

MARUWA



Focus on New Growth

Annual Report 2004 Year ended March 31 2004

MARUWA CO., LTD.

Profile

Since 1973, MARUWA CO., LTD. has specialized in ceramic material technology. Based on this technological expertise and “quality first” policy, MARUWA has been meeting customers’ requirements for three decades by supplying electronic components and ceramics for electronic parts, as well as other innovative products.

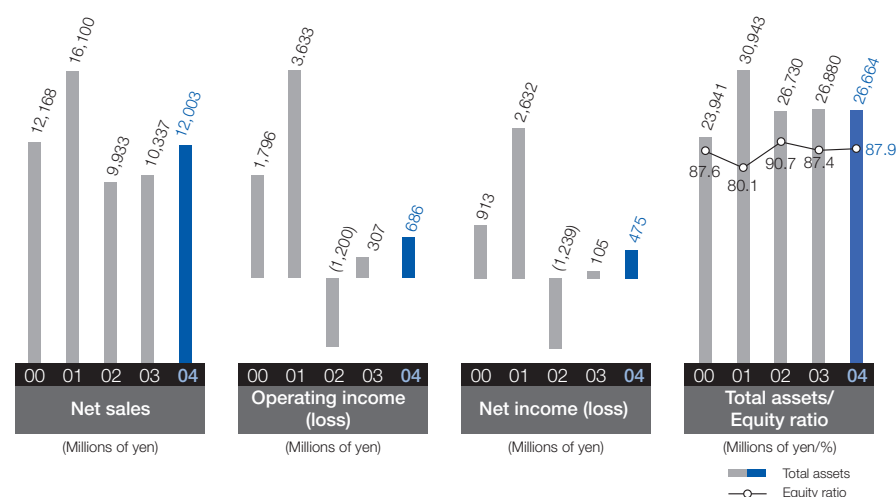
Today, MARUWA is expediting the transformation of its core business, increasing competitiveness by prioritizing its key business, and concentrating its management resources on these fields. As part of the business strategy, MARUWA is committed to developing quality-valued products in the rapidly expanding information technology field, while promoting development, production and sales localization through its global operations in Asia, Europe and North America. The establishment of these international operations creates part of the driving force that will enable MARUWA to attain high profitability and growth, in turn, increasing the corporate value.

Financial Highlights

MARUWA CO., LTD. and consolidated subsidiaries
For years ended 31st March 2003 and 2004

	Millions of yen		Thousands of U.S. dollars
	For year ended 31st March		For year ended 31st March
	2003	2004	2004
For the year			
Net sales.....	¥10,337	¥12,003	\$113,568
Operating income.....	307	686	6,491
Income before income taxes.....	233	711	6,727
Net income.....	105	475	4,494
At year-end			
Total shareholders’ equity.....	23,488	23,429	221,677
Total assets.....	26,880	26,664	252,285
Per share amounts			
Net income.....	¥8.99	¥42.67	\$0.40
Cash dividends.....	14.00	14.00	0.13

Note: U.S. dollar amounts have been converted for convenience only at the rate of ¥105.69=US\$1, the rate of exchange on 31st March 2004.



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Cautionary remarks regarding forward-looking statements

This Annual Report includes forward-looking statements that represent MARUWA’s assumptions and expectation in light of currently available information. These statements reflect industry trends, clients’ situations and other factors, and involve risks and uncertainties which may cause actual performance results to differ from those discussed in the forward-looking statements in accordance with changes in the domestic and overseas business environment.



First of all, I thank our shareholders and investors for their understanding and support. As I present this MARUWA Annual Report 2004, I would like to say a few words.

During the fiscal year ended 31st March 2004, the electronic components industry showed recovery on a global basis and more prominently so in the Asian markets. Meanwhile, in line with the accelerated trend to multi-functions, downsizing and more complexity of electronic devices, faster and more flexible response to satisfy the market demand for components is required.

Facing such management conditions, MARUWA Group has further clarified its business strategy aiming at earning profits in its core product lines — Circuit Ceramics and Machinery Ceramics — through an expansion of its already high global market share and continued investment in its growth business areas such as Radio Frequency Products and EMC (Electromagnetic Compatibility) Components, as well as in research & development of new products.

As a result of these initiatives, MARUWA succeeded in achieving profitability on a consolidated basis for the second consecutive year. Consolidated business results for the fiscal year ended 31st March 2004 were: net sales of ¥12,003 million, an increase of 16.1% from the previous fiscal year, operating income of ¥686 million, an increase of 123.5% from the previous fiscal year and net income of ¥475 million, an increase of 352.4% from the previous fiscal year. I feel that the fiscal year under review has been a cornerstone year towards new growth.

The Group will strive to enhance its corporate value by promoting management efficiency and developing into a unique, highly profitable company.

We appreciate your continued support.

June, 2004

A handwritten signature in black ink that reads "Sei Kanbe". The signature is written in a cursive, flowing style.

Sei Kanbe
President



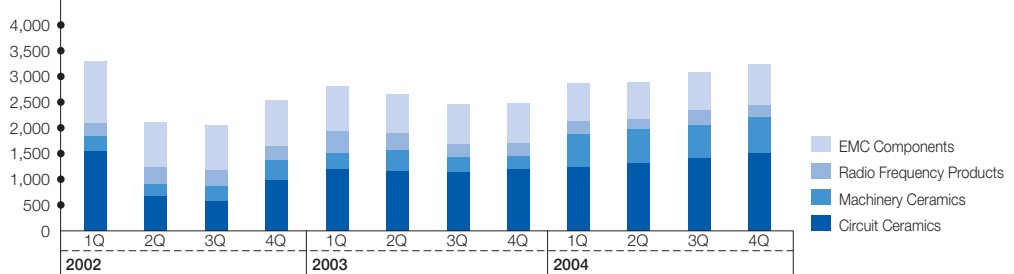
Business results for the fiscal year ended 31st March 2004

How do you assess the business results for the fiscal year ended 31st March 2004 in which you achieved increase in revenue and profit?



MARUWA posted losses in fiscal 2002 for the first time since the Company went public, and we were sorry to have disappointed our shareholders. In fiscal 2003, we concentrated our efforts in reducing production lead-time as part of our structural reform to withstand cost fluctuations and MARUWA managed to return to the black. In fiscal 2004, we succeeded in achieving profit for the second consecutive term, which makes me believe MARUWA can proceed with the next phase of growth. There are two major reasons for the increase in revenue and profit. First, overall demand in the market returned as customers in general completed their inventory adjustments. Second, the Company’s divisions (referred to as “mini-mini companies”) that had been in the red last year due to new products development returned to the black. I expect that recovery in such divisions will have a strong impact on our business in the coming fiscal year and thereafter.

Sales by product division
(Quarterly, millions of yen)



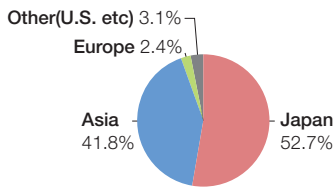
Market environment

What are your views on medium and short-term trends in the electronic components market?



The electronic components market has considerably developed for the past several decades. It is a highly volatile market where technology advances quite rapidly but always at the risk of becoming obsolete soon. On a medium term, I expect to see increasing demand for modulation and systematization of electronic components to support downsizing and multi-functioning of final products. MARUWA, as technology specialist, has

succeeded in accumulating various technologies specific to ceramic material, electronic devices and layering, and establishing the expertise in combining these technological elements. I believe that on a medium term, holding such technological expertise would enable us to secure a highly competitive position in the market. Meanwhile, I have a bullish outlook also on a shorter term in expectation for growth in demand in Asia, centering in China. Unless the Company is hit by a major unforeseen economic or political commotion, I believe MARUWA will be able to record a two-digit growth in both sales and profit in the coming fiscal year.



Sales by geographical market



Organizational strategy

What was the purpose of adopting the “mini-mini company system” aiming to realize management flexible and resilient like “bamboo”, and what effects does the system have?



Facing today’s extremely volatile environment, I feel the need to manage with the characteristics of “bamboo” that are flexibility and resilience so as to survive in any type of market conditions. The “mini-mini company system” adopted last fiscal year is indeed the system that allows execution of flexible, resilient management. Under this system, we divided the organization into 18 mini-mini companies, each of which operates under an open atmosphere with participation of all employees led by a manager. The system has enabled us to expedite our decision-making process as well as clarify roles and accountability in a transparent, open corporate atmosphere, thus responding accurately and efficiently to “low-volume, short-lead time demands.”

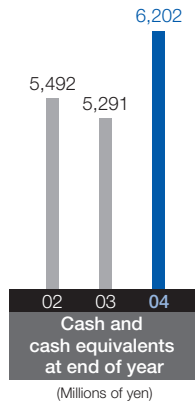


Cash flow management

What was your intent in shifting from the traditional management style of focusing on consolidated operating income to one that values consolidated cash flows?



In line with the adoption of the “mini-mini company system”, we identify cash flows to be the key management indices. Specifically, we analyze the monthly income and expense figures of each mini-mini company and determine ways as part of our daily operations to secure maximum amount of cash on minimal asset size. In addition, we make company-wide efforts in maintaining a good balance between investment cash flows and financial cash flows, while keeping capital investments at a certain level within the amount of operating cash flows so as to retain and expand free cash flows. As at the end of this fiscal term, outstanding cash balance amounted to ¥6,202 million, which in one perspective reflects the high level of retained earnings relative to the size of our business. As I consider our immediate objective as being able to readily respond to market needs, it is important to maintain a highly maneuverable operating condition and make effective use of M&A strategies to well satisfy our shareholders.



M&A strategy

What was the objective of M&A to acquire MARUWA QUARTZ Co., Ltd. as a subsidiary?



MARUWA's business strategy lies in attaining stable profits in its core business segments - Circuit Ceramics and Machinery Ceramics - through maintaining high market shares and utilizing the earned profits to proactively invest in growth areas, such as Radio Frequency Products and EMC Components as well as in the development of new businesses. We pursued M&A to acquire MARUWA QUARTZ Co., Ltd. (former Kimmon Quartz Co., Ltd.) as a subsidiary in April 2004, aiming to expand the quartz glass business, an area within our core Machinery Ceramics business, as one stable source of income. In March 2003, we purchased outstanding shares of former Tokyo Fine Glass Co., Ltd. and established MARUWA TFG Co., Ltd. as a consolidated subsidiary, an approach by which we succeeded in promptly reviving the quartz glass business. Since the latter half of fiscal 2004, the business has been a stable source of revenue, contributing to the Company's overall profit. As MARUWA QUARTZ and MARUWA TFG belong to the same business segment, I believe MARUWA QUARTZ in synergy with MARUWA TFG's high production technology can contribute in promoting MARUWA to further expand market share and develop the quartz glass business to serve as a stronger source of income.



Product development strategy

What is the status quo on new product development?



In accordance with our consistent policy of pursuing development based on our ceramic material technology that responds to diversified, advanced customer needs, MARUWA focuses on the development of components used for IT and mobile communication devices, as well as on enhancement of material technology. Total R&D cost for fiscal 2004 was ¥468 million. New materials and products are being developed at the Toki Plant, the development section within the Yamanota Plant as well as our consolidated subsidiary MARUWA KCK, while improvements to existing products and applications on secondary products are made in each of the production divisions.

Key R&D:

- Development and production of strong ceramic substrates having 1.5 times the strength of traditional aluminum substrates;
- Development and production of ceramic multi-layer substrate products, such as module substrate for automobiles;
- Development and mass production of original products using Aluminum Nitride and dielectric materials (in the optical communication and high frequency products areas)



Shareholder dividends

What is your dividend policy and what efforts are being made to enhance shareholder value?



Based on comprehensive evaluation of our financial status and business performance, as well as intending to proactively invest mainly in technological innovation and development facility aimed at responding to market needs, we decided to disburse a dividend of 14 yen per share for the full year. During fiscal 2004, we purchased 68,600 shares of own Company stocks for a total purchase price of ¥101 million, not only as a measure for mitigating stock price fluctuations, but also for use of shares in offering stock options. We will make every effort to further enhance our investor relations activities so that shareholders may more clearly assess management status of MARUWA.



Outlook for the future

Please share with us your vision for the future.



MARUWA Group does not aim to become a simple conglomerate, but a unique and highly profitable organization. The foundation for building such a company is near completion as we stand at the start of a new growth phase. What is most important for MARUWA going forward is the development of MARUWA Culture, while pursuing M&A activities and welcoming new organizations to the Group. MARUWA Culture must demonstrate three key values: “have pride in MARUWA and continue producing world’s number one products through creatively applying effective technology”, “never give up” and “enhance transparency, promote teamwork and encourage full staff participation in operating the organization”. I feel that continuous sharing of these values by the entire personnel would lead to developing a flexible and resilient corporate culture that can withstand any environmental change. I also believe that in order for MARUWA to continue growing and enhancing its values, the Company, as one corporate citizen, must reside in harmony with a wider range of stakeholders, including the society and environment.

Final comments (regarding societal activities and environmental preservation)

In order to outperform peers in this highly competitive sector, MARUWA operates on a profit-first policy. This does not mean that the Company is solely interested in moneymaking. A corporation cannot exist without the support of many people. We have actively been involved in environmental and societal activities. For example, we built the Maruwa Forest known as the Home of Fireflies in Seto City, Aichi Prefecture, and continue to support the Forest. Concurrently, we offer artistic support through “Fundación Maruwa Fomento de Baile Español” (the Maruwa Foundation for Promotion of Spanish Dancing). I am very proud to see that MARUWA’s prosperity can play a role in supporting societal and artistic activities. We will continue to nurture this disposition as part of MARUWA Culture.



Review of Operations



MARUWA's operations include manufacturing and marketing of ceramics for electronics. Our policy is to supply the market with high value-added electronic components by integrating our material technology with the technological expertise we have accumulated over the years.

Review of Operations



Technology:

Sheet casting technology

Product line:

- Ceramic substrates for chip resistors
- Ceramic rods for fixed resistors
- Glazed substrates for thermal printer heads (TPH)
- Large substrates for hybrid ICs
- Aluminum Nitride

Applications:

- Ceramics for resistors

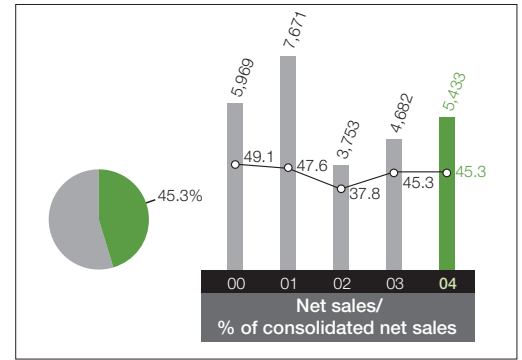
Electronic devices, PCs, digital cameras, game console, mobile phones, components for automobiles.

- Aluminum Nitride

Hybrid/electric vehicles, DVDs, semiconductor equipment.



Circuit Ceramics



In addition to ceramic substrates for resistors essential to various electric devices, the Circuit Ceramics division includes glazed substrates for thermal printer heads (TPH) used in facsimile machines and bar code printers, large-size substrates for hybrid IC and Aluminum Nitride for power modules and automobile parts.

Operating results for the fiscal 2004

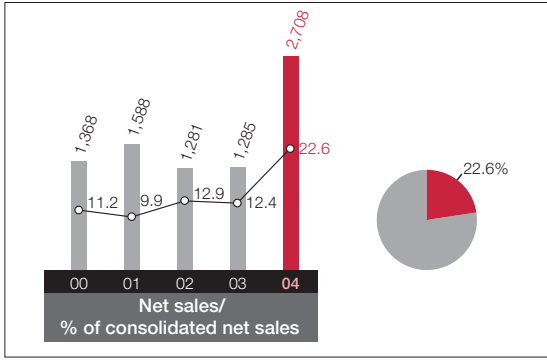
Net sales for the fiscal year ended 31st March 2004 in the Circuit Ceramics division were ¥5,433 million, an increase of ¥751 million (16.0%) from the previous fiscal year. Sales moved favorably in the first and second quarters of the fiscal year mainly for substrates for 1005-sized general-purpose resistors, in line with the favorable sales of Sony's game console *Playstation 2* and the active demand in Taiwan prompted by the switch to highly functional mobile phones.

Moving into the third quarter, as demand for digital equipment (such as DVD) and other new products (such as flat panel TV) continued to increase, we have been enjoying solid demand in this area. In addition, high value-added ceramic substrates for resistors in notebook PCs have been selling well.

Looking ahead and key strategy

There are two immediate objectives in this division. First, in order to further enhance heat dissipation of ceramic substrates used at heat sink widely in industrial sectors, the division must develop and produce materials thinner but stronger with higher thermal conductivity. Already, MARUWA has developed a type of ceramic substrate having at least 1.5 times the strength of a traditional Alumina substrate and began distributing samples to customers. R&D costs totaling ¥21 million were posted for the fiscal 2004 in this division.

Second, we must get further involved in the development and production of multi-layer ceramic substrates often used in various industrial sectors. During fiscal 2004, we made efforts not only to develop technology that heightens the density level and facilitates multi-functioning of products, but also to expand the lineup of products across multiple business divisions as well as establishing mass-production technology. As some of the products are already undergoing steady mass-production, we intend to attract new customers. The total R&D cost for this division was ¥146 million.



Review of Operations



Machinery Ceramics

The Machinery Ceramics division manufactures products that require fine manufacturing technology, such as quartz glass components mainly for semiconductor production devices, ceramics for supporting magnetic heads in disk drives for computers, and ceramic valves for water faucets.

Operating results for the fiscal 2004

Throughout the fiscal year, quartz glass products showed solid sales in response to the active demand for semiconductor production devices. Currently, the division's manufacturing plants are in full operations. Although demand for ceramics for magnetic heads was stagnant in the first half of the fiscal year due to inventory adjustment over long periods by major customers, demand resumed in the third quarter. As supply manufacturers effectuated reorganizations, we succeeded in considerably expanding our market share and the favorable level of demand continues. As a result, net sales for the division totaled ¥2,708 million, an increase of ¥1,423 million (110.7%) compared to the previous fiscal year.

Looking ahead and key strategy

The key objective for this division in the quartz glass segment is integrating the manufacturing technologies of MARUWA QUARTZ Co., Ltd. and MARUWA TFG Co., Ltd. subsidiaries acquired through M&A, with MARUWA's precision processing techniques to promote a synergistic effect that can well support MARUWA in securing a competitive position in technological and marketing aspects.

Technologically, manufacturing glass components in large, complicated forms for semiconductor production devices requires high precision manufacturing techniques. MARUWA Group will endeavor to concentrate its manufacturing expertise fostered through years of experience in enhancing overall productivity. On the marketing side, since the two subsidiaries serve users that hold similar demand with those of MARUWA's existing products, we expect that the mutual use of existing sales channels would lead to expansion in marketing channels. Moreover, MARUWA will enhance global marketing of the Group's every product, utilizing the Group's extensive international network.



Technology:

Precision processing technology

Product line:

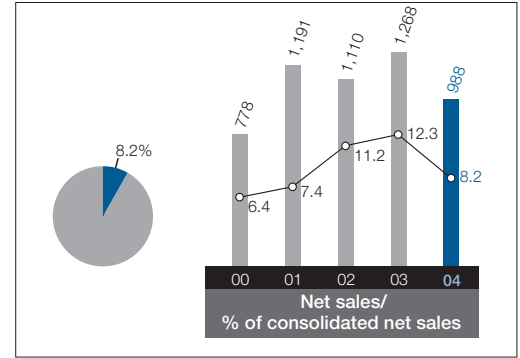
- Slider ceramics
- Ferrite
- Ceramic valves for water faucets
- Quartz glass products

Applications:

- **Slider ceramics/ferrite**
Floppy disk drives & hard disk drives for PCs.
- **Ceramic valves for water faucets**
Dual (cold and hot) faucets, single faucets.



Review of Operations



Radio Frequency Products

The Radio Frequency Products division manufactures dielectric ceramics for filters used primarily in the mobile communication sector, device products such as voltage controlled oscillator (VCO) for wireless communication devices, mobile phones and base stations, as well as thin-film substrates for use in optical information and communication.

Operating results for the fiscal 2004

As final products pertaining to this division are functionally upgraded in quick cycles, supporting components accordingly have extremely short life cycles. During the second and third quarters of the fiscal year, device products were in a slump due to a transition period in the market for VCO for mobile phones. Since the fourth quarter, however, the market has shown recovery supported by demand for VCO for business wireless communication equipment and base stations. Meanwhile, MARUWA has been expanding marketing of LTCC multi-layer substrates. Demand for products for mobile phones also recovered in the fourth quarter and has been moving on an upward trend since. Likewise, demand for thin-film substrates has been on the increase, supported by the popularity for DVD. As a result, net sales for the division were ¥988 million, a decrease of ¥280 million (down 22.1%) from the previous fiscal year.

Looking ahead and key strategy

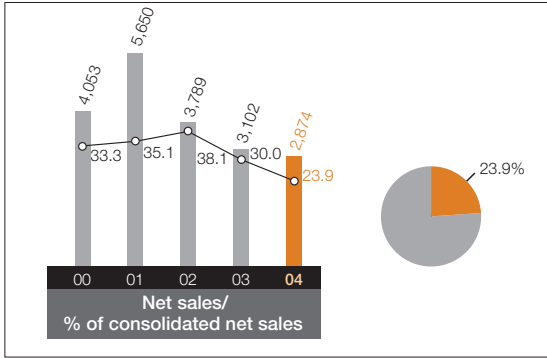
In the dielectric ceramics segment, MARUWA will continue to proactively pursue development of microwave dielectric materials having high-inductive capacity and low dielectric loss, as well as cultivate markets for new products that fully apply material characteristics. In the device products segment, we are promoting development of key VCO products in pursuit of still more downsizing, higher performance and multi-functioning. In addition, we are focusing on the development of new filters and related radio frequency components. Our emphasis in the optical communication and high frequency related segments is the development and production of functional ceramic materials and components. We are also pursuing development of original products that apply the characteristics of highly conductive Aluminum Nitride substrate materials and other dielectric material produced in-house. Some of these products for which we see high future growth potential are already undergoing mass-production. The total R&D cost for the division was ¥40 million.

Technology:
Electronic device technology

- Product line:**
- Devices (VCO/TCXO)
 - Dielectric ceramics
 - Thin film products
 - Multi-layer ceramic substrates

Applications:

- **Devices**
Mobile phones, wireless LAN, other wireless communications equipment.
- **Dielectric ceramics**
Base stations & terminals for mobile phones, GPS, Bluetooth technology.
- **Thin film products**
Mobile communication devices, CD/DVD-RW, Optical network.
- **Multi-layer ceramic substrates**
Mobile communication devices, automobiles.



Review of Operations



EMC Components

EMC Components include EMI filters that intercept electromagnetic waves, chip varistors that control noise, surge and other voltage abnormalities, multi-layer ceramic capacitors that have high voltage resistance and high capacitance used mainly in digital cameras and PCs.

Operating results for the fiscal 2004

MARUWA continues to readily supply multi-layer ceramic capacitors for camera strobes in the robust digital camera market and those for power source-related components in the PC market. Up till the second quarter of the fiscal year, the division's performance slumped as it faced difficulty in responding to the shifting demand in the market for further multi-functioning and downsizing of the ceramic capacitors, as well as tremendous cost competition, especially in the Taiwanese market. Sales of capacitors, however, bounced back after bottoming out in August and have been moving on an upward curve since. Meanwhile, domestic sales of power source related products continue to be favorable as the Company has received orders after some competitors' withdrawal from the market. Net sales for the division were ¥2,874 million, a decrease of ¥228 million (down 7.4%) from the previous fiscal year.

Looking ahead and key strategy

In all business sectors including information communication, automobiles and home electric appliances, there has been growing demand for further downsizing, higher speed and multi-functioning as well as digitization. Concurrently, the advance in realizing higher speed and greater capacity for interactive information communication has highlighted even more the importance of EMC measures (electromagnetic compatibility measures against electromagnetic impacts) in electronic devices. In pursuing EMC business, MARUWA will strive to meet such market needs through the development of materials and products that offer better noise/surge absorption, miniaturized surface mounting, high frequency wave compliance, attractive pricing and environmental consideration, thereby expanding its product lineups for EMI filters and chip varistors, as well as enhancing EMC technology. Total R&D cost for the division was ¥181 million.

Technology:

Multi-layer technology

Product line:

- Multi-layer ceramic capacitors
- EMI filters
- Multi-layer ceramic varistors

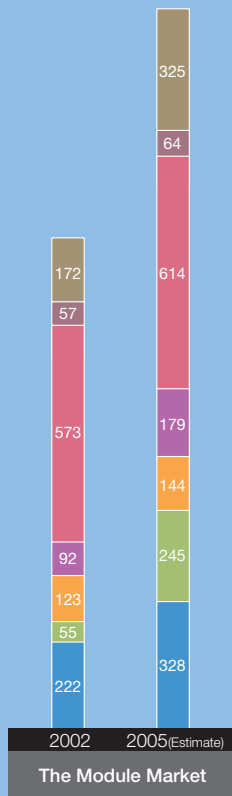
Applications:

- Ceramic capacitors, EMI filters, Chip varistors

Digital cameras, PCs, mobile phones, automobiles.



MARUWA's Ceramic Multi-layer Substrate Technology



Source: "2003 overall research on highly functional, high added-value modules" Speculations made by Fuji Chimera Research Institute Inc., based on total net sales of domestic companies selected as research samples

Types of automotive modules

ETC module, intelligent power module, ECU for airbag, ECU for ABS, car navigation system module, gyro sensor for automobiles.

Types of mobile phone modules

Front-end module, PA module, antenna switch module (ASM), CCD/CMOS camera module, VCO.

Research & development of highly functional modules for growing markets

In line with the growing trend to multi-functionality, downsizing and increasingly complex applications in the electronic component market in which MARUWA plays an important role, there is an increasing demand for the development of highly functional modules to achieve the required downsizing (including height reduction) and high-density mounting; such modules cannot be developed or produced by assembly-only manufacturers.

Facing such market needs, MARUWA is involved in the research and development of highly functional modules specific to mobile devices (including cellphones), automotive electric components as well as applications for other growing markets by proactively combining the Company's expertise accumulated over the years in various technologies involving ceramic material, electronic devices and layering.

Development and production of ceramic multi-layer substrates

MARUWA is developing high-temperature co-fired ceramics (HTCC) multi-layer substrates for automotive parts, the largest segment within the module market. HTCC multi-layer substrates have been created by combining highly reliable multi-layering technology developed for ceramic packaging with thick-film resistors formed on aluminum ceramic of the same base material used in ceramic packages. As the substrate is co-fired at a high temperature of approximately 1,600 degrees centigrade, molybden (Mo) and tungsten (W), which have high melting points, are used for internal wiring.

MARUWA's HTCC multi-layer substrates with high durability, thermal conductivity and reliability, are highly valued for their incomparable performance even under extreme environmental conditions (e.g. temperature, humidity, vibration, dust, electric noise, etc.)

On the other hand, low-temperature co-fired ceramic (LTCC) multi-layer substrates developed and produced prior to HTCC multi-layer substrates are co-fired at lower temperatures not exceeding 900 degrees centigrade and offer excellent electrical features, as internal electrodes use silver (Ag) and copper (Cu), both highly conductive materials. Also, simultaneously, three-dimensionally integrating multiple functions of high-capacitance capacitors, high Q-level inductors and resonators into the substrates, miniaturization of circuits and substrates has become possible. The main application is in the communications industry, for mobile phones and radio frequency modules.

MARUWA will proactively continue its R&D for highly functional modules specially suited for applications with growing markets by leveraging its vast reserves of technological expertise.