279,530)	$88,620	$(190,910)

13. Commitments and Contingent Liabilities

Outstanding commitments at March 31, 2008 and 2007 for the purchase of property, plant and equipment approximated ¥13,331 million ($133,310 thousand) and ¥22,175 million, respectively.

At March 31, 2008 and 2007, the Companies were contingently liable for trade accounts receivable discounted and transferred to banks of ¥276 million ($2,760 thousand) and ¥193 million, respectively, which were accounted for as sales when discounted and transferred.

14. Financial Instruments and Concentration of Credit Risk

In the normal course of its business, the Companies invest in various financial assets and incur various financial liabilities. The Companies also enter into agreements for derivative financial instruments to manage their exposure to fluctuations in foreign currency exchange rates. The fair value estimates of financial instruments presented below are not necessarily indicative of the amounts the Companies might pay or receive from actual market transactions. The Companies had the following financial assets and liabilities at March 31, 2008 and 2007:

Financial Assets and Liabilities

(1) Cash, time deposits, notes and accounts receivable, short-term borrowings, notes and accounts payable and long-term debt

Fair value approximates carrying amounts indicated in the balance sheets at March 31, 2008 and 2007.

(2) Marketable securities and Investments

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

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

Fair value is primarily based on dealer quotes for the same or similar instruments. The fair values of applicable long-term receivables, advances and other assets at March 31, 2008 and 2007 were ¥37,493 million ($374,930 thousand) and ¥34,607 million compared with carrying amounts of ¥37,439 million ($374,390 thousand) and ¥34,545 million, respectively.

Forward exchange contracts

The Companies had ¥9,670 million ($96,700 thousand) and ¥17,750 million in notional amounts of forward exchange contracts outstanding as of March 31, 2008 and 2007, respectively, in order to hedge the foreign currency risk of various sales and supply transactions, accounts receivable and accounts payable, which transactions are expected to occur within the next three months.

The estimated fair values of the Companies' forward exchange contracts at March 31, 2008 and 2007, which equal the carrying amounts, were an asset of ¥188 million ($1,880 thousand) and a liability of ¥79 million, respectively.

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

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

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.

15. Acquisition

The Companies completed the acquisition of the Power Electronics Division of C&D Technologies, Inc. (hereinafter "C&D") on August 31, 2007. Murata Electronics North America, Inc., a wholly-owned subsidiary of the Company, acquired the stocks or the equities of the subsidiaries of C&D, which constitute the Power Electronics Division. Murata Power Solutions, Inc. of the United States and 17 other companies were newly consolidated by the acquisition. The total acquisition price was ¥10,318 million (¥9,623 million net of cash acquired).

Murata Power Solutions, Inc. and 17 other subsidiaries develop, manufacture, and sell module products including DC/DC converters and AC/DC power supplies. We believe the acquisition will contribute to filling out our product line-up of standard power supply products and achieving an expansion for our power supply business by entering new markets overseas.

Business results of Murata Power Solutions, Inc. and 17 other subsidiaries have been included in the Companies' consolidated financial statements from the acquisition date.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date.

	Millions of yen	Thousands of U.S. dollars
Cash	¥ 695	$ 6,950
Other current assets	8,824	88,240
Property, plant and equipment	1,800	18,000
Intangible assets	1,290	12,900
Goodwill	1,925	19,250
Other non-current assets	227	2,270
Total assets acquired	14,761	147,610
Current liabilities	(3,915)	(39,150)
Long-term liabilities	(528)	(5,280)
Total liabilities assumed	(4,443)	(44,430)
Net assets acquired	¥10,318	$103,180

Most of the acquired intangible assets were unpatented technology, and are subject to amortization, which have useful lives of five years. The goodwill is not deductible for tax purposes.

16. Goodwill and other intangible assets

Intangible assets other than goodwill acquired during the year ended March 31, 2008 totaled ¥9,063 million ($90,630 thousand) and primarily consist of software ¥6,581 million ($65,810 thousand). The weighted average useful life for software is 4.93 years.

Intangible assets other than goodwill, at March 31, 2008 and 2007 are as follows.

	Millions of yen		
	2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets			
Software	¥14,028	¥3,706	¥10,322
Patents	2,213	1,053	1,160
Other	5,470	2,180	3,290
Total	¥21,711	¥6,939	¥14,772
Unamortized intangible assets			¥ 272

	Millions of yen		
	2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets			
Software	¥ 8,466	¥3,097	¥ 5,369
Patents	2,081	791	1,290
Other	4,354	997	3,357
Total	¥14,901	¥4,885	¥10,016
Unamortized intangible assets			¥ 193

	Thousands of U.S. dollars		
	2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets			
Software	$140,280	$37,060	$103,220
Patents	22,130	10,530	11,600
Other	54,700	21,800	32,900
Total	$217,110	$69,390	$147,720
Unamortized intangible assets			$ 2,720

Total amortization expenses of intangible assets during the years ended March 31, 2008 and 2007 amounted to ¥2,621 million ($26,210 thousand) and ¥2,105 million, respectively. The estimated amortization expenses for intangible assets for the next five years are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥2,494	$24,940
2010	2,156	21,560
2011	1,402	14,020
2012	733	7,330
2013	243	2,430

The changes in the carrying amount of goodwill for the years ended March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Balance at beginning of year	**¥ 9,777**	¥1,796	**$ 97,770**
Acquisition	**1,925**	7,981	**19,250**
Balance at end of year	**¥11,702**	¥9,777	**$117,020**

17. Subsequent Events

The Board of Directors of the Company intends to propose for approval to pay a cash dividend of ¥50 ($0.50) per share to shareholders of record as of March 31, 2008, or a total of ¥10,971 million ($109,710 thousand) at the shareholders' meeting in June 2008.

Independent Auditors' Report

Deloitte.

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

We have audited the accompanying consolidated balance sheets of Murata Manufacturing Co., Ltd. and subsidiaries (the "Company") as of March 31, 2008 and 2007, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2008, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, except for the omission of certain segment information as discussed in the preceding paragraph, such consolidated financial statements present fairly, in all material respects, the financial position of Murata Manufacturing Co., Ltd. and subsidiaries as of March 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers outside of Japan.

Deloitte Touche Tohmatsu

June 4, 2008

Member of
Deloitte Touche Tohmatsu

Company Information

Trade Name
Murata Manufacturing Co., Ltd.

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

Common Stock
¥69,377 million (as of March 31, 2008)

President and Statutory Representative Director
Tsuneo Murata (as of July 1, 2008)

Sales Amount (for the year ended March 31, 2008)
Consolidated Basis: ¥631,655 million
Parent Co. Basis: ¥530,866 million

Number of Employees (as of March 31, 2008)
Consolidated Basis: 34,067
Parent Co. Basis: 6,429

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

Products
Monolithic Ceramic Capacitors
Ceramic Filters
Ceramic Resonators
Surface Acoustic Wave Filters
Multilayer Ceramic Devices
Short-range wireless communication modules (including Bluetooth® modules)
Dielectric Filters
Isolators
Circuit Modules
Power Supplies
EMI Suppression Filters
Coils
Sensors
Thermistors
Trimmer Potentiometers
Resistor Networks
High Voltage Resistors and others

URL
http://www.murata.com/

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Phone: 81-75-951-9111
Branch: Tokyo Branch: Shibuya-ku, Tokyo
Plants: Yokaichi Plant: Higashiomi-shi, Shiga
Yasu Plant: Yasu-shi, Shiga
Yokohama Technical Center: Midori-ku, Yokohama-shi, Kanagawa
Nagaoka Plant: Nagaokakyo-shi, Kyoto

Subsidiaries and Affiliates (as of March 31, 2008)

Number of Subsidiaries
Consolidated: 74 (24 in Japan and 50 overseas)

Main Subsidiaries
Fukui Murata Manufacturing Co., Ltd.
Izumo Murata Manufacturing Co., Ltd.
Toyama Murata Manufacturing Co., Ltd.
Komatsu Murata Manufacturing Co., Ltd.
Kanazawa Murata Manufacturing Co., Ltd.
Okayama Murata Manufacturing Co., Ltd.
Murata Land and Building Co., Ltd.
Murata Electronics North America, Inc.
Murata Electronics Singapore (Pte.) Ltd.
Murata Company Limited

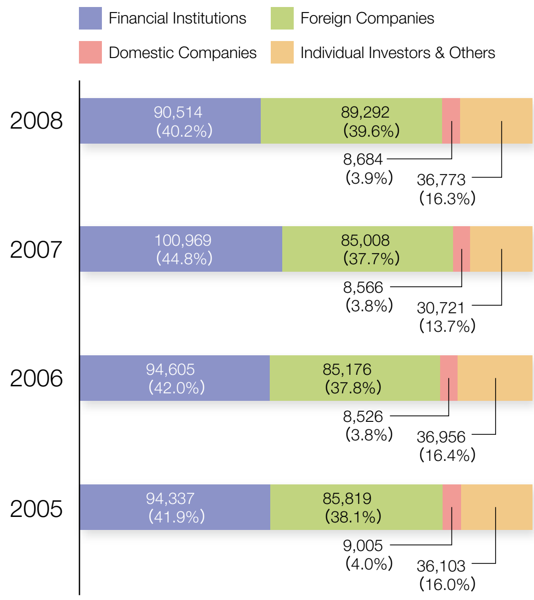
Stock Information

Major Shareholders (As of March 31, 2008)

Name	Number of Shares	Percentage of Shares Held
	Thousands of Shares	%
Japan Trustee Services Bank, Ltd. (trust account)	9,816	4.4
Nippon Life Insurance Company	9,685	4.3
The Master Trust Bank of Japan, Ltd. (trust account)	8,489	3.8
State Street Bank and Trust Company	8,429	3.7
JP Morgan Chase Bank 380055	8,260	3.7
Meiji Yasuda Life Insurance Company	5,610	2.5
The Bank of Kyoto, Ltd.	5,260	2.3
State Street Bank and Trust Company 505103	4,832	2.1
The Shiga Bank, Ltd.	3,551	1.6
Melon Bank NA as agent for its client Melon Omnibus US Pension	3,127	1.4
Total	67,062	29.8

Note: The Company holds 5,842,969 shares of its own stock.
As these shares do not confer voting rights, the shares have been excluded from the above table.

Number of Shares Outstanding (Thousands of Shares)
(As of March 31, 2005–2008)



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