Annual Report 2001

Fiscal year ended March 31, 2001

NGK SPARK PLUG CO., LTD.

Profile

NGK Spark Plug Co., Ltd. is a leading manufacturer in the ceramic industry. The company sells its products worldwide, chiefly to the leading manufacturers ranging from automobiles to electronics for use as components in their production line.

The company is the world's largest manufacturer of spark plugs for use in automobiles, motorcycles and aircrafts, etc. in the world.

In the automotive field, oxygen sensors are added to be an increasingly important item and so hold are IC packages for MPU in electronics industry.

These main products occupy an important market share worldwide.

To cope with the highly advanced information-orientated society, we will continue to intensify our traditional objective; "contribute to the industry through development of ceramics".

We feel being responsible for creating and promoting a global development and production system for enhancement of our objective.

Aiming to create new values.

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Financial Highlights

NGK SPARK PLUG CO., LTD. and consolidated subsidiaries

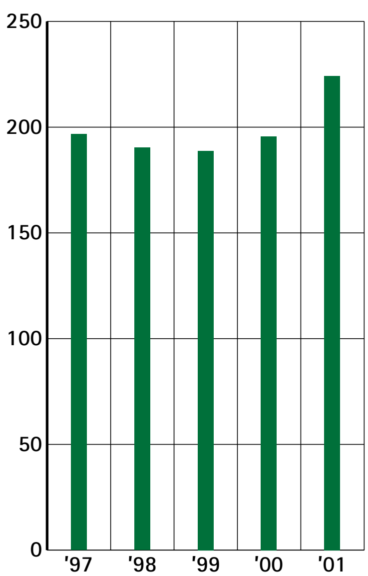
Years ended March 31, 2001, 2000 and 1999

	Millions of Yen			Thousands of U.S. Dollars	Percent Change
	2001	2000	1999	2001	2001 / 2000
For the year:					
Net sales	¥224,269	¥195,595	¥188,744	$1,823,325	+14.7
Operating income	25,465	14,437	12,899	207,033	+76.4
Net income	13,056	6,578	5,494	106,146	+98.5
Depreciation	18,118	19,365	18,220	147,301	-6.4
Capital expenditures	23,479	17,492	22,803	190,886	+34.2
At year-end:					
Total assets	366,727	314,321	300,680	2,981,520	+16.7
Shareholders' equity	208,797	165,495	149,117	1,697,537	+26.2
	Yen			U.S. Dollars	
Per share data:					
Net income					
–Basic	¥57.19	¥29.56	¥24.69	$0.46	+93.5
–Diluted	51.91	27.37	22.82	0.42	+89.7
Cash dividends	12.00	11.00	11.00	0.10	+9.1

Note: U.S. dollar amounts above and elsewhere in this Annual Report are converted from Yen, for convenience only, at the rate of ¥123-U.S.$1. Billions is used in the American sense of one thousand million.

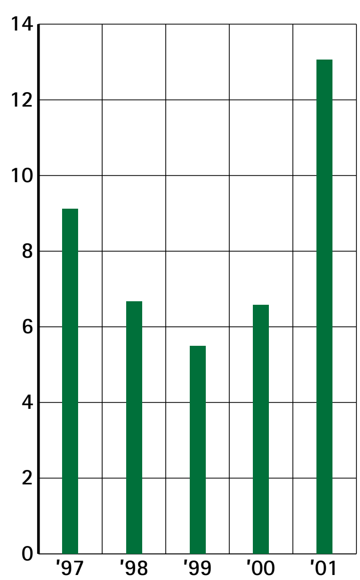
Net Sales

(Billions of Yen)



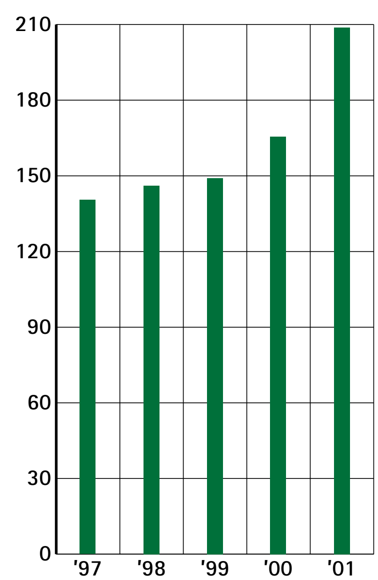
Net Income

(Billions of Yen)



Shareholders' Equity

(Billions of Yen)



A Message from the President

Shigenobu Kanagawa
President

In the fiscal year ended March 31, 2001, the Japanese economy began to recover, albeit at a slow pace, supported by growth in private-sector capital investment. From the second half of the term, however, the outlook for the economy grew increasingly uncertain due to a combination of factors. Domestic personal consumption remained sluggish; the US economy began to decelerate rapidly, particularly the IT sector, after enjoying a lengthy period of growth; and stock prices began falling. Meanwhile, the economies of Europe and Asia continued to grow. Conditions in the automotive industry, which accounts for much of NGK Group's business, were favorable, with the volume of domestic automobile sales rising for the second year in succession and the main markets in Europe and Asia remaining firm. The exception was a downturn in automobile sales in the US in the second half. Moreover, in the information-telecommunications sector, investment in IT-related infrastructure rose sharply in line with increased reliance on IT in major industrialized countries.

In these circumstances, NGK Group's earnings rose to record levels, driven by the strong performance of the IT-related business. Net sales reached ¥224,269 million, operating income totaled ¥25,465 million, and net income was ¥13,056 million.

As for the future, the outlook for the global economy has become unpredictable in the light of the increasingly conspicuous problems of the Japanese economy and the fact that the pace of the US economic slowdown has become more pronounced than expected. Also, in the information-telecommunications sector, the recent robust growth in IT-related capital investment appears to be tapering off. Thus, we expect competition among companies to intensify.

A vital task for the Company is to boost the competitiveness of its products in the global marketplace. To this end, we are implementing cost-cutting measures by establishing the optimum production system around the world for all group operations, and working to differentiate our products from those of rivals by applying our proprietary technologies and brand strength. In addition, we are optimizing the allocation of resources in order to establish thriving new businesses based on new products geared to new market needs. We intend to accomplish this based on an accurate analysis of data on customer and market needs, maintaining a swift decision-making process, and establishing a flexible framework for technology development.

Furthermore, with respect to environmental issues, we are working to secure ISO14001 certification and to introduce environmental accounting practices. Also, we intend to adopt other environment-friendly measures, such as ceasing to use lead and other controlled substances.

In these endeavors, we are determined to earn the continued support of our shareholders.

June 28, 2001

Shigenobu . Kanagawa

Shigenobu Kanagawa
President

Management Policy

Basic Strategy

As a company providing technology-based products and services, NGK aims to become an industry leader that is trusted and highly regarded by its customers and society at large. We intend to achieve this by offering products characterized by superior quality and that deliver values attuned to the needs of the era. At the same time, to satisfy the expectations of our shareholders, we are endeavoring to boost the enterprise value by creating a working environment that encourages every employee to develop professionally, and thus make a valuable contribution to the progress of the Company.

Dividend Policy

Regarding dividends, it is the Company's basic policy to maintain stable dividend payment and to meet the expectations of shareholders while taking into consideration overall circumstances, including earnings prospects and the business outlook. Also, in order for us to ensure a steady return of profits to shareholders in the future, we must work to sharpen our competitive edge in the marketplace; this requires aggressive capital investment and R&D expenditure targeting promising fields. For this reason, we will continue to strive to increase our internal reserve.

Medium to Long-term Business Plan

The Company's business strategy focuses on three core operations: automotive-related business, information-telecommunications-related business, and ceramics-related business. We are resolved to strike the optimum balance among these businesses so that they complement and promote one another as much as possible. However, since exports account for a large part of earnings across all three operations, foreign exchange fluctuations have a considerable impact on earnings. In order to ensure steady earnings and sustained growth in these circumstances, the Company has formulated the following business strategies and objectives:

i. In order to achieve further growth in the mature automotive-related industry, management has identified as a priority the need to increase the competitive edge of its products. Our aim is to outstrip the competition and secure a solid position within the industry by building a global organizational framework that includes sales, production, and procurement operations.

ii. In the information-telecommunications industry, which is expected to expand far into the future, the Company intends to increase customer satisfaction by anticipating emerging needs, and, on that basis, offering new products that satisfy new customer preferences. We also have our sights set on becoming the first-choice vendor for each type of product we handle. Moreover, the Company will actively move into new business fields that have strong earnings potential.

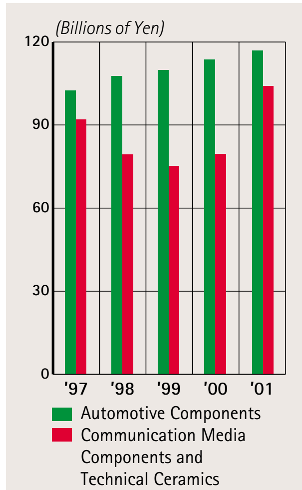
iii. Without restricting operations to its traditional business fields, the Company will strive to develop and promote new products that promise a high return on investment and concentrate resources on those new businesses, thereby strengthening the Company's earnings base.

In a bid to achieve these targets, in the fiscal year under review the Company launched "Performance 1 to 3," a medium-term management plan covering three fiscal years. The Company is devoting all its efforts to achieving the objectives set out in the plan.

Review of Operations

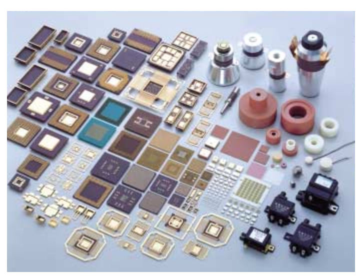
Automotive components

Sales of spark plugs increased from the previous year thanks to an upturn in domestic automobile production and aggressive marketing efforts to promote the Company's products to meet replacement demand. Exports help up well, led by shipments to the North American markets. Sales of automotive sensors, such as oxygen sensors, continued to be brisk due to an increase in demand from European automakers and other factors, which pushed up sensor sales by 2.8% year on year to ¥116,825 million. On the profits front, operating income declined by 9.1% from the previous year to ¥15,729 million, due to the yen's appreciation in the fiscal first half and inventory adjustments by US automakers in the second half, among other reasons.



Communication Media Components and Technical Ceramics

Amid the IT boom worldwide, orders for ceramic IC packages rose substantially, reflecting sharp growth in demand for semiconductors for use in personal computers and communications network equipment. Although sales of electronic components for mobile phones fell year on year due to slower growth in demand for mobile phones, sales of machine tools recovered, driven by demand for precision processing equipment. Orders received rose on the back of buoyant capital investment, resulting in a 30.6% year-on-year increase in sales to ¥104,018 million. Operating income in this segment was ¥9,683 million owing to the buoyant performance of ceramic IC packages and considerable improvement in the cost-to-sales ratio for organic packages.



Fiscal 2001 Topics

In 1974 NGK Spark Plug set up a department responsible for environmental issues. Initially, the department focused on compliance to regulations of air and water pollution as well as on the control of industrial noise, odor and vibration. In the interim, the company has gradually stepped up its development and refinement of systems to conserve energy, reduce industrial wastes, and eliminate the use of toxic materials.

NGK Spark Plug's efforts to obtain a single ISO 14001 registration started in April 1998, when the company's newly established Environment and Safety Management Department began to develop the company-wide environmental management system (EMS). Three months later the Head Office and the main factory initiated efforts to gain ISO 14001 certification, and this site received the certification in August 1999. The other three facilities completed the single ISO 14001 registration process by receiving their certifications in December 2000.

As a part of its commitment to disclosure of environmental information, NGK Spark Plug prepared its first environmental report, ECO Report 2000, presenting the Company's environmental activities and achievements for fiscal 1999, and issued it in August 2000.

Five - Year Summary

NGK SPARK PLUG CO., LTD. and consolidated subsidiaries

Years ended March 31, 2001 ,2000 , 1999 , 1998 and 1997

	Millions of Yen					Thousands of U.S. Dollars
	2001	2000	1999	1998	1997	**2001**
For the year:						
Net sales	**¥224,269**	¥195,595	¥188,744	¥ 190,333	¥196,697	**$1,823,325**
Net income	**13,056**	6,578	5,494	6,669	9,126	**106,146**
At year-end:						
Total assets	**366,727**	314,321	300,680	312,010	328,178	**2,981,520**
Shareholders' equity	**208,797**	165,495	149,117	146,139	140,443	**1,697,537**
Number of shares issued (in thousands)	**239,522**	222,546	222,529	222,529	221,177	
Per share data:	Yen					U.S. Dollars
Net income						
-Basic	**¥57.19**	¥29.56	¥24.69	30.01	41.52	**$0.46**
-Diluted	**51.91**	27.37	22.82	27.43	37.32	**0.42**
Cash dividends	**12.00**	11.00	11.00	11.00	11.00	**0.10**
Shareholders' equity	**871.72**	743.65	670.11	656.73	634.99	**7.09**
Ratios:	Percent					
Equity ratio	**56.9%**	52.7%	49.6%	46.8%	42.8%	
Return on net sales	**5.8%**	3.4%	2.9%	3.5%	4.6%	
Return on assets	**3.8%**	2.1%	1.8%	2.1%	2.8%	
Return on equity	**7.0%**	4.2%	3.7%	4.6%	6.5%	

Note: U.S. dollar amounts above and elsewhere in this Annual Report are converted from yen, for convenience only, at the rate of ¥123-U.S.$1. Billions is used in the American sense of one thousand million.

Financial Review

Sales and Profits

Net sales for the year under review were ¥224,269 million, an increase of 14.7% from the previous year. Cost of goods sold was ¥166,778 million, up 11.2%, and the ratio of cost to sales was 74.4%, improved from 76.7% for the previous year.

Selling, general and administrative expenses were ¥32,026 million, an increase of 2.5% from the previous year.

Net Non-operating loss was ¥3,367 million, compared with ¥2,893 million in the previous year. Foreign exchange gain was recorded due to the depreciation of the yen, and bond premium amortization decreased.

Regarding extraordinary gains/losses, transitional provision of adoption of new accounting standard for retirement benefits amounting to ¥4,935 million was charged to income at one time and the gain in creation of a securities-based employee retirement benefit trust amounting to ¥4,291 million was reported.

As a result, operating income was ¥25,465 million, an increase of 76.4% from the previous year and net income was ¥13,056 million, up 98.5%.

Financial Position

Total assets at year-end were ¥366,727 million, having increased by 16.7% from the end of the previous year.

This increase was mainly attributable to the increase in investment securities resulting from adoption of fair value accounting in accordance with the accounting standards concerning financial instruments effective from the year under review. In addition, notes and accounts receivable, inventories and property, plant and equipment also increased, partly affected by the increase in the yen-translated figure for overseas subsidiaries due to the depreciation of the yen. Notes with warrants due during the year under review amounting to ¥18,251 million were redeemed, but exercise of warrants amounted to ¥21,573 million, resulting in an increase in cash and cash equivalents.

Regarding liabilities, accounts payable for machinery and equipment and income taxes payable increased. Also, as a result of the introduction of fair value accounting for marketable securities, deferred tax liabilities are reported.

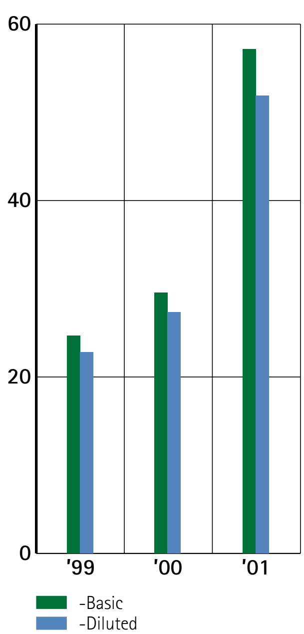
Shareholders' equity was ¥208,797 million, an increase of 26.2% from the end of the previous year. Common stock and additional paid-in capital increased by ¥10,795 million and ¥13,564 million respectively, due to exercise of warrants. Also, the difference in evaluation of available-for-sale securities amounting to ¥15,180 million resulting from the introduction of current value accounting for marketable securities was reported. Foreign currency translation adjustments (less ¥6,753 million) is reported under shareholders' equity from the year under review in line with revision of the accounting standards for foreign currency translation.

The equity ratio rose to 56.9% from 52.7% in the previous year.

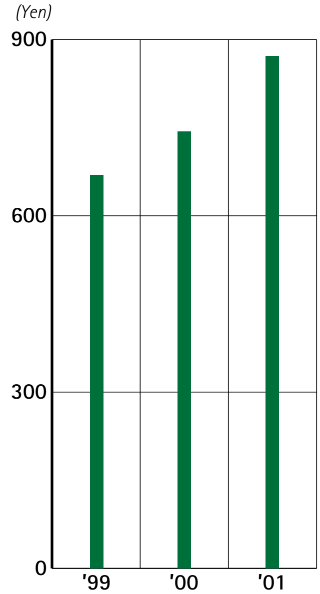
Cash Flows

Net cash provided by operating activities amounted to ¥24,144 million, compared with ¥21,892 million for the previous year. Although income before income taxes and minority interests

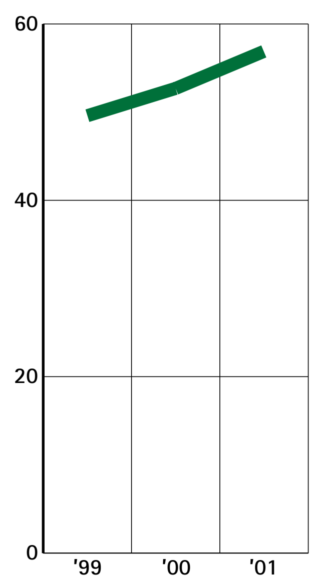
Net Income per Share
(Yen)



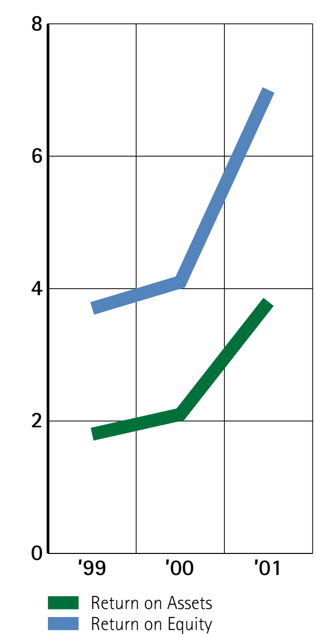
Shareholders' Equity per Share
(Yen)



Equity Ratio
(%)



ROA & ROE
(%)



increased greatly, there was an increase from the previous year in items concerning decrease in cash, such as increase in inventories and receivables, and income taxes paid.
Net cash used in investing activities was ¥19,393 million, compared with 10,373 million for the previous year. This was mainly attributable to the increase in property, plant and equipment and increase in securities (investment securities) for the purpose of investment.
Net cash provided by financing activities was ¥6,422 million, compared with net cash used in financing activities amounting to ¥1,478 million in the previous year. During the year under review, notes with warrants due in 2001 were redeemed, but because of proceeds from stock issues due to exercise of warrants amounting to ¥21,573 million and increase in short-term borrowings amounting to ¥5,625 million, cash provided exceeded cash used. The increase in short-term borrowings was mainly attributable to the increase in discounted export notes accepted by overseas subsidiaries.

As a result, cash and cash equivalents, taking the effect of exchange rate changes into account, amounted to ¥79,741 million, having increased by ¥11,800 million from ¥67,941 million for the previous year.

Breakdown by Region

Japan

Thanks to upbeat domestic markets for information-telecommunications and ceramics-related businesses, earnings of the Company and its manufacturing subsidiaries grew in the term under review. Sales increased 16.7% to ¥200,221 million and operating income soared 106% to ¥22,054 million.

North America

In the North American markets, the Company's information-telecommunications and ceramics-related businesses were robust, fueled chiefly by demand for ceramic IC packages. Sales increased 13.6% from the previous year to ¥82,714 million, but operating income declined 30.3% to ¥574 million due to worsening profitability in the automotive-related business.

Europe

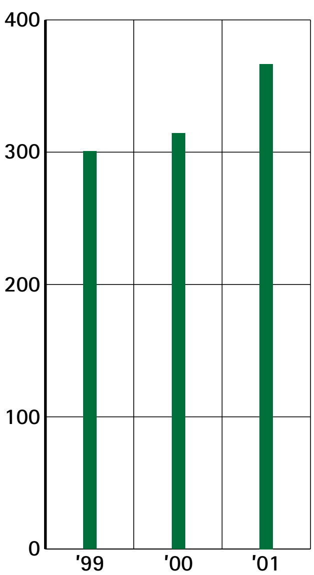
Sales in Europe grew strongly, particularly for automotive sensors. However, the depreciation of European currencies resulted in a decrease in earnings when converted to yen. Sales rose 9.2% to ¥34,382 million, while operating income declined 15.2% to ¥1,160 million.

Other regions

In Southeast Asia, Central and South America, and Oceania, business was steady overall. Nevertheless, due to such factors as a slowdown at some manufacturing subsidiaries and the yen's appreciation, sales edged up only 6.3% to ¥13,643 million and operating income declined 22% to ¥1,477 million.

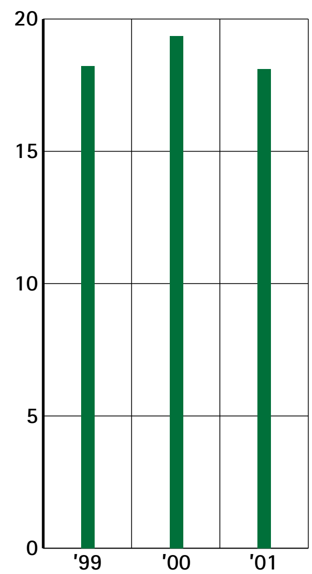
Total Assets

(Billions of Yen)



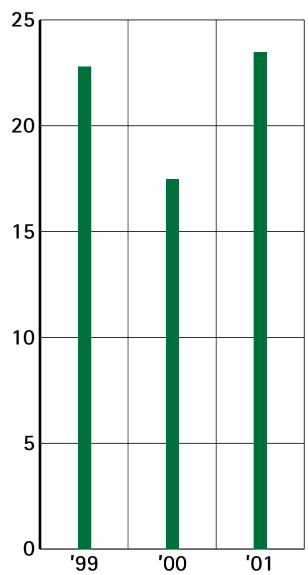
Depreciation

(Billions of Yen)



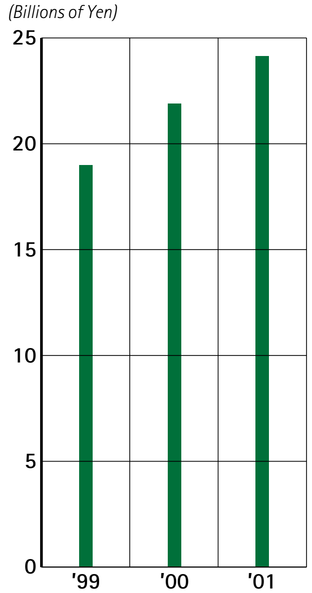
Capital Expenditures

(Billions of Yen)



Cash Flows from Operating Activities

(Billions of Yen)



Consolidated Balance Sheets

NGK SPARK PLUG CO., LTD. and consolidated subsidiaries

March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Assets			
Current assets:			
Cash and cash equivalents	**¥ 79,741**	¥ 67,941	**$ 648,301**
Short-term investments (Note 5)	**12,649**	23,814	**102,837**
Notes and accounts receivable, net of allowance for doubtful accounts (Notes 3 and 16)	**45,872**	39,704	**372,943**
Inventories (Note 4)	**51,679**	39,609	**420,155**
Deferred tax assets (Note 14)	**5,957**	4,472	**48,431**
Other current assets	**1,661**	1,215	**13,504**
Total current assets	**197,559**	176,755	**1,606,171**
Investments and other assets:			
Investment securities (Note 5)	**54,879**	18,182	**446,171**
Investments in and long-term loans to unconsolidated subsidiaries and affiliates (Note 5)	**4,132**	3,304	**33,593**
Long-term deposits in banks	**55**	2,534	**447**
Deferred tax assets (Note 14)	**822**	4,502	**6,683**
Other assets	**1,871**	3,019	**15,211**
	61,759	31,541	**502,105**
Property, plant and equipment (Note 6)	**107,409**	97,379	**873,244**
Foreign currency translation adjustment	**—**	8,646	**—**
	¥366,727	¥314,321	**$2,981,520**

See accompanying Notes to Consolidated Financial Statements.

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Liabilities, Minority Interests and Shareholders' Equity			
Current liabilities:			
Short-term borrowings (Note 8)	**¥ 17,692**	¥ 11,664	**$ 143,837**
Current portion of long-term debt (Note 8)	**20,235**	18,488	**164,512**
Accounts payable (Notes 7 and 16)	**35,018**	25,233	**284,699**
Accrued expenses	**13,267**	10,751	**107,862**
Income taxes payable	**8,700**	2,783	**70,732**
Other current liabilities	**1,268**	4,380	**10,309**
Total current liabilities	**96,180**	73,299	**781,951**
Long-term debt (Note 8)	**40,684**	60,816	**330,764**
Employee retirement benefit liability (Note 9)	**12,373**	12,493	**100,593**
Accrued severance indemnities for officers	**1,249**	1,059	**10,154**
Deferred tax liabilities (Note 14)	**6,319**	–	**51,374**
Other long-term liabilities	**457**	704	**3,716**
Commitments and contingent liabilities (Notes 10,11 and 12)			
Minority interests in consolidated subsidiaries	**668**	455	**5,431**
Shareholders' equity (Notes 13 and 17)**:**			
Common stock, ¥50 par value-			
Authorized: 400,000,000 shares;			
Issued: 239,522,827 shares in 2001 and 222,546,679 shares in 2000	**47,854**	37,057	**389,057**
Additional paid-in capital	**54,810**	41,244	**445,610**
Retained earnings	**97,706**	87,197	**794,358**
Net unrealized gains on available-for-sale securities	**15,180**	–	**123,415**
Foreign currency translation adjustment	**(6,753)**	–	**(54,903)**
Less, treasury stock, at cost	**–**	(3)	**–**
	208,797	165,495	**1,697,537**
	¥366,727	¥314,321	**$2,981,520**

Consolidated Statements of Income

NGK SPARK PLUG CO., LTD. and consolidated subsidiaries

For the years ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Operating revenue:			
Net sales (Note 15)	¥224,269	¥195,595	$1,823,325
Operating costs and expenses (Notes 15 and 16)**:**			
Cost of goods sold	166,778	149,924	1,355,918
Selling, general and administrative expenses	32,026	31,234	260,374
	198,804	181,158	1,616,292
Operating income	25,465	14,437	207,033
Other income (expenses):			
Interest and dividend income	1,770	1,859	14,390
Interest expenses	(2,582)	(1,845)	(20,992)
Gain on transfer of investment securities to trust for retirement benefit plan	4,291	–	34,886
Transitional provision of adoption of new accounting standard for retirement benefits	(4,935)	–	(40,122)
Loss on sale or disposal of property, plant and equipment	(1,932)	(676)	(15,707)
Foreign exchange gain (loss)	1,181	(1,794)	9,602
Amortization of debt discounts	(465)	(1,101)	(3,780)
Loss on write-down of marketable securities	–	(657)	–
Gain on forfeiture of warrants	–	2,606	–
Compensation for product liability	–	(1,700)	–
Miscellaneous, net	(695)	415	(5,651)
	(3,367)	(2,893)	(27,374)
Income before income taxes and minority interests	22,098	11,544	179,659
Income taxes (Note 14)	8,950	4,836	72,765
Less, minority interests in net income of consolidated subsidiaries	92	130	748
Net income	¥ 13,056	¥ 6,578	$ 106,146

	Yen		U.S. Dollars
Per share:			
Net income:			
–Basic	¥57.19	¥29.56	$0.46
–Diluted	51.91	27.37	0.42
Cash dividends	12.00	11.00	0.10

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

NGK SPARK PLUG CO., LTD. and consolidated subsidiaries

For the years ended March 31, 2001 and 2000

	Number of common shares issued	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on available-for-sale securities	Foreign currency translation adjustment	Treasury Stock
		Millions of Yen					
Balance at March 31, 1999	222,529,686	¥37,046	¥41,231	¥70,843	¥ –	¥ –	¥ (3)
Net income for the year	–	–	–	6,578	–	–	–
Cash dividends	–	–	–	(2,448)	–	–	–
Bonuses to directors and statutory auditors	–	–	–	(65)	–	–	–
Exercise of warrants	16,993	11	13	–	–	–	–
Cumulative effect on initial adoption of deferred income tax accounting	–	–	–	7,356	–	–	–
Increase in retained earnings through inclusion of additional subsidiaries on consolidation	–	–	–	4,933	–	–	–
Balance at March 31, 2000	222,546,679	37,057	41,244	87,197	–	–	(3)
Net income for the year	–	–	–	13,056	–	–	–
Cash dividends	–	–	–	(2,482)	–	–	–
Bonuses to directors and statutory auditors	–	–	–	(65)	–	–	–
Exercise of warrants	16,973,216	10,795	13,564	–	–	–	–
Conversion of convertible bonds	2,932	2	2	–	–	–	–
Net unrealized gains on available-for-sale securities, net of applicable income taxes of ¥10,942 million	–	–	–	–	15,180	–	–
Translation adjustment	–	–	–	–	–	(6,753)	–
Fractional shares sold, net	–	–	–	–	–	–	3
Balance at March 31, 2001	**239,522,827**	**¥47,854**	**¥54,810**	**¥97,706**	**¥15,180**	**¥ (6,753)**	**¥ –**

	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on available-for-sale securities	Foreign currency translation adjustment	Treasury Stock
	Thousands of U.S. Dollars					
Balance at March 31, 2000	$301,277	$335,317	$708,919	$ –	$ –	$ (24)
Net income for the year	–	–	106,146	–	–	–
Cash dividends	–	–	(20,179)	–	–	–
Bonuses to directors and statutory auditors	–	–	(528)	–	–	–
Exercise of warrants	87,764	110,277	–	–	–	–
Conversion of convertible bonds	16	16	–	–	–	–
Net unrealized gains on available-for-sale securities, net of applicable income taxes of $88,960 thousand	–	–	–	123,415	–	–
Translation adjustment	–	–	–	–	(54,903)	–
Fractional shares sold, net	–	–	–	–	–	24
Balance at March 31, 2001	**$389,057**	**$445,610**	**$794,358**	**$123,415**	**$ (54,903)**	**$ –**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

NGK SPARK PLUG CO., LTD. and consolidated subsidiaries

For the years ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 22,098	¥ 11,544	$ 179,659
Adjustments for:			
Depreciation	18,118	19,365	147,301
Amortization of debt discounts	465	1,101	3,780
Loss on sale or disposal of property, plant and equipment	1,932	676	15,707
Loss on write-down of marketable securities	—	657	—
Gain on forfeiture of warrants	—	(2,606)	—
Increase in receivables	(4,128)	(7,130)	(33,561)
Increase in inventories	(9,970)	(3,827)	(81,057)
Increase in payables	(323)	4,861	(2,626)
Other, net	2,654	1,776	21,578
Sub total	30,846	26,417	250,781
Interest and dividend received	1,971	2,041	16,024
Interest paid	(2,817)	(2,650)	(22,902)
Income taxes paid	(5,856)	(3,916)	(47,610)
Net cash provided by operating activities	24,144	21,892	196,293
Cash flows from investing activities:			
Increase in property, plant and equipment	(21,351)	(18,515)	(173,586)
Increase in long-term investments and loans	(10,033)	(494)	(81,569)
Decrease in property, long-term investments and loans	1,546	601	12,569
Net decrease in short-term investments	10,445	8,035	84,919
Net cash used in investing activities	(19,393)	(10,373)	(157,667)
Cash flows from financing activities:			
Increase in long-term debt	5	19,922	41
Repayment of long-term debt	(18,285)	(18,874)	(148,658)
Net increase in short-term borrowings	5,625	101	45,731
Exercise of warrants	21,573	22	175,390
Dividends paid	(2,482)	(2,448)	(20,179)
Other, net	(14)	(201)	(114)
Net cash provided by (used in) financing activities	6,422	(1,478)	52,211
Effect of exchange rate changes on cash and cash equivalents	627	(1,813)	5,098
Net increase in cash and cash equivalents	11,800	8,228	95,935
Cash and cash equivalents at beginning of year	67,941	56,744	552,366
Increase in cash and cash equivalents upon inclusion of additional subsidiaries on consolidation	—	2,969	—
Cash and cash equivalents at end of year	¥ 79,741	¥67,941	$648,301

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Basis of Consolidated Financial Statements

(a) Basis of presenting the consolidated financial statements
The accompanying consolidated financial statements of NGK SPARK PLUG CO., LTD. (the "Company") and its consolidated subsidiaries (together with the Company, the "NGK Group") have been prepared in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law of Japan, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards.Certain items presented in the original consolidated financial statements in Japanese submitted to the Director of Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

(b) U.S. dollar amounts
The Company maintains its accounting records in Japanese Yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetic results of translating Japanese Yen into U.S. dollars at a rate of ¥123 to $1, the approximate rate of exchange at March 31, 2001. The inclusion of such dollar amounts is solely for the convenience of the readers and is not intended to imply that Yen and the assets and liabilities originating in Yen have been or could be readily converted, realized or settled in dollars at ¥123 to $1 or at any other rate.

(c) Reclassification
Certain comparative figures have been reclassified to conform with the current year's presentations.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation
The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. Investments in significant unconsolidated subsidiaries and affiliates are accounted for by the equity method. Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are stated at cost. All intercompany transactions and accounts have been eliminated. The difference between the cost of investments in subsidiaries and the underlying equity in their net assets adjusted based on the fair value at the time of acquisition is amortized over five years on a straight-line basis.

The number of consolidated subsidiaries, unconsolidated subsidiaries and affiliates for the years ended March 31, 2001 and 2000 was as follows:

	2001	2000
Consolidated subsidiaries:		
Domestic	10	10
Overseas	16	16
Unconsolidated subsidiaries, stated at cost	5	5
Affiliates, accounted for by the equity method	5	6
Affiliates, stated at cost	2	2

The Company's overseas consolidated subsidiaries close their books at December 31 every year, three months earlier than the Company and other domestic consolidated subsidiaries. The Company consolidated such subsidiaries' financial statements as of their year-end. Significant transactions for the period between subsidiaries' year-end and the Company's year-end are adjusted on consolidation.

Overseas consolidated subsidiaries adopt accounting principles generally accepted in their respective countries, and no material adjustments have been made to their financial statements in consolidation to conform with accounting principles and practices generally accepted in Japan as there are no material differences of accounting principles between their respective countries and Japan.

(b) Preparation of statement of cash flows
The NGK Group prepares consolidated statements of cash flows in accordance with "Opinion Concerning Establishment of Standards for Preparation of Consolidated Statement of Cash Flows" issued by the Business Accounting Deliberation Council of Japan ("BADC") and related practical guideline issued by the Japanese Institute of Certified Public Accountants ("JICPA").

The NGK Group considers cash equivalents to be highly liquid debt instruments purchased with an original maturity of three months or less.

(c) Accounting for financial instruments
Effective April 1, 2000, the NGK Group adopted "Opinion Concerning Establishment for Accounting Standard for Financial Instruments" issued by BADC and related practical guideline issued by JICPA. This new standard provides the new accounting methods for securities, derivatives, allowance for doubtful accounts, and discounted notes and export bills as mentioned below.

Adoption of the new accounting standard resulted in an increase in income before income taxes and minority interests for the year ended March 31, 2001 by ¥124 million ($1,008 thousand), as compared with the previous accounting method.

(c-i) Investments and marketable securities
Until the year ended March 31, 2000, securities with market quotations on stock exchanges were stated at the lower of market or moving average cost, using a valuation allowance method. Other securities are stated at moving average cost.

Effective April 1, 2000, the NGK Group classifies certain investments in debt and equity securities as "held-to-maturity", "trading" or "available-for-sale", whose classification determines the respective accounting method as stipulated by the standard. Marketable securities with market quotations for available-for-sale securities are stated at fair value and net unrealized gains or losses on these securities are reported as a separate component of shareholders' equity, net of applicable income taxes. Gains and losses on disposition of investment securities are computed by the moving average method. Nonmarketable securities without available market quotations for available-for-sale securities are carried at cost determined by the moving average method. Adjustments in carrying values of individual investment securities are charged to income through write-downs, when a decline in value is deemed other than temporary.

(c-ii) Accounting for derivatives

Effective April 1 ,2000, derivative instruments are valued at fair value, if hedging accounting is not appropriate or where there is no hedging designation, and the gains or losses on derivatives are recognized in the current earnings.

(c-iii) Allowance for doubtful accounts

Effective April 1, 2000, in accordance with the amendment of the accounting standard, allowance for doubtful accounts has been provided for at the aggregate amount of estimated credit loss for doubtful or troubled receivables and a general reserve for other receivables calculated based on the historical loss experience for a certain past period. Until the year ended March 31, 2000, allowance for doubtful accounts was provided for as a general reserve at the maximum amount which could be charged to income using a legal provision ratio method under the Japanese income tax laws.

(c-iv) Discounted notes and export bills

Trade notes and export bills discounted with banks with recourse in the ordinary course of business are accounted for as sale transactions of such trade notes and export bills in the year 2001 rather than financing transactions in the year 2000.

(d) Inventories

Inventories are principally stated at moving average cost.

(e) Property, plant and equipment and depreciation

Property, plant and equipment, including significant renewals and additions, are stated at cost, and have been principally depreciated by the declining-balance method for the Company and its domestic consolidated subsidiaries and by the straight-line method for overseas consolidated subsidiaries at rates based on the estimated useful lives of the assets.

Expenditures on maintenance and repairs are charged to income as incurred. Upon the disposal of property, the cost and accumulated depreciation are removed from the related accounts and any gain or loss is recorded as income or expenses.

(f) Leases

Where financing leases do not transfer ownership of the leased property to the lessee during the term of the lease, the leased property of the Company and its domestic consolidated subsidiaries is not capitalized and the relating rental and lease expenses are charged to income as incurred.

(g) Employee retirement benefits

Employees who terminate their service with the NGK Group are entitled to retirement benefits generally determined by the reference of current basic rates of pay, length of service and conditions under which the termination occurs.

The Company has a lump-sum retirement benefit plan and has also established a non-contributory defined benefit pension plan which covers 80 % of retirement benefits for employees of the Company who retire at the compulsory retirement age after ten years or more of service. Some of the Company's domestic consolidated subsidiaries have similar retirement benefit plans.

Until the year ended March 31, 2000, the contribution to the pension plan was charged to income when paid, and the NGK Group principally provided for accrued severance indemnities at 100% of the amount which would be payable if all of its employees were voluntary to terminate their service at the balance sheet date, less net assets of the funded pension plan.

Effective April 1, 2000, the NGK Group adopted "Opinion Concerning Establishment of Accounting Standard for Retirement Benefits" established by BADC and related practical guideline issued by JICPA, which are implemented effective from the fiscal year beginning on and after April 1, 2000. In accordance with the new accounting standard, the NGK Group has principally recognized the retirement benefits including pension cost and related liability based on actuarial present value of projected benefit obligation using actuarial appraisal approach and the pension plan assets available for benefits at the fiscal year-end. A transitional provision of adoption of this new accounting standard of ¥4,935 million ($40,122 thousand) was charged to income as other expenses in a current single fiscal year ended March 31, 2001, through the trusts foundation for the transfer of investment securities with a recorded gain of ¥4,291 million ($34,886 thousand). Unrecognized actuarial differences as changes in the projected benefit obligation or plan assets resulting from the experience different from that assumed and from changes in assumptions are amortized on a straight-line basis over ten years as a certain period within remaining service lives of employees from the next year in which they arise. Accrued severance indemnities provided at March 31, 2000 were presented and carried forward to employee retirement benefit liability account on the accompanying consolidated balance sheets. As a result of adoption of the new standard, income before income taxes and minority interests for the year ended March 31, 2001 decreased by ¥603 million ($4,902 thousand), as compared with the previous accounting method.

(h) Accrued severance indemnities for officers

The NGK Group may pay severance indemnities to directors and statutory auditors, which are subject to the approval of the shareholders. The NGK Group has provided for the full amount of the liabilities of directors' and statutory auditors' severance indemnities at the respective balance sheet dates.

(i) Notes with warrants

Japanese accounting standard relating to bonds with warrants by issuers requires the accounting method to allocate the issue price to notes and warrants. The issue amounts of warrants are stated as the current liability, and transferred to additional paid-in capital on exercise of warrants. When the warrants are expired, the balance of warrants, if any, is recognized as gain in the consolidated statements of income.

Warrants relating to the notes with warrants were included in other current liabilities in the amounts of ¥2,789 million at March 31, 2000. During the year ended March 31, 2000, as warrants relating to notes due 2000 were expired, the NGK Group recorded such warrants of ¥2,606 million as other income in the accompanying consolidated statements of income. Debt discounts of ¥465 million at March 31, 2000 were included in other assets, and were amortized over the lives of the related notes by the straight-line method.

(j) Bond issue expenses

Bond issue expenses are charged to income as incurred.

(k) Income taxes

Income taxes are accounted for in accordance with "Opinion Concerning Establishment of Standards for Tax Effects" issued by BADC in October 1998, which requires the accounting for income taxes to recognize the deferred taxes under the asset and liability method. Under the accounting standard, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases, and measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. As the NGK Group adopted this deferred income tax accounting from the year ended March 31, 2000, cumulative effect on initial adoption of deferred income tax accounting in the credit amount of ¥7,356 million was included in the change in retained earnings in the accompanying consolidated statements of shareholders' equity for the year ended March 31, 2000.

(l) Translation of foreign currency accounts

Effective April 1, 2000, the NGK Group adopted "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation" issued by BADC. In accordance with this new standard, receivables, payables and securities, other than stocks of subsidiaries and certain other securities, are translated into Japanese Yen at the exchange rates at the fiscal year-end. Transactions in foreign currencies are recorded based on the prevailing exchange rates on the transaction dates. Resulting translation gains or losses are included in the current earnings. Until the year ended March 31, 2000, receivables and payables denominated in foreign currencies and covered by firm forward exchange contracts were translated into Yen at such forward contract rates. Current receivables and payables denominated in foreign currencies not covered by forward exchanges contracts were translated into Yen at the exchange rates in effect at the year-end. Non-current assets and liabilities denominated in foreign currencies not covered by forward exchange contracts were translated into Yen at historical exchange rates, unless having significant exchange loss. Exchange gains on forward exchange contracts on long-term debt were deferred and credited to income over the contract periods. Adoption of the revised accounting standard resulted in an increase in income before income taxes and minority interests by ¥129 million ($1,049 thousand) for the year ended March 31, 2001, as compared with previous accounting method.

In respect of the financial statement items of overseas consolidated subsidiaries, all asset and liability accounts are translated into Japanese Yen by applying the exchange rates in effect at the fiscal year-end. All income and expense accounts are translated at the average rates of exchange prevailing during the fiscal year. Translation differences, after allocating to minority interests portions attributable to minority interests, are reported as foreign currency translation adjustment in a separate component of shareholders' equity in the accompanying consolidated balance sheets. Until the year ended March 31, 2000, such translation differences were debited to the "Foreign currency translation adjustment" account in the accompanying consolidated balance sheets.

(m) Research and development expenses

Expenses related to research and development activities are charged to income as incurred. Research and development expenses relating to the NGK Group's activities such as not only a plan or design for a new product or process or for a significant improvement to an existing product or process, but also a routine product testing and quality control, or a daily improvement of an exiting product, amounted to ¥12,391 million ($100,740 thousand) and ¥10,750 million for the years ended March 31, 2001 and 2000, respectively, and were included in costs of goods sold and selling, general and administrative expenses in the accompanying consolidated statements of income.

(n) Appropriation of retained earnings

Cash dividends and bonuses to directors and statutory auditors are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the Board of Directors and/or shareholders.

(o) Per share data

Basic net income per share is based on the weighted average number of shares of common stock outstanding during the respective years. Diluted net income per share is computed assuming convertible bonds were converted at the time of issue unless having anti-dilutive effects and as if warrants were exercised at the beginning of the relevant year or (if later) on their first exercise date and as if the funds obtained thereby were used to purchase common stock at the average market price during the respective years under the treasury stock method.

Cash dividends per share shown for each fiscal year in the accompanying consolidated statements of income represent dividends declared as applicable to the respective years.

3. Notes and Accounts Receivable

At March 31, 2001 and 2000, notes and accounts receivable consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2001	2000	**2001**
Trade receivables	**¥40,434**	¥35,016	**$328,732**
Unconsolidated subsidiaries and affiliates	**3,123**	2,818	**25,390**
Other	**2,617**	2,243	**21,276**
Less, allowance for doubtful accounts	**(302)**	(373)	**(2,455)**
	¥45,872	¥39,704	**$372,943**

4. Inventories

At March 31, 2001 and 2000, inventories consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2001	2000	**2001**
Finished goods	**¥27,019**	¥21,500	**$219,667**
Work in process	**17,078**	13,093	**138,846**
Raw materials	**7,582**	5,016	**61,642**
	¥51,679	¥39,609	**$420,155**

5. Investments

At March 31, 2001 and 2000, short-term investments consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Marketable securities:			
Equity securities	¥ —	¥ 8,296	$ —
Bonds	6,520	—	53,008
	6,520	8,296	53,008
Other nonmarketable securities	188	9,000	1,528
Time deposits with an original maturity of more than three months	5,941	6,518	48,301
	¥12,649	¥23,814	$102,837

In accordance with the new accounting standard for financial instruments, based on reclassification for the current securities portfolio by the NGK Group's investment policy, marketable securities of ¥4,884 million ($39,707 thousand) were transferred to investment securities as such securities are classified to securities other than held-to-maturity or trading.

At March 31, 2001 and 2000, investment securities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Marketable securities:			
Equity securities	¥38,346	¥13,138	$311,756
Bonds	12,714	—	103,366
Other	2,087	—	16,968
	53,147	13,138	432,090
Other nonmarketable securities	1,732	5,044	14,081
	¥54,879	¥18,182	$446,171

At March 31, 2000, fair value of marketable securities and related net unrealized gains were as follows:

	Carrying value	Fair value	Net unrealized gains
	Millions of Yen		
Marketable securities:			
Short-term investments	¥8,296	¥8,441	¥ 145
Investment securities	13,138	47,539	34,401

Effective from the year ended March 31, 2001, marketable investment securities are classified as available-for-sale and are stated at fair value with unrealized gains and losses excluded from the current earnings and reported as a net amount within the shareholders' equity account until realized. At March 31, 2001, gross unrealized gains and losses for marketable securities are summarized as follows:

	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
	Millions of Yen			
Marketable securities:				
Equity securities	¥ 12,406	¥ 26,130	¥ 190	¥ 38,346
Bonds	19,010	251	27	19,234
Other	2,100	—	13	2,087
	¥ 33,516	¥ 26,381	¥ 230	¥ 59,667
	Thousands of Dollars			
Marketable securities:				
Equity securities	$100,862	$212,439	$1,545	$311,756
Bonds	154,553	2,041	220	156,374
Other	17,073	—	105	16,968
	$272,488	$214,480	$1,870	$485,098

At March 31, 2001 and 2000, investments in and long-term loans to unconsolidated subsidiaries and affiliates consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Investments, accounted for by the equity method for significant affiliates and at cost for others	¥4,071	¥3,241	$33,097
Interest bearing long-term loans	61	63	496
	¥4,132	¥3,304	$33,593

6. Property, Plant and Equipment

At March 31, 2001 and 2000, property, plant and equipment consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Land	¥ 14,104	¥13,418	$ 114,667
Buildings and structures	80,689	75,933	656,008
Machinery and equipment	163,749	152,548	1,331,293
Construction in progress	7,754	2,235	63,040
	266,296	244,134	2,165,008
Less, accumulated depreciation	(158,887)	(146,755)	(1,291,764)
	¥107,409	¥97,379	$ 873,244

7. Accounts Payable

At March 31, 2001 and 2000, accounts payable consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Trade payables	¥21,410	¥19,274	$174,065
Unconsolidated subsidiaries and affiliates	2,644	2,161	21,496
Other	10,964	3,798	89,138
	¥35,018	¥25,233	$284,699

8. Short-term Borrowings and Long-term Debt

At March 31, 2001 and 2000, short-term borrowings consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Unsecured bank loans with interest at rates ranging from 4.8% to 7.9% per annum at March 31, 2001	¥ 2,859	¥ 3,584	$ 23,244
Export bills accepted by consolidated subsidiaries and discounted with banks by the Company with interest at rates ranging from 1.5% to 7.625% per annum at March 31, 2001	14,833	8,080	120,593
	¥17,692	¥11,664	$143,837

At March 31, 2001 and 2000, long-term debt consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
3.0% U.S.$200,000,000 notes with warrants due February 2001	¥ —	¥18,251	$ —
1.3% convertible bonds due March 2002	20,000	20,000	162,602
1.4% convertible bonds due March 2004	19,930	19,934	162,032
1.4% notes due March 2005	10,000	10,000	81,301
1.86% notes due March 2007	10,000	10,000	81,301
Unsecured loans from government agencies due September 2000	—	22	—
Unsecured bank loans due through 2002 with interest at rates 6.5% per annum at March 31, 2001	2	8	16
Capital lease obligations for overseas consolidated subsidiaries	987	1,089	8,024
	60,919	79,304	495,276
Less, current portion	(20,235)	(18,488)	(164,512)
	¥40,684	¥60,816	$330,764

Each holder of a warrant issued with 3.0% notes due 2001 was entitled to subscribe to ¥540,000 for shares of common stock of the Company at ¥1,271 per share.

The current conversion price of 1.3% convertible bonds due 2002 is ¥1,364 per share and is subject to adjustment in certain circumstances, including in the event of a stock split. The Company may, at its call option, redeem the bonds for the period from April 1, 1999 at 102% to 100% of the principal amount subject to certain conditions.

The current conversion price of 1.4% convertible bonds due 2004 is ¥1,364 per share and is subject to adjustment in certain circumstances, including in the event of a stock split. The Company may, at its call option, redeem the bonds for the period from April 1, 2000 at 103% to 100% of the principal amount subject to certain conditions.

At March 31, 2001, the number of shares of common stock necessary for conversion of all convertible bonds outstanding was approximately 29 million.

As is customary in Japan, substantially all bank borrowings are subject to general agreements which provide, among other things, that the banks may, under certain circumstances, request additional security for these loans and may treat any security so furnished to the banks, as well as cash deposited with them, as security for all present and future indebtedness. The banks have never requested the Company or its subsidiaries to submit such additional security. Also, as is customary in Japan, the Company and certain of its subsidiaries have time deposits with the banks from which they have short-term and long-term borrowings. However, there are no agreements with any banks which would require maintaining such deposits.

The aggregate annual maturities of long-term debt at March 31, 2001 were as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2002	¥20,235	$164,512
2003	234	1,902
2004	20,106	163,463
2005	10,153	82,545
2006	38	309
2007 and thereafter	10,153	82,545
	¥60,919	$495,276

9. Employee Retirement Benefits

The NGK Group has non-contributory defined benefit pension plans and lump-sum retirement benefit plans which substantially cover all employees.

As disclosed in Note 2(g), the NGK Group adopted the new accounting standard for retirement benefits from the year ended March 31, 2001. The following table reconciles the benefit liability and net periodic retirement benefit expense as at or for the year ended March 31, 2001:

	Millions of Yen	Thousands of U.S. Dollars
Reconciliation of benefit liability:		
Projected benefit obligation	¥33,500	$272,358
Less, fair value of pension plan assets at end of year	(19,577)	(159,163)
Projected benefit obligation in excess of pension plan assets	13,923	113,195
Less, unrecognized actuarial differences (loss)	(1,550)	(12,602)
Net amounts of employee retirement benefit liability recognized on the consolidated balance sheets	¥12,373	$100,593
Components of net periodic retirement benefit expense:		
Service cost	¥1,861	$15,130
Interest cost	935	7,601
Expected return of pension plan assets	(295)	(2,398)
Initial transitional provision	4,935	40,122
Net periodic retirement benefit expense	¥7,436	$60,455

Major assumptions used in the calculation of the above information for the year ended March 31, 2001 were as follows:

	For the year 2001
Method attributing the projected benefits to periods of services	Straight-line method
Discount rate	3.0 %
Expected rate of return on pension plan assets	2.0 %
Amortization of unrecognized actuarial differences	10 years
Amortization of initial transitional provision	1 year

10. Contingent Liabilities

At March 31, 2001 and 2000, contingent liabilities in respect of trade notes and export bills discounted with banks with recourse in the ordinary course of business and guarantees of indebtedness principally of employees and the third parties aggregated ¥3,002 million ($24,407 thousand) and ¥3,944 million, respectively.

11. Lease Commitments

The Company and its domestic consolidated subsidiaries have entered into various rental and lease agreements as lessee principally for buildings cancelable with a few months' advance notice and also for computer equipment, other office machines and vehicles which are not usually cancelable for 12 months to 120 months from the original contract dates.

Total rental and lease expenses including cancelable and non-cancelable leases for the years ended March 31, 2001 and 2000 were ¥3,272 million ($26,602 thousand) and ¥3,082 million, respectively. For the years ended March 31, 2001 and 2000, the lease expenses for non-cancelable lease agreements which were categorized as financing leases amounted to ¥1,100 million ($8,943 thousand) and ¥1,086 million, respectively.

The aggregate future minimum payments for such non-cancelable leases, including the imputed interest portion, at March 31, 2001 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year ending March 31, 2002	¥ 964	$ 7,838
Thereafter	1,570	12,764
	¥2,534	$20,602

12. Derivative Instruments

The NGK Group is a party to derivative instruments such as foreign currency forward exchange contracts in the normal course of business to reduce its own exposure to fluctuations in exchange rates principally for hedge purposes. These exposures include certain anticipated export sales or import purchases, and long-term debt denominated in foreign currencies. The NGK Group is exposed to credit loss in the event of nonperformance by the other parties. However, the NGK Group does not expect nonperformance by the counterparties.

A summary of foreign currency forward exchange contracts outstanding, excluding those for a hedge of assets and liabilities recognized on the accompanying consolidated balance sheets, at March 31, 2001 and 2000 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Contract (notional) amounts:			
Buy contracts	¥ –	¥492	$ –
Sell contracts	2,267	2,139	18,431

At March 31, 2001, aggregate contract amounts of derivative instruments other than those accounted for by hedge accounting, amounted to ¥2,267 million ($18,431 thousand). Relating unrealized losses of ¥55 million ($447 thousand) were currently recorded as other expenses for the year ended March 31, 2001.

13. Shareholders' Equity

(a) The authorized number of shares of common stock, with a par value of ¥50 per share, is 400 million at March 31, 2001, unless there may be a reduction due to a cancellation of treasury stock acquired.

Pursuant to the articles of incorporation of the Company revised upon the approval of shareholders at the general meeting on June 26, 1998, the Company can purchase and cancel the treasury stock of the Company up to 22 million shares through a charge to retained earnings, subject to the resolution of the Board of Directors, in accordance with the Law Concerning Special Measures under the Commercial Code with Respect to Procedures of Cancellation of Stocks.

(b) At March 31, 2001 and 2000, retained earnings included legal reserve of the Company in the amounts of ¥5,668 million ($46,081 thousand) and ¥5,412 million, respectively. The Commercial Code of Japan provides that an amount equivalent to at least 10% of cash payments as an appropriation of retained earnings shall be appropriated as a legal reserve until such reserve equals 25% of common stock. The legal reserve is not available for the distribution as dividends, but may be used to reduce a deficit or may be transferred to common stock by proper actions of the Board of Directors and/or shareholders of the Company.

14. Income Taxes

As disclosed in Note 2(k), the NGK Group adopts the accounting method to recognize the tax effect on temporary differences from the year ended March 31, 2000. Income taxes for the years ended March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Income taxes:			
Current	¥11,670	¥5,769	$94,878
Deferred	(2,720)	(933)	(22,113)
	¥ 8,950	¥4,836	$72,765

The tax effects on temporary differences that give rise to a significant portion of deferred tax assets and liabilities at March 31, 2001 and 2000, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Deferred tax assets:			
Intercompany profits	¥2,674	¥2,679	$21,740
Depreciation	2,687	2,323	21,846
Employee retirement benefit liability	2,174	2,203	17,675
Accrued bonus to employees	1,234	730	10,032
Inventories	976	716	7,935
Enterprise tax accruals	789	206	6,415
Other	1,693	481	13,764
	12,227	9,338	99,407
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	10,942	–	88,960
Accelerated depreciation	607	570	4,935
Other	384	428	3,122
	11,933	998	97,017
Net deferred tax assets	¥ 294	¥8,340	$ 2,390

In assessing the realizability of deferred tax assets, management of the NGK Group considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of the future taxable income during the periods in which those temporary differences become deductible. At March 31, 2001 and 2000, no valuation allowance was provided to reduce the deferred tax assets since the management believes that the amount of the deferred tax assets is expected to be fully realizable.

The difference between the Japanese statutory tax rate and the effective income tax rate on pre-tax income reflected in the accompanying consolidated statements of income for the years ended March 31, 2001 and 2000, was not material.

15. Segment Information

The NGK Group's operations are classified into three segments, automotive components business, communication media components and technical ceramics business and other business. Automotive components segment is composed of those operations involved in the manufacture and sale of spark plugs, automotive sensors and other products for automobiles. Communication media components and technical ceramics segment is principally involved in the manufacture and sale of semiconductor parts, electronic parts and cutting tools for ceramic products.

Information by industry segment for the years ended March 31,2001 and 2000 was as follows:

	Automotive Components	*Communication Media Components and Technical Ceramics*	*Other*	*Total*	*Elimination*	*Consolidated*
			(Millions of Yen)			
For the year 2001:						
Operating revenue - Net sales:						
Outside customers	¥116,825	¥104,013	¥3,431	¥224,269	¥ —	¥224,269
Inter-segment sales	—	5	503	508	(508)	—
Total net sales	116,825	104,018	3,934	224,777	(508)	224,269
Operating costs and expenses	101,096	94,335	3,892	199,323	(519)	198,804
Operating income	¥ 15,729	¥ 9,683	¥ 42	¥ 25,454	¥ 11	¥ 25,465
Identifiable assets	¥190,738	¥174,873	¥1,116	¥366,727	¥ —	¥366,727
Depreciation	¥ 7,122	¥ 10,992	¥ 4	¥ 18,118	—	¥ 18,118
Capital expenditures	¥ 8,221	¥ 15,249	¥ 9	¥ 23,479	—	¥ 23,479
For the year 2000:						
Operating revenue - Net sales:						
Outside customers	¥113,631	¥ 79,627	¥2,337	¥195,595	¥ —	¥195,595
Inter-segment sales	—	2	268	270	(270)	—
Total net sales	113,631	79,629	2,605	195,865	(270)	195,595
Operating costs and expenses	96,328	82,543	2,567	181,438	(280)	181,158
Operating income(loss)	¥ 17,303	¥ (2,914)	¥ 38	¥ 14,427	¥ 10	¥ 14,437
Identifiable assets	¥150,714	¥154,249	¥ 712	¥305,675	¥8,646	¥314,321
Depreciation	¥ 7,253	¥ 12,108	¥ 4	¥ 19,365	—	¥ 19,365
Capital expenditures	¥ 9,848	¥ 7,642	¥ 2	¥ 17,492	—	¥ 17,492
			(Thousands of U.S. Dollars)			
For the year 2001:						
Operating revenue - Net sales:						
Outside customers	$ 949,797	$ 845,634	$27,894	$1,823,325	$ —	$1,823,325
Inter-segment sales	—	41	4,089	4,130	(4,130)	—
Total net sales	949,797	845,675	31,983	1,827,455	(4,130)	1,823,325
Operating costs and expenses	821,919	766,951	31,642	1,620,512	(4,220)	1,616,292
Operating income	$ 127,878	$ 78,724	$ 341	$ 206,943	$ 90	$ 207,033
Identifiable assets	$1,550,715	$1,421,732	$ 9,073	$2,981,520	$ —	$2,981,520
Depreciation	$ 57,902	$ 89,366	$ 33	$ 147,301	—	$ 147,301
Capital expenditures	$ 66,837	$ 123,976	$ 73	$ 190,886	—	$ 190,886

Note: Identifiable assets in the elimination column in the year 2000 represented unallocated general corporate items such as foreign currency translation adjustment which were not assigned to a particular industry segment.

Information summarized by geographic area for the years ended March 31,2001 and 2000 was as follows:

	Japan	*North America*	*Europe*	*Other*	*Total*	*Elimination*	*Consolidated*
				(Millions of Yen)			
For the year 2001:							
Operating revenue - Net sales:							
Outside customers	¥ 94,984	¥82,230	¥34,104	¥12,951	¥224,269	¥ —	¥224,269
Inter-segment sales	105,237	484	278	692	106,691	(106,691)	—
Total net sales	200,221	82,714	34,382	13,643	330,960	(106,691)	224,269
Operating costs and expenses	178,167	82,140	33,222	12,166	305,695	(106,891)	198,804
Operating income	¥ 22,054	¥ 574	¥ 1,160	¥ 1,477	¥ 25,265	¥ 200	¥ 25,465
Identifiable assets	¥310,936	¥38,694	¥21,728	¥11,822	¥383,180	¥ (16,453)	¥366,727
For the year 2000:							
Operating revenue - Net sales:							
Outside customers	¥ 80,030	¥72,452	¥31,120	¥11,993	¥195,595	¥ —	¥195,595
Inter-segment sales	91,509	339	357	845	93,050	(93,050)	—
Total net sales	171,539	72,791	31,477	12,838	288,645	(93,050)	195,595
Operating costs and expenses	160,834	71,968	30,109	10,944	273,855	(92,697)	181,158
Operating income	¥ 10,705	¥ 823	¥ 1,368	¥ 1,894	¥ 14,790	¥ (353)	¥ 14,437
Identifiable assets	¥260,838	¥29,789	¥16,858	¥10,211	¥317,696	¥ (3,375)	¥314,321

	Japan	North America	Europe	Other	Total	Elimination	Consolidated
				(Thousands of U.S. Dollars)			
For the year 2001:							
Operating revenue - Net sales:							
Outside customers	$ 772,228	$668,537	$277,268	$105,292	$1,823,325	$ —	$1,823,325
Inter-segment sales	855,585	3,935	2,260	5,627	867,407	(867,407)	—
Total net sales	1,627,813	672,472	279,528	110,919	2,690,732	(867,407)	1,823,325
Operating costs and expenses	1,448,512	667,805	270,097	98,911	2,485,325	(869,033)	1,616,292
Operating income	$ 179,301	$ 4,667	$ 9,431	$ 12,008	$ 205,407	$ 1,626	$ 207,033
Identifiable assets	$2,527,935	$314,585	$176,651	$ 96,114	$3,115,285	$ (133,765)	$2,981,520

Note: (1) As disclosed in Note 2(g), the NGK Group adopted the new accounting standard for retirement benefits from the year ended March 31, 2001. As a result, as compared with the previous accounting method, operating income for automotive components segment and communication media components and technical ceramics segment increased by ¥21 million ($171 thousand) and ¥20 million ($163 thousand), respectively. As for the geographic segment, operating income for Japan area increased by ¥41 million ($333 thousand).

(2) As disclosed in Note 2(c), the NGK Group also adopted the new accounting standard for financial instruments from the year ended March 31, 2001. As a result, as compared with the previous accounting method, identifiable assets for automotive components segment and communication media components and technical ceramics segment increased by ¥16,502 million ($134,163 thousand) and ¥4,597 million ($37,374 thousand), respectively. As for the geographic segment, identifiable assets for Japan area increased by ¥21,099 million ($171,537 thousand).

For the years ended March 31,2001 and 2000, overseas sales which included export sales from Japan and net sales of overseas consolidated subsidiaries other than Japan were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
North America	¥102,303	¥ 86,732	$ 831,732
Europe	38,253	36,245	311,000
Other area	33,344	29,509	271,089
	¥173,900	¥152,486	$1,413,821
Percentage of overseas sales to total consolidated net sales	77.5%	78.0%	

16. Related Party Transactions

During the years ended March 31, 2001 and 2000, the NGK Group had operational transactions with a significant 50%-owned affiliate accounted for by the equity method. A summary of the significant transactions with such an affiliate for the years ended, or as at March 31, 2001 and 2000 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
For the year:			
Purchases of parts as work in process	¥24,910	¥19,133	$202,520
Supply of raw materials	19,982	14,946	162,455
At the year-end:			
Accounts receivable	¥ 1,923	¥ 1,676	$ 15,634
Accounts payable	2,516	1,993	20,455

17. Subsequent Event

On June 28, 2001, the following appropriations of retained earnings were approved at an annual general meeting of shareholders of the Company:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends	¥1,557	$12,659
Bonuses to directors and statutory auditors	70	569

ChuoAoyama Audit Corporation

PRICEWATERHOUSECOOPERS

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3-28-12,Meieki,Nakamura-ku
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Telephone 81-52-551-3001
Facsimile 81-52-551-3005

Report of Independent Accountants

To the Board of Directors of
NGK SPARK PLUG CO., LTD.

We have audited the accompanying consolidated balance sheets of NGK SPARK PLUG CO., LTD. and its consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of NGK SPARK PLUG CO., LTD. and its consolidated subsidiaries as of March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

As described in Note 2, effective from the year ended March 31, 2001, NGK SPARK PLUG CO., LTD. and its consolidated subsidiaries have adopted the new Japanese accounting standards for financial instruments, retirement benefits, and foreign currency translation.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the readers, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation
Nagoya, Japan
June 28, 2001

Major Subsidiaries and Affiliates

Domestic Subsidiaries

- **Nittoku Seisakusho Co.,Ltd.**
  Production and sale of spark plug parts and jigs
- **Nittoku Unyu Co.,Ltd.**
  Transportation of the Company's products
- **Nichiwa Kiki Co.,Ltd.**
  Production and sale of spark plug resister covers and cables
- **Oguchi Seiki Co.,Ltd.**
  Production and sale of electrodes for spark plug and sensors
- **Kamioka Ceramic Co.,Ltd.**
  Production and sale of glow plugs and cutting tools
- **Kani Ceramic Co.,Ltd.**
  Production and sale of IC packages
- **Iijima Ceramic Co.,Ltd.**
  Production and sale of IC packages
- **Nittoku Alpha Service Co.,Ltd.**
  Welfare services for employee of the Company
- **Nakatsugawa Ceramic Co.,Ltd.**
  Production and sale of IC packages
- **Tono Ceramic Co.,Ltd.**
  Production and sale of spark plug insulators

Overseas Subsidiaries

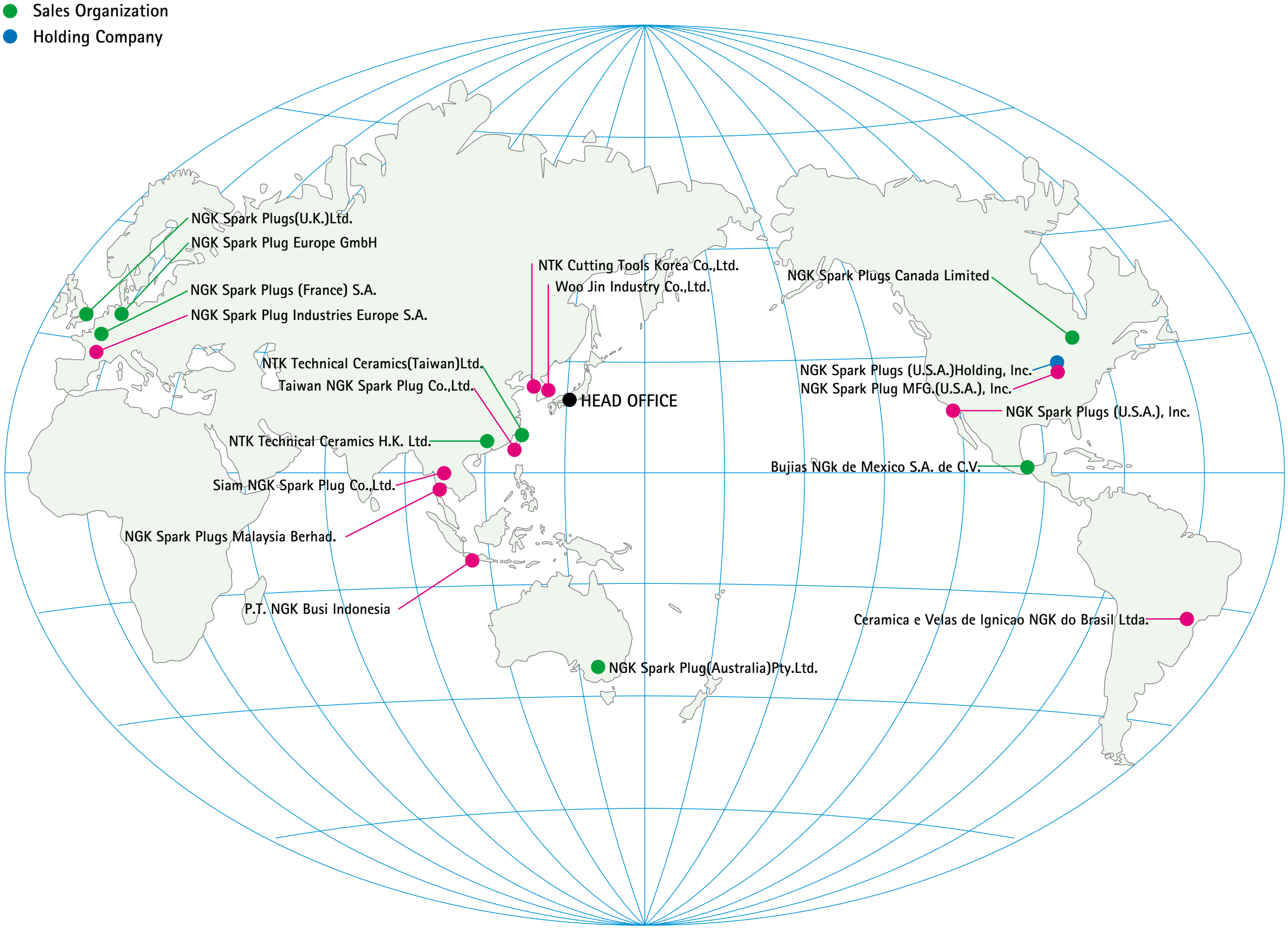
- **NGK Spark Plugs (U.S.A.) ,Inc.**
  Production and sale of spark plugs, cutting tools and sale of communication media components and technical ceramics
- **NGK Spark Plugs (U.K.) Ltd.**
  Sale of automotive components and communication media components and technical ceramics
- **NGK Spark Plug (Australia) Pty.Ltd.**
  Sale of automotive components and communication media components and technical ceramics
- **NGK Spark Plugs Canada Limited**
  Sale of automotive components
- **Taiwan NGK Spark Plug Co.,Ltd.**
  Production and sale of spark plugs
- **NGK Spark Plug Industries Europe S.A.**
  Production and sale of spark plugs
- **Bujias NGK de Mexico S.A. de C.V.**
  Sale of automotive components
- **NGK Spark Plugs (France) S.A.**
  Sale of automotive components and communication media components and technical ceramics
- **NTK Cutting Tools Korea Co.,Ltd.**
  Production and sale of cutting tools
- **NTK Technical Ceramics H.K.Ltd.**
  Sale of communication media components and technical ceramics
- **NGK Spark Plug MFG. (U.S.A.) ,Inc.**
  Production and sale of oxygen sensors for automobile
- **NTK Technical Ceramics (Taiwan) Ltd.**
  Sale of communication media components and technical ceramics
- **NGK Spark Plugs (U.S.A.) Holding,Inc.**
  Holding company for U.S. subsidiaries
- **NGK Spark Plug Europe GmbH**
  Sale of automotive components and communication media components and technical ceramics
- **Ceramica e Velas de Ignicao NGK do Brasil Ltda.**
  Production and sale of spark plugs, construction materials and technical ceramics
- **P.T.NGK Busi Indonesia**
  Production and sale of spark plugs

Affiliates

- **Ceramic Sensor Co.,Ltd.**
  Production and sale of oxygen sensors for automobile
- **NGK Spark Plugs Malaysia Berhad.**
  Production and sale of spark plugs
- **Siam NGK Spark Plug Co.,Ltd.**
  Production and sale of spark plugs
- **Woo Jin Industry Co.,Ltd.**
  Production and sale of spark plugs and oxygen sensors for automobile
- **Tokai Taima Kogu Co.,Ltd.**
  Production and sale of carbide cutting tools

Overseas Network

- ● Head Office
- ● Production & Sales Organization
- ● Sales Organization
- ● Holding Company




NGK Spark Plugs (U.S.A.), Inc.


NGK Spark Plug MFG.(U.S.A.), Inc.


NGK Spark Plug Industries Europe S.A.


Ceramica e Velas de Ignicao NGK do Brasil Ltda.


Siam NGK Spark Plug Co., Ltd.

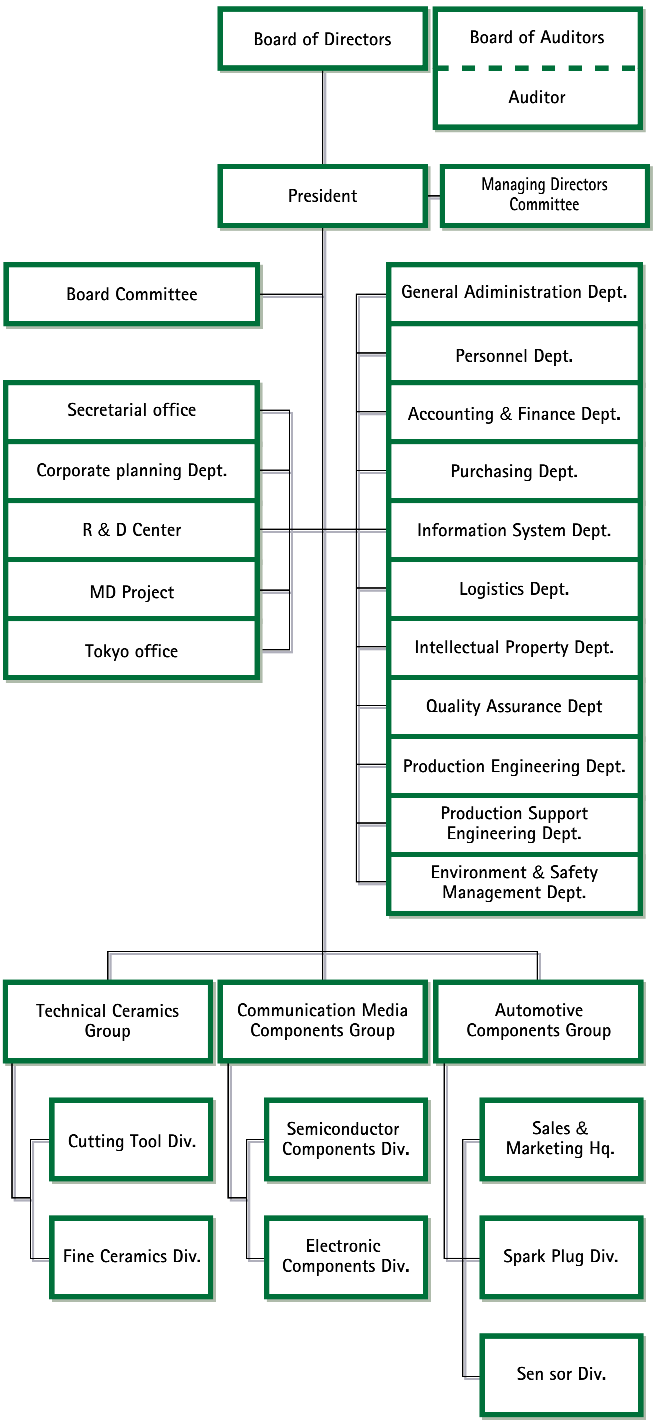

NGK Spark Plugs Malaysia Berhad.


P.T. NGK Busi Indonesia


Taiwan NGK Spark Plug Co., Ltd.

Organization

(As of June 28, 2001)



Board of Directors

(As of June 28, 2001)

PRESIDENT
Shigenobu Kanagawa*

EXECUTIVE VICE PRESIDENTS
Seiji Haga*
Masao Sasaki

SENIOR MANAGING DIRECTORS
Katsumasa Nishiyama
Toshio Hattori
Hiroshi Tanaka

MANAGING DIRECTORS
Yoshiro Ushida
Norio Kato
Shin Suzuki
Toyoji Morimura
Masaru Aritani

DIRECTORS
Takashi Terada
Akio Takami
Naomiki Kato
Ikuo Hotta
Genjiro Hashimoto
Kazuo Takiguchi
Jun Inagaki
Akiyo Kasugai
Atsuhiro Chinari
Kazuo Kawahara
Chikanori Abe
Michio Obara

STANDING STATUTORY AUDITORS
Yoshiaki Miwa
Harunobu Sato

STATUTORY AUDITORS
Minoru Hoshino
Ikuko Ohtsuka

*Representative Director

Corporate Data

(As of March31,2001)

NGK SPARK PLUG CO.,LTD.

Head Office
14-18 Takatsuji-cho,Mizuho-Ku,Nagoya,467-8525,Japan
http://www.ngkntk.co.jp

Established
October 1936

Common Shares

Authorized:	400,000,000
Issued:	239,522,827

Paid-in Capital
¥47,854 million

Stock Listing
Tokyo Stock Exchange,First Section
Nagoya Stock Exchange,First Section

Number of Employees
5,142

Number of Shareholders
10,448

Transfer Agent
The Mitsubishi Trust and Banking Corporation

Independent Accountants
ChuoAoyama Audit Corporation

Common Stock Price Range

	FY2001	
	High	Low
2000/April–June	¥1,690	¥1,090
2000/July–September	2,050	1,690
2000/October–December	1,920	1,592
2001/January–March	1,766	1,128

NGK SPARK PLUG CO., LTD.
14-18 Takatsuji-cho, Mizuho-ku, Nagoya, 467-8525, Japan

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