

The background of the cover features a series of glowing blue light trails that spiral inward from the top and bottom edges, meeting at a bright, central point. The trails create a sense of depth and movement, resembling a funnel or a tunnel of light. The overall color palette is a gradient of blues, from deep navy to bright cyan and white at the center.

Starting a New Uptrend

Annual Report 2008

For the year ended 31 March 2008

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 more than three decades by supplying electronic components and ceramic materials 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. The establishment of international operations creates part of the driving force that will enable MARUWA to attain high profitability and growth, in turn, increasing the corporate value.

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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.

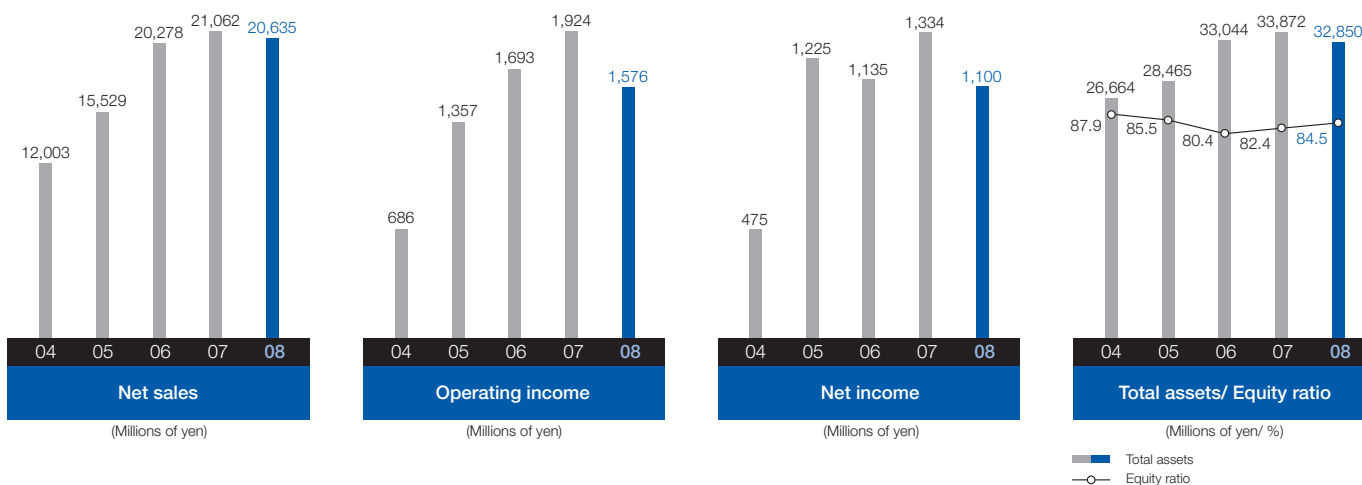
Financial Highlights

MARUWA CO., LTD. and its consolidated subsidiaries

For the years ended 31 March 2007 and 2008

	Millions of yen		Thousands of U.S. dollars
	For the years ended 31 March		For the year ended 31 March
	2007	2008	2008
For the year			
Net sales	¥21,062	¥20,635	\$205,959
Operating income	1,924	1,576	15,730
Income before income taxes	1,912	1,584	15,810
Net income	1,334	1,100	10,979
At year-end			
Total net assets	¥27,907	¥27,774	\$277,213
Total assets	33,872	32,850	327,877
	Yen		U.S. dollars
Per share amounts			
Net income (basic)	¥122.04	¥101.80	\$1.02
Cash dividends	¥24.00	¥24.00	\$0.24

Note: U.S. dollar amounts have been converted for convenience only at the rate of ¥100.19=US\$1, the rate of exchange at 31 March 2008.



Interview with the President

First of all, I would like to thank you for your continued great support.

It is our pleasure to report the overview of operating results for the fiscal year ended 31 March 2008.

I appreciate your continued support and encouragement for MARUWA.



Sei Kanbe
President

How do you summarize the business results for the fiscal year ended 31 March 2008?

The fiscal term under review was a very important year for us in that we were able to foresee the future growth of MARUWA.

We posted consolidated net sales of ¥20,635 million, down 2.0% from the previous year, an operating income of ¥1,576 million, down 18.1%, and net income of ¥1,100 million, down 17.5%.

Early in the term, we aggressively made capital expenditures totaling ¥3,097 million (up 31.8% from the preceding year) based on our bullish demand forecast for mainstay alumina substrates and quartz glass products. However, the markets for these products slowed in the latter half of the term, and sales declined while fixed costs such as depreciation increased, which weighed on profits. As part of efforts to reorganize and concentrate our production facilities, we transferred the manufacturing base for some products of the Machinery Ceramics division from Japan to Malaysia, which also affected profits for the year under review. Along with this, we actively disposed of machinery and equipment, and incurred ¥237 million in losses on disposal of property, plant and equipment. Furthermore, we shifted the manufacture of products at a Philippine subsidiary to subsidiaries in Malaysia and India, which resulted in booking ¥96 million in losses on liquidation of the Philippine subsidiary on a consolidated basis. This also partially pushed down our net income for the term under review.

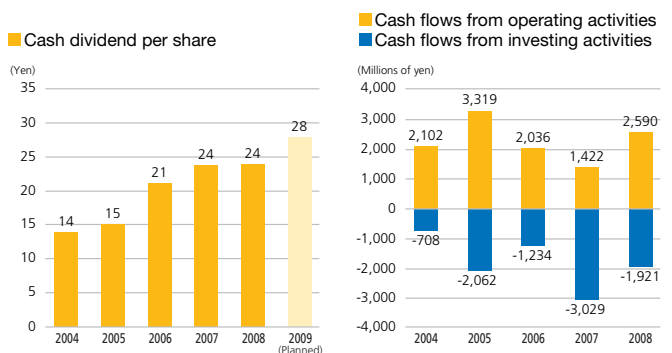
When making an objective analysis of the term's management, however, I think the term was a very important year for us in that we were able to foresee the future growth of the Group. We strove to strengthen the management foundation over a medium to long term perspective, while solving the issues needed for the next growth stage including: establishment of a balanced business portfolio; setting up an efficient global manufacture and sales system; development of strategic products and making them profitable; enhancement of the financial structure; and training of

personnel who will lead the next generation. I believe that we have finally come to the starting line of the next stage of growth.

What is your earnings and dividend outlook for the current fiscal year ending March 2009?

I think that the current term is a milestone for us in that the Company's real power will be tested.

For the past two to three years, the worldwide market for electronic components has expanded at an annual rate of about 10%. Shipments to China and the rest of Asia, among others, are increasing substantially. At present, however, the feeling is spreading that the global economy will further slow affected by the U.S. subprime mortgage crisis (home loans for individuals with poor credit), and we forecast a severe market environment for the current fiscal year through March 2009. Nevertheless, we have completed the reorganization and concentration of facilities at manufacturing bases overseas in the term under review, improving the corporate structure so that we can earn profits despite harsh market conditions. I think that such a projected severe business environment would rather provide large business opportunities for the Company. The current term becomes a milestone for us in that each corporation's real power will be tested.



For the current fiscal year, we will further boost our management power aiming at securing profits, targeting net sales of ¥20,650 million, up 0.1% from the term under review, operating income of ¥1,760 million, up 11.7%, and net income of ¥1,140 million, up 3.6%. Given the deepening uncertainty about the market's future, we will reduce the ratio of capital expenditures to net sales, planning to invest ¥2,650 million in plant and equipment, down 14.4%.

To return profits to shareholders, we will pay an interim dividend of ¥14 per share and a year-end dividend of ¥14 for the current fiscal year, resulting in an annual payout of ¥28, up ¥4 from the year under review.

Please tell us about capital investment.

We have built an optimal global production system.

First, we have strengthened the manufacturing system for mainstay alumina substrates for chip resistors that are essential for the electronic circuits of personal computers and cell phones. Boasting the world's top share in this field, the Company intends to further expand its share by enhancing production capacity for high value-added products, boosting output capacity at the Malaysia plant, which is a major plant in Asia, with investments totaling about ¥1,000 million. In addition, we have made investments amounting to approximately ¥700 million in facilities mainly for aluminum nitride substrates at the Toki Plant. Our aluminum nitride substrates feature high thermal conductivity and are used as power module substrates and light-emitting diode submounts. The Company's market share for these substrates is among the largest in Japan.

With regard to quartz glass products used for materials of semiconductor manufacturing equipment, we spent about ¥800 million expanding production facilities at Miharu Plant (Fukushima Prefecture) and Iwaki Plant (Fukushima Prefecture) of MARUWA QUARTZ Co., Ltd., a consolidated subsidiary. At Miharu Plant, a new plant was established on its site to manufacture quartz glass products such as cleaning tanks and furnace tubes for large silicon wafers with a diameter of 300mm, for which demand is increasing worldwide. In the cutting-edge semiconductor production line, impurities such as dirt which adhered to manufacturing equipment would affect product quality, and therefore high quality is required even for the components of the equipment. Miharu Plant has built an advanced clean room, and conducts comprehensive quality control covering the cleaning and assembly processes. With an aim to expanding sales overseas, we also began to manufacture quartz glass products in Malaysia from the term under review.

For the current fiscal year, we will curtail capital spending, given that a global production system was established in the term under review through large capital investments.

How about the development of new LED lighting fixtures?

We will develop LED lighting equipment suitable for the "century of the environment."

Amid mounting fears over the effects of global warming on the environment, attention is now focused on the promotion of environmentally conscious activities aimed at lowering the load on the environment and energy-saving products designed to help prevent global warming.

Therefore, we have developed LED-based streetlights and crime prevention lights during the fiscal year under review. By using ceramic materials technology, which is a core strength of the Company, the new products provide substantial energy savings compared with conventional mercury lamps: about 58% less power consumption and about 3.3 times longer life span (10 years). Basically, LEDs generate large amounts of heat when emitting, and if this heat is not efficiently dissipated, LEDs will deteriorate quickly, resulting in shortening the life of LEDs. LED modules developed by the Company use aluminum nitride with high thermal conductivity and alumina substrates featuring high heat resistance as the substrate of LEDs, which slows the deterioration of LEDs. The Company's LED lighting fixtures use high-brightness LEDs called "power LED" to secure almost the same illumination as white fluorescent lamps.

From now on, we will explore the market, centering on large commercial facilities and apartment buildings in the metropolitan areas, where the use of energy-saving lighting is expected to spread. We will also endeavor to improve profitability of the lighting equipment business by shifting from the public works-related lighting business, for which demand has weakened, to the LED lighting business in the private sector.

What is MARUWA's future course of action?

We will enhance the entire Group's competitiveness with emphasis on teamwork.

Since introduction of the "mini-mini company system" in the fiscal year ended March 2003, we have reformed all rigid organizational and business structures, and implemented management that can respond flexibly to technological innovation and changes in the market environment. Under the conventional "mini-mini company system," we have aggressively expanded businesses through mergers and acquisitions, and so on, each time establishing a mini-mini company while giving the new company the decision-making authority so that it can develop its own business rapidly. However, this modus operandi may only make overall operations of the organization inefficient when we are entering a new stage of further Group-wide expansion. Accordingly, it is necessary for us to shift to a centralized management execution

system in which all organizations within the Group pursue Group-wide optimal business performance, while each mini-mini company also pursues its own optimal business performance.

From now on, we will enhance mutual cooperation among mini-mini companies taking into account the characteristics in the market and their strength. We will also shift from individual “performance-based” stance to “teamwork-oriented” stance, and pursue synergies among mini-mini companies. Through these efforts, we will accelerate development of technologies and products that our rivals cannot copy, aiming to raise Group-wide competitiveness.

How will you engage in M&A in the future?

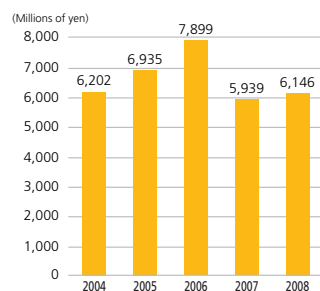
For MARUWA, M&A will continue to be a powerful management option.

For a growth-oriented corporation like us, which has a high cash position and conducts business worldwide, M&A is a powerful management option. The Company has achieved many excellent results through M&A, but many of the M&A transactions were conducted with corporations which were liquidated or withdrew from business, that is, such deals are of a corporate reconstruction type and we helped the parties concerned financially. We bought at low cost the businesses from which those parties withdrew, and nurtured them.

None of those M&A transactions were so easy, of course. Through M&A, we can quickly establish sales and production structures and acquire personnel, while we are often left with negative legacies, including antiquated production facilities, personnel highly dependent on outsourcing, and insufficient technology. The entire Company, led by the head, needs to tackle these problems with firm resolution.

Technologies are created by people, and it is important to take good care of such people and make the utmost effort for product manufacturing. This is my management philosophy, under which the Company will continue M&A activities.

■ Cash and cash equivalents



Give us your message to our shareholders.

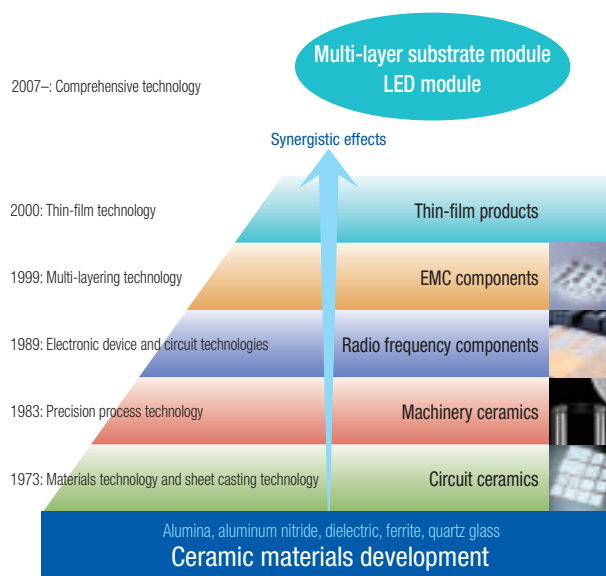
“Growth DNA” is incorporated into MARUWA’s culture.

When the Company registered its shares on the over-the-counter market in August 1995, our mainstay product was only alumina substrates of the Circuit ceramics. Since then, we have developed a wide variety of products while establishing worldwide production and a direct sales system, and now we are an electronic components manufacturer with top-level ceramic material technologies.

We would like all investors to know that such “growth DNA” is incorporated into our corporate culture, which indicates that our pattern of behavior and growth mind-set will not change in the future.

I will ask all of our shareholders for even greater support to the Company over a medium and long term perspective.

Growth DNA of MARUWA



Development of high value-added products using comprehensive technology

Circle of MARUWA Linked and Extending

The LED-equipped MARUWA Seto Dormitory received the 15th Aichi *Machinami* Construction Prize for its outstanding harmony with the street.

At a commendation ceremony held by Aichi Prefecture, the MARUWA Seto Dormitory for employees, was awarded the 15th Aichi *Machinami* Construction Prize. This dormitory is full of LEDs, was constructed with LEDs for all indoor and outdoor lights as a key concept, and is the symbol of the Group's LED lighting equipment business. The prize is given to the buildings in Aichi Prefecture that contribute to the creation of a townscape with great individuality or the development of a warm community.

Such dormitories tend to lack in design sensibilities, but we have positioned Seto Dormitory as the space in which we present our corporate image to the public, and therefore have harmonized the building with the street through the effects of the exterior space and LED lighting. This effort was highly praised by the prefecture. The Group will continue to contribute to creation of new cities and communities that are suitable for the "Century of the Environment," by providing LED lighting fixtures that are of energy-saving, highly durable and eco-friendly.



MARUWA helps young dancers realize their dreams, and promoting flamenco dance makes a strong impression on the public.

The Company offers support in developing flamenco in Japan and training young would-be flamenco dancers through the Maruwa Foundation for Promotion of Spanish Dancing. We have provided many young dancers with opportunities for training in Spain, and such dancers have expressed their gratitude to the Company. Their efforts and gratitude are apparent in their energetic and passionate dances, which have emotionally moved many people. The Company will strive to make a strong impression as many people as possible through support to young dancers.



Ceramic Components Business



Circuit Ceramics

The Circuit Ceramics division produces ceramic substrates for chip resistors essential for a wide range of electronics and electric products, glazed substrates for thermal printer heads (TPHs) used in fax machines and bar code label printers, large-size ceramic substrates for hybrid ICs, and Aluminum Nitride substrates for power modules and automotive components.

Fiscal 2008 Results

Total sales of this division were ¥7,169 million in the fiscal year under review, down 5.7% from the previous year, reflecting weakened demand for information and telecommunication devices, such as PCs and mobile phones, and industrial machines.

Sales of ceramic substrates for chip resistors decreased, affected by a sharp drop in demand in the Asian region from early in the year 2008. This sales fall is also attributable to a drop in demand for glazed substrates and large-size ceramic substrates, which had remained at high levels during the preceding year.

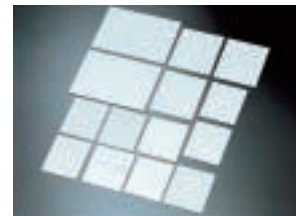
Looking ahead and key strategy

This division implements development and production operations under the concept of “highly reliable ceramic substrates.”

Alumina matrix composite-material substrates have extremely high flexural strength and fracture toughness, compared with conventional Alumina substrates, and are used in equipment that requires high reliability, as exemplified by automotive components. Given this, we expect sales of the said substrates to grow from now on. We are developing such substrates while focusing on improving mass production technology and raising productivity.

We also aim to introduce new products that combine our materials technologies and high-frequency technologies while using the thin-film metalizing technology we developed over many years as a base, and are developing related processes.

For the current fiscal year, we forecast total sales of ¥7,980 million at this division (up 11.3% from the fiscal year under review).



Technology:

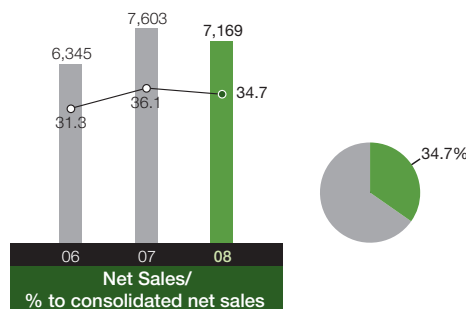
Sheet casting technology

Product line:

- Ceramic substrates for chip 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 process technology, including quartz glass products mainly for semiconductor equipment, ceramic faucet valves, and ferrite magnets used for measurement equipment and medical care purposes.

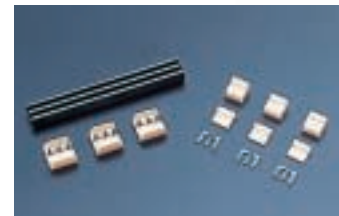
Fiscal 2008 Results

Quartz glass products led the increase in overall sales of this division in the first half of the fiscal year under review, but their profits have slowed down since the second half because of a decline in the semiconductor equipment market. Meanwhile, ferrite magnet products, whose operations we acquired in the preceding year, contributed to overall sales throughout the year. As a result, total sales of this division increased 3.1% year-on-year to ¥5,099 million.

Looking ahead and key strategy

With respect to quartz glass products, the mainstay of this division, we constructed a new plant at the site of the Miharu Plant of MARUWA QUARTZ Co., Ltd., a consolidated subsidiary, which manufactures quartz glass products such as cleaning tabs and furnace tubes for large silicon wafers with a diameter of 300 mm. Demand for such wafers is growing worldwide. To produce high-quality products that are required in a cutting-edge semiconductor manufacturing line, the Miharu Plant established an advanced clean room, and carries out all-out quality control in the cleaning and assembly processes. In addition, we began production in Malaysia from the fiscal year under review, aiming to realize an efficient production system worldwide.

For the current fiscal year, we project total sales of ¥4,610 million in this division (down 9.6% from the preceding year), owing to a decline in demand for products related to semiconductor equipment.



Technology:

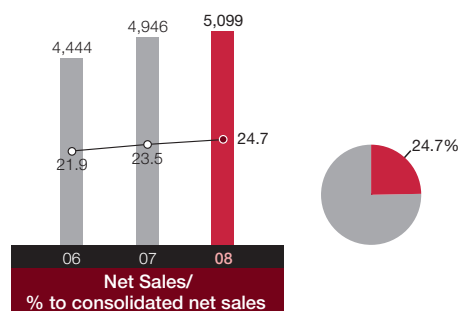
Precision processing technology

Product line:

- Ferrite magnets
- Ceramic valves for water faucets
- Quartz glass products

Applications:

- **Ceramic valves for water faucets**
Dual (cold and hot) faucets, single faucets
- **Quartz glass products**
Semiconductor equipment



Ceramic Components Business



Radio Frequency Products

The Radio Frequency Products division manufactures device products, mainly bandpass filters (BPF) used for the wireless communication field, dielectric filters used chiefly in the mobile communication field, thin-film substrates for use in optical information/communication equipment, and multi-layer ceramic substrates used for automotive components and other purposes.

Fiscal 2008 Results

Total sales of this division in the fiscal year under review were ¥1,922 million, up 17.6% from a year earlier, because we booked sales of multi-layer ceramic substrates from the year under review and there was an expansion in the market of thin-film products for optical communication.

Looking ahead and key strategy

In the radio frequency products division, we focus on further miniaturizing and designing devices so that they have multiple functions, and developing dielectric filters for base stations and radio frequency modules.

Applications of multi-layer ceramic substrates include module substrates for automotive components, packages, and radio frequency components/modules. We are already mass producing module substrates for automotive components, and will proactively implement R&D activities aiming to further expand the market and cultivate new customers.

We expect total sales of ¥2,060 million at this division for the current fiscal year (up 7.2% from a year earlier).



Technology:

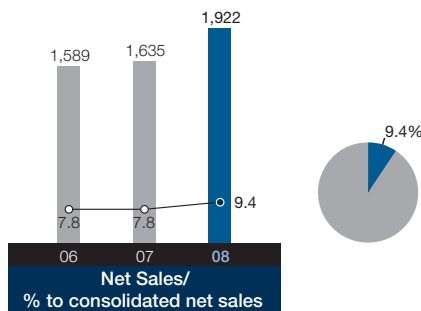
Electronic device technology

Product line:

- BPF
- Dielectric ceramics
- Thin film substrates
- 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 high-voltage, high-capacitance multi-layer ceramic capacitors mainly for digital cameras, liquid crystal backlights and power supply parts of electronics, and components as a countermeasure against noise/surge including EMI filters, chip varistors, chip beads and inductors. These components are expected to be increasingly required for various electronics, including information/telecommunication equipment such as mobile phones and PCs, digital home appliances, amusement equipment and automotive electronics.

Fiscal 2008 Results

Total sales of this division were ¥4,289 million in the fiscal year under review, up 3.2% compared with the previous year.

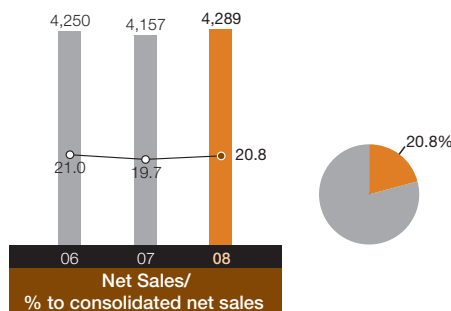
This increase is attributable to a rise in sales of EMI filters thanks to strong demand for flat screen TV-related uses.

Looking ahead and key strategy

With the proliferation of digital home appliances featuring high definition and high performance, including thin-screen TVs, digital cameras and DVD recorders, demand for high-speed ICs has been increasing more and more. In the field of information and telecommunication equipment, such as mobile phones, and of car electronics, features like multiple functions and high speed have become a matter of course. Against this backdrop, EMC (electromagnetic compatibility measures to prevent electromagnetic interference) for electronic devices has become more important.

For these items of electronic equipment featuring high speed and high performance, the major issues are to reduce noise and to decrease the number of parts. To meet such market needs, we are developing cost-effective EMC components using functional ceramic materials, such as dielectrics, magnetic materials and varistor materials, as well as technologies for printing, multi-layering, firing, precision processing and other processing which we have cultivated so far. In developing such parts, we aim to realize excellent noise and surge absorption performance, space-saving surface mounting, radio frequency compliance, low prices and environmental friendliness.

For the current fiscal year, we forecast total sales of ¥4,050 million (down 5.6% from the previous year).



Technology:

Multi-layer technology

Product line:

- Multi-layer ceramic capacitors
- EMI filters
- Multi-layer ceramic varistors
- Multi-layer chip beads
- Power inductors

Applications:

- EMC components

Digital cameras, PCs, mobile phones, automobiles

Lighting Equipment Business



MARUWA SHOMEI Co., Ltd., a consolidated subsidiary, handles the Lighting Equipment business.

The Lighting Equipment business segment deals mainly with lighting equipment for use in roads and bridges constructed in public works sector. Sales at this segment tend to be posted mainly in the end of fiscal years, and until end of each year, expenses tend to exceed sales.

Fiscal 2008 Results

Total sales of this segment decreased 20.8% from the preceding year to ¥2,156 million in the fiscal year under review, resulting in an operating loss of ¥6 million.

Although sales of lighting equipment for public works significantly dropped, operating loss was less than the previous year's results because of higher sales of our new LED lighting equipment.

Looking ahead and key strategy

In the previous fiscal year, we began to sell LED streetlights and security lights for illuminating outdoor facilities, which we had developed under the slogan, "Brightening the future with LED lights." From now on, we will expand the lineups of these products, while developing and commercializing lighting fixtures, which use LEDs for the light source, in place of conventional discharge lamps such as mercury lamps and high-pressure sodium lamps.

LED lighting equipment uses a ceramic LED module which is based on the ceramic technique that the Group has cultivated. We plan to develop this highly reliable LED module into a multipurpose module.

We predict total sales of this division of ¥1,950 million for the current fiscal year (down 9.6% from a year earlier). Along with the shift of our business model to LED lighting, we will boost sales of LED lighting fixtures, in expectation of a sharp increase in sales. Meanwhile, we expect to see a decrease in sales of conventional lighting equipment, particularly those related to public works projects. We think profits will improve because of higher sales of new LED lighting equipment.



Main products:

- Lighting fixtures for roads, bridges and tunnels
- Lighting apparatus for streets and squares, and hybrid solar lighting
- Floodlights
- Signboards
- LED lighting

