Potential & Challenge

NGK SPARK PLUG CO., LTD.

Annual Report 2004

Fiscal year ended March 31, 2004

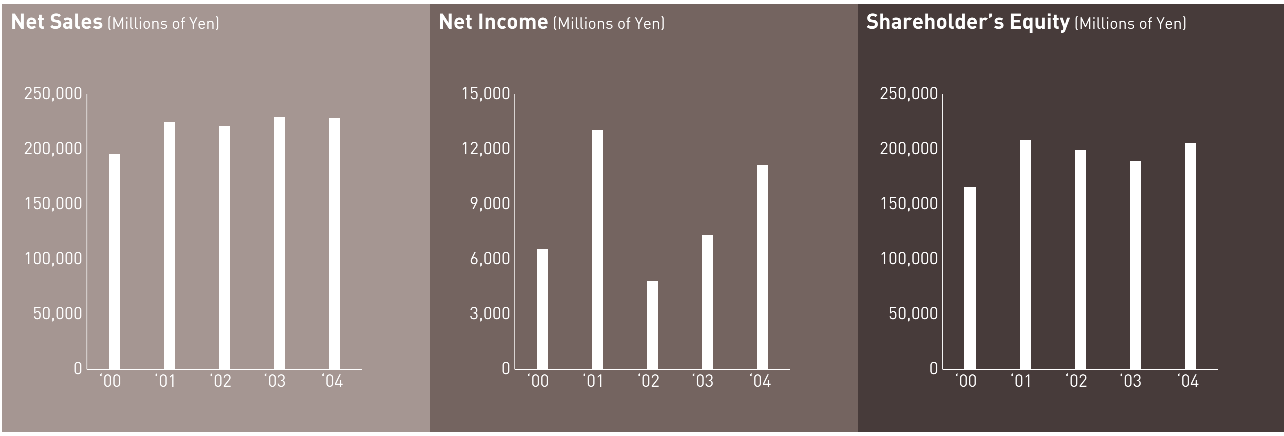
Potential

Opening new possibilities in automobile-related businesses using the Company's highly refined original technologies ...P.8, 9

Challenging technological frontiers to elicit new value in IT-related businesses

...P.10, 11

Financial Highlights



Profile

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

The Company is the world's largest manufacturer of spark plugs for use in automobiles, motorcycles, aircraft, etc.

In the automotive field, oxygen sensors have become an increasingly important item, as well as IC packages for microprocessor units (MPUs) in the electronics industry.

These main products occupy an important market share worldwide.

To cope with the highly advanced information-oriented society, we will continue to focus on our original objective, to "contribute to industry through the development of ceramics." We remain committed to creating and promoting a global development and production system for the fulfillment of our objective.

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Forward-Looking Statements
This Annual Report contains information about forward-looking statements related to such matters as the Company's plans, strategies, and business results. These forward-looking statements represent judgments made by the Company based on information available at present and are inherently subject to a variety of risks and uncertainties. The Company's actual activities and business results could differ significantly due to changes including, but not limited to, changes in the economic environment, business environment, exchange rates, laws, regulations, government policies, political circumstances, market demand for products, and price competition.

A Message from the President

Norio Kato
President

During the fiscal year ended March 31, 2004, NGK Spark Plug's business environment was marked by high growth in new car demand, driven by the economic recovery in the U.S. and strong economic growth in China. Domestically, although strengthened diesel regulations brought growth in demand for trucks, growth in demand for passenger cars was almost imperceptible. In IT-related areas, strong sales of DVD players, flat panel televisions, and other digital consumer electronics indicated a resurgence in consumer spending. However, the primary drivers in the market were mobile telephones and personal computers, which posted double-digit growth in shipments.

The NGK Spark Plug Group posted consolidated net sales of ¥228,776 million, a decline of 0.1% in comparison to the previous fiscal year. Exchange rate movements had an effect on operating income, but reductions in inventories, cost reduction, and other rationalization measures improved profit ratios and allowed 31.1% growth to ¥20,745 million. Net income jumped 51.3% to ¥11,117 million, yielding net income per share of ¥49.84.

The primary causes of the expansion in net income were the steady growth in domestic sales of precious metal spark plugs in our automotive components business, together with solid sales of glow plugs and other diesel-related products stemming from tighter pollution control regulations. Exports of replacement spark plugs to Europe also took an upturn. Exports of oxygen sensors and other automotive sensors were flat, as a result of reduced production by U.S. automakers, but they were increasingly used by domestic automakers. In addition, the shortening of the business cycle, the rationalization of inventory management, and the placement of manufacturing facilities in optimal locations worldwide resulted in improvements in profit ratios.

The recovery in IT-related fields has become clear, and orders have been solid for core products in the communication media components business, including IC packages for MPU and communications device packages. At the same time, however, unit sales prices have declined as a result of changes to the Company's product portfolio, and the weakening dollar has had its effects, with the result that net sales have declined. In ceramics-related activities, orders received for automobile manufacturing applications, medical uses, and semiconductor manufacturing equipments were strong.

Long-Term Outlook

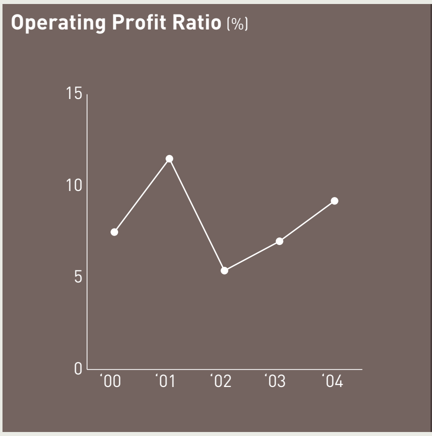
The pillars of long-term growth are upgrading and expanding proprietary technology, customizing products for different regions, a market-leader strategy, and sensitivity to environmental concerns. Together with this, the Company must increase profitability through steady implementation of the medium-term management plan.

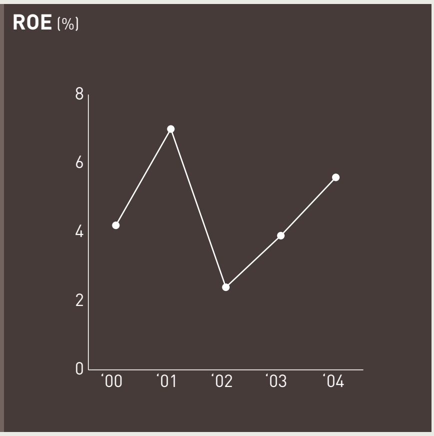
Upgrading and expanding proprietary technology will involve the application of the Company's accumulated technology to our own areas of strength. For instance, the application of ceramic IC package technology renders it possible to make fuel cells. NGK Spark Plug is also developing new technology and materials at its R&D Center, employing the collective strength of its various business divisions in developing new products. In this way we are strengthening the Company's manufacturing operations, which are NGK Spark Plug's foundation.

Customizing products for different regions means offering finished-product manufacturers value-added products as they proceed with their worldwide programs aimed at ensuring that procurement occurs in the optimal location. Today, NGK Spark Plug offers the same products in the Japanese market and abroad, but in the future will provide products adapted for the preferences of specific regions for higher added value.

Our market-leader strategy is concerned less with remaining the exclusive source of revolutionary products developed by the Company than with expanding the market for such products by increasing the number of sales agents marketing them, while remaining the leader in that market. Remaining the sole source of a unique product can bring substantial returns, but it also involves significant risks. Risks are greatly reduced by pursuing a strategy of expanding the market while holding the largest market share, and returns are satisfactory.

The last pillar of long-term growth, sensitivity to environmental concerns, represents a major opportunity for our automotive components business. In Europe, for example, where environmental concerns are much in ascendance, approximately half the new cars sold are equipped with diesel



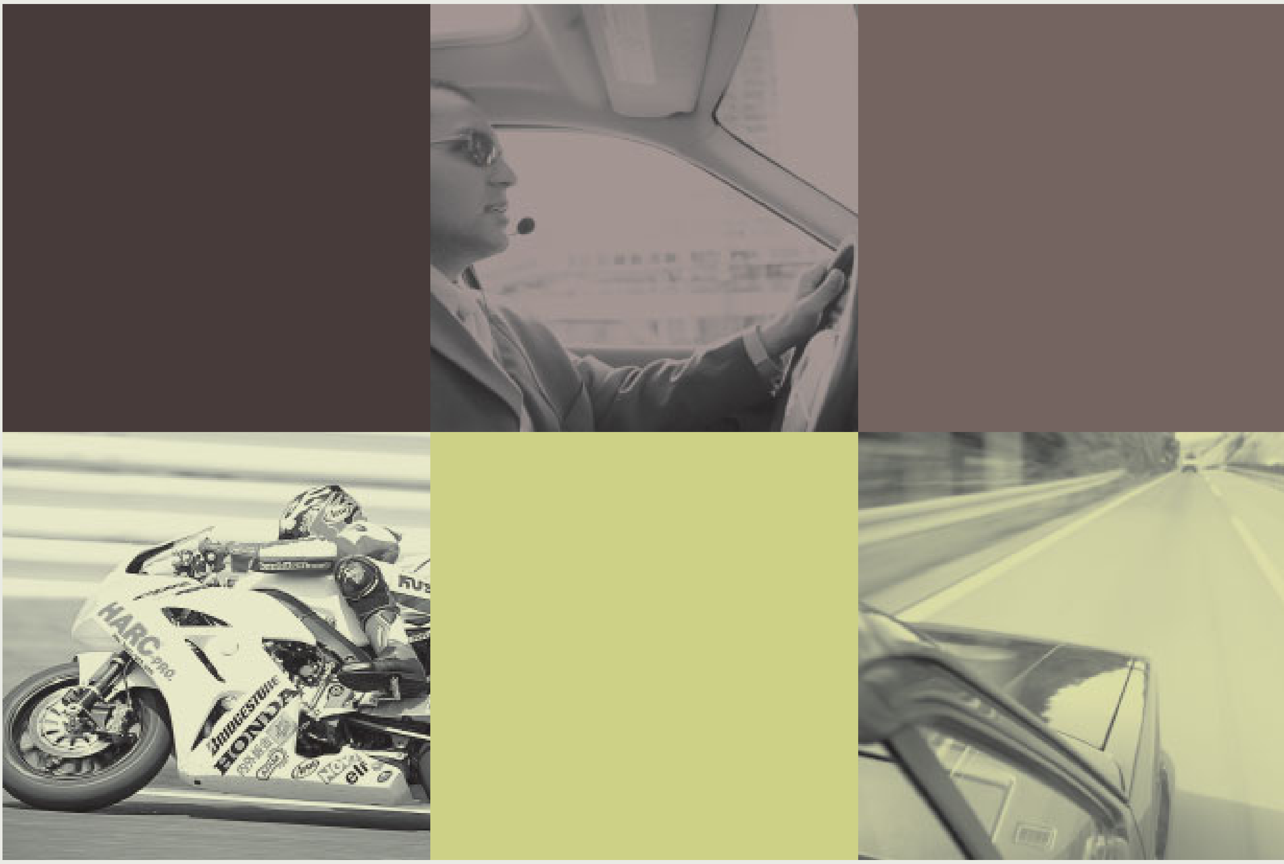


engines. These offer good fuel efficiency and low CO_2 emissions. Considering the relative power generation efficiency, next-generation hybrid cars may be equipped with diesel engines. Given the worldwide trend toward stricter regulation of exhaust emissions, demand for universal exhaust gas oxygen (UEGO) sensors, NO_X sensors and temperature sensors is forecast to rise. The Diesel Business Development Team is now working to incorporate all these sensors into one set and be first to market with the product.

In the future the Company will adhere to the fundamental policy of involvement for all personnel and emphasis on product quality, while gaining a solid footing through the implementation of our medium-term management plan, at the same time strengthening our corporate structure through cost reductions and rationalization. Moving forward with the realization of each of the four key concepts above will make long-term growth possible.

The Effects of the Medium-Term Management Plan

The medium-term management plan adopted in 2003 sets goals of 10% or higher for the operating profit ratio and 8% for return on equity (ROE). The operating profit ratio for the fiscal year ended March 31, 2004 was 9.1%, a 2.2 percentage point increase over the previous fiscal year. Measures taken by the Company to increase profit ratios were the primary cause of this, specifically cost reduction activities in the business divisions, progress with cycle time reduction (CTR), and increased sales of high-value-added products. In the automotive components business, the Company maintained its competitive advantage with respect to high-value-added core products, spark plugs and oxygen sensors. NGK Spark Plug restructured its communication media components and technical ceramics businesses, concentrating its ceramic IC package manufacturing in its subsidiaries.



Automotive Components Business

The automotive components business is building a strong and efficient business structure by reducing inventories, shortening production periods, and other measures to reduce waste, together with the enhancement of operational efficiency. We are developing new products in this area that will contribute to environmental protection and energy conservation as we strive to consolidate and strengthen our position at the top of this industry.

During the fiscal year ended March 31, 2004, CTR activities resulted in the reduction of inventories. With the startup of NGK Spark Plug (Shanghai) Co., Ltd., the Company is positioned to supply automakers in the Chinese market as well as replacement demand. NGK Spark Plug now has manufacturing facilities in Japan, North America, Europe, Asia, and South America, and will continue to reduce inventories and raise profit ratios by using this organization to shorten delivery times and increase the efficiency of supply. NGK Spark Plug will concentrate management resources in spark plugs, oxygen sensors, and other core products, while moving forward with the development of diesel-related products, beating its competitors to market with high-value-added products.

Communication Media Components and Technical Ceramics Businesses

The Semiconductor Components Division did not limit itself to quantitative increases in its efforts to increase profitability, but also sought to consolidate its footing through improved productivity and cost reductions. The Electronic Components Division sought to increase profitability by shrinking its product portfolio while developing important new products. The Cutting Tool Division restructured its manufacturing and sales bases to strengthen competitiveness and expand sales, while the Fine Ceramics Division improved profit ratios through increased sales of high-value-added products and worked to expand sales in the IT-related, medical, environmental, and other new markets. As a result, the Semiconductor Components Division increased the profit ratio of packages for communications devices sold for use in mobile telephones. Similarly, the Electronic Components Division promoted development of wireless LAN and built a mass production system. The ceramics-related business was able to accommodate IT- and environment-related demand in addition to that from automakers. In our communication media components and technical ceramics businesses we stressed cost reductions in an effort to climb into the black, while heightening product quality and functionality.

Norio Kato
President

Potential

Automotive Components Business

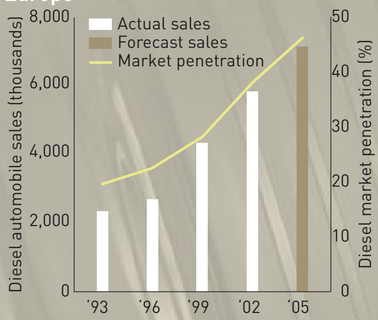
NGK spark plugs embody a high level of brand power and technology, as does the rest of the Company's automotive components business. The Company has about a 30% share of the world market for spark plugs and about a 40% share of the oxygen sensor market. In this article we will discuss the latent growth potential in the automotive business.

Glow plugs

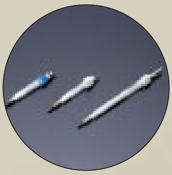
Glow plugs provide diesel engines with a source of ignition on startup, until autoignition begins. The primary source of demand for glow plugs is the European market, where almost 50% of new cars are equipped with diesel engines. Demand for diesel automobiles is expected to rise further, due to the lower cost of diesel fuel and the lower CO_2 emissions of the diesel engine.

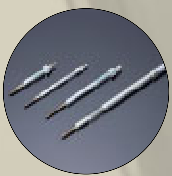
The Company's ceramic glow plugs have an extremely short pre-heating time, allowing engine start-up in a shorter period, which allows reduction of exhaust gas emissions following startup. We expect rising demand for these plugs as regulation of emissions becomes stricter.

Diesel automobile sales in Western Europe



Source: Schmidt's Diesel Car Prospects to 2006





Spark plugs

NGK Spark Plug's history is closely bound to the spark plug, and the Company's expertise in technology development has made its spark plugs a favorite in more than 140 countries. In Formula One racing, the pinnacle of motor sports, four of ten teams (including Ferrari) used NGK spark plugs in 2003.

NGK's spark plugs have two markets: new cars and the maintenance market, with the latter accounting for over 70% of the total. Ordinarily, the spark plugs in a passenger car need replacing every 15,000–20,000 kilometers, so demand in the maintenance market grows in proportion to the number of cars on the road. A major strength of the spark plug business is that, even if production of new cars declines, demand from the maintenance market translates into a stable cash flow. However, the advent of high-added-value products such as iridium spark plugs is extending spark plug lifespan, and it is forecast that the development of next generation engines by automakers will bring significant changes in the spark plug business environment. Positioning the Company to respond aggressively to future changes, and to create a de facto standard, NGK Spark Plug is pressing forward with spark plug research and development to meet the demands placed upon it by the automobile industry.

Oxygen sensors

With the worldwide tightening of environmental regulations regarding automobiles, NGK Spark Plug's oxygen sensors are assuming an increasingly important role. Oxygen sensors, which detect oxygen concentrations in exhaust gases, are central to automobile emission control systems. The signal from the oxygen sensor is used to optimize the fuel/air mixture entering the engine, contributing to cleaner exhaust gases.

Most oxygen sensors are supplied for factory installation in new cars. Of this demand, the share of U.S. automakers had been rising, but in recent years domestic automakers have been accounting for a larger proportion. Today, most autos are equipped with two oxygen sensors, but the growing severity of regulations on emissions may in the future require more sensors than two. In addition, thimble elements of oxygen sensor are giving way to flat elements, which can more easily be miniaturized. The production of flat sensors requires expertise in multilayer ceramics technology, and the knowledge NGK Spark Plug has developed in the course of its ceramic IC package operations gives the Company technological superiority over its competitors in this area. The Company will continue working to translate this technological advantage into growth in market share.

Challenge

Communication Media Components and Technical Ceramics Businesses

In the communication media components and technical ceramics businesses we will be using the ceramics technology we have amassed over long years to develop a wide spectrum of businesses, from semiconductor components to electronic components and fine ceramics. Below we discuss new product development and the growth of our communication media components and technical ceramics businesses.

Semiconductor components

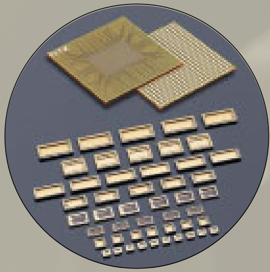
Demand for ceramic IC packages for MPUs has almost disappeared. However, we are now stressing the expansion of mobile telephone-related sales. We are also intensifying our approach to automakers with regard to electronic control systems that provide greater vehicular safety.

Organic IC packages are moving closer to reality as a result of an alliance between NGK Spark Plug and Taiwan's NAN YA PCB CORP.

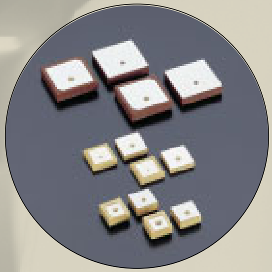
This alliance has greatly reduced NGK Spark Plug's capital investment burden. As NAN YA PCB CORP. further increases the efficiency of its manufacturing operations, and as NGK Spark Plug's technological expertise trends upward, the Company will seek further gains in market share.

Electronic components

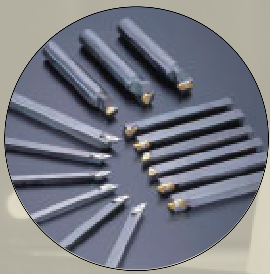
The world continues to move toward ubiquitous Internet access. In response to demands from the electronic components market for further miniaturization of devices, NGK Spark Plug is using its ceramics technology in such high frequency technology applications as antenna switch modules and dielectric filters, and has developed the world's most sensitive dielectric antennas for dual band wireless LANs. The Company is working to expand sales in the wireless LAN market, chiefly on the strength of this new product, while continuing to develop mobile telephones and other key devices.



IC PACKAGES are used for microprocessors, which form the core of personal computers, crystal devices and SAW filters for data communication equipments such as mobile phones.



DIELECTRIC ANTENA serialized products line up with wide pass band and high gain dielectric antennas for various applications.



NTK SS TOOLS provides high quality, high productivity and longer tool life in small parts machining.

BIO CERAMICS take the advantage of the new ceramic's strength and compatibility with the human body.

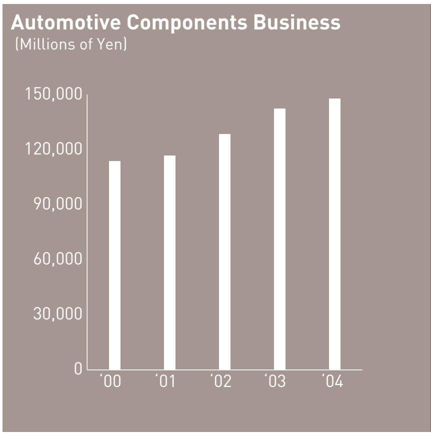
Cutting tools

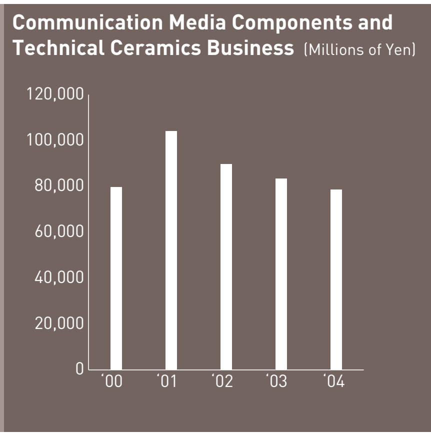
The smooth startup of a mass production system at factory in Poland established by NGK Spark Plug’s cutting tool business, together with the expansion and upgrading of technical services, have allowed the expansion of exports to Europe and the U.S. As a result, both net sales and profits are trending upward.

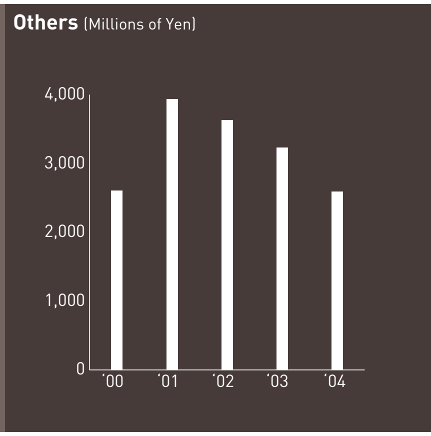
Fine ceramics

The Fine Ceramics Division is also practicing selection and concentration with regard to high-value-added products. As a result, sales of medical-related and semiconductor manufacturing equipment-related products are growing steadily.

Review of Operations







Automotive Components Business

Review of performance

Domestic new car sales in the fiscal year ended March 31, 2004, rose only slightly, lifted by the introduction of new models and stricter exhaust restrictions on diesel automobiles, which spurred replacement demand. New car sales were solid, however, in North America, Europe, and Asia. Operating in this market environment, the automotive components business achieved 3.7% growth in net sales, to ¥147,696 million. Operating income rose 15.4% to a record high ¥26,209 million.

The primary reasons for the growth were the steady growth in sales of high-value-added iridium spark plugs in the domestic market, and healthy growth in export sales of replacement spark plugs destined for Europe. In addition, domestic automakers expanded their use of oxygen sensors and other sensor-related products, and domestic diesel regulations resulted in strong sales of glow plugs for diesel automobiles.

Outlook

As the spark plug market is not growing, NGK Spark Plug's automotive components business is seeking to improve profit ratios through cost reductions, enhancing the efficiency of operations, and developing high-value-added products. In addition, we are taking advantage of demand for oxygen sensors and universal exhaust gas oxygen sensors. In addition to glow plugs, diesel-related products include temperature and knock sensors, and we are working to increase our share of these markets as well.

One important issue for NGK Spark Plug is establishing a solid position in the rapidly growing Chinese market. At present, we are supplying the Chinese market through our local subsidiary, NGK Spark Plug (Shanghai) Co., Ltd., but we are now studying strategies for further development in China.

Communication Media Components and Technical Ceramics Businesses

Review of performance

Shipments of personal computers and mobile telephones are showing double-digit growth, but digital products such as DVD players and digital cameras are driving the IT-related market. However, NGK Spark Plug's communication media components and technical ceramics businesses recorded a 5.9% decline in net sales to ¥78,487, as changes in exchange rates drove down unit prices. Lower unit prices were the principal factor in a business environment that also resulted in an operating loss of ¥5,494 million being posted.

On the positive side, as the result of the expansion of the mobile telephone and digital consumer electronics market, shipments of crystal device and surface acoustical wave (SAW) filter packages took an upturn, as did CMOS/CCD packages. The recovery in the personal computer market brought increased demand for organic IC packages for MPUs, and shipments increased as a result of this as well as increased market share. In addition, the favorable conditions in the mobile telephone market caused an upturn in LTCC sales. Sales of cutting tools increased as a result of increased metal processing on the part of automakers and IT-related manufacturers. In the field of fine ceramics, sales of medical products such as artificial bone and oxygen concentrators, environmental protection products, and parts for semiconductor manufacturing equipment took an upturn. However, although sales of core-product organic IC packages increased in volume, unit prices declined, and changes in exchange rates also had the effect of pushing unit prices downward. Gains in other areas were insufficient to offset the effects of these factors.

Outlook

In the semiconductor market, mobile telephones and personal computers are forecast to continue double-digit growth, and digital consumer electronics are also expected to remain strong. NGK Spark Plug forecasts growth in demand for organic IC packages for personal computers, but the market will continue to call for price reductions. The Company also predicts solid demand for ceramic IC packages for use in mobile telephones and other communications devices. NGK Spark Plug expects increased orders for dielectric resonators for mobile telephone base stations. Accordingly, the Company's efforts to expand sales and improve profit ratios will have the effect of changing its business structure. The Cutting Tool business will continue to expand sales outside the automotive sector, especially in the IT sector. The Fine Ceramics business will continue to focus on demand related to semiconductor manufacturing equipment.

Six-Year Summary

NGK SPARK PLUG CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2004, 2003, 2002, 2001, 2000 and 1999

	Millions of Yen						Thousands of U.S. Dollars
	2004	2003	2002	2001	2000	1999	**2004**
For the year:							
Net sales	**¥228,776**	¥228,929	¥221,419	¥224,269	¥195,595	¥188,744	**$2,178,819**
Operating income	**20,745**	15,823	11,820	25,465	14,437	12,899	**197,571**
Net income	**11,117**	7,347	4,844	13,056	6,578	5,494	**105,876**
Depreciation	**15,943**	18,478	19,981	18,118	19,365	18,220	**151,838**
Capital expenditures	**10,414**	10,811	25,508	23,479	17,492	22,803	**99,181**
At year-ends:							
Total assets	**¥297,995**	¥298,787	¥318,512	¥366,727	¥314,321	¥300,680	**2,838,048**
Shareholders' equity	**205,964**	189,522	199,454	208,797	165,495	149,117	**1,961,562**

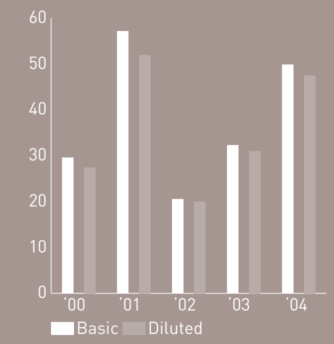
	Yen						U.S. Dollars
Per share data:							
Net income							
—Basic	**¥ 49.84**	¥ 32.36	¥ 20.51	¥ 57.19	¥ 29.56	¥ 24.69	**$0.47**
—Diluted	**47.45**	31.06	19.95	51.91	27.37	22.82	**0.45**
Cash dividends	**11.00**	11.00	11.00	12.00	11.00	11.00	**0.10**
Shareholders' equity	**929.23**	854.89	869.04	871.72	743.65	670.11	**8.85**

	Percent					
Ratios:						
Equity ratio	**69.1%**	63.4%	62.6%	56.9%	52.7%	49.6%
Return on net sales	**4.9%**	3.2%	2.2%	5.8%	3.4%	2.9%
Return on assets	**3.7%**	2.4%	1.4%	3.8%	2.1%	1.8%
Return on equity	**5.6%**	3.9%	2.4%	7.0%	4.2%	3.7%

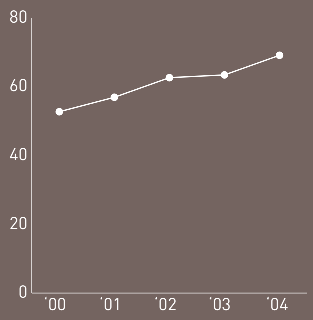
Note: U.S. dollar amounts above and elsewhere in this Annual Report are converted from yen, for convenience only, at the rate of ¥105=U.S.$1.

Financial Review

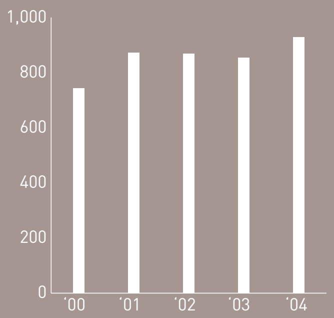
Net Income per Share (Yen)



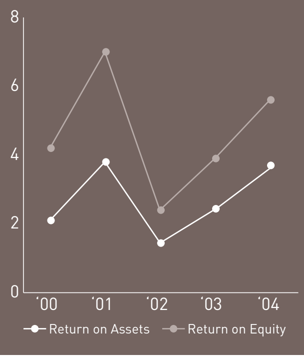
Equity Ratio (%)



Shareholders' Equity per Share (Yen)



ROA & ROE (%)



Net sales

In the fiscal year ended March 31, 2004 (below, "this fiscal year"), a rapidly depreciating dollar offset growth in overseas sales, chiefly in the U.S. and Europe, and consolidated net sales edged down 0.1% to ¥228,776 million.

Operating income

Operating income surged 31.1% in comparison with the previous fiscal year, to ¥20,745 million. The primary factor in the increase was a reduction in manufacturing cost, which was achieved through the shrinkage of inventories, by reducing costs through the reorganization of manufacturing facilities, increasing sales of high-value-added products, and otherwise deploying management resources more efficiently.

Selling, general and administrative expenses

An increase in labor costs was the chief cause of a 3.7% rise in selling, general and administrative expenses, to ¥36,550 million.

Net income

Net income jumped 51.3% to ¥11,117 million this fiscal year as the decline in net sales was offset by the rationalization of manufacturing and distribution, which brought growth in operating profit, and extraordinary losses on disposal of facilities and revaluation of investment securities contracted sharply.

Cash flows

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥24,259 million. This is primarily attributable to a ¥5,975 million increase in income before income taxes and minority interests, to ¥18,414 million, while trade receivables declined ¥4,181 million, and income taxes rose ¥6,242 million.

Cash flows from investing activities

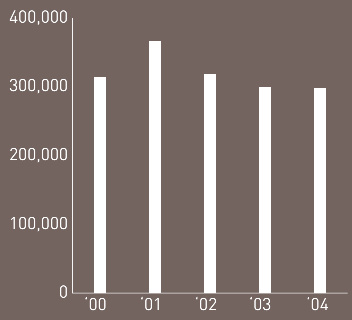
Net cash provided by investing activities amounted to ¥14,784 million. This was chiefly due to the liquidation of time deposits and marketable securities in preparation for the redemption of the Company's convertible bonds at the end of March 2004.

Cash flows from financing activities

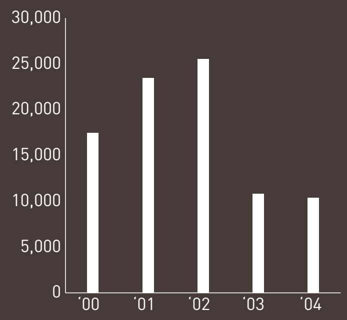
Net cash used in financing activities amounted to ¥21,792 million. This is primarily the result of the expenditure of ¥19,930 million for redemption of convertible bonds.

As a result of the foregoing, and also of currency exchange rate changes, cash and cash equivalents at the end of the year increased from last year's ¥31,207 million to ¥48,222 million, an increase of ¥17,015 million.

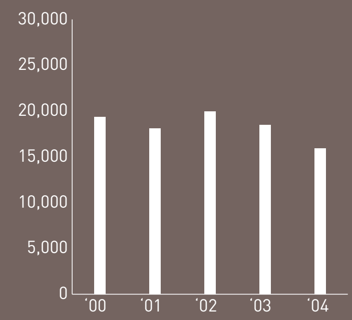
Total Assets (Millions of Yen)



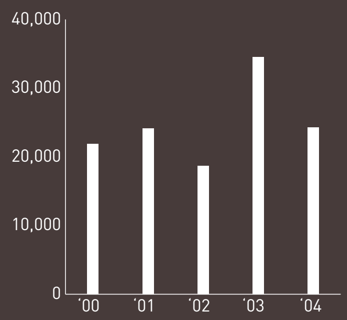
Capital Expenditures (Millions of Yen)



Depreciation (Millions of Yen)



Cash Flows from Operating Activities (Millions of Yen)



Financial Position

Total assets at the end of the fiscal year were ¥297,995 million, down 0.3% from a year earlier. The redemption of convertible bonds, the reduction of inventories, and a decline in property, plant and equipment produced by restraint in capital investment were the primary causes, despite growth in net income to ¥11,117 million and an increase in the current price of investment securities to ¥14,415 million. Total liabilities shrank 15.7% to ¥91,362 million, and shareholders' equity rose 8.7% to ¥205,964 million.

The shareholders' equity ratio improved from last year's 63.4% to 69.1%.

Capital investment

The Company made a round of capital investment in the expansion of assets, and moved forward with the conversion of manufacturing facilities and equipment in connection with the reorganization of manufacturing facilities in the communication media components business, and other steps toward the efficient utilization of assets. As a result, capital investments were reduced 3.7% to ¥10,414 million.

Performance by Region

Japan

Performance was solid in the automotive components business, and the communication media components and technical ceramics businesses also took an upturn toward recovery. As a result, net sales edged up 1.9% to ¥196,382 million, and operating income grew 10.9% to ¥14,278 million.

North America

Changes to the product portfolio in the communication media components business and declining yen equivalents resulting from the declining dollar caused net sales to drop 19.5% to ¥70,775 million. However, thorough paring of inventories and productivity increases at manufacturing facilities allowed operating income to surge 106.9% to ¥1,774 million.

Europe

Sales declined in the communication media components and technical ceramics businesses, but strong performance in the automotive components business fueled a 9.4% rise in net sales, to ¥42,550 million. Operating income surged 42.8% to ¥2,355 million.

Other Regions

Performance in South America and Southeast Asia remained healthy, net sales increasing 18.9% to ¥18,303 million and operating income rising 43.8% to ¥1,418 million.

Consolidated Balance Sheets

NGK SPARK PLUG CO., LTD. and Consolidated Subsidiaries
March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Assets			
Current assets:			
Cash and cash equivalents	**¥ 48,222**	¥ 31,207	**$ 459,257**
Short-term investments (Note 5)	**11,028**	31,991	**105,029**
Notes and accounts receivable, net of allowance for doubtful accounts (Notes 3 and 15)	**44,764**	41,235	**426,324**
Inventories (Note 4)	**42,223**	45,989	**402,124**
Deferred tax assets (Note 13)	**7,035**	7,209	**67,000**
Other current assets	**2,034**	1,530	**19,371**
Total current assets	**155,306**	159,161	**1,479,105**
Investments and other assets:			
Investment securities (Note 5)	**44,881**	34,587	**427,438**
Investments in and long-term loans to unconsolidated subsidiaries and affiliates (Note 5)	**4,570**	4,463	**43,524**
Deferred tax assets (Note 13)	**1,013**	2,345	**9,648**
Other assets	**1,550**	1,472	**14,762**
	52,014	42,867	**495,372**
Property, plant and equipment, at cost:			
Land	**14,489**	14,418	**137,990**
Buildings and structures	**90,245**	89,648	**859,476**
Machinery and equipment	**170,856**	171,293	**1,627,200**
Construction in progress	**2,669**	1,919	**25,419**
	278,259	277,278	**2,650,085**
Less, accumulated depreciation	**(187,584)**	(180,519)	**(1,786,514)**
	90,675	96,759	**863,571**
	¥ 297,995	¥ 298,787	**$ 2,838,048**

See accompanying Notes to Consolidated Financial Statements.

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Liabilities, Minority Interests and Shareholders' Equity			
Current liabilities:			
Short-term borrowings (Note 7)	**¥ 14,459**	¥ 13,737	**$ 137,705**
Current portion of long-term debt (Note 7)	**10,143**	20,114	**96,600**
Accounts payable (Notes 6 and 15)	**21,250**	22,947	**202,381**
Accrued expenses	**12,347**	11,079	**117,590**
Income taxes payable	**3,433**	4,633	**32,695**
Other current liabilities (Note 13)	**1,286**	1,262	**12,248**
Total current liabilities	**62,918**	73,772	**599,219**
Long-term debt (Note 7)	**10,178**	20,360	**96,933**
Employee retirement benefit liability (Note 8)	**13,033**	12,434	**124,124**
Deferred tax liabilities (Note 13)	**3,841**	518	**36,581**
Other long-term liabilities	**1,392**	1,352	**13,257**
Commitments and contingent liabilities (Notes 9, 10 and 11)			
Minority interests in consolidated subsidiaries	**669**	829	**6,372**
Shareholders' equity (Notes 12 and 16):			
Common stock, no par value—			
Authorized: 390,000,000 shares;			
Issued: 229,544,820 shares in 2004 and 2003	**47,869**	47,869	**455,895**
Capital surplus	**54,825**	54,825	**522,143**
Retained earnings	**102,868**	94,261	**979,695**
Net unrealized gains on available-for-sale securities	**15,628**	7,056	**148,838**
Foreign currency translation adjustment	**(8,516)**	(7,813)	**(81,105)**
Less, treasury stock at cost—7,972,226 shares			
in 2004 and 7,934,888 shares in 2003	**(6,710)**	(6,676)	**(63,904)**
	205,964	189,522	**1,961,562**
	¥297,995	¥298,787	**$2,838,048**

Consolidated Statements of Income

NGK SPARK PLUG CO., LTD. and Consolidated Subsidiaries
For the years ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Operating revenue:			
Net sales (Note 14)	**¥228,776**	¥228,929	**$2,178,819**
Operating costs and expenses (Notes 14 and 15)**:**			
Costs of goods sold	**171,481**	177,857	**1,633,153**
Selling, general and administrative expenses	**36,550**	35,249	**348,095**
	208,031	213,106	**1,981,248**
Operating income	**20,745**	15,823	**197,571**
Other income (expenses):			
Interest and dividend income	**914**	936	**8,705**
Interest expenses	**(1,027)**	(1,173)	**(9,781)**
Loss on sale or disposal of property, plant and equipment	**(797)**	(1,540)	**(7,590)**
Loss on write-down of investment securities	**—**	(1,039)	**—**
Gain on sales of investment securities	**48**	—	**457**
Foreign exchange loss	**(645)**	(117)	**(6,143)**
Miscellaneous, net	**(824)**	(451)	**(7,848)**
	(2,331)	(3,384)	**(22,200)**
Income before income taxes and minority interests	**18,414**	12,439	**175,371**
Income taxes (Note 13)	**7,262**	5,007	**69,162**
Less, minority interests in net income of consolidated subsidiaries	**35**	85	**333**
Net income	**¥ 11,117**	¥ 7,347	**$ 105,876**

	Yen		U.S. Dollars
Per share:			
Net income:			
—Basic	**¥ 49.84**	¥ 32.36	**$ 0.47**
—Diluted	**47.45**	31.06	**0.45**
Cash dividends	**11.00**	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, 2004 and 2003

	Number of common shares issued	Common stock	Capital surplus	Retained earnings	Net unrealized gains on available-for-sale securities	Foreign currency translation adjustment	Treasury stock
		Millions of Yen					
Balance at March 31, 2002	229,544,820	¥47,869	¥54,825	¥ 89,480	¥11,885	¥(4,570)	¥ (35)
Net income for the year	—	—	—	7,347	—	—	—
Cash dividends	—	—	—	(2,498)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(68)	—	—	—
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	—	—	—	—	(4,829)	—	—
Translation adjustment	—	—	—	—	—	(3,243)	—
Purchase of treasury stock and fractional shares acquired, net	—	—	—	—	—	—	(6,641)
Balance at March 31, 2003	229,544,820	47,869	54,825	94,261	7,056	(7,813)	(6,676)
Net income for the year	—	—	—	11,117	—	—	—
Cash dividends	—	—	—	(2,438)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(72)	—	—	—
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	—	—	—	—	8,572	—	—
Translation adjustment	—	—	—	—	—	(703)	—
Fractional shares acquired, net	—	—	—	—	—	—	(34)
Balance at March 31, 2004	**229,544,820**	**¥47,869**	**¥54,825**	**¥102,868**	**¥15,628**	**¥(8,516)**	**¥(6,710)**

	Common stock	Capital surplus	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, 2003	$455,895	$522,143	$897,724	$ 67,200	$(74,410)	$(63,580)
Net income for the year	—	—	105,876	—	—	—
Cash dividends	—	—	(23,219)	—	—	—
Bonuses to directors and corporate auditors	—	—	(686)	—	—	—
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	—	—	—	81,638	—	—
Translation adjustment	—	—	—	—	(6,695)	—
Fractional shares acquired, net	—	—	—	—	—	(324)
Balance at March 31, 2004	**$455,895**	**$522,143**	**$979,695**	**$148,838**	**$(81,105)**	**$(63,904)**

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, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 18,414**	¥ 12,439	**$ 175,371**
Adjustments for:			
Depreciation	**15,943**	18,478	**151,838**
Loss on sale or disposal of property, plant and equipment	**797**	1,540	**7,590**
Loss on write-down of investment securities	**—**	1,039	**—**
(Increase) decrease in trade receivables	**(4,181)**	4,138	**(39,819)**
Decrease in inventories	**3,006**	3,429	**28,629**
Decrease in trade payables	**(1,728)**	(2,221)	**(16,457)**
Other, net	**1,444**	(1,030)	**13,752**
Sub-total	**33,695**	37,812	**320,904**
Interest and dividend received	**1,040**	1,089	**9,905**
Interest paid	**(1,026)**	(1,159)	**(9,771)**
Income taxes paid	**(9,450)**	(3,208)	**(90,000)**
Net cash provided by operating activities	**24,259**	34,534	**231,038**
Cash flows from investing activities:			
Increase in property, plant and equipment	**(10,311)**	(10,256)	**(98,200)**
Increase in long-term investments and loans	**(3,222)**	(5,029)	**(30,686)**
Decrease in property, long-term investments and loans	**3,401**	245	**32,391**
Net decrease (increase) in short-term investments	**24,916**	(13,678)	**237,295**
Net cash provided by (used in) investing activities	**14,784**	(28,718)	**140,800**
Cash flows from financing activities:			
Repayment of long-term debt	**(19,930)**	—	**(189,810)**
Net increase (decrease) in short-term borrowings	**630**	(4,621)	**6,000**
Dividends paid	**(2,438)**	(2,498)	**(23,219)**
Purchase of treasury stock and fractional shares, net	**(34)**	(6,641)	**(324)**
Other, net	**(20)**	(27)	**(190)**
Net cash used in financing activities	**(21,792)**	(13,787)	**(207,543)**
Effect of exchange rate changes on cash and cash equivalents	**(236)**	(258)	**(2,248)**
Net decrease (increase) in cash and cash equivalents	**17,015**	(8,229)	**162,047**
Cash and cash equivalents at beginning of year	**31,207**	39,436	**297,210**
Cash and cash equivalents at end of year	**¥ 48,222**	¥ 31,207	**$ 459,257**

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

NGK SPARK PLUG CO., LTD. and Consolidated Subsidiaries

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 on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. These consolidated financial statements are compiled from the original consolidated financial statements in Japanese prepared by the Company as required by the Securities and Exchange Law of Japan and submitted to the Director of the Kanto Finance Bureau in 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 ¥105 to $1, the approximate rate of exchange at March 31, 2004. 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 ¥105 to $1 or at any other rate.

(c) Reclassification

Certain comparative figures have been reclassified to conform to the current year's presentation.

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, 2004 and 2003 was as follows:

	2004	2003
Consolidated subsidiaries:		
Domestic	**10**	11
Overseas	**20**	18
Unconsolidated subsidiaries, stated at cost	**4**	5
Affiliates, accounted for by the equity method	**5**	5
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 the 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 adjustments to conform to accounting principles generally accepted in Japan have been made to their financial statements on consolidation as allowed under accounting principles and practices generally accepted in Japan.

(b) Cash equivalents

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

(c) Investments and marketable securities

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 accounting standard for financial instruments. 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 marketable securities are computed by the moving average method. Non-marketable 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.

(d) Accounting for derivatives

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

(e) Inventories

Inventories are principally stated at moving average cost.

(f) Allowance for doubtful accounts

Allowance for doubtful accounts has been provided for at the aggregate amount of estimated credit loss based on the individual financial review approach for doubtful or troubled receivables and a general reserve for other receivables calculated based on the historical loss experience for a certain past period.

(g) 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.

(h) 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.

(i) 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.

In accordance with the accounting standard for employee retirement benefits, 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 respective fiscal year-ends. Unrecognized actuarial differences as changes in the projected benefit obligation or pension 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.

(j) Accrued severance indemnities for officers

The NGK Group may pay severance indemnities to directors and corporate 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 corporate auditors' severance indemnities at the respective balance sheet dates. At March 31, 2004 and 2003, other long-term liabilities in the accompanying consolidated balance sheets included these accruals for directors and statutory auditors in the amounts of ¥894 million ($8,514 thousand) and ¥1,010 million, respectively.

(k) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforward. Deferred tax assets and liabilities are 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.

(l) Translation of foreign currency accounts

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.

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 respective fiscal year-ends. All income and expense accounts are translated at the average rates of exchange prevailing during each 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.

(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 daily improvement of an existing product, amounted to ¥13,881 million ($132,200 thousand) and ¥13,590 million for the years ended March 31, 2004 and 2003, 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 corporate 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 computed by dividing income available to common shareholders by 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 by the Company as applicable to the respective years.

(p) Adoption of new accounting standards
On August 9, 2002, the Business Accounting Council of Japan issued "Accounting Standard for Impairment of Fixed Assets." The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of the asset's net selling price and value in use. The standard shall be effective for the fiscal years beginning April 1, 2005, with earlier adoption permitted. The Company has not determined the timing of adoption and cannot estimate the financial impact of this new accounting standard at the date of adoption at present. However, the Company believes that any such impact would be a charge to earnings.

3. Notes and Accounts Receivable

At March 31, 2004 and 2003, notes and accounts receivable consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Trade receivables	**¥38,992**	¥35,820	**$371,352**
Unconsolidated subsidiaries and affiliates	**4,279**	3,689	**40,753**
Other	**1,784**	1,986	**16,990**
Less, allowance for doubtful accounts	**(291)**	(260)	**(2,771)**
	¥44,764	¥41,235	**$426,324**

4. Inventories

At March 31, 2004 and 2003, inventories consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Finished goods	**¥26,640**	¥28,119	**$253,714**
Work in process	**10,585**	12,324	**100,810**
Raw materials	**4,998**	5,546	**47,600**
	¥42,223	¥45,989	**$402,124**

5. Investments

At March 31, 2004 and 2003, short-term investments consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Marketable securities:			
Bonds	**¥ 6,298**	¥ 6,504	**$ 59,981**
Other	**3,209**	3,498	**30,562**
	9,507	10,002	**90,543**
Other non-marketable securities	**164**	193	**1,562**
Time deposits with an original maturity of more than three months	**1,357**	21,796	**12,924**
	¥11,028	¥31,991	**$105,029**

At March 31, 2004 and 2003, investment securities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Marketable securities:			
Equity securities	**¥35,218**	¥20,589	**$335,410**
Bonds	**5,587**	8,593	**53,209**
Other	**—**	810	**—**
	40,805	29,992	**388,619**
Other non-marketable securities	**4,076**	4,595	**38,819**
	¥44,881	¥34,587	**$427,438**

Marketable 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, 2004 and 2003, 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			
At March 31, 2004:				
Marketable securities:				
Equity securities	**¥ 9,000**	**¥26,314**	**¥ (96)**	**¥35,218**
Bonds	**11,811**	**81**	**(7)**	**11,885**
Other	**3,209**	**—**	**—**	**3,209**
	¥24,020	**¥26,395**	**¥(103)**	**¥50,312**
At March 31, 2003:				
Marketable securities:				
Equity securities	¥ 8,793	¥12,599	¥(803)	¥20,589
Bonds	15,008	98	(9)	15,097
Other	4,310	—	(2)	4,308
	¥28,111	¥12,697	¥(814)	¥39,994
	Thousands of U.S. Dollars			
At March 31, 2004:				
Marketable securities:				
Equity securities	**$ 85,714**	**$250,610**	**$(914)**	**$335,410**
Bonds	**112,486**	**771**	**(67)**	**113,190**
Other	**30,562**	**—**	**—**	**30,562**
	$228,762	**$251,381**	**$(981)**	**$479,162**

During the year ended March 31, 2003, the NGK Group recorded a loss on write-down on marketable investment securities due to a permanent diminution in value in the amount of ¥1,039 million. During the year ended March 31, 2004, the NGK Group recorded no loss on write-down on marketable investment securities.

Expected maturities of available-for-sale debt securities at March 31, 2004 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥ 9,624	$ 91,657
Due after one year through five years	2,651	25,248
Due after five years through ten years	2,045	19,476
	¥14,320	$136,381

At March 31, 2004 and 2003, investments in and long-term loans to unconsolidated subsidiaries and affiliates consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Investments, accounted for by the equity method for significant affiliates and at cost for others	**¥4,570**	¥4,453	**$43,524**
Interest bearing long-term loans	**—**	10	**—**
	¥4,570	¥4,463	**$43,524**

6. Accounts Payable

At March 31, 2004 and 2003, accounts payable consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Trade payables	**¥14,157**	¥17,290	**$134,829**
Unconsolidated subsidiaries and affiliates	**3,027**	2,578	**28,828**
Other	**4,066**	3,079	**38,724**
	¥21,250	¥22,947	**$202,381**

7. Short-term Borrowings and Long-term Debt

At March 31, 2004 and 2003, short-term borrowings consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Unsecured bank loans with interest at rates ranging from 2.51% to 3.60% per annum at March 31, 2004	**¥ 1,569**	¥ 1,249	**$ 14,943**
Export bills accepted by consolidated subsidiaries and discounted with banks by the Company with interest at rates ranging from 1.375% to 7.0% per annum at March 31, 2004	**12,890**	12,488	**122,762**
	¥14,459	¥13,737	**$137,705**

At March 31, 2004 and 2003, long-term debt consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
1.4% convertible bonds due March 2004	**¥ —**	¥ 19,930	**$ —**
1.4% bonds due March 2005	**10,000**	10,000	**95,238**
1.86% bonds due March 2007	**10,000**	10,000	**95,238**
Capital lease obligations for overseas consolidated subsidiaries	**321**	544	**3,057**
	20,321	40,474	**193,533**
Less, current portion	**(10,143)**	(20,114)	**(96,600)**
	¥ 10,178	¥ 20,360	**$ 96,933**

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, 2004 were as follows:

Years ending March 31	Millions of Yen	Thousands of U.S. Dollars
2005	¥10,143	$ 96,600
2006	36	343
2007	10,036	95,581
2008	36	343
2009	35	333
2010 and thereafter	35	333
	¥20,321	$193,533

8. Employee Retirement Benefits

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

The following table reconciles the benefit liability and net periodic retirement benefit expense as at or for the years ended March 31, 2004 and 2003:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Reconciliation of benefit liability:			
Projected benefit obligation	**¥ 40,894**	¥ 37,822	**$ 389,467**
Less, fair value of pension plan assets at end of year	**(22,700)**	(18,109)	**(216,191)**
Projected benefit obligation in excess of pension plan assets	**18,194**	19,713	**173,276**
Less, unrecognized actuarial differences (loss)	**(5,161)**	(7,279)	**(49,152)**
Net amounts of employee retirement benefit liability recognized on the consolidated balance sheets	**¥ 13,033**	¥ 12,434	**$ 124,124**

Note: Projected benefit obligation of the domestic consolidated subsidiaries was calculated using the simplified calculation method as permitted by the accounting standard for employee retirement benefits.

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Components of net periodic retirement benefit expense:			
Service cost	**¥2,264**	¥1,840	**$21,562**
Interest cost	**903**	976	**8,600**
Expected return on pension plan assets	**(292)**	(337)	**(2,781)**
Recognized actuarial differences	**768**	247	**7,314**
Net periodic retirement benefit expense	**¥3,643**	¥2,726	**$34,695**

Major assumptions used in the calculation of the above information for the years ended March 31, 2004 and 2003 were as follows:

	2004	2003
Method attributing the projected benefits to periods of services	**Straight-line method**	Straight-line method
Discount rate	**2.0%**	2.5%
Expected rate of return on pension plan assets	**1.75%**	2.0%
Amortization of actuarial differences	**10 years**	10 years

9. Contingent Liabilities

At March 31, 2004 and 2003, 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 ¥1,046 million ($9,962 thousand) and ¥1,647 million, respectively.

10. 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 84 months from the original contract dates.

Total rental and lease expenses including cancelable and non-cancelable leases for the years ended March 31, 2004 and 2003 were ¥3,310 million ($31,524 thousand) and ¥3,562 million, respectively. For the years ended March 31, 2004 and 2003, lease expenses for non-cancelable lease agreements which were categorized as financing leases amounted to ¥1,051 million ($10,010 thousand) and ¥1,086 million, respectively.

The aggregate future minimum payments for such non-cancelable leases, including the imputed interest portion, at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Due within one year	**¥ 916**	¥ 907	**$ 8,724**
Due after one year	**1,417**	1,378	**13,495**
	¥2,333	¥2,285	**$22,219**

11. 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. The NGK Group is exposed to credit loss in the event of non-performance by the other parties. However, the NGK Group does not expect non-performance by the counterparties.

At March 31, 2004 and 2003, aggregate contract balances of derivative instruments, other than those accounted for by hedge accounting, amounted to ¥6,097 million ($58,067 thousand) and ¥6,086 million, respectively. Relating unrealized gains of ¥227 million ($2,162 thousand) were recorded as other income for the year ended March 31, 2004. For the year ended March 31, 2003, relating unrealized losses of ¥31 million were recorded as other expenses.

12. Shareholders' Equity

(a) The authorized number of shares of common stock, no par value, is 390 million at March 31, 2004, unless there may be a reduction due to a cancellation of treasury stock acquired.

Pursuant to the Commercial Code of Japan and the Company's amended articles of incorporation approved by shareholders at the annual general meeting on June 29, 2004, the Company can purchase the treasury stock subject to the resolution of the Board of Directors from that date.

(b) At March 31, 2004 and 2003, capital surplus principally consisted of additional paid-in capital. At both March 31, 2004 and 2003, retained earnings included legal reserve of the Company in the amount of ¥5,838 million ($55,600 thousand). 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 legal reserve until a total amount of additional paid-in capital and such legal reserve equals 25% of common stock. The legal reserve is not available for 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.

13. Income Taxes

Income taxes for the years ended March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Income taxes:			
Current	**¥8,236**	¥ 6,397	**$78,438**
Deferred	**(974)**	(1,390)	**(9,276)**
	¥7,262	¥ 5,007	**$69,162**

The tax effects on temporary differences that give rise to a significant portion of deferred tax assets and liabilities at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Deferred tax assets:			
Inter-company profits	**¥ 3,103**	¥ 3,346	**$ 29,552**
Depreciation	**2,987**	2,884	**28,448**
Employee retirement benefit liability	**4,290**	3,199	**40,857**
Accrued bonus to employees	**2,345**	2,095	**22,333**
Inventories	**610**	781	**5,809**
Enterprise tax accruals	**336**	380	**3,200**
Other	**2,168**	1,960	**20,648**
	15,839	14,645	**150,847**

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	**¥10,645**	¥ 4,810	**$101,381**
Accelerated depreciation	**¥ 420**	¥ 520	**$ 4,000**
Other	**707**	411	**6,733**
	11,772	5,741	**112,114**
Net deferred tax assets	**¥ 4,067**	¥8,904	**$ 38,733**

At March 31, 2004 and 2003, deferred tax assets and liabilities were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Deferred tax assets:			
Current	**¥7,035**	¥7,209	**$67,000**
Non-current	**1,013**	2,345	**9,648**
Deferred tax liabilities:			
Current	**140**	132	**1,333**
Non-current	**3,841**	518	**36,581**

In assessing the realizability of deferred tax assets, the 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, 2004 and 2003, 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, 2004 and 2003 was not material.

14. 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, cutting tools and fine ceramics.

Information by industry segment for the years ended March 31, 2004 and 2003 was as follows:

	Automotive components	Communication media components and technical ceramics	Other	Total	Elimination	Consolidated
				Millions of Yen		
For the year 2004:						
Operating revenue—Net sales:						
Outside customers	**¥147,696**	**¥ 78,487**	**¥2,593**	**¥228,776**	**¥ —**	**¥228,776**
Inter-segment sales	**—**	**—**	**145**	**145**	**(145)**	**—**
Total net sales	**147,696**	**78,487**	**2,738**	**228,921**	**(145)**	**228,776**
Operating costs and expenses	**121,487**	**83,981**	**2,708**	**208,176**	**(145)**	**208,031**
Operating income (loss)	**¥ 26,209**	**¥ (5,494)**	**¥ 30**	**¥ 20,745**	**¥ —**	**¥ 20,745**
Identifiable assets	**¥183,718**	**¥113,136**	**¥1,141**	**¥297,995**	**¥ —**	**¥297,995**
Depreciation	**7,818**	**8,117**	**8**	**15,943**	**—**	**15,943**
Capital expenditures	**6,608**	**3,792**	**14**	**10,414**	**—**	**10,414**
For the year 2003:						
Operating revenue—Net sales:						
Outside customers	¥142,432	¥ 83,437	¥3,060	¥228,929	¥ —	¥228,929
Inter-segment sales	—	2	171	173	(173)	—
Total net sales	142,432	83,439	3,231	229,102	(173)	228,929
Operating costs and expenses	119,717	90,444	3,132	213,293	(187)	213,106
Operating income (loss)	¥ 22,715	¥ (7,005)	¥ 99	¥ 15,809	¥ 14	¥ 15,823
Identifiable assets	¥178,617	¥119,128	¥1,042	¥298,787	¥ —	¥298,787
Depreciation	8,304	10,164	10	18,478	—	18,478
Capital expenditures	6,758	4,044	9	10,811	—	10,811
				Thousands of U.S. Dollars		
For the year 2004:						
Operating revenue—Net sales:						
Outside customers	**$1,406,629**	**$ 747,495**	**$24,695**	**$2,178,819**	**$ —**	**$2,178,819**
Inter-segment sales	**—**	**—**	**1,381**	**1,381**	**(1,381)**	**—**
Total net sales	**1,406,629**	**747,495**	**26,076**	**2,180,200**	**(1,381)**	**2,178,819**
Operating costs and expenses	**1,157,019**	**799,819**	**25,791**	**1,982,629**	**(1,381)**	**1,981,248**
Operating income (loss)	**$ 249,610**	**$ (52,324)**	**$ 285**	**$ 197,571**	**$ —**	**$ 197,571**
Identifiable assets	**$1,749,695**	**$1,077,486**	**$10,867**	**$2,838,048**	**$ —**	**$2,838,048**
Depreciation	**74,457**	**77,305**	**76**	**151,838**	**—**	**151,838**
Capital expenditures	**62,933**	**36,114**	**134**	**99,181**	**—**	**99,181**

Information summarized by geographic area for the years ended March 31, 2004 and 2003 was as follows:

	Japan	North America	Europe	Other	Total	Elimination	Consolidated
				Millions of Yen			
For the year 2004:							
Operating revenue—Net sales:							
Outside customers	**¥ 99,058**	**¥69,922**	**¥42,314**	**¥17,482**	**¥228,776**	**¥ —**	**¥228,776**
Inter-segment sales	**97,324**	**853**	**236**	**821**	**99,234**	**(99,234)**	**—**
Total net sales	**196,382**	**70,775**	**42,550**	**18,303**	**328,010**	**(99,234)**	**228,776**
Operating costs and expenses	**182,104**	**69,001**	**40,195**	**16,885**	**308,185**	**(100,154)**	**208,031**
Operating income	**¥ 14,278**	**¥ 1,774**	**¥ 2,355**	**¥ 1,418**	**¥ 19,825**	**¥ 920**	**¥ 20,745**
Identifiable assets	**¥248,976**	**¥27,979**	**¥25,694**	**¥12,958**	**¥315,607**	**¥ (17,612)**	**¥297,995**
For the year 2003:							
Operating revenue—Net sales:							
Outside customers	¥ 88,744	¥87,342	¥38,198	¥14,645	¥228,929	¥ —	¥228,929
Inter-segment sales	103,906	577	689	750	105,922	(105,922)	—
Total net sales	192,650	87,919	38,887	15,395	334,851	(105,922)	228,929
Operating costs and expenses	179,782	87,061	37,237	14,409	318,489	(105,383)	213,106
Operating income	¥ 12,868	¥ 858	¥ 1,650	¥ 986	¥ 16,362	¥ (539)	¥ 15,823
Identifiable assets	¥245,627	¥34,247	¥24,661	¥10,784	¥315,319	¥ (16,532)	¥298,787
				Thousands of U.S. Dollars			
For the year 2004:							
Operating revenue—Net sales:							
Outside customers	**$ 943,410**	**$665,924**	**$402,990**	**$166,495**	**$2,178,819**	**$ —**	**$2,178,819**
Inter-segment sales	**926,895**	**8,124**	**2,248**	**7,819**	**945,086**	**(945,086)**	**—**
Total net sales	**1,870,305**	**674,048**	**405,238**	**174,314**	**3,123,905**	**(945,086)**	**2,178,819**
Operating costs and expenses	**1,734,324**	**657,153**	**382,809**	**160,809**	**2,935,095**	**(953,847)**	**1,981,248**
Operating income	**$ 135,981**	**$ 16,895**	**$ 22,429**	**$ 13,505**	**$ 188,810**	**$ 8,761**	**$ 197,571**
Identifiable assets	**$2,371,200**	**$266,467**	**$244,705**	**$123,409**	**$3,005,781**	**$(167,733)**	**$2,838,048**

For the years ended March 31, 2004 and 2003, 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
	2004	2003	**2004**
North America	**¥ 94,523**	¥105,300	**$ 900,219**
Europe	**45,067**	42,442	**429,210**
Other area	**39,006**	35,944	**371,485**
	¥178,596	¥183,686	**$1,700,914**
Percentage of overseas sales to total consolidated net sales	**78.1%**	80.2%	

15. Related Party Transactions

During the years ended March 31, 2004 and 2003, 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, 2004 and 2003, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
For the year:			
Purchases of parts as work in process	**¥27,572**	¥28,406	**$262,590**
Supply of raw materials	**22,719**	23,519	**216,371**
At the year-end:			
Accounts receivable	**¥ 2,214**	¥ 2,100	**$ 21,086**
Accounts payable	**2,937**	2,486	**27,971**

16. Subsequent Events

On April 15, 2004, the Company issued Japanese Yen zero coupon convertible bonds due 2011 in the amount of ¥17,000 million ($161,905 thousand) at par in the euro market. The convertible bonds are unsecured and the conversion price of the convertible bonds is ¥1,369 per share subject to adjustment in certain circumstances.

On June 29, 2004, 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	¥1,219	$11,610
Bonuses to directors and corporate auditors	70	667

Report of Independent Auditors

To the Board of Directors and Shareholders 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, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. This report, including the opinion, has been prepared for and only for the Company's shareholders as a body in accordance with the Securities and Exchange Law of Japan and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

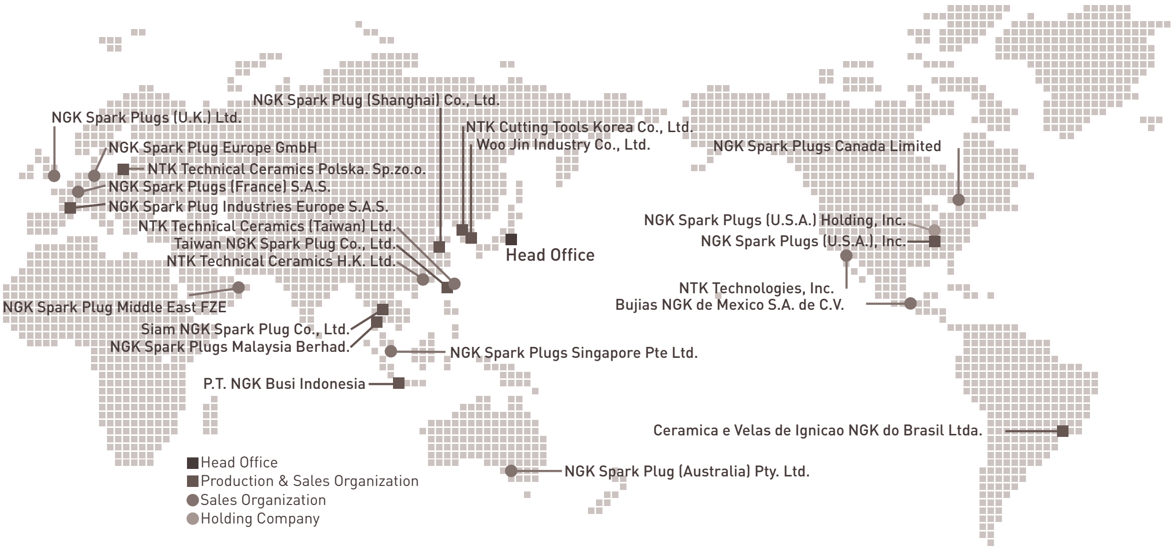
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NGK SPARK PLUG CO., LTD. and its consolidated subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Nagoya, Japan
June 29, 2004

Global Network




Ceramica e Velas de Ignicao NGK do Brasil Ltda.


NGK Spark Plugs Malaysia Berhad.


Siam NGK Spark Plug Co., Ltd.


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


P.T. NGK Busi Indonesia


Taiwan NGK Spark Plug Co., Ltd.


Woo Jin Industry Co., Ltd.


NGK Spark Plug Industries Europe S.A.


NTK Cutting Tools Korea Co., Ltd.


NGK Spark Plag (Shanghai) Co., Ltd.


NTK Technical Ceramics Polska. Sp.zo.o.

Major Subsidiaries and Affiliates

(As of March 31, 2004)

Domestic Subsidiaries

- Nittoku Seisakusho Co., Ltd.
  Production of spark plug parts and automotive sensor parts
- Nittoku Unyu Co., Ltd.
  Transportation of the Company's products
- Nichiwa Kiki Co., Ltd.
  Production of spark plug resistor covers and cables
- Kamioka Ceramic Co., Ltd.
  Production of glow plugs and cutting tools
- Kani Ceramic Co., Ltd.
  Production of IC packages and automotive sensor parts
- Iijima Ceramic Co., Ltd.
  Production of IC packages
- Nittoku Alpha Service Co., Ltd.
  Welfare services for Company employees
- Nakatsugawa Ceramic Co., Ltd.
  Production of IC packages and automotive sensor parts
- Tono Ceramic Co., Ltd.
  Production of spark plug parts
- Nansei Ceramic Co., Ltd.
  Production of electronic components and automotive sensor parts

Overseas Subsidiaries

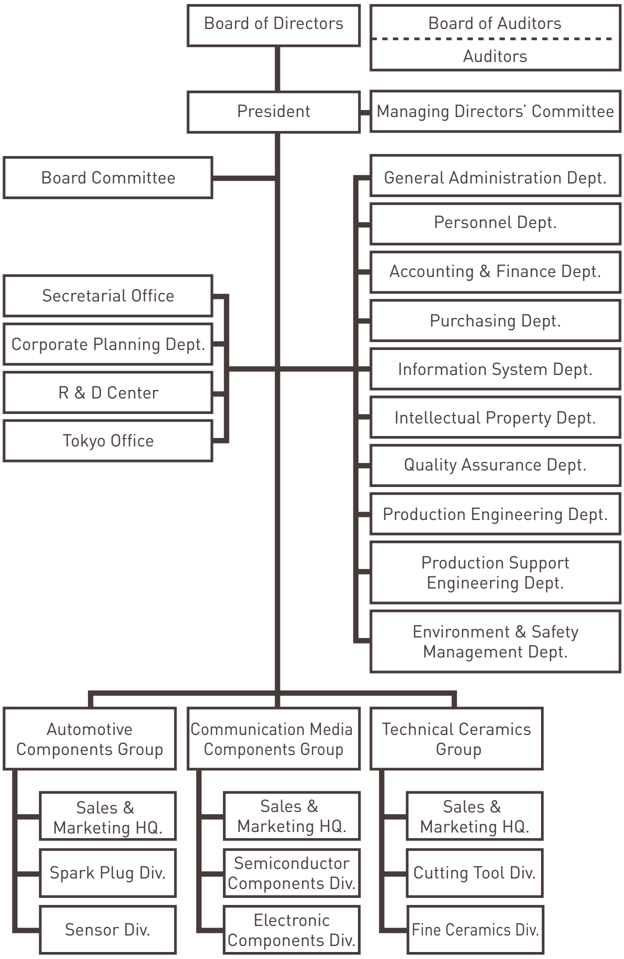
- NGK Spark Plugs (U.S.A.), Inc.
  Production and sale of spark plugs and sale of cutting tools
- NTK Technologies, Inc.
  Sale of communication media components and technical ceramics
- NGK Spark Plugs (U.K.), Ltd.
  Sale of automotive components, communication media components and technical ceramics
- P.T. NGK Busi Indonesia
  Production and sale of spark plugs
- NGK Spark Plug (Australia) Pty. Ltd.
  Sale of automotive components, 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.S.
  Production of spark plugs
- Bujias NGK de Mexico S.A. de C.V.
  Sale of automotive components
- NGK Spark Plugs (France) S.A.S.
  Sale of automotive components, 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
- 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 Plugs Singapore Pte Ltd.
  Sale of automotive components, communication media components and technical ceramics
- NGK Spark Plug Middle East FZE
  Sale of automotive components
- Ceramica e Velas de Ignicao NGK do Brasil Ltda.
  Production and sale of automotive components and technical ceramics
- NGK Spark Plug Europe GmbH
  Sale of automotive components, communication media components and technical ceramics
- NGK Spark Plug (Shanghai) Co., Ltd.
  Production and sale of spark plugs
- NTK Technical Ceramics Polska. Sp.zo.o.
  Production of cutting tools

Affiliates

- 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 automotive components
- Ceramic Sensor Co., Ltd.
  Production of automotive sensors
- Tokai Taima Kogu Co., Ltd.
  Production and sale of mold tools

Organization

(As of June 29, 2004)



Board of Directors

(As of June 29, 2004)

CHAIRMAN
Shigenobu Kanagawa*

VICE CHAIRMAN
Seiji Haga

PRESIDENT
Norio Kato*

SENIOR MANAGING DIRECTORS
Shin Suzuki
Toyoji Morimura
Masaru Aritani

MANAGING DIRECTORS
Takashi Terada
Akio Takami
Naomiki Kato
Ikuo Hotta
Genjiro Hashimoto
Kazuo Takiguchi

DIRECTORS
Jun Inagaki
Akiyo Kasugai
Atsuhiro Chinari
Kazuo Kawahara
Chikanori Abe
Michio Obara
Takao Okumura
Tsutomu Kawamitsu
Shigeyasu Yamada
Hideaki Yagi
Junichi Kagawa

STANDING CORPORATE AUDITORS
Yoshiro Ushida
Osamu Tsuda

CORPORATE AUDITORS
Ikuko Ohtsuka
Hideaki Fujioka

*Representative Director

Note: Vice Chairman Seiji Haga passed away on August 19, 2004.

Corporate Data

(As of March 31, 2004)

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: 390,000,000
Issued: 229,544,820

Paid-in-Capital

¥47,869 million

Stock Listings

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

Number of Employees

5,324

Number of Shareholders

14,921

Transfer Agent

The Mitsubishi Trust and Banking Corporation

Independent Auditors

ChuoAoyama PricewaterhouseCoopers

Common Stock Price Range

	FY2004	
	High	Low
2003/April–June	¥ 881	¥785
2003/July–September	1,100	830
2003/October–December	1,025	841
2004/January–March	1,015	871

NGK SPARK PLUGS
NTK TECHNICAL CERAMICS

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