

# MARUWA



Building a solid platform for sustainable growth

Annual Report 2005

For the Year Ended March 31, 2005

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 almost 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.

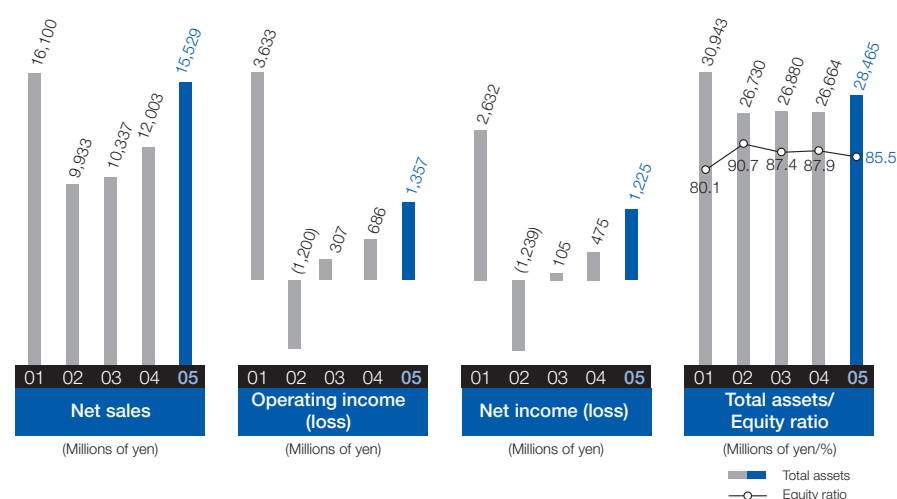
## Financial Highlights

MARUWA CO., LTD. and consolidated subsidiaries

For the years ended 31st March 2004 and 2005

	Millions of yen		Thousands of U.S. dollars
	For the years ended 31st March		For the years ended 31st March
	2004	2005	2005
<b>For the year</b>			
Net sales .....	¥12,003	<b>¥15,529</b>	<b>\$144,604</b>
Operating income.....	686	<b>1,357</b>	<b>12,636</b>
Income before income taxes.....	711	<b>1,180</b>	<b>10,988</b>
Net income.....	475	<b>1,225</b>	<b>11,407</b>
<b>At year-end</b>			
Total shareholders’ equity.....	23,429	<b>24,328</b>	<b>226,539</b>
Total assets.....	26,664	<b>28,465</b>	<b>265,062</b>
<b>Per share amounts</b>			
Net income.....	¥42.67	<b>¥112.40</b>	<b>\$1.05</b>
Cash dividends .....	14.00	<b>15.00</b>	<b>0.14</b>

Note: U.S. dollar amounts have been converted for convenience only at the rate of ¥107.39=US\$1, the rate of exchange on 31st March 2005.



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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.

In the fiscal year ended March 2005, as a result of our substantial management efforts, MARUWA posted increases in both consolidated revenue and profit, which were more than originally projected, marking the third consecutive year of such a trend. We could achieve consolidation of our management base toward sustainable growth.

The Group will continuously strive to enhance its corporate value without loosening the reins of management reforms.

We appreciate your continued support.

June, 2005

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

Sei Kanbe  
President

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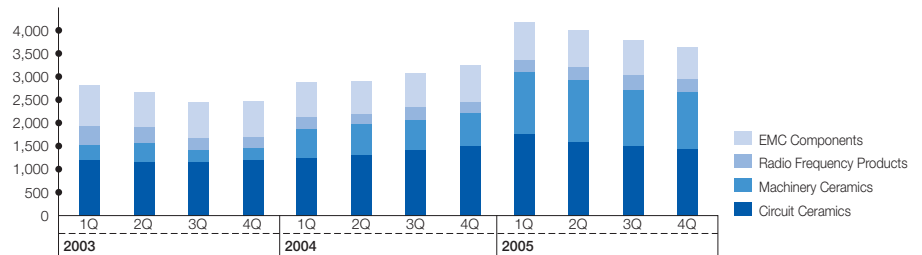
**How do you assess the business results for the fiscal year ended 31st March 2005?**

In the fiscal year under review, as the result of our substantial management efforts, MARUWA posted increases in both consolidated revenue and profit, which was more than originally projected, marking the third consecutive year of such a trend.

The increase in revenue and profit is attributable mainly to the following three factors: First, performance at the quartz glass business of the Machinery Ceramics division was strong thanks to an effective reorganization and proactive approach to the market, although we had anticipated that some costs would be incurred in this business due to restructuring as a result of M&A. Second, the less profitable products, which had been hurt by large development expenses, contributed to a rise in overall

profits. Third, we could absorb the adverse effects of the business adjustments occurring in China and other Asian markets in the latter half of the fiscal year, due to production restructuring, including a reduction in inventories, which we have been aggressively pursuing since the previous year.

**Sales by Division** (Quarterly, millions of yen)



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**How about the earnings outlook for the next fiscal year ending 31st March 2006?**

We need to look at corporate management from the perspective of continuation, and it is important for a company to resolve individual issues and ceaselessly strive to steadily achieve its objectives.

Recognizing the gravity of the substantial loss posted in the year ended 31st March 2002, MARUWA Group did our utmost to reform the management of the Company in the following years, aiming to attain a stable growth over the medium to long term. In fiscal year ended March 2003, the Group took a defensive stance to reinforce the corporate structure through a sweeping improvement of corporate management. In fiscal year ended March 2004, on the other hand, we strove to build an offensive corporate structure, with which we implemented powerful strategies by combining our strong suits in sales, production and development sections. During the term under review, the Group carried out the management activities with an emphasis on consolidated cash flows. Focusing on "earning cash efficiently," the Group assigned some indicators of asset efficiency to every "mini-mini company" aiming to further strengthen the corporate structure. Through these efforts, the Group obtained

remarkable results.

For the fiscal year ending March 2006, which the MARUWA Group positions as a year to further solidify the management base for sustainable growth, the Group will establish a corporate structure under which earnings are free from changes in the business environment caused by exchange rate fluctuations or industrial trends and the Group is able to earn stable profits and flexibly distribute profits.

Specifically, the Group will implement measures for making newly developed products more profitable, which we have been working on for the past several years. We will also continue to boost R&D activities and actively advance into a new market. Furthermore, we will promote management with emphasis on profit margin under the mini-mini company system, which was adopted in fiscal ended March 2003. By making such efforts, the Group aims to increase both its revenue and profit, aiming for consolidated net sales of ¥21.2 billion and consolidated profit margin of 8%.

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**What is the MARUWA Group's course of action over the medium to long term?**

The Group has an indomitable will to conduct businesses aiming to grow ourselves while achieving its objectives, but our goal is not to

merely "expand" but to evolve and "grow." We will stand up and boldly face an adventurous undertaking, while taking a cautious



stance toward the inherent risks. Based on our decision-making on these principal policies, we will endeavor into new fields and carry out aggressive strategies such as M&A.

The Group has been striving to become the world's number one niche corporation in the ceramic material market. We will keep working to become a specialty *boutique* that is based on "product manufacturing" and supported by a solid corporate structure, with the emphasis on quality rather than scale. To this end, we will assign numerical targets of market share and profit margin to individual mini-mini companies, and they will implement their own growth strategy striving to achieve such goals. We will also accelerate management overhaul by thoroughly eliminating waste at work. At

the same time, we will continue to expand our business domains by entering into ceramic material-related markets through M&A.

For the Group to solidify the foundation for growth, I believe it is important to develop the MARUWA corporate culture, which features 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 believe that continuously developing and sharing these values by the entire workforce would lead to a sustainable growth of the Group.



### **What is the current state of MARUWA QUARTZ Co., Ltd., which was transformed into a subsidiary through M&A?**

MARUWA QUARTZ's performance is becoming strong at a faster-than-expected pace. In April 2004, we transformed the company into a consolidated subsidiary by acquiring all of its equity shares. The synergy of integrating MARUWA QUARTZ and MARUWA TFG Co., Ltd., another subsidiary consolidated through M&A in the previous fiscal year, was the prominent event. Given this, quartz

glass products are expected to be a cash cow of the Machinery Ceramics division. I think that this synergy effect results from integrating MARUWA TFG's high processing technology, MARUWA QUARTZ's nationwide sales networks, and the Company's capability to manage businesses and our know-how on corporate rehabilitation.



### **MARUWA QUARTZ purchased a subsidiary established through the lighting equipment division of Kimmon Electric Co., Ltd. by means of M&A, and made it MARUWA SHOMEI Co., Ltd. What is the Group's aim in this?**

MARUWA Group aims to enter a new business domain, that is to manufacture and market the lighting equipment, which MARUWA SHOMEI is engaged in. While the Group regards LED-related equipment as one of the application targets for our main products, we also see LED lighting as a potential field to further develop in the future. The lighting business of MARUWA SHOMEI (former

division of Kimmon Electric) suits the Group's business strategy. MARUWA originated from the pottery industry, and has considered joining the industrial art sector for years. This lighting business is a field that integrates lighting arts and electronic ceramics including LEDs, which are expected to still grow further.



### **Through M&A, multi-layer bead inductors were added to MARUWA's product lineup. What is the effect on the Company?**

The new product would reinforce marketing strategies in the EMC (Electromagnetic Compatibility) components business. EMC components (functional parts to protect electronic circuitry from electromagnetic disturbances such as abnormal voltage or noise) are expected to gain widespread attention, given the fact that electronics manufacturers are increasingly pursuing higher speed, multifunction and miniaturization. MARUWA Group is striving hard to increase our presence in the market with such products as multi-layer chip varistors, EMI filters, etc. MARUWA Electronics (Taiwan) Co., Ltd.

(former NEC TOKIN Electronics (Taiwan) Co., Ltd., which MARUWA made into a subsidiary) manufactures multi-layer bead inductors as an EMC component. The acquisition of this company has resulted in strengthening the Company's insufficient lineup of EMC components. Hence, I expect MARUWA will gain a bigger edge over our rivals in manufacturing technologies and marketing activities. Taking advantage of this acquisition, we will enhance both production and sales of EMC components in Taiwanese and Chinese markets.





## How do you work on corporate governance?

In order to optimally leverage the advantages of a small company, the mini-mini company system was introduced to every production division to strengthen them and clarify the locus of responsibility. At the same time, we have introduced the operating officer system to enable swift communication/dissemination of corporate policies made at the Board of Directors to every division, and to make the management decisions faster, more flexible and resilient. While transferring responsibility at each division to respective operating officers, we intend to make the management more functional, under which duties and responsibilities of directors, operating officers and auditors are further clarified.

We believe that excellent corporate governance can be realized

when knowledge about various measures is disseminated not only to directors and auditors, but also to all employees. Based on this view, we gather almost all our employees from Japan and overseas at one venue on 1st April every year, and top management directly explains to them our management and business policies, as well as what a MARUWA employee should be like. At the quarterly management meetings, managers of each production division (the heads of mini-mini companies) in the entire group attend and receive explanations directly from the top management about future corporate policies, etc. By doing this, we are striving to make all employees take coordinated and concerted action to achieve common targets.



## Please tell us about your effort on corporate social responsibility (CSR).

We recognize that in order to fulfill our CSR, it is crucial for a company to consider environmental factors in the management process. Based on this, we are promoting zero emission activities with an aim to reduce and recycle waste, centering on Toki Plant in Gifu Prefecture. These efforts have produced excellent results, increasing the recycling of waste in-house. We have further

developed the “Maruwa Forest” known as the “Home of the Fireflies” in Seto, Aichi Prefecture, through which we are continuously supporting a nature conservation movement in the local community. As for societal contributions, we offer artistic support through “Fundación Maruwa Fomento de Baile Español” (the Maruwa Foundation for Promotion of Spanish Dancing).



## What measures are you implementing to maximize shareholder value?

As an interim dividend was ¥7.50 and a year-end dividend ¥7.50 per share for the fiscal year ended 31st March 2005, the annual dividend for the year amounts to ¥15. For fiscal year ending March 2006, we plan to disburse a ¥18 per-share dividend, with ¥9 as an interim dividend and ¥9 as a year-end dividend. In the future, we will strive to share profits obtained from the development of new products and advancing into new markets through M&A, with the shareholders in the form of increasing dividend payments.

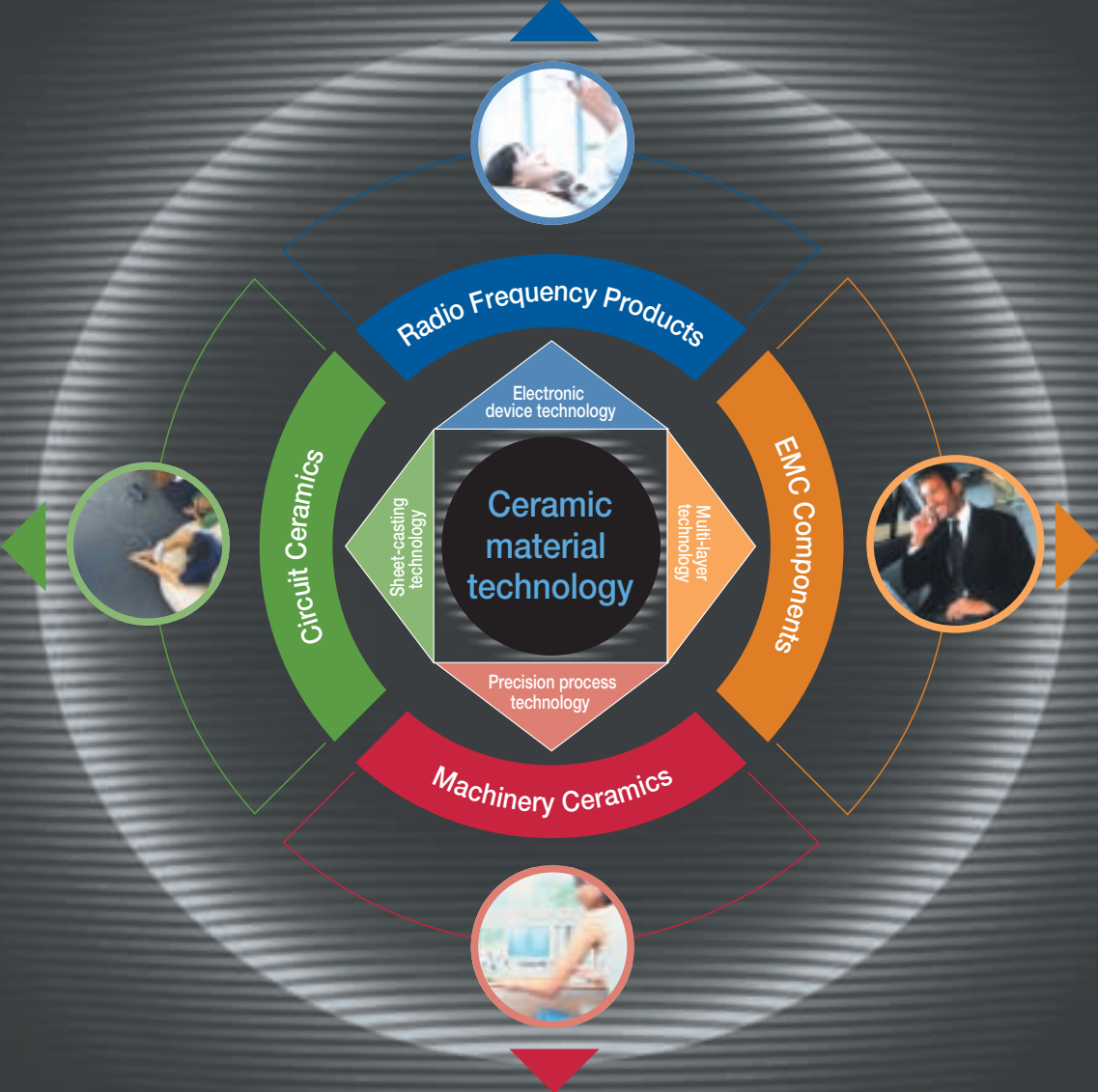
Considering the purchase of our own stock as an important means for providing shareholders with profits, we repurchased 147,490 treasury stocks for a total purchase price of ¥280 million by the end of July 2004, partly to use them for stock options. As of the end of March 2005, the number of treasury stocks totaled 272,740. We will make every effort to further enhance our investor relation activities so that shareholders may better assess the management status of MARUWA.

In the process of creating a new corporate value for future growth, we will not only pursue good business results, but also promote the sharing of values of MARUWA corporate culture, while fulfilling our corporate social responsibility. Through these efforts, we aim to be an attractive company that meets the expectations of shareholders, employees, business partners, and the regional community, alike. We

hope that MARUWA will develop into a top-notch company in the true sense, and thus stakeholders will be able to say, “MARUWA is a truly great company.” We sincerely ask you to extend even greater support to the management of MARUWA Group from the medium- to long-term perspective.



# 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.

# Circuit Ceramics

The Circuit Ceramics division produces ceramic substrates for resistors essential to a wide range of electric devices, Aluminum Nitride for power modules and automobile-mounted parts, large-size substrates for hybrid ICs, and glazed substrates for thermal printer heads (TPHs).



## Fiscal 2005 results

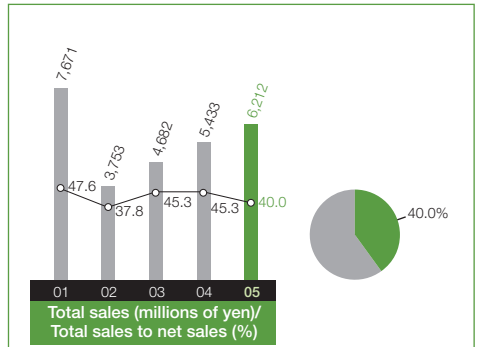
Total sales of this division were ¥6,212 million, an increase of ¥781 million or 14.4% from the previous year. As for substrates for resistors, markets both in Asia and Japan were strongly led by a brisk demand for digital home appliances in the first quarter as well as solid demands for other home electronics. Beginning in the second quarter, however, components markets in China and Taiwan were forced into an adjustment phase. In the second half of the year, we had relatively strong orders from Japanese manufacturers while others from Taiwanese makers decreased. From the latter half of the fourth quarter, orders from overseas began to recover, though moderately.

Shipments of Aluminum Nitride are solid for power modules. As for large substrates, we aim to expand product lineups for European markets as well as firm Asian markets.

## Looking ahead and key strategy

For the current year through March 2006, we will strive to increase our market share for Al<sub>2</sub>O<sub>3</sub> (alumina) substrates especially in China and other Asian regions, where the recovery is expected, as a leading company of alumina substrates. Meanwhile, in Europe and the U.S., we will expand the lineups of AlN (aluminum nitride) products with high thermal conductivity and cultivate the market for large substrates. Thus, we aim to expand operations of these products, which we regard as a cash cow.

By leveraging ceramic material and multi-layer technologies, which we have built up for years, we are working on development and commercialization of multi-layer ceramic substrates that are widely used in many industrial fields. Among target products include automotive module substrates, packages, radio frequency components, and modules. In the fiscal term under review, we made efforts not only to develop technologies that heightens the density level and facilitates multi-functioning of products, but also to expand the lineup of products to cover various sectors as well as establishing mass-production technology. As some of the products are already being mass-produced, we will proactively cultivate new customers.



### 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

# Machinery Ceramics

The Machinery Ceramics division manufactures products that require high precision processing technology, including quartz glass components mainly for semiconductor manufacturing equipment, ceramics for supporting magnetic heads in the disk drives of personal computers, and ceramic valves for water faucets.



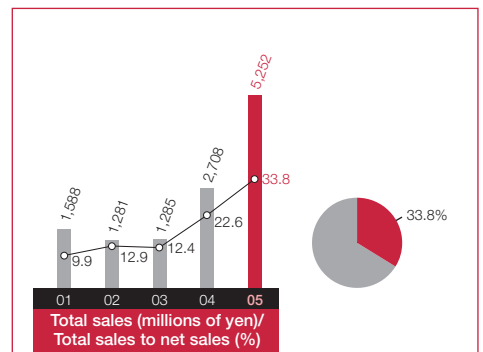
## Fiscal 2005 results

This division posted sales of ¥5,252 million in the fiscal term under review, up 93.9% or ¥2,544 million from the last year. Orders for quartz glass products, including those manufactured at MARUWA QUARTZ, a new consolidated subsidiary since April 2004, were strong from domestic semiconductor production markets until the third quarter. In the fourth quarter, however, orders began to decline due to overall market adjustments. In this term, we focused on the reorganization of factories and the improvement of manufacturing lines after another M&A, and we think we finished laying foundation for future operations.

## Looking ahead and key strategy

With transformation of MARUWA QUARTZ into a consolidated subsidiary through M&A, the ratio of quartz glass products to the total sales of this division increased. Given a synergy from the combination with MARUWA TFG, which began operations in the previous fiscal year, quartz glass products are expected to be a main earner of the division.

Our future business strategy for this division is to enhance our competitiveness of the quartz glass section, by maximizing the synergistic effect from the combining of the nationwide sales networks taken over from the predecessor of MARUWA QUARTZ, the processing technologies owned by MARUWA TFG, and our precision processing technologies. For the current year through March 2006, we will reconsider our marketing strategies in Japan, further strengthen the technology for customized products and enhance the techniques suited for 12-inch wafer processing, while growing our market share in quartz glass products.



### 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

# Radio Frequency Products

The Radio Frequency Products division manufactures device products, mainly voltage controlled oscillators (VCOs) for wireless communication equipment, mobile phones and base stations, dielectric ceramics for filters used primarily as ceramic antennas in the mobile communication field, and thin-film substrates for use in optical information and communication equipment. As the application functions are rapidly developing, the product lineups of this division need to constantly develop further to catch up with the changes.



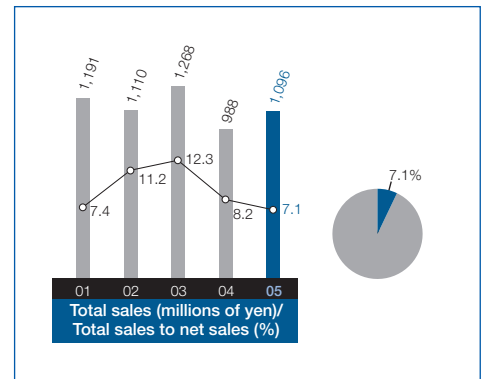
## Fiscal 2005 results

As the final products, that this division's output is destined for, are functionally upgraded in quick cycles, the constituent components accordingly have extremely short life cycles. Sales of device components to the Chinese communications market, which remained noncommittal throughout the year, weakened. From the fourth quarter, orders have been increasing on a monthly basis thanks to enhancing applications in new areas. For dielectric ceramics, which had been in a long-term slump, MARUWA established a system enabling us to flexibly respond to customer needs for many different products with short delivery times. This resulted in a steady stream of orders from overseas markets for low noise block converters (LNBS) and GPS products, which indicates these items are expected to grow in the future. Thin-film substrates were the subject of various, fresh orders mainly for use in DVD devices. As a result, sales of this division totaled ¥1,096 million in the fiscal term under review, up 10.9% from a year earlier.

## Looking ahead and key strategy

Orders for every product of this division have been on the rise since the fourth quarter of the period under review. For the year through March 2006, we will reliably supply this division's products, with the focus on orders for varied items in small lots for which demand is expected to further increase, rather than expanding the scale. To this end, we will expand the product variants, while taking future trends into full account, and continuously enhance our product development capability.

In the dielectric ceramics segment, we have proactively cultivated markets for new products that fully apply material characteristics, particularly for ceramic antennas. In the device products segment, we are promoting development of key VCO products in pursuit of still more downsizing and multi-function. We are also focusing on the development of related radio frequency components such as dielectric filters for base stations, and some newly developed products are already being mass-produced. In the thin-film segment, we have developed original products that fully utilize the characteristics of dielectric materials manufactured in-house, in addition to highly thermal conductive Aluminum Nitride substrate materials. With volume production of some products progressing smoothly, we see high growth potential for the various articles produced by this division.



### Technology:

Electronic device technology

### Product line:

- Devices (VCO/BPF)
- 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

# EMC Components

The EMC Components division produces: EMI filters that intercept electromagnetic waves and are categorized in three types—chip, feed-through, and complex; chip varistors that control noise, surge and other voltage anomalies; multi-layer ceramic capacitors that have high voltage and high capacitance.



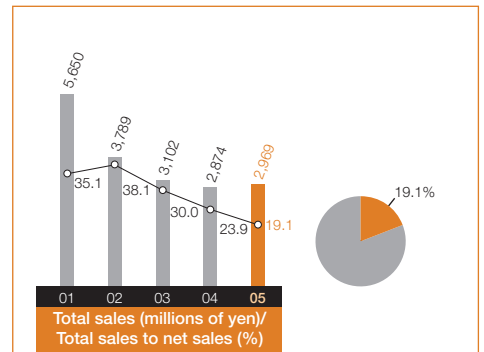
## Fiscal 2005 results

EMI filters, especially feed-through types, sold well mainly for base stations of mobile phones. Orders increased steadily for EMI filters and chip varistors from the automotive components market, which the entire company is proactively engaging in. As a result, sales of this division amounted to ¥2,969 million in the fiscal year under review, up 3.3% from the previous year.

## Looking ahead and key strategy

In all business sectors including information/communications, automobiles and home electric equipment, there has been growing demand for further downsizing, higher speed and multi-functioning as well as digitization. Concurrently, advancing achievements in realizing higher speeds and greater capacities for interactive information communication has brought home the importance of EMC (electromagnetic compatibility measures to prevent electromagnetic interference) in electronic devices. In pursuing the EMC business, MARUWA is striving to meet such market needs through the development of materials and products that offer better noise/surge absorption, space-saving surface mounting, high frequency wave compliance, attractive pricing and environmental consideration, thereby expanding our product lineups for EMI filters and chip varistors, as well as enhancing our EMC technology.

For fiscal 2006, orders from the automotive components market are expected to increase. With increasing multi-functionality of the final products, the demand for components that intercept electromagnetic waves or control voltage anomalies has been rising. In response, MARUWA will from the raw material stage implement strategies to differentiate ourselves from our rivals. We project that new noise control components, which were acquired through M&A at the end of fiscal 2005, will contribute to increasing sales.



## 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

## Zero waste emissions (reduction of waste) efforts

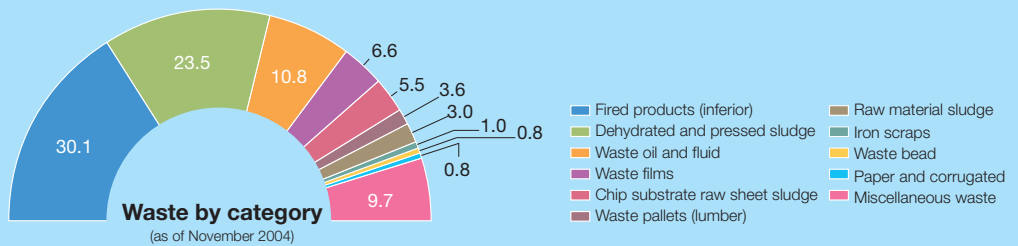


Toki Plant

### Waste recycling steadily producing results

Toki Plant in Gifu Prefecture has established an environmental management system, pursuant to the global ISO 14001 standard, aiming to realize zero emissions in the near future by endeavoring to establish a closed-cycle society, as well as implementing a higher level of activities, or the 3R's (Reduce, Reuse and Recycle) program. Under this system, each employee is eagerly separating waste as an environmentally responsible person.

The plant had produced more than 19 tons of waste, mainly inferior fired ceramics, every year. To reduce such a large quantity of waste, the plant worked on various activities and measures, which resulted in raising the recycling rate to over 90% in November 2004, up from the monthly average of 47% in fiscal 2003. From now on, the plant will make steady efforts to effectively utilize waste, targeting a recycling rate of 100%.



## Entry into the lighting business through M&A

### Potential of "LED illumination" as a promising market

MARUWA Group has made Kimmon Electric Co., Ltd. into a consolidated subsidiary through M&A and changed the corporate name to MARUWA SHOMEI. Hence, the lighting equipment business will be added to the Group as a new segment from the fiscal year ending March 2006. While the Group regards LED-related equipment as one of the application targets for our main products, we also see LED lighting as a potential field to develop further in the future.

MARUWA SHOMEI has a broader lineup of lighting/luminary products and provides the most suitable "light in terms of form and quality" for many areas which compose the cores of town planning. Among such products include streetlights, traffic lights, floodlights, information board system, etc. In the lighting business, the company carries out comprehensive operations, including planning and designing, so that it can maintain the landscape in a good and attractive state. MARUWA SHOMEI will promote such a landscape-friendly business with an eye toward 21st century urban development. To this end, the company will propose systematized lighting products that can be adapted to any circumstances, while advancing into the street furniture and fittings sector based on its expertise on interior lighting and exterior lighting for buildings.



LED illumination systems installed in Hama-Otsu Sky Cross (promenade)