NGK SPARK PLUG CO., LTD.

Spark of Innovation

Annual Report 2005 Fiscal year ended March 31, 2005

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, and other uses.

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.

Contents

Forward-Looking Statements

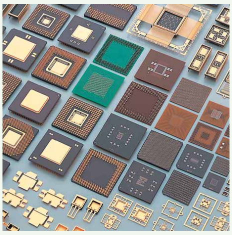
This Annual Report contains information about forward-looking statements related to such matters as the Company's plans, strategies, and business results. These forward-looking statements represent judgments made by the Company based on information available at present and are inherently subject to a 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.

Automotive Components Business

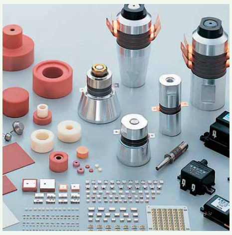

Spark Plugs


Sensors

Communication Media Components and Technical Ceramics Businesses


Semiconductor Components


Cutting Tools


Electronic Components


Fine Ceramics

A Message from the President

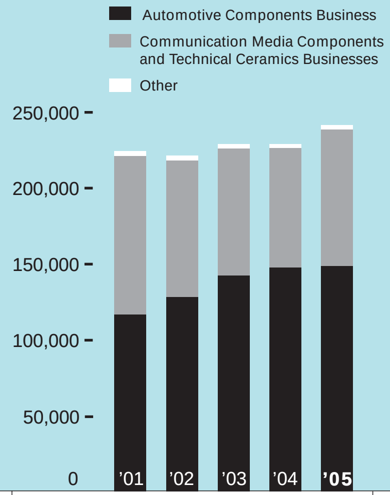
Norio Kato
President

Financial Highlights

NGK SPARK PLUG CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2005, 2004 and 2003

	Millions of Yen			Change (%)	Thousands of U.S. Dollars
	2005	2004	2003	2005/2004	**2005**
For the year:					
Net sales	**¥241,186**	¥228,776	¥228,929	5.4%	**$2,254,075**
Operating income	**26,090**	20,745	15,823	25.8	**243,832**
Net income	**17,147**	11,117	7,347	54.2	**160,252**
At year-end:					
Total assets	**¥323,109**	¥297,995	¥298,787	8.4%	**$3,019,710**
Shareholders' equity	**220,933**	205,964	189,522	7.3	**2,064,794**
	Yen			Change (%)	U.S. Dollars
Per share data:					
Net income					
—Basic	**¥77.01**	¥49.84	¥32.36	54.5%	**$0.72**
—Diluted	**72.92**	47.45	31.06	53.7	**0.68**
				Change (yen)	
Cash dividends	**16.00**	11.00	11.00	¥5.00	**0.15**

Note: U.S. dollar amounts above and elsewhere in this Annual Report are converted from yen, for convenience only, at the rate of ¥107=U.S.$1.



Net Sales (Millions of Yen)

We are pleased to report that both sales and profits for NGK Spark Plug Co., Ltd. and its consolidated subsidiaries (the "NGK Spark Plug Group" or the "Group") reached record levels in the fiscal year ended March 31, 2005. In addition to a favorable market environment, we believe that this reflects the high regard in which our customers hold the quality and superiority of our products.

Performance

In the automotive industry, where our main customers are located, strong performances by manufacturers set the background for the solid results posted by our automotive components business. In addition, in our communication media components business, we recorded strong sales of IC packages, buoyed by growth in demand for mobile phones and PCs. As a result, consolidated net sales grew 5.4% over the previous fiscal year, to ¥241,186 million. Operating income grew 25.8%, to ¥26,090 million, as improved capacity utilization and increased yields in the communication media components business, as well as a major contribution from cost-cutting efforts, outweighed the effects of foreign exchange and the rise in raw materials costs. Net income surged 54.2% to ¥17,147 million. Basic net income per share amounted to ¥77.01, compared to ¥49.84 for the previous fiscal year.

Progress in Implementing Medium-Term Management Plan

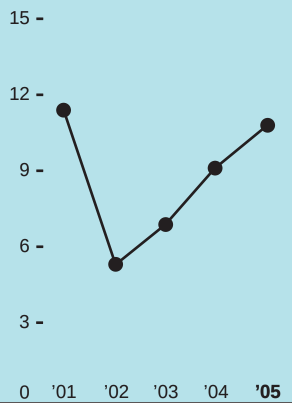
Our medium-term management plan, which went into effect in the fiscal year ended March 31, 2004, aims for sustained growth and stable profitability, with the key priorities being anticipating market needs, strengthening product competitiveness and ongoing cost reductions. Targets for the final year of the plan, ending March 31, 2006, include:

- Return on equity (ROE): 8% or above
- Operating profit ratio: 10% or above

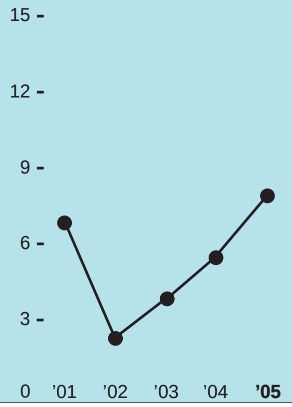
We reached these targets a year ahead of schedule in the fiscal year under review, with ROE and operating profit ratio reaching 8.0% and 10.8%, respectively. In the final year of the plan we will maintain our focus on ensuring that we continue to reach these targets.

Responding to Growth in the Diesel Automobile Market

Diesel automobiles have superior heat efficiency compared to gasoline automobiles. Together with their low levels of CO_2 emissions, this is spurring growth in the European market. We foresee continued growth in our diesel-related businesses, primarily in Europe. We are in the process of adding production capacity for glow plugs for diesel engines to respond to this increase in demand.



Operating Profit Ratio (%)



ROE (%)

The rapid increase in demand will be handled by the construction of a new factory building in our Komaki Factory complex in Aichi Prefecture.

In addition to glow plugs, diesel automobiles also hold out the promise of increased sales of other products in which we excel, including universal exhaust gas oxygen sensors, temperature sensors, knock sensors, and urea level sensors. We intend to make focused investments in this growth area and to secure the leading position in the global industry, in both plugs and sensors.

Improved Earnings in the IC Package Business

Our products in the semiconductor components business include organic IC packages for PC MPUs, as well as ceramic IC packages, primarily for use with crystal devices and SAW filters used in products such as mobile phones. Our key priority in this business is to improve and stabilize profits in order to minimize the impact of changes in market conditions. Increases in demand and the associated improvement in capacity utilization, improved yields, and cost-reduction activities carried this business to profitability in the fiscal year under review. We are beginning to see the fruits of the alliance with Nan Ya PCB CORP. of Taiwan with the objective of increasing efficiency in the production of organic IC packages. While maintaining our focus on quality, we will continue to reduce costs to make the business reliably profitable.

Global Production Network

In October 2004, we established a ceramic cutting tools factory in Poland. This was in response to expectations of increased demand as automotive manufacturers, our major customer base, stepped up efforts to enter Eastern Europe as well as continued growth in Western Europe. Serving both Eastern and Western Europe, local production will allow shorter delivery times and improved services. In addition, we plan to commence production of oxygen sensors in Shanghai, China, during the second half of 2006. We foresee a sharp rise in demand from China for oxygen sensors, which are the key components in the automobile emission control systems used to address environmental concerns. We will respond to this burgeoning demand by setting up a new production line for oxygen sensors at NGK Spark Plug (Shanghai) Co., Ltd.

We primarily produce automotive plugs and sensors at our 14 factories in 11 countries around the world. We will move ahead with our program to produce products at optimal locations by leveraging the strengths of each of our manufacturing bases to respond to our customers' calls for quality products that are reasonably priced and quickly delivered, anywhere in the world.

Corporate Governance

A top management priority is ensuring the soundness and transparency of management. This contributes to raising corporate value by earning the trust of all our stakeholders and fulfilling our corporate social responsibilities. In addition, we have also committed to efforts to raise awareness of compliance issues, establishing a Code of Conduct as a fundamental guideline for each and every director and employee to correctly understand and practice. We are fully aware that providing investors with appropriate levels of information at appropriate times lies at the heart of vibrant securities markets, and we are committed to prompt, accurate, and fair disclosure.

November 2006 will mark the 70th anniversary of our founding. This fiscal year will be a critical one for building the foundation for renewed progress and growth. First, we must without fail attain the goals of the medium-term management plan. At the same time, we will work to develop a strong foundation enabling us to respond quickly and appropriately to change, and on which we can build sustained growth, with all employees sharing the threefold strategy embodied in our corporate guidelines: “Manufacturing high quality products,” “Step ahead in the things we make,” and “Leading the industry.”

We thank all our shareholders for their ongoing cooperation and support.

Norio Kato
President

Spark of Innovation in New and Growing Fields

1

Increasingly stringent exhaust regulations are expected to spur further expansion of the market for more environmentally friendly automotive components. Our spark plugs, glow plugs, and sensor lines are products that contribute to lessening environmental impact. We intend to apply our technology to continuing our world leadership in developing products for this area.

GLOW PLUGS

Glow plugs assist in fuel auto ignition as a heat source when starting diesel engines. This contributes to reducing smoke and odor, improving fuel economy, and limiting battery consumption. With their energy efficiency and low levels of CO_2 emissions, diesel automobiles account for nearly half of new automobile sales in Europe. The introduction of the new Euro 5 environmental regulations, which will be nearly impossible to satisfy with conventional glow plugs, such as metal-type glow plugs, should serve to cement our position as the leading developer of new ceramic glow plugs. Demand for diesel automobiles is expected to grow in the U.S., Japan, and Asia as well. Our objective is to gain 40% share of the world market in the next ten years, adding a third pillar of profitability to our leading positions in spark plugs and sensors.

OXYGEN SENSORS

Oxygen sensors are a core component in automobile emission control systems. They detect oxygen concentrations in exhaust gas, and send a signal that controls the fuel/air ratio at an optimal level. We supply oxygen sensors in the U.S., Europe and Japan, as well as other countries in Asia. In addition, sales to Japanese automotive manufacturers are particularly on the rise. We estimate our current share of the world market at 36%, and intend to raise this to 40% within the next several years. Trends in exhaust gas sensor elements are now shifting from a cylindrical to a flat shape, which is more amenable to miniaturization. The fact that flat element sensors require multi-layer ceramic technology, will enable us to leverage the technology we have developed for ceramic IC packages. Sales of flat element sensors are expected to grow 20-30% annually for the next two to three years. In addition, their use should expand from gasoline automobiles to diesel automobiles.

Spark of Innovation in New and Growing Fields

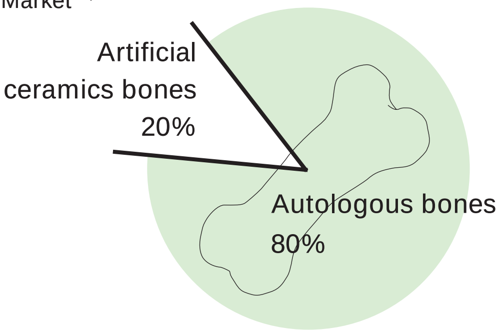
2

Medical Field

The aging of the population is drawing new attention to health care and related businesses. We are aggressively pursuing development of products for this growth sector, exploiting the new characteristics of ceramics.

Artificial Ceramics Bone Market

¥10 billion in Japan



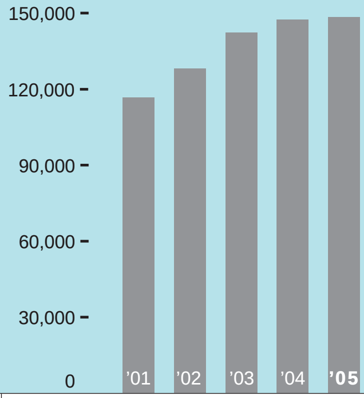
OXYGEN CONCENTRATORS

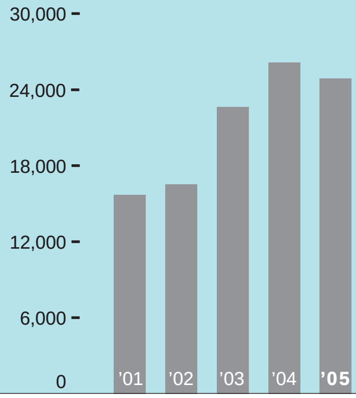
Oxygen concentrators are devices that absorb nitrogen from the air and generate concentrated oxygen for patients suffering from chronic respiratory illness. Our models offer reduced power consumption, which reduces the economic burden on the patient. They are also quieter, smaller and more user-friendly. Due to the competitive advantage of our products and with the industry beginning to shake out, we anticipate significant increases in unit sales and to garner rising market share starting in 2005.

ARTIFICIAL BONES AND HIPS MADE FROM CERAMICS

Artificial bones are primarily used in orthopedic surgery and neurosurgery to supplement or replace missing sections of bone. Currently within Japan bone transplants using bones taken from the patient or relatives account for 70-80% of operations, but the demand for artificial bones is expected to continue to grow because they place fewer burdens on the patient and carry less risk of infection.

We began our involvement with artificial bones back in the 1980s, and now manufacture many types of artificial bones and balls for artificial hip joints using hydroxyapatite, zirconia and other materials that offer remarkable strength and compatibility with the host organism. The range of structures, shapes, and sizes we offer affords choices that are ideal for almost any replacement site. In addition, we listened to the medical community and responded by developing a paste-type artificial bone that can be fitted to the bone shape of the patient. Having now received manufacturing approval from the Ministry of Health, Labour and Welfare, it will go on sale in the fall of 2005.





Net Sales (Millions of Yen)

Operating Income (Millions of Yen)

Automotive Components Business

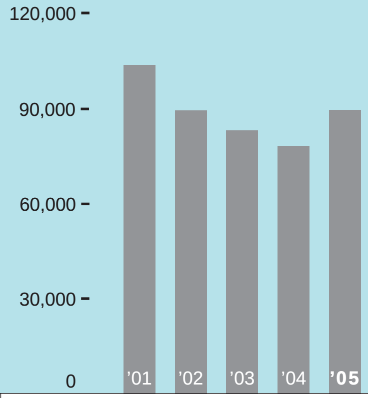
Review of Results

In the fiscal year ended March 31, 2005, sales in the automotive components business edged upward 0.7% over the previous fiscal year, to ¥148,726 million, while operating income decreased 4.8% to ¥24,946 million.

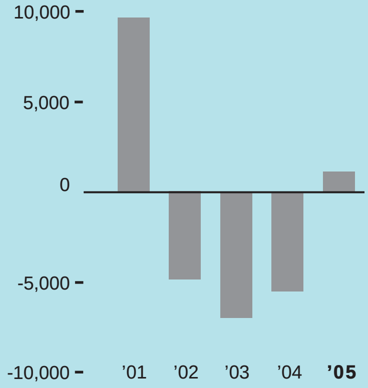
In our plugs business, which performed strongly, we reported record sales, due to the strength in overseas markets such as Europe and Asia, and robust domestic automotive production. On the other hand, sales of oxygen sensors and other automotive sensors dropped slightly, as U.S. automotive manufacturers cut production, causing shipments to lag, which together with the weak dollar more than offset sales growth in Europe that was spurred by heightened environmental awareness.

Outlook

In our plugs business, shipments of diesel engine glow plugs are expected to continue to rise along with increasing European demand for diesel automobiles. To respond to this growth in demand, a new factory building is now under construction at our main Komaki Factory, and will go into production in fall 2005. In addition to expanding sales of metal-type glow plugs, we intend to accelerate measures to fully bolster our ceramic glow plug business as early as possible. In oxygen sensors, we expect sales to U.S. automotive manufacturers to continue at last year's sluggish levels, though this will be compensated for by increased sales of products to Japanese automotive manufactures and universal exhaust gas oxygen sensors. We are also pushing forward with the development of oxygen sensors for motorcycles, a market expected to grow.



Net Sales (Millions of Yen)



Operating Income (Millions of Yen)

Communication Media Components and Technical Ceramics Businesses

Review of Results

Sales in this segment grew 14.4% over the previous fiscal year, to ¥89,805 million. Operating income rebounded strongly from a loss of ¥5,494 million the previous fiscal year to a profit of ¥1,138 million.

Underlying these favorable results was our turnaround in the semiconductor components business, which accounts for a large portion of the segment. Shipments of our flagship organic IC packages for MPUs have been rising, thanks to strong PC demand that began last year. In addition, overseas MPU manufacturers, who represent our major customers, worked through their component inventory adjustments sooner than expected, which had a major impact. In the ceramic IC package business, shipments of crystal devices as well as SAW filter and CMOS/CCD packages were strong, fueled not only by increased mobile phone demand, but also new customer acquisitions resulting from aggressive sales activity. In our cutting tools business, sales to our major customers in the automotive and machine industries were firm. In the technical ceramics business, the rebound in the economy boosted capital investment and related orders. At the same time, we experienced brisk sales of medical products, including medical oxygen concentrators.

The segment returned to profitability for the first time since the fiscal year ended March 31, 2001, as the high levels of orders for ceramic IC packages pushed up factory utilization, consolidation of manufacturing processes across factories yielded efficiencies, and organic IC package yields improved.

Outlook

In our semiconductor components business, ceramic IC packages should benefit from continued growth in CMOS/CCD packages, while the outlook for sales of crystal devices and SAW filter packages is to decline as demand from the mobile phone market slows. For organic IC packages, strong PC demand should continue to drive sales of IC packages. In these IC package businesses, we will improve profitability through a customer-centric market strategy, quality improvements, and ongoing cost-reduction efforts. In the electronic components business, we will engage in rebuilding while seeking to gain market share in niche areas. In the cutting tools and technical ceramics businesses, we expect the trends seen during the period under review to continue. In the technical ceramics business in particular, we expect a boost in sales of medical oxygen concentrators for patients with pulmonary disorders due to restructuring in the industry and the superiority of our products.

Initiatives to Protect the Environment

Environmental protection is one of our top management priorities. We will pursue the development of a sustainable society and business operations with the participation of everyone concerned, guided by the environmental action plan based on our environmental policies as we develop a host of environmentally friendly products. In this way we hope to fulfill our social role and responsibility as a trusted corporation. Major initiatives in this area are outlined below.

Environmental Management System

An important tool for leading the company in a more environmentally aware direction is the ISO14001 environmental management system. Following certification of all four domestic factories in December 2000, we received ISO14001 certification for the Group as a whole, including all consolidated domestic subsidiaries, in January 2004. In the future, while continuing to pursue improvements at our domestic factories, we will move to obtain certification for our consolidated overseas subsidiaries as well.

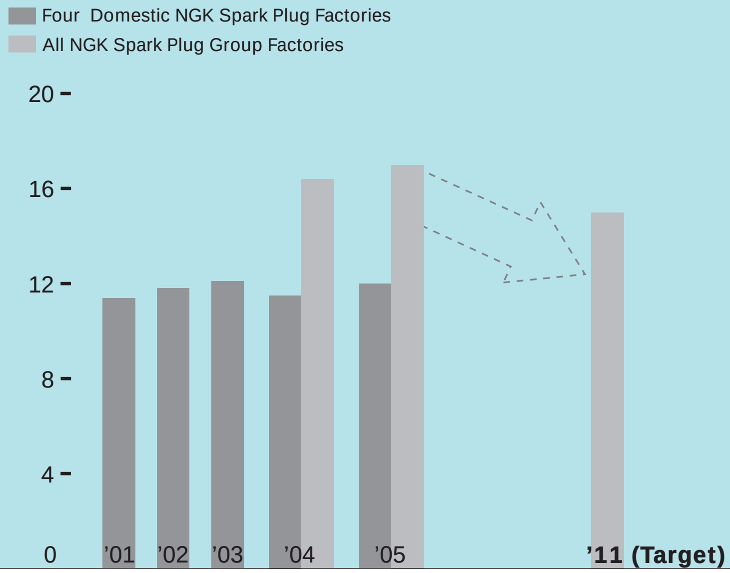
Reducing CO_2 Emissions

Our products comprise mainly ceramic and metal components. We recognize that reducing the heavy CO_2 emissions resulting from the firing process required by ceramics is an important issue. CO_2 emissions for the NGK Spark Plug Group in the fiscal year ended March 31, 2005 amounted to 168,000 tons. NGK Eco Vision 2010, our medium- and long-term plan, calls for reducing CO_2 emissions to 150,000 tons by the fiscal year ending March 31, 2011.

Achieving Zero Emissions

All waste products resulting from each stage of raw material procurement, design, and production are assiduously sorted and recycled. In the fiscal year ended March 31, 2004 we achieved zero emissions* at all four domestic factories. Our goal for the fiscal year ending March 31, 2006 is to reach zero emissions at all Group companies

*We define zero emissions as 98% effective reuse, thus curtailing waste materials sent to landfill or incineration, including industrial waste and general business-related waste materials.



Energy Used in Production (CO$_2$ equivalent, 10,000 tons CO$_2$)

Managing Environmentally Hazardous Substances

We are committed to limiting emissions of environmentally hazardous substances in our production processes, and replacing environmentally hazardous substances in our products and production processes with less hazardous materials.

The NGK Eco Vision 2010 plan calls for emissions of the substances covered by Japan's PRTR (Pollutant Release and Transfer Register) Law to be reduced by the fiscal year ending March 31, 2011 to 80% of the levels of the fiscal year ended March 31, 2003. In the fiscal year ended March 31, 2005, the Group used 824 tons of 27 different substances, of which 174 tons ended up as emissions.

As a company producing environmental products, our commitment to environmental protection starts with the selection of materials. We eliminated hexavalent chrome from the surface treatment solution used on the main metal parts of spark plugs, and switched all of our factories around the world to a lead-free glaze for the surface of their insulators (ceramic portion).

Designing Environmentally Friendly Products

Spark plugs

The NGK Spark Plug Group continues to push ahead with the development of environmentally friendly products. We are particularly proud to be identified with our broad line of sensors, environmental products that have found a multitude of applications in automobiles. Our spark plugs are also contributing to conserving resources as they become smaller and lighter.

Six-Year Summary

NGK SPARK PLUG CO., LTD. and Consolidated Subsidiaries

Years ended March 31, 2005, 2004, 2003, 2002, 2001 and 2000

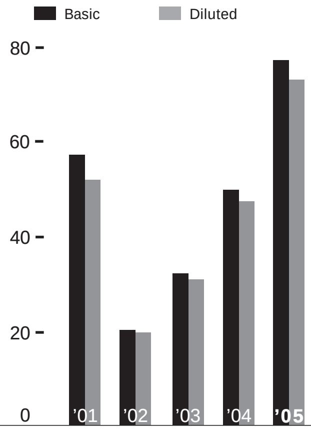
	Millions of Yen						Thousands of U.S. Dollars
	2005	2004	2003	2002	2001	2000	**2005**
For the year:							
Net sales	**¥241,186**	¥228,776	¥228,929	¥221,419	¥224,269	¥195,595	**$2,254,075**
Costs of goods sold	**177,786**	171,481	177,857	176,225	166,778	149,924	**1,661,551**
Selling, general and administrative expenses	**37,310**	36,550	35,249	33,374	32,026	31,234	**348,692**
Operating income	**26,090**	20,745	15,823	11,820	25,465	14,437	**243,832**
Net income	**17,147**	11,117	7,347	4,844	13,056	6,578	**160,252**
Cash flows from operating activities	**36,092**	24,259	34,534	18,728	24,144	21,892	**337,308**
Cash flows from investing activities	**(41,782)**	14,784	(28,718)	(26,812)	(19,393)	(10,373)	**(390,486)**
Cash flows from financing activities	**(1,888)**	(21,792)	(13,787)	(32,719)	6,422	(1,478)	**(17,645)**
Depreciation	**14,528**	15,943	18,478	19,981	18,118	19,365	**135,776**
Capital expenditures	**13,956**	10,414	10,811	25,508	23,479	17,492	**130,430**
At year-end:							
Total assets	**¥323,109**	¥297,995	¥298,787	¥318,512	¥366,727	¥314,321	**$3,019,710**
Shareholders' equity	**220,933**	205,964	189,522	199,454	208,797	165,495	**2,064,794**

	Yen						U.S. Dollars
Per share data:							
Net income							
—Basic	**¥ 77.01**	¥ 49.84	¥ 32.36	¥ 20.51	¥ 57.19	¥ 29.56	**$0.72**
—Diluted	**72.92**	47.45	31.06	19.95	51.91	27.37	**0.68**
Cash dividends	**16.00**	11.00	11.00	11.00	12.00	11.00	**0.15**
Shareholders' equity	**997.13**	929.23	854.89	869.04	871.72	743.65	**9.32**

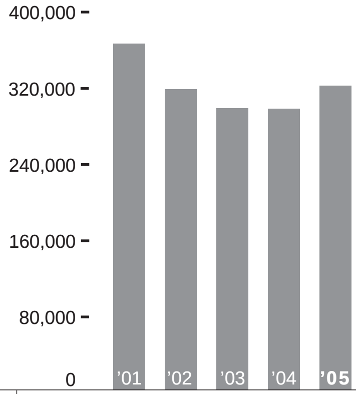
	Percent					
Ratios:						
Operating profit ratio	**10.8%**	9.1%	6.9%	5.3%	11.4%	7.4%
Equity ratio	**68.4**	69.1	63.4	62.6	56.9	52.7
Return on net sales	**7.1**	4.9	3.2	2.2	5.8	3.4
Return on assets	**5.5**	3.7	2.4	1.4	3.8	2.1
Return on equity	**8.0**	5.6	3.9	2.4	7.0	4.2

Note: U.S. dollar amounts above and elsewhere in this Annual Report are converted from yen, for convenience only, at the rate of ¥107=U.S.$1.

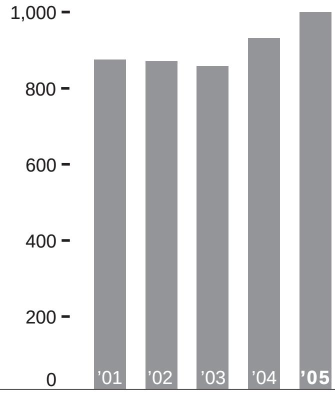
Financial Review



Net Income per Share (Yen)



Total Assets (Millions of Yen)



Shareholders' Equity per Share (Yen)

Sales and Profits

In the fiscal year ended March 31, 2005 (below, "this fiscal year"), consolidated net sales rose 5.4% to ¥241,186 million. This record-high level of sales was attributable to steady growth in the automotive components business and continued firm demand in the communication media components and technical ceramics businesses from the second half of the previous fiscal year.

Costs of goods sold increased 3.7% to ¥177,786 million. The ratio of costs of goods sold to net sales improved 1.3 percentage points to 73.7%. This improvement was mainly due to higher production efficiency from the integration of plants in the ceramic IC package business, higher yields and production volume effects in the organic IC package business, and cost reductions in the ceramics business stemming from higher production volume effects.

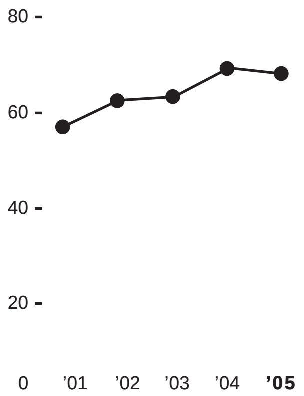
Selling, general and administrative (SG&A) expenses totaled ¥37,310 million, an increase of 2.1% from the previous fiscal year. The primary reasons for this increase were higher packaging and delivery costs and higher direct marketing costs such as sales commissions in light of sales growth. The ratio of SG&A expenses to net sales was 15.5%, an improvement of 0.5 percentage point.

Operating income grew 25.8% to ¥26,090 million. The operating profit ratio was 10.8%, an increase of 1.7 percentage points.

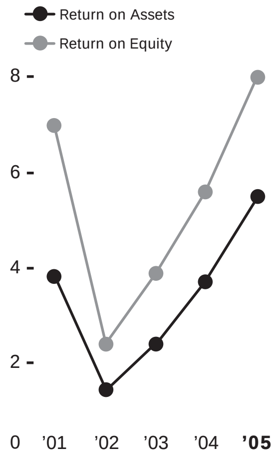
Net income climbed 54.2% to ¥17,147 million, owing mainly to the increase in operating income, and a foreign exchange gain in contrast to a foreign exchange loss in the previous fiscal year. In addition, interest expenses declined due to reductions in bank loans and the redemption of interest-bearing debt at maturity.

Financial Position

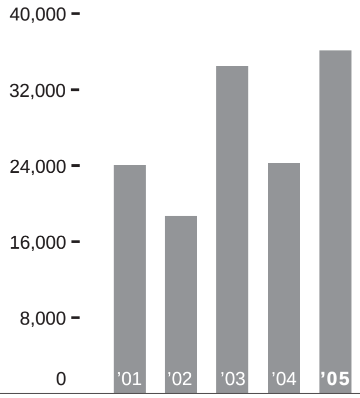
As of March 31, 2005, total assets stood at ¥323,109 million, an increase of 8.4% from the end of the previous fiscal year. The ¥25,201 million increase in short-term investments was chiefly due to an increase in time deposits with an original maturity of more than three months and the purchase of bonds. Inventories amounted to ¥45,367 million, a rise of 7.4%. This increase reflects NGK Spark Plugs Malaysia Berhad. turning into a consolidated subsidiary, the launch of production at NGK Spark Plug (Shanghai) Co., Ltd. and NTK Technical Ceramics Polska Sp.zo.o., and responses to increased production of glow plugs and organic IC packages. Investment securities increased ¥2,935 million on account of purchases of euro-yen marketable securities in fund management activities.



Equity Ratio (%)



ROA & ROE (%)



Cash Flows from Operating Activities
(Millions of Yen)

Total liabilities expanded 10.7% to ¥101,098 million. This increase was attributable to an increase in long-term debt due to the procurement of ¥17.0 billion in funds from the issuance of zero coupon convertible bonds with stock acquisition rights, corresponding to the ¥10.0 billion redemption of the first series of unsecured bonds. An increase of ¥6,101 million in accounts payable in tandem with higher production also contributed to the increase in total liabilities. Meanwhile, short-term borrowings were reduced by ¥6,140 million.

Shareholders' equity totaled ¥220,933 million, a rise of 7.3% from a year earlier. The shareholders' equity ratio was 68.4%, a decline from 69.1% in the previous fiscal year due to the external procurement of funds through the issue of zero coupon convertible bonds with stock acquisition rights.

Cash Flows

Cash flows from operating activities

Net cash provided by operating activities increased ¥11,833 million to ¥36,092 million. The main sources of cash comprised income before income taxes and minority interests of ¥26,167 million, an increase of ¥7,753 million from the previous fiscal year, as well as a reduction of ¥2,159 million in income taxes paid to ¥7,291 million.

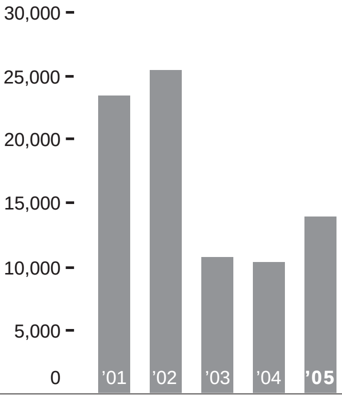
Cash flows from investing activities

Net cash used in investing activities amounted to ¥41,782 million, compared with net cash provided by investing activities of ¥14,784 million in the previous fiscal year, when short-term funds were prepared for the redemption of the first series of unsecured bonds. In the fiscal year under review, funds were transferred to time deposits and bonds due to a one-time increase in cash from the issuance of zero coupon convertible bonds with stock acquisition rights.

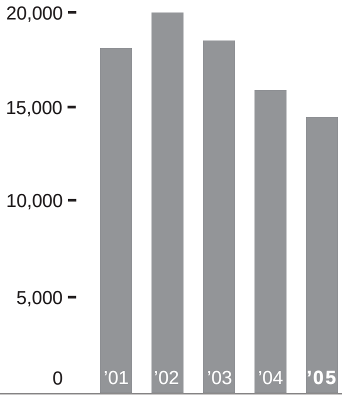
Cash flows from financing activities

Net cash used in financing activities was ¥1,888 million. The main uses of cash were for the repayment of ¥10.0 billion in long-term debt, and a net decrease of ¥6,150 million in short-term borrowings. The main source of cash was an increase in long-term debt of ¥17.0 billion from the issuance of zero coupon convertible bonds with stock acquisition rights.

As a result of these activities and the effect of exchange rate changes, cash and cash equivalents at end of year amounted to ¥40,525 million, a decrease of ¥7,697 million from ¥48,222 million at the end of the previous fiscal year.



Capital Expenditures (Millions of Yen)



Depreciation (Millions of Yen)

Capital Expenditures

During the fiscal year under review, capital expenditures increased 34.0% to ¥13,956 million in accordance with plans to expand production, streamline facilities, improve quality and upgrade equipment. NGK Spark Plug allocated capital expenditures of ¥8,817 million in the automotive components business, ¥5,126 million in the communication media components and technical ceramics businesses, and ¥13 million in the other business.

Performance by Region

Japan

In Japan, net sales including inter-segment sales grew 7.3% to ¥210,624 million owing to contributions from steady growth in the automotive components business and significant growth in the communication media components and technical ceramics businesses. Operating income climbed 49.0% to ¥21,275 million.

North America

In North America, net sales stagnated from lower production at U.S. automakers, a primary customer, and the weaker dollar affected foreign exchange gains. However, sales were favorable for MPU organic packages in the communication media components business. As a result, sales rose 4.9% to ¥74,256 million and operating income amounted to ¥1,556 million.

Europe

In Europe, net sales expanded 7.0% to ¥45,510 million on account of firm demand in the automotive components business and the communication media components and technical ceramics businesses. Operating income, however, fell 28.4% to ¥1,686 million with the startup of operations at a plant in Poland and one-time expenses from the streamlining of inventories at sales bases in Europe.

Other Regions

Buoyed by expansion in the automotive components business in countries in Southeast Asia, along the Pacific Rim and Latin America, net sales advanced 19.9% to ¥21,952 million and operating income rose 17.9% to ¥1,672 million.

Business Risks

The business performance of the NGK Spark Plug Group may be adversely affected by various factors that could arise in the future. The following items are the main risks we believe may affect business development. We are taking appropriate measures to prevent the occurrence of these risks and deal appropriately with these risks if they should arise. Forward-looking statements are based on information available to the NGK Spark Plug Group as of the end of the fiscal year under review.

International political and economic conditions

The NGK Spark Plug Group derives approximately 80% of its net sales from overseas markets and engages in international business operations in tandem with the development of overseas production. Accordingly, our business performance is affected by changes in political and economic conditions in Japan and the rest of the world. Unforeseen changes in these conditions may have an impact on the balance of supply and demand for the NGK Spark Plug Group and its customers. These unforeseen changes in the world economy include but are not limited to expansion in the political and economic importance of Brazil, Russia, India and China (BRICs) and other countries that are expected to develop rapidly as well as resource-rich countries in the Middle East, in addition to reforms and liberalization in laws and regulations and changes in working environments.

Changes in the value of the Japanese yen versus other currencies in overseas markets may significantly adversely affect the price competitiveness of our products and the business performance of the NGK Spark Plug Group. Although we hedge against the risk of short-term fluctuations in foreign exchange rates through forward-exchange contracts, these risks cannot be completely eliminated. In addition, sales, expenses, assets and other items denominated in foreign local currencies are translated into yen to prepare the consolidated financial statements. Accordingly, the value of these items may be affected by the foreign exchange rate used for their translation into yen even though their value denominated in local currency has not changed.

The financial assets held by the NGK Spark Plug Group, including investment securities, are mainly bank deposits as well as bonds and securities issued by Japanese companies. Accordingly, the business performance and financial position of the NGK Spark Plug Group may be adversely affected by changes in the Japanese economy.

Industry trends

The sales volume of products used in new car assembly in the automotive components business can be adversely affected by the production plans of automobile manufacturers. Moreover, the sales volume of spark plugs for maintenance and repairs may not continue to expand as longer-lasting spark plugs are increasingly used in advanced nations, despite expectations for sharp growth in developing countries such as China and others in Eastern Europe with latent growth potential. In addition, advancements in government energy policies and environmental regulations in various countries may increase expenses to address changes in designs, prototypes and production as well as adversely affect the business performance of the NGK Spark Plug Group.

The communication media components and technical ceramics businesses are affected by the operating environments of the IT industry, including PCs and mobile communications devices, and the equipment industry such as heavy electrical equipment and machinery. PC MPU applications, which make up nearly half of IC package sales, are sold to customers that have an oligopoly share of world markets. Accordingly, global supply capacity including that of competitors may considerably affect our business performance due to changes in market trends and technological innovations.

Quality problems

The NGK Spark Plug Group manufactures products based on quality management standards recognized worldwide at its production bases and at its suppliers. However, not all products are free of defects, and there is no guarantee there will not be a product recall in the future. In addition, although the NGK Spark Plug Group has obtained insurance for corporate product liability, there is no guarantee that this insurance will sufficiently cover all liable amounts. If there is a market claim directly or indirectly due to a specific product, the NGK Spark Plug Group is likely to recall the product, change it according to customer specifications and incur financial responsibilities such as the payment of correctional expenses.

Technological advancement and intellectual property

The NGK Spark Plug Group supplies products to markets with rapidly advancing technologies, changing customer needs and emerging innovative companies. In the development of new technologies and products, the NGK Spark Plug Group must invest capital ahead of launches to develop products over short time periods and establish manufacturing methods that ensure stable mass production. These new products may not be as new or cost advantageous as initially expected due to higher development expenses or the development of new technologies by a competitor. These new products may also lower the market appeal of our existing products, and adversely affect business performance.

The NGK Spark Plug Group has measures in place to obtain intellectual property rights to protect its new products. However, there is the possibility that these measures will not completely prevent illicit usage or restrict the acquisition of similar technologies. In addition, patent infringement disputes, licensing fees and lawsuit settlements related to intellectual property may adversely affect our business performance.

Environmental problems

The operations of the NGK Spark Plug Group are subject to environmental laws and regulations in Japan and overseas related to the air, water and soil. In strictly following these environmental laws and regulations in our business activities, we may incur significant expenses in order to fulfill customer requirements for controlling the usage of environmentally burdensome substances. If required to reduce a corresponding amount of greenhouse gases due to the enactment of the Kyoto Protocol, expenses for reducing emissions of greenhouse gasses may adversely affect the business performance and financial standing of the NGK Spark Plug Group.

Other risks

In recent years, natural disasters, major accidents and terrorism have appeared in Japan and other regions of the world. Although the NGK Spark Plug Group is working to put in place a risk management structure able to respond to unforeseen events, it is difficult to secure alternative sources of primary materials and partners in crucial processes. In addition, a majority of the NGK Spark Plug Group's production facilities and R&D bases are located in the Tokai region, exposing them to the relatively high risk of an earthquake (even for Japan). While the NGK Spark Plug Group has installed anti-earthquake measures, serious damage resulting from an unexpectedly large natural disaster would affect the business performance and financial condition of the Group.

In accordance with the high degree of IT technology usage in business practices, the NGK Spark Plug Group faces a greater risk of data destruction and the leakage of confidential information from external intrusions. Although we are reinforcing security countermeasures and rules while monitoring facilities with software, it is difficult to completely ensure the security of our information systems from a malicious attack, which may incur financial damages and adversely affect our credibility.

NGK Spark Plug and its domestic subsidiaries have defined contribution qualified pension plans and lump-sum retirement benefit systems in place. While aware of our retirement benefit obligations, the discount rate is based on the interest rate of Japanese government bonds. In addition, we are providing reserves for pension assets to fulfill our retirement benefit obligations. Nevertheless, our pension assets are invested in market instruments. Accordingly, the business performance and financial position of the NGK Spark Plug Group may be adversely affected by changes in interest rates and market trends.

Consolidated Balance Sheets

NGK SPARK PLUG CO., LTD. and Consolidated Subsidiaries
March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Assets			
Current assets:			
Cash and cash equivalents	**¥ 40,525**	¥ 48,222	**$ 378,738**
Short-term investments (Note 5)	**36,229**	11,028	**338,589**
Notes and accounts receivable, net of allowance for doubtful accounts (Notes 3 and 15)	**47,613**	44,764	**444,981**
Inventories (Note 4)	**45,367**	42,223	**423,991**
Deferred tax assets (Note 13)	**7,563**	7,035	**70,682**
Other current assets	**1,620**	2,034	**15,140**
Total current assets	**178,917**	155,306	**1,672,121**
Investments and other assets:			
Investment securities (Note 5)	**47,816**	44,881	**446,878**
Investments in unconsolidated subsidiaries and affiliates	**4,927**	4,570	**46,047**
Deferred tax assets (Note 13)	**1,034**	1,013	**9,664**
Other assets	**1,477**	1,550	**13,804**
	55,254	52,014	**516,393**
Property, plant and equipment, at cost:			
Land	**15,201**	14,489	**142,065**
Buildings and structures	**91,110**	90,245	**851,495**
Machinery and equipment	**175,326**	170,856	**1,638,561**
Construction in progress	**2,344**	2,669	**21,907**
	283,981	278,259	**2,654,028**
Less, accumulated depreciation	**(195,043)**	(187,584)	**(1,822,832)**
	88,938	90,675	**831,196**
	¥ 323,109	¥ 297,995	**$ 3,019,710**

See accompanying Notes to Consolidated Financial Statements.

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Liabilities, Minority Interests and Shareholders' Equity			
Current liabilities:			
Short-term borrowings (Note 7)	**¥ 8,319**	¥ 14,459	**$ 77,748**
Current portion of long-term debt (Note 7)	**35**	10,143	**327**
Accounts payable (Notes 6 and 15)	**27,351**	21,250	**255,617**
Accrued expenses	**11,520**	12,347	**107,663**
Income taxes payable	**6,886**	3,433	**64,355**
Deferred tax liabilities (Note 13)	**208**	140	**1,944**
Other current liabilities	**1,561**	1,146	**14,589**
Total current liabilities	**55,880**	62,918	**522,243**
Long-term debt (Note 7)	**27,139**	10,178	**253,635**
Employee retirement benefit liability (Note 8)	**13,744**	13,033	**128,449**
Deferred tax liabilities (Note 13)	**2,659**	3,841	**24,850**
Other long-term liabilities	**1,676**	1,392	**15,664**
Commitments and contingent liabilities (Notes 9, 10 and 11)			
Minority interests in consolidated subsidiaries	**1,078**	669	**10,075**
Shareholders' equity (Notes 12 and 16):			
Common stock, no par value:			
Authorized: 390,000,000 shares;			
Issued: 229,544,820 shares in 2005 and 2004	**47,869**	47,869	**447,374**
Capital surplus	**54,826**	54,825	**512,392**
Retained earnings	**117,395**	102,868	**1,097,149**
Net unrealized gains on available-for-sale securities	**15,352**	15,628	**143,477**
Foreign currency translation adjustment	**(7,701)**	(8,516)	**(71,972)**
Less, treasury stock at cost—8,063,200 shares in 2005 and 7,972,226 shares in 2004	**(6,808)**	(6,710)	**(63,626)**
	220,933	205,964	**2,064,794**
	¥323,109	¥297,995	**$3,019,710**

Consolidated Statements of Income

NGK SPARK PLUG CO., LTD. and Consolidated Subsidiaries
For the years ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Operating revenue:			
Net sales (Note 14)	**¥241,186**	¥228,776	**$2,254,075**
Operating costs and expenses (Notes 14 and 15):			
Costs of goods sold	**177,786**	171,481	**1,661,551**
Selling, general and administrative expenses	**37,310**	36,550	**348,692**
	215,096	208,031	**2,010,243**
Operating income	**26,090**	20,745	**243,832**
Other income (expenses):			
Interest and dividend income	**953**	914	**8,906**
Interest expenses	**(647)**	(1,027)	**(6,047)**
Loss on sale or disposal of property, plant and equipment	**(1,418)**	(797)	**(13,253)**
Equity in net earnings of affiliates	**656**	454	**6,131**
Foreign exchange gain (loss)	**193**	(645)	**1,804**
Miscellaneous, net	**340**	(1,230)	**3,178**
	77	(2,331)	**719**
Income before income taxes and minority interests	**26,167**	18,414	**244,551**
Income taxes (Note 13)	**8,975**	7,262	**83,878**
Less, minority interests in net income of consolidated subsidiaries	**45**	35	**421**
Net income	**¥ 17,147**	¥ 11,117	**$ 160,252**
	Yen		U.S. Dollars
Per share:			
Net income:			
—Basic	**¥ 77.01**	¥ 49.84	**$ 0.72**
—Diluted	**72.92**	47.45	**0.68**
Cash dividends	**16.00**	11.00	**0.15**

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, 2005 and 2004

	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, 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)
Net income for the year	—	—	—	17,147	—	—	—
Cash dividends	—	—	—	(2,547)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(73)	—	—	—
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	—	—	—	—	(276)	—	—
Translation adjustment	—	—	—	—	—	815	—
Purchase of treasury stock and fractional shares, net of sales	—	—	1	—	—	—	(98)
Balance at March 31, 2005	**229,544,820**	**¥47,869**	**¥54,826**	**¥117,395**	**¥15,352**	**¥(7,701)**	**¥(6,808)**

	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, 2004	$447,374	$512,383	$ 961,383	$146,056	$(79,589)	$(62,710)
Net income for the year	—	—	160,252	—	—	—
Cash dividends	—	—	(23,804)	—	—	—
Bonuses to directors and corporate auditors	—	—	(682)	—	—	—
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	—	—	—	(2,579)	—	—
Translation adjustment	—	—	—	—	7,617	—
Purchase of treasury stock and fractional shares, net of sales	—	9	—	—	—	(916)
Balance at March 31, 2005	**$447,374**	**$512,392**	**$1,097,149**	**$143,477**	**$(71,972)**	**$(63,626)**

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, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 26,167**	¥ 18,414	**$ 244,551**
Adjustments for:			
Depreciation	**14,528**	15,943	**135,776**
Loss on sale or disposal of property, plant and equipment	**1,418**	797	**13,253**
Equity in net earnings of affiliates	**(656)**	(454)	**(6,131)**
Increase in trade receivables	**(408)**	(4,181)	**(3,813)**
(Increase) decrease in inventories	**(2,241)**	3,006	**(20,944)**
Increase (decrease) in trade payables	**3,628**	(1,728)	**33,906**
Other, net	**535**	1,898	**5,000**
Sub-total	**42,971**	33,695	**401,598**
Interest and dividend received	**1,063**	1,040	**9,934**
Interest paid	**(651)**	(1,026)	**(6,084)**
Income taxes paid	**(7,291)**	(9,450)	**(68,140)**
Net cash provided by operating activities	**36,092**	24,259	**337,308**
Cash flows from investing activities:			
Increase in property, plant and equipment	**(13,744)**	(10,311)	**(128,449)**
Increase in long-term investments and loans	**(12,465)**	(3,222)	**(116,495)**
Decrease in property, long-term investments and loans	**1,917**	3,401	**17,916**
Net (increase) decrease in short-term investments	**(17,490)**	24,916	**(163,458)**
Net cash (used in) provided by investing activities	**(41,782)**	14,784	**(390,486)**
Cash flows from financing activities:			
Increase in long-term debt	**16,929**	—	**158,215**
Repayment of long-term debt	**(10,010)**	(19,930)	**(93,551)**
Net (decrease) increase in short-term borrowings	**(6,150)**	630	**(57,477)**
Dividends paid	**(2,547)**	(2,438)	**(23,804)**
Purchase of treasury stock and fractional shares, net of sales	**(96)**	(34)	**(897)**
Other, net	**(14)**	(20)	**(131)**
Net cash used in financing activities	**(1,888)**	(21,792)	**(17,645)**
Effect of exchange rate changes on cash and cash equivalents	**(119)**	(236)	**(1,112)**
Net (decrease) increase in cash and cash equivalents	**(7,697)**	17,015	**(71,935)**
Cash and cash equivalents at beginning of year	**48,222**	31,207	**450,673**
Cash and cash equivalents at end of year	**¥ 40,525**	¥ 48,222	**$ 378,738**

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 Spark Plug 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 Kanto Finance Bureau of 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 ¥107 to $1, the approximate rate of exchange at March 31, 2005. 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 ¥107 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 inter-company 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, 2005 and 2004 was as follows:

	2005	2004
Consolidated subsidiaries:		
Domestic	**10**	10
Overseas	**21**	20
Unconsolidated subsidiaries, stated at cost	**5**	4
Affiliates, accounted for by the equity method	**4**	5
Affiliates, stated at cost	**3**	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 Spark Plug 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 Spark Plug 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 Spark Plug 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 Spark Plug 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 that represents a specific period not exceeding the average remaining service period of employees from the next year in which they arise in accordance with the Japanese accounting standard for employee retirement benefits.

(j) Accrued severance indemnities for officers
The NGK Spark Plug Group may pay severance indemnities to directors and corporate auditors, which are subject to the approval of the shareholders. The NGK Spark Plug 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, 2005 and 2004, other long-term liabilities in the accompanying consolidated balance sheets included these accruals for directors and corporate auditors in the amounts of ¥1,092 million ($10,206 thousand) and ¥894 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) Enterprise taxes

With the implementation of the "Revision of the Local Tax Law" (Legislation No.9, 2003) on March 31, 2005, size-based corporate taxes for local government enterprise taxes have been newly levied from the fiscal year beginning April 1, 2004. As a result, the Group has recorded enterprise taxes calculated based on the "added value" and "capital" amounts in the amount of ¥450 million ($4,206 thousand) as selling, general and administrative expenses for the year ended March 31, 2005 in accordance with practical guidance issued by Accounting Standards Board of Japan.

(n) 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 Spark Plug Group's activities include the plan and design of new products or processes, activities to significantly improve existing products or processes, and the daily improvement of existing products. For the years ended March 31, 2005 and 2004, research and development expenses amounted to ¥14,360 million ($134,206 thousand) and ¥13,881 million, respectively, and were included in costs of goods sold and selling, general and administrative expenses in the accompanying consolidated statements of income.

(o) 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. Bonuses to be paid to directors and corporate auditors are recorded as a part of the appropriation of retained earnings, instead of being charged to income, as permitted by the Japanese accounting standards.

(p) 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.

(q) 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 yet applied this new standard nor has determined the effect of applying it in the Company's consolidated financial statements. However, the management of the Company believes that any such impact would be a charge to earnings.

3. Notes and Accounts Receivable

At March 31, 2005 and 2004, notes and accounts receivable consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Trade receivables	**¥40,365**	¥38,992	**$377,243**
Unconsolidated subsidiaries and affiliates	**4,086**	4,279	**38,187**
Other	**3,350**	1,784	**31,308**
Less, allowance for doubtful accounts	**(188)**	(291)	**(1,757)**
	¥47,613	¥44,764	**$444,981**

4. Inventories

At March 31, 2005 and 2004, inventories consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Finished goods	**¥28,517**	¥26,640	**$266,514**
Work in process	**11,747**	10,585	**109,785**
Raw materials	**5,103**	4,998	**47,692**
	¥45,367	¥42,223	**$423,991**

5. Investments

At March 31, 2005 and 2004, short-term investments consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Marketable securities:			
Bonds	**¥15,285**	¥ 6,298	**$142,850**
Other	**—**	3,209	**—**
	15,285	9,507	**142,850**
Other non-marketable securities	**36**	164	**337**
Time deposits with an original maturity of more than three months	**20,908**	1,357	**195,402**
	¥36,229	¥11,028	**$338,589**

At March 31, 2005 and 2004, investment securities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Marketable securities:			
Equity securities	**¥34,670**	¥35,218	**$324,019**
Bonds	**9,150**	5,587	**85,514**
Other	**—**	—	**—**
	43,820	40,805	**409,533**
Other non-marketable securities	**3,996**	4,076	**37,345**
	¥47,816	¥44,881	**$446,878**

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, 2005 and 2004, 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, 2005:				
Marketable securities:				
Equity securities	**¥ 8,875**	**¥25,795**	**¥ —**	**¥34,670**
Bonds	**24,409**	**49**	**(23)**	**24,435**
Other	**—**	**—**	**—**	**—**
	¥33,284	**¥25,844**	**¥(23)**	**¥59,105**
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
	Thousands of U.S. Dollars			
At March 31, 2005:				
Marketable securities:				
Equity securities	**$ 82,944**	**$241,075**	**$ —**	**$324,019**
Bonds	**228,121**	**458**	**(215)**	**228,364**
Other	**—**	**—**	**—**	**—**
	$311,065	**$241,533**	**$(215)**	**$552,383**

During the year ended March 31, 2005, the NGK Spark Plug Group recorded a loss on write-down on marketable investment securities due to a permanent diminution in value in the amount of ¥129 million ($1,206 thousand). For the year ended March 31, 2004, the NGK Spark Plug Group recorded no loss on write-down on marketable investment securities.

Expected maturities of available-for-sale debt securities at March 31, 2005 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥15,311	$143,093
Due after one year through five years	5,764	53,869
Due after five years through ten years	2,500	23,365
	¥23,575	$220,327

6. Accounts Payable

At March 31, 2005 and 2004, accounts payable consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Trade payables	**¥19,505**	¥14,157	**$182,290**
Unconsolidated subsidiaries and affiliates	**3,158**	3,027	**29,514**
Other	**4,688**	4,066	**43,813**
	¥27,351	¥21,250	**$255,617**

7. Short-term Borrowings and Long-term Debt

At March 31, 2005 and 2004, short-term borrowings consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Unsecured bank loans with interest at rates ranging from 1.075% to 4.698% per annum at March 31, 2005	**¥ 785**	¥ 1,569	**$ 7,337**
Export bills accepted by consolidated subsidiaries and discounted with banks by the Company with interest at rates ranging from 1.375% to 6.25% per annum at March 31, 2005	**7,534**	12,890	**70,411**
	¥8,319	¥14,459	**$77,748**

At March 31, 2005 and 2004, long-term debt consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
1.4% bonds due March 2005	**¥ —**	¥ 10,000	**$ —**
1.86% bonds due March 2007	**10,000**	10,000	**93,458**
Zero coupon convertible bonds with stock acquisition rights due March 2011	**17,000**	—	**158,879**
Capital lease obligations for overseas consolidated subsidiaries	**174**	321	**1,625**
	27,174	20,321	**253,962**
Less, current portion	**(35)**	(10,143)	**(327)**
	¥27,139	¥ 10,178	**$253,635**

The current conversion price of zero coupon convertible bonds due 2011 is ¥1,369 per share and is subject to adjustment in certain circumstances, including in the event of a stock split. At March 31, 2005, the number of shares of common stock necessary for conversion of all convertible bonds outstanding was approximately 12 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, 2005 were as follows:

Years ending March 31	Millions of Yen	Thousands of U.S. Dollars
2006	¥ 35	$ 327
2007	10,035	93,785
2008	35	327
2009	35	327
2010	34	317
2011 and thereafter	17,000	158,879
	¥27,174	$253,962

8. Employee Retirement Benefits

The NGK Spark Plug Group has non-contributory defined benefit pension plans and lump-sum retirement benefit plans, which substantially cover all employees. Some of the overseas consolidated subsidiaries have defined contribution plans.

The following table reconciles the benefit liability and net periodic retirement benefit expense as at or for the years ended March 31, 2005 and 2004:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Reconciliation of benefit liability:			
Projected benefit obligation	**¥ 42,290**	¥ 40,894	**$ 395,234**
Less, fair value of pension plan assets at end of year	**(23,652)**	(22,700)	**(221,047)**
Projected benefit obligation in excess of pension plan assets	**18,638**	18,194	**174,187**
Less, unrecognized actuarial differences (loss)	**(4,894)**	(5,161)	**(45,738)**
Net amounts of employee retirement benefit liability recognized on the consolidated balance sheets	**¥ 13,744**	¥ 13,033	**$ 128,449**

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
	2005	2004	**2005**
Components of net periodic retirement benefit expense:			
Service cost	**¥2,159**	¥2,264	**$20,178**
Interest cost	**778**	903	**7,271**
Expected return on pension plan assets	**(338)**	(292)	**(3,159)**
Recognized actuarial differences	**633**	768	**5,916**
Net periodic retirement benefit expense	**¥3,232**	¥3,643	**$30,206**

Major assumptions used in the calculation of the above information for the years ended March 31, 2005 and 2004 were as follows:

	2005	2004
Method attributing the projected benefits to periods of services	**Straight-line method**	Straight-line method
Discount rate	**2.0%**	2.0%
Expected rate of return on pension plan assets	**1.75%**	1.75%
Amortization of actuarial differences	**10 years**	10 years

9. Contingent Liabilities

At March 31, 2005 and 2004, 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 ¥779 million ($7,280 thousand) and ¥1,046 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, 2005 and 2004 were ¥2,100 million ($19,626 thousand) and ¥3,310 million, respectively. For the years ended March 31, 2005 and 2004, lease expenses for non-cancelable lease agreements which were categorized as financing leases amounted to ¥972 million ($9,084 thousand) and ¥1,051 million, respectively.

The aggregate future minimum payments for such non-cancelable leases, including the imputed interest portion, at March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Due within one year	**¥ 828**	¥ 916	**$ 7,738**
Due after one year	**1,297**	1,417	**12,122**
	¥2,125	¥2,333	**$19,860**

11. Derivative Instruments

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

At March 31, 2005 and 2004, aggregate contract balances of derivative instruments, other than those accounted for by hedge accounting, amounted to ¥17,280 million ($161,495 thousand) and ¥6,097 million, respectively. Relating unrealized losses of ¥248 million ($2,318 thousand) were recorded as other expense for the year ended March 31, 2005. For the year ended March 31, 2004, relating unrealized gains of ¥227 million were recorded as other income.

12. Shareholders' Equity

(a) The authorized number of shares of common stock, no par value, is 390 million at March 31, 2005, 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, 2005 and 2004, capital surplus principally consisted of additional paid-in capital. At March 31, 2005 and 2004, retained earnings included legal reserve of the Company in the amount of ¥5,838 million ($54,561 thousand), 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 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, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Income taxes:			
Current	**¥10,456**	¥8,236	**$ 97,719**
Deferred	**(1,481)**	(974)	**(13,841)**
	¥ 8,975	¥7,262	**$ 83,878**

The tax effects on temporary differences that give rise to a significant portion of deferred tax assets and liabilities at March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Deferred tax assets:			
Inter-company profits	**¥ 2,932**	¥ 3,103	**$ 27,402**
Depreciation	**3,191**	2,987	**29,823**
Employee retirement benefit liability	**5,147**	4,290	**48,103**
Accrued bonus to employees	**2,392**	2,345	**22,355**
Inventories	**701**	610	**6,551**
Enterprise tax accruals	**616**	336	**5,757**
Other	**2,058**	2,168	**19,234**
	¥17,037	¥15,839	**$159,225**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	**¥10,457**	¥10,645	**$ 97,729**
Accelerated depreciation	**455**	420	**4,252**
Other	**395**	707	**3,692**
	¥11,307	¥11,772	**$105,673**
Net deferred tax assets	**¥ 5,730**	¥ 4,067	**$ 53,552**

At March 31, 2005 and 2004, deferred tax assets and liabilities were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Deferred tax assets:			
Current	**¥7,563**	¥7,035	**$70,682**
Non-current	**1,034**	1,013	**9,664**
Deferred tax liabilities:			
Current	**208**	140	**1,944**
Non-current	**2,659**	3,841	**24,850**

In assessing the realizability of deferred tax assets, management of the NGK Spark Plug 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, 2005 and 2004, 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.

Reconciliation of the differences between the Japanese statutory effective tax rate and the actual effective income tax rate on pre-tax income reflected in the accompanying consolidated statements of income for the years ended March 31, 2005 and 2004 was as follows:

	Percentage of pre-tax income	
	2005	2004
Japanese statutory effective tax rate	**40.5%**	41.9%
Increase (decrease) due to:		
Permanently non-deductible expenses	**0.8**	0.9
Tax exempt income	**(0.7)**	(0.4)
Tax credit for research and development expenses	**(5.1)**	(4.7)
Differences between Japanese and foreign tax rates	**(0.9)**	(0.6)
Other	**(0.3)**	2.3
Actual effective income tax rate	**34.3%**	39.4%

14. Segment Information

The NGK Spark Plug 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, 2005 and 2004 was as follows:

	Automotive components	Communication media components and technical ceramics	Other	Total	Elimination	Consolidated
	Millions of Yen					
For the year 2005:						
Operating revenue—Net sales:						
Outside customers	**¥148,726**	**¥ 89,805**	**¥2,655**	**¥241,186**	**¥ —**	**¥241,186**
Inter-segment sales	**—**	**—**	**63**	**63**	**(63)**	**—**
Total net sales	**148,726**	**89,805**	**2,718**	**241,249**	**(63)**	**241,186**
Operating costs and expenses	**123,780**	**88,667**	**2,712**	**215,159**	**(63)**	**215,096**
Operating income	**¥ 24,946**	**¥ 1,138**	**¥ 6**	**¥ 26,090**	**¥ —**	**¥ 26,090**
Identifiable assets	**¥198,625**	**¥123,210**	**¥1,274**	**¥323,109**	**¥ —**	**¥323,109**
Depreciation	**7,550**	**6,966**	**12**	**14,528**	**—**	**14,528**
Capital expenditures	**8,817**	**5,126**	**13**	**13,956**	**—**	**13,956**
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
	Thousands of U.S. Dollars					
For the year 2005:						
Operating revenue—Net sales:						
Outside customers	**$1,389,963**	**$ 839,299**	**$24,813**	**$2,254,075**	**$ —**	**$2,254,075**
Inter-segment sales	**—**	**—**	**589**	**589**	**(589)**	**—**
Total net sales	**1,389,963**	**839,299**	**25,402**	**2,254,664**	**(589)**	**2,254,075**
Operating costs and expenses	**1,156,823**	**828,663**	**25,346**	**2,010,832**	**(589)**	**2,010,243**
Operating income	**$ 233,140**	**$ 10,636**	**$ 56**	**$ 243,832**	**$ —**	**$ 243,832**
Identifiable assets	**$1,856,308**	**$1,151,495**	**$11,907**	**$3,019,710**	**$ —**	**$3,019,710**
Depreciation	**70,561**	**65,103**	**112**	**135,776**	**—**	**135,776**
Capital expenditures	**82,402**	**47,907**	**121**	**130,430**	**—**	**130,430**

Information summarized by geographic area for the years ended March 31, 2005 and 2004 was as follows:

	Japan	North America	Europe	Other	Total	Elimination	Consolidated
				Millions of Yen			
For the year 2005:							
Operating revenue—Net sales:							
Outside customers	**¥101,448**	**¥73,700**	**¥44,961**	**¥21,077**	**¥241,186**	**¥ —**	**¥241,186**
Inter-segment sales	**109,176**	**556**	**549**	**875**	**111,156**	**(111,156)**	**—**
Total net sales	**210,624**	**74,256**	**45,510**	**21,952**	**352,342**	**(111,156)**	**241,186**
Operating costs and expenses	**189,349**	**72,700**	**43,824**	**20,280**	**326,153**	**(111,057)**	**215,096**
Operating income	**¥ 21,275**	**¥ 1,556**	**¥ 1,686**	**¥ 1,672**	**¥ 26,189**	**¥ (99)**	**¥ 26,090**
Identifiable assets	**¥273,618**	**¥30,841**	**¥26,700**	**¥16,788**	**¥347,947**	**¥ (24,838)**	**¥323,109**
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

				Thousands of U.S. Dollars			
For the year 2005:							
Operating revenue—Net sales:							
Outside customers	**$ 948,113**	**$688,785**	**$420,196**	**$196,981**	**$2,254,075**	**$ —**	**$2,254,075**
Inter-segment sales	**1,020,336**	**5,196**	**5,131**	**8,178**	**1,038,841**	**(1,038,841)**	**—**
Total net sales	**1,968,449**	**693,981**	**425,327**	**205,159**	**3,292,916**	**(1,038,841)**	**2,254,075**
Operating costs and expenses	**1,769,617**	**679,439**	**409,570**	**189,533**	**3,048,159**	**(1,037,916)**	**2,010,243**
Operating income	**$ 198,832**	**$ 14,542**	**$ 15,757**	**$ 15,626**	**$ 244,757**	**$ (925)**	**$ 243,832**
Identifiable assets	**$2,557,177**	**$288,234**	**$249,533**	**$156,897**	**$3,251,841**	**$ (232,131)**	**$3,019,710**

For the years ended March 31, 2005 and 2004, 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
	2005	2004	**2005**
North America	**¥ 98,114**	¥ 94,523	**$ 916,953**
Europe	**46,643**	45,067	**435,916**
Other area	**43,580**	39,006	**407,290**
	¥188,337	¥178,596	**$1,760,159**
Percentage of overseas sales to total consolidated net sales	**78.1%**	78.1%	

15. Related Party Transactions

During the years ended March 31, 2005 and 2004, the NGK Spark Plug 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, 2005 and 2004 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
For the year:			
Purchases of parts as work in process	**¥29,918**	¥27,572	**$279,607**
Supply of raw materials	**25,095**	22,719	**234,533**
At the year-end:			
Accounts receivable	**¥ 2,490**	¥ 2,214	**$ 23,271**
Accounts payable	**2,981**	2,937	**27,860**

16. Subsequent Events

On June 29, 2005, 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	¥2,215	$20,701
Bonuses to directors and corporate auditors	85	794

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, 2005 and 2004, 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.

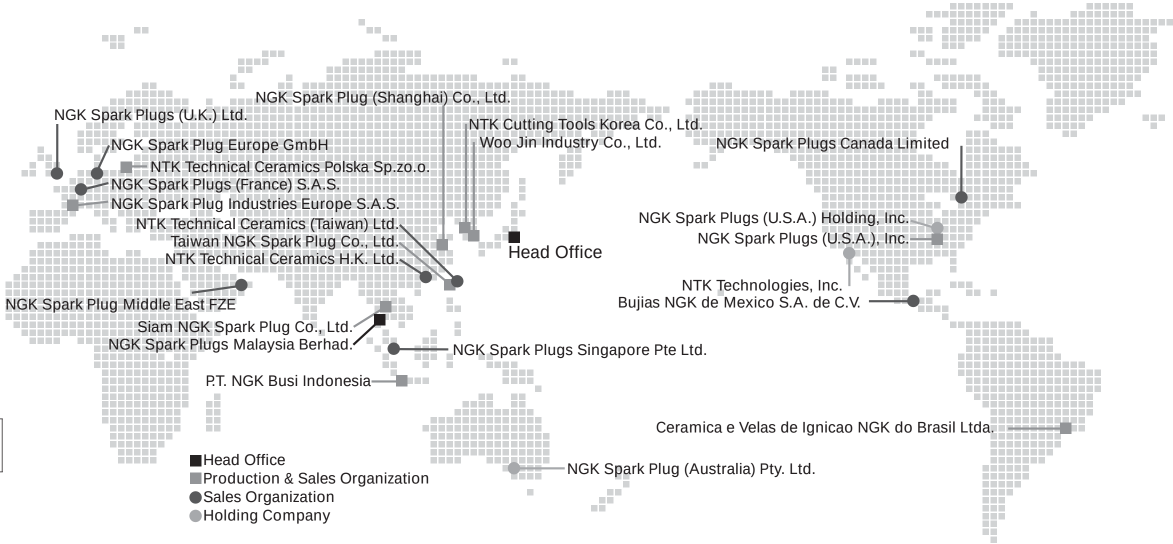
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NGK SPARK PLUG CO., LTD. and its consolidated subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their 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, 2005

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.S.


NTK Cutting Tools Korea Co., Ltd.


NGK Spark Plug (Shanghai) Co., Ltd.


NTK Technical Ceramics Polska Sp.zo.o.

Major Subsidiaries and Affiliates

(As of March 31, 2005)

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, and automotive sensor parts
- 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

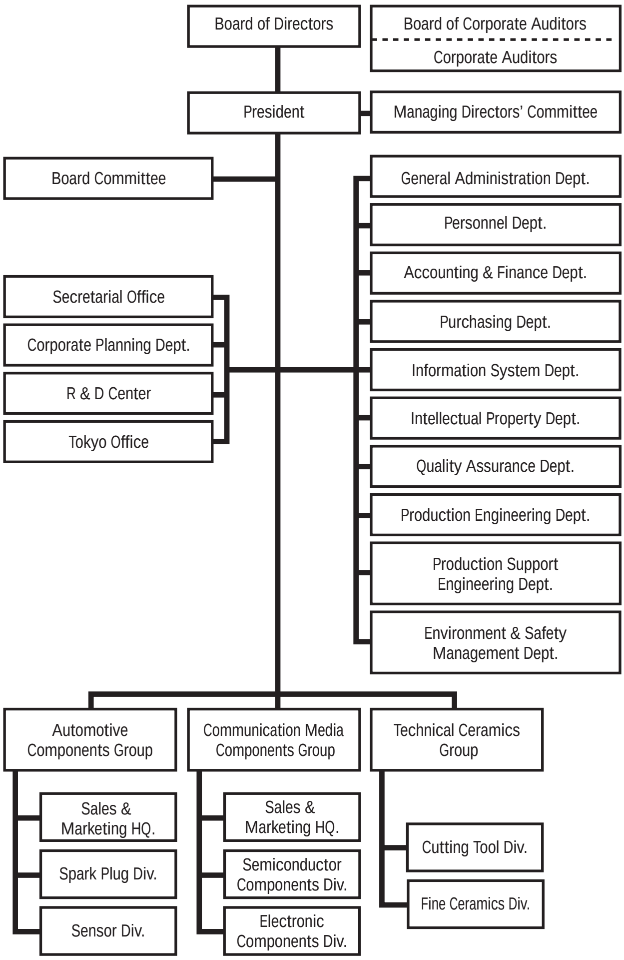
- NGK Spark Plugs (U.S.A.), Inc.
  Production and sale of spark plugs and sale of cutting tools
- NTK Technologies, Inc.
  Sale of communication media components and technical ceramics
- NGK Spark Plugs (U.K.), Ltd.
  Sale of automotive components, communication media components and technical ceramics
- 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 and sale of automotive sensors
- 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 spark plugs
- 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
- NGK Spark Plugs Malaysia Berhad.
  Production and sale of spark plugs and sale of automotive sensors

Affiliates

- 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, 2005)



Board of Directors

(As of June 29, 2005)

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Shigenobu Kanagawa*

PRESIDENT
Norio Kato*

SENIOR MANAGING DIRECTORS
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Naomiki Kato
Ikuo Hotta
Genjiro Hashimoto
Kazuo Takiguchi

MANAGING DIRECTORS
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Kazuo Kawahara
Chikanori Abe
Michio Obara

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Tsutomu Kawamitsu
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Yasuhiro Iwata
Tsuneo Ito
Tessho Yamada
Masami Kawashita
Katsuhiko Sumida

STANDING CORPORATE AUDITORS
Yoshiro Ushida
Osamu Tsuda

CORPORATE AUDITORS
Ikuko Ohtsuka
Hideaki Fujioka

*Representative Director

Corporate Data

(As of March 31, 2005)

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
Consolidated: 9,406
Non-Consolidated: 4,915

Number of Shareholders
12,702

Transfer Agent
The Mitsubishi Trust and Banking Corporation

Independent Auditors
ChuoAoyama PricewaterhouseCoopers

Common Stock Price Range

	FY2005	
	High	Low
April–June 2004	¥ 1,086	¥ 928
July–September 2004	1,150	1,006
October–December 2004	1,182	992
January–March 2005	1,129	1,000

NGK SPARK PLUGS NTK TECHNICAL CERAMICS

NGK SPARK PLUG CO., LTD.

14-18 Takatsuji-cho, Mizuho-ku, Nagoya, 467-8525, Japan

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