Annual Report 2007

Fiscal year ended March 31, 2007

Building a going concern value.

NGK SPARK PLUG CO., LTD.

Profile

NGK SPARK PLUG CO., LTD. is a leading manufacturer in the ceramic industry. The Company sells its products worldwide, chiefly to 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

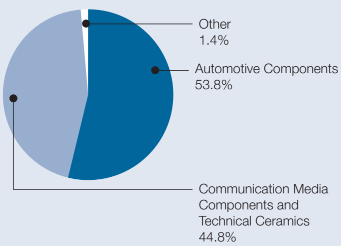
Financial Highlights

NGK SPARK PLUG CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2007, 2006 and 2005

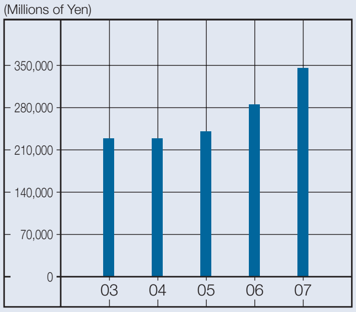
	Millions of Yen			Change (%)	Thousands of U.S. Dollars
	2007	2006	2005	2007/2006	**2007**
For the year:					
Net sales:	**¥344,891**	¥284,885	¥241,186	21.1%	**$2,922,805**
Automotive Components	**185,601**	165,280	148,726	12.3	**1,572,890**
Communication Media Components and Technical Ceramics	**154,447**	116,032	89,805	33.1	**1,308,873**
Other	**4,843**	3,573	2,655	35.5	**41,042**
Operating income	**52,402**	41,513	26,090	26.2	**444,085**
Net income	**34,073**	25,104	17,147	35.7	**288,754**
At year-end:					
Total assets	**¥413,769**	¥386,235	¥323,109	7.1%	**$3,506,517**
Equity	**288,977**	260,766	222,011	10.8	**2,448,958**
	Yen			Change (%)	U.S. Dollars
Per share data:					
Net income:					
—Basic	**¥154.24**	¥112.82	¥77.01	36.7%	**$1.31**
—Diluted	**146.44**	106.91	72.92	37.0	**1.24**
				Change (Yen)	
Cash dividends	**27.00**	20.00	16.00	¥7.00	**0.23**

Note: U.S. dollar amounts above and elsewhere in this Annual Report are converted from yen, for convenience only, at the rate of ¥118=U.S.$1.

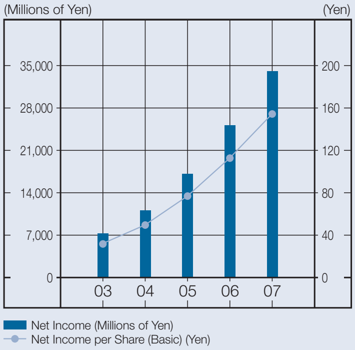
2007 Sales Composition by Industry Segment (%)



Net Sales



Net Income/
Net Income per Share (Basic)



A Message from the President

We are pleased to report that NGK SPARK PLUG CO., LTD. and its consolidated subsidiaries (NGK Spark Plug Group) posted record business results for the third consecutive fiscal year. Net sales increased 21.1% to ¥344,891 million, operating income rose 26.2% to 52,402 million, and net income surged 35.7% to ¥34,073 million. Thanks to business performance considerably higher than planned, ROE of 12.5% and a ratio of operating income to net sales of 15.2% substantially exceeded the targets for these key management indicators of 8% and 10%, respectively.

As a result of these accomplishments, we are on course to achieve the net sales target of ¥350 billion yen for fiscal 2008, which is the final year of the three-year medium-term management plan launched in fiscal 2006, and have made a good start toward developing the business over the coming ten years.

Future Challenges from the Perspective of Seventy Years in Business

The Company, established in 1936 when the spark plug division of NGK INSULATORS, LTD. was spun off as a separate company, celebrated the 70th anniversary of its founding in November 2006. A review of these seventy years indicates that the history of the company can be divided into three stages. The first stage, about twenty years in duration, encompassed the era of the foundation and early development, when the Company strove to make spark plugs a saleable product. Business activities involved establishing spark plugs as a viable product and exploring the potential of other products.

The second stage was the era of expansion of the business base in the global market accompanied by expansion of the scope of the business through horizontal extension of products into new application fields. The Company steadily applied itself to the spark plug business, first having its business expertise tested and honed by customers in the motorcycle market and then in the four-wheel vehicle market as the motorization of society progressed. In the meantime, about ten years ago the advance of economic globalization spurred business restructuring by automobile manufacturers on a global scale as companies began to emphasize globally optimized procurement and demand worldwide uniform quality and standard pricing.

This transformation of the business environment marked the advent of the third and current stage. To strengthen our competitive advantage, it has become necessary to develop the NGK Spark Plug Group's global network and implement full-scale measures to achieve optimized global production. In addition, the era of the full-scale development of marketing, production, and information networks in emerging markets such as the BRICs is dawning.

Norio Kato
President

Outlook for the Coming Ten Years

Since I became president, I have set out what I call a near-term vision and long-term vision to ensure the sustainable development of the Company. Moreover, I have stressed the importance of pursuing business development through the linkage of these two visions. By long-term vision I refer to the formation of an image of where the company should be ten years from now and the setting of objectives, and by near-term vision I refer to specific objectives and action plans, such as the medium-term management plan, that lead to the achievement of the long-term vision.

From now on, I would like to comment on what form the management of the NGK Spark Plug Group should take over the next 10 years. We have formulated the management guideline (objective): "Aspiring to be a company capable of constantly creating and maintaining a number of core products that are No. 1 in the world." Furthermore, our strategic principle for achieving this objective is "Staying a step ahead in product creation." This refers to our determination to make excellent products that people will desire to purchase: products that are as far ahead as possible of anything offered by competitors. To achieve this, it is necessary to rapidly adapt to customer requirements and changes in society such as the emergence of environmental issues.

Exploring the "DNA" of NGK SPARK PLUG CO., LTD.

Another strategic principle involves aiming to be No. 1 rather than "the only one". So long as our mainstay products are spark plugs and other items that can be mass-produced, we cannot be "the only one". To increase sales, it is necessary to become No. 1 by offering highly competitive products. To nurture products that are No. 1 in the marketplace, the following three factors are necessary.

1) Making Strong Things Stronger

The fundamental task is to further reinforce our strengths — that is, the technologies and management expertise at which we excel — to ensure that under no circumstances do we lose out to competitors. There are two ways of reinforcing our strengths. The first is to raise the level of our technologies and management expertise so that competitors cannot catch up with us (deeper penetration of the market). The other is to develop new products and expand the scope of the business by means of the horizontal deployment of technologies and management expertise into new application fields.

2) Emphasis on quality

Spark plugs are a good example of the need to emphasize on quality. If a customer who purchases one spark plug experiences a product defect, for that customer the defect rate is 100%. With mass-produced products, every single item must be of acceptable quality. Ensuring the durability of the products we manufacture is a prerequisite for earning the confidence and securing the continuing patronage of our customers.

3) Participation by All

Participation by All involves two stages. First, in all employees it is necessary to inculcate a shared understanding of what the response should be to a given task at a given time. The next stage is to ensure that, on the basis of this shared awareness among all employees, individual employees are capable of figuring out what they should do and then do it.

Implementing CSR Management

Since the business activities of companies are supported by various stakeholders, it is important to engage in a continuing dialogue with them and to reflect their opinions and requests in management of the business. With regard to environmental issues, the Company has long engaged in environmental protection activities. To date, four plants and eleven subsidiaries in Japan and nine subsidiaries overseas have obtained ISO 14001 certification for environmental management systems. The remaining overseas subsidiaries are in the process of obtaining certification. In the coming years we will tackle environmental issues based on a positive approach of linking environmental initiatives to business opportunities, not a passive attitude of merely complying with legal regulations. We will also contribute to local communities and society at large through the supply of energy-saving products and eco-friendly products, while also applying our expertise in environmental assessment and analysis.

In light of the anticipated future high levels of capital investment and the ongoing expansion of the business, we believe that prioritization and balanced, efficient allocation of limited management resources (people, assets, and capital) will be of vital importance.

In the first year of the medium-term management plan launched in fiscal 2006 we achieved progress that surpassed our plans and expectations, achieving results appropriate to the year in which the Company celebrates its 70th anniversary. In our endeavors to translate the achievements of this celebratory year into the progress of NGK Spark Plug over the next ten years, I would be grateful for the support of our shareholders and the wider investor community.

Norio Kato

President

Celebrating Our 70th Anniversary: NGK SPARK PLUG's Corporate Milestones

NGK SPARK PLUG CO., LTD. was established as a spin-off of NGK INSULATORS, LTD. in 1936. In the 70 years since then, it has gained the trust of the automotive industry, which views the Company as an indispensable partner. In 1967, we initiated the manufacture of ceramic IC packages essential to the electronics industry. Our two core areas now drive our growth and penetration of world markets with products sold under the NGK and NTK brands.

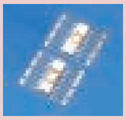
- **Oct. 1936** The spark plug division of NGK INSULATORS, LTD. was separated and incorporated as an independent entity named NGK SPARK PLUG CO., LTD.

- **Apr. 1937** Started the manufacture of NGK spark plugs.

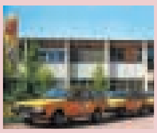
- **May 1949** Started the manufacture of NTK technical ceramics.
- **May 1949** Listed on both the Tokyo and Nagoya stock exchanges.
- **Aug. 1959** Established Ceramica e Velas de Ignicao NGK do Brasil Ltda.

- **Apr. 1962** Started operations at the Komaki Factory (Aichi Prefecture), to which the Technical Ceramics Division was relocated.

- **June 1966** Established NGK Spark Plugs (U.S.A.),Inc.
- **Oct. 1967** Started the manufacture of ceramic IC packages.



- **July 1973** Established NGK Spark Plugs Malaysia Berhad.
- **Apr. 1974** Started operations at the Kagoshima-Miyanojo Factory (Kagoshima Prefecture).
- **Apr. 1974** Established Siam NGK Spark Plug Co., Ltd. in Thailand.
- **May 1975** Established NGK Spark Plugs (U.K.), Ltd.
- **May 1976** Established NGK Spark Plug MFG. (U.S.A),Inc. (the present NGK Spark Plugs (U.S.A.), Inc.)
- **May 1977** Established P.T. NGK Busi Indonesia.
- **Nov. 1979** Established NGK Spark Plug Germany GmbH (the present NGK Spark Plug Europe GmbH).



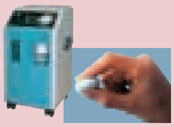
- **Feb. 1980** Established NGK Spark Plug (Australia) Pty. Ltd.
- **June 1982** Started the manufacture of oxygen sensors for automobiles.

- **Apr. 1984** NGK Spark Plug MFG. (U.S.A.) Inc. and NGK Spark Plugs (U.S.A.), Inc. were merged, with the latter as the surviving company.
- **June 1984** Established Taiwan NGK Spark Plug Co., Ltd.
- **Sep. 1989** Acquired an equity stake in Woo Jin Industry, Co., Ltd. of South Korea.
- **July 1990** Started the manufacture of bio ceramics.

- **Oct. 1990** Established NGK Spark Plug Industries Europe S.A.S. in France.
- **Nov. 1993** Established NTK Cutting Tools Korea Co. Ltd. in South Korea (the present NTK Technical Ceramics Korea Co., Ltd.).
- **Apr. 1994** Started operations at the Ise Factory (Mie Prefecture).

- **Apr. 1994** Established NGK Spark Plug MFG. (U.S.A.), Inc. (the present NGK Spark Plugs (U.S.A.), Inc.).
- **Aug. 1995** Established NGK Spark Plugs (U.S.A.) Holding, Inc.

- **June 1998** Started manufacture of organic IC packages.
- **Apr. 2001** Started manufacture of oxygen concentrators for medical applications.



- **Jan. 2002** Simultaneously reorganized NGK Spark Plugs (U.S.A.), Inc. and NGK Spark Plug MFG. (U.S.A), Inc. along product market lines and reassigned their businesses to NGK Spark Plugs (U.S.A),Inc. and the newly formed NTK Technologies, Inc.
- **Apr. 2003** Established NGK Spark Plug (Shanghai) Co., Ltd. in China.
- **May 2003** Established NTK Technical Ceramics Polska Sp.zo.o.
- **Nov. 2005** Started sales of hydroxyapatite cement.
- **Aug. 2006** Established NGK Spark Plugs (India) Pvt. Ltd.
- **Jan. 2007** Established NGK Spark Plugs SA (Pty) Ltd.

Development of an Ultra-Compact Micro Fuel Cell with High Power Density: Fuel Cell with Power Output That Is Among the World's Highest

NGK SPARK PLUG CO., LTD. has engaged actively in the research and development of fuel cells, which offer promise as a next-generation power source, and peripheral technologies. One example of successful achievement in this area is an ultra-compact micro fuel cell with high power density developed in collaboration with the National Institute of Advanced Industrial Science and Technology.

The newly developed micro fuel cell, whose size is comparable to a sugar cube, uses electrode and electrolyte components made of conductive ceramics. It boasts unit volume power output that is among the highest in the world in the category of solid oxide fuel cells (SOFCs). Along the way, the Company also established an innovative technology, which allows sustained power output under 600°C with ease, as opposed to SOFCs' conventional temperature requirement exceeding 800°C that needed to be maintained. Power output may be increased by stacking up the micro fuel cells to meet output requirements ranging from few dozen watts (for applications as a power source for small transport equipment) to several kWs (for applications as a supplementary power source for automotives and a dispersed power source for residential use). In addition to further efforts to improve performance, the Company has launched development work aimed at the establishment of production technology.

Development of MEMS Thermal Conductive Hydrogen Sensor: The World's First Sensor with Dual-Purpose Applications to Address Prevention/Safety and Generation Control

NGK SPARK PLUG CO., LTD. became the first company in the world to develop an MEMS heat thermal conductive hydrogen sensor that may be used either for safety/prevention applications for hydrogen leaks or for highly efficient power control applications.

Fuel cells, which are capable of producing power anywhere as long as their fuel, hydrogen, is supplied, offer promise as a clean power source with no CO_2 emissions, discharging only water as a result of power generation. Needs for hydrogen sensors are growing to ensure the safety of the system against hydrogen leaks and to secure highly efficient operational control based on concentration management. In particular, efforts are being made to boost the endurance level of sensors in severe environments such as the interior of gas piping in fuel cells, which currently offer major challenges.

The hydrogen sensor NGK SPARK PLUG CO., LTD. developed recently consists of a microheater ultra-compact detector element using silicon Micro-Electro-Mechanical Systems (MEMS) and ultra-compact detector elements and an electronic circuit with precise sensing algorithms, which are all packaged in a rigid sensor housing. Thus, it can be inserted directly into gas pipes and other environments noted for high humidity levels for hydrogen detection.

The Company is undergoing further studies to expand the range of the product's applications to meet requirements of communications base stations (backup power source), electric folk lifts, cogeneration systems for residential use and others in preparation for full-fledged applications in the automotive industry, which plans to launch mass production of fuel-cell powered vehicles in 2015 at the earliest.

Development of Somny, a Screening Device for Sleep Apnea Syndrome

NGK SPARK PLUG CO., LTD. created Somny, a screening device for the detection of sleep apnea syndrome (SAS), which is noted for the patient's lack of awareness of the symptoms.

SAS has become a public concern because sleep-driving by vocational drivers and operators of trains, trucks, buses and ships has increasingly been linked to SAS. In Japan, a few million people reportedly experience SAS. Recent studies show that approximately 8% of the population suffer some form of breathing disorders during sleep that require medical treatment.

Following its decision to focus on simplified testing devices for SAS, the Company worked with the team of Takeshi Tanigawa, Associate Professor, Graduate School of Comprehensive Human Sciences at the University of Tsukuba for two years, and jointly developed Somny.

Somny is a testing device that helps detect SAS in patients, who are typically unaware of the symptoms. Potential patients place Somny on their arm and a disposable breath sensor, which detects breathing through the mouth and nose, on their nose at bedtime. Test data gathered overnight during usual sleep are then brought for auto-analysis run by computers, which generate screening results. With its minimal device configuration and its capacity to analyze data and automatically generate results for 400 to 500 people per day, Somny has won high evaluations for its readiness to meet the testing needs of transport companies, public transportation systems, and other corporations.

Expansion and Strengthening of Japanese and Overseas Manufacturing Bases

Seeing itself at the threshold of the third phase of its global network evolution, NGK SPARK PLUG CO., LTD. has stepped up efforts to expand and strengthen its manufacturing basis in Japan and overseas, with the aim of transforming itself into a genuinely global company capable of organically extending its strength.

■ NGK Spark Plugs (U.S.A.), Inc. West Virginia Factory New factory for spark plugs

Product category: Spark plugs
Scheduled operational launch: June 2008

Groundbreaking ceremony (Left: Senator Jay Rockefeller; Center: Norio Kato; President; Right: Governor Joe Manchin III of West Virginia)

■ NGK Spark Plugs SA (Pty)Ltd.

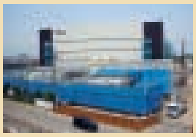
Product category: Spark plugs
Scheduled operational launch: May 2007

■ NGK Spark Plugs (India) Pvt. Ltd.

Product category: Spark plugs
Scheduled operational launch: December 2007

■ No. 14 Plant at the Komaki Factory

Product category: Organic IC packages for MPUs
Scheduled operational launch: April 2008



■ No. 2 Ceramics Plant at the Kagoshima-Miyanojo Factory

Product category: Insulators for spark plugs
Scheduled operational launch: April 2008

Automotive Components Business

Spark Plugs

NHTC (New High Temperature Ceramic) Glow Plugs

Zirconia Exhaust Gas Oxygen Sensors

Universal A/F Heated Exhaust Gas Oxygen Sensors

Wide Range Exhaust Gas Temperature Sensors

Outline of the Business

The automotive components business manufactures and sells spark plugs, glow plugs, various automotive sensors, ceramic engine parts and other automotive components. In Japan, in addition to its own sales and manufacturing activities, the Company supplies raw materials and parts to its seven Japanese subsidiaries and affiliates to which manufacturing is consigned and from which finished products, semi-finished products and assembly products are bought back for sales by the Company. Outside Japan, the subsidiary in Brazil engages in the integrated manufacturing and sales of spark plugs, while eight manufacturing/sales subsidiaries and affiliates in North America, China, South Korea, Southeast Asia and Europe purchase parts and raw materials from the Company, assemble them into finished products and market them in their respective regions. Some of the semi-products and components manufactured at overseas factories are used as assembly parts by the Company and other manufacturing sites.

In addition, eight manufacturing/sales and sales subsidiaries outside Japan sell to customers in their respective regions the finished products they procure from the Company and its overseas manufacturing subsidiaries.

Review of Results

Sales of the core product lines such as spark plugs and zirconia exhaust gas oxygen sensors remained firm, buoyed by the healthy level of production by Japanese and South Korean automobile manufacturers which enjoyed brisk demand, especially in emerging markets, for vehicles and benefited from soaring oil prices. In European and other developed nations, sales surged for the Company's high-priority products, including quick-start ceramic glow plugs, universal A/F heated exhaust gas oxygen sensors and wide-range temperature sensors, which meet increasingly stringent environmental requirements. The higher-than-expected shipments for aftermarket, which was primarily attributable to the Company's success in capturing growing demand in Eastern Europe and Russia, also contributed to higher sales.

As a result, net sales of the automotive components business increased 12.3% year on year, to ¥185,601 million, and operating income rose 13.1%, to ¥33,199 million.

Outlook

The NGK Spark Plug Group will invest its managerial resources in the areas of high-performance plugs, exhaust gas sensors, quick-start glow plugs for diesel engines and temperature sensors in an effort to supply pro-environment products with high added value at the right prices with the goal of capturing a larger share of the market. On the manufacturing front, the NGK Spark Plug Group is building a new factory in Satsuma-gun, Kagoshima, Japan for spark plug insulators and new assembly factories for spark plugs in the U.S. state of West Virginia, India and South Africa. Together with the integrated glow plug manufacturing factory completed in December 2005 and an additional oxygen sensor plant in March 2007, both of which are located in Komaki City, Aichi Prefecture, Japan, the new factories are poised to help the NGK Spark Plug Group accelerate its effort to boost its manufacturing capacities.

Communication Media Components and Technical Ceramics Businesses


Organic IC Packages


Electronic Components


Cutting Tools


Fine Ceramics


Oxygen Concentrators

Outline of the Business

IIn the Communication Media Components and Technical Ceramics Businesses, the Company manufactures and sells IC packages and other semiconductor components, electronic components, cutting tools and ceramics products for industrial and medical applications. In Japan, the Company conducts manufacturing and sales of products. In addition, it consigns manufacturing to five Japanese subsidiaries and affiliates, to which raw materials and parts are supplied and from which finished products, semi-finished products and assembly products are bought back for sales by the Company. Outside Japan, the subsidiary in Brazil engages in integrated manufacturing and sales of ceramic products, while subsidiaries in South Korea and Poland purchase part of semi-products and raw materials from the Company, assemble them into finished products and market them to customers either directly or through sales subsidiaries.

Eight sales subsidiaries outside Japan sell to customers in their respective regions the finished products they procure from the Company and overseas manufacturing subsidiaries.

Review of Results

The Company recorded healthy sales in this segment, which owed primarily to a surge in demand in the BRICs economies for PCs, cell phones and other communication devices: the segment's core business sphere. In particular, sales of organic IC packages for MPUs, a key product area, reached a record level in the second half of the fiscal year, as inventories kept at customers were depleted. Ceramics products for industrial applications too showed marked growth as a result of increased production by customers in the automotive and IT sectors coupled with a higher level of activity linked to the development of infrastructure in Eastern Europe and Asia.

As a result, net sales of the Communication Media Components and Technical Ceramics Businesses soared 33.1% year on year, to ¥154,446 million, and operating income surged 58.2%, to ¥19,162 million.

Outlook

In an effort to meet demand for IT products, which is growing on a global scale, the Company places utmost priority on the trouble-free launch of an integrated manufacturing factory for organic IC packages, which will be the NGK Spark Plug Group's largest manufacturing base when it is completed, reductions in the time period required for product completion and better yield rates. Other priority areas of the NGK Spark Plug Group include the development of ceramics products for semiconductor manufacturing equipment and industrial machinery, which can take advantage of the Company's proprietary technologies for ceramics applications, and the development of next-generation tooling systems, as well as artificial bone, oxygen concentrators and other products for medical applications.

Global Network


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


NGK Spark Plugs Malaysia Berhad.


Siam NGK Spark Plug Co., Ltd.


P.T. NGK Busi Indonesia

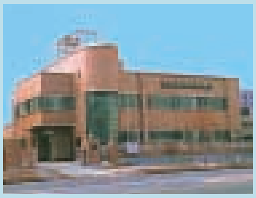

Ceramica e Velas de Ignicao NGK do Brasil Ltda.


Taiwan NGK Spark Plug Co., Ltd.


Woo Jin Industry Co., Ltd.


NGK Spark Plug Industries Europe S.A.S.


NGK Spark Plugs SA (Pty) Ltd.


NTK Technical Ceramics Korea Co., Ltd.


NGK Spark Plug (Shanghai) Co., Ltd.


NTK Technical Ceramics Polska Sp. zo. o.

Major Subsidiaries and Affiliates

Domestic Subsidiaries

Nittoku Seisakusho Co., Ltd.
Production of spark plug parts and automotive sensor parts

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

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

Nittoku Unyu Co., Ltd.
Transportation of the Company products

Nittoku Alpha Service Co., Ltd.
Welfare services for Company employees

Overseas Subsidiaries

NGK Spark Plugs (U.S.A.) Holding, Inc.
Holding company for U.S. subsidiaries

NGK Spark Plugs (U.S.A.), Inc.
Production and sale of spark plugs and automotive sensors, sale of cutting tools

NTK Technologies, Inc.
Sale of communication media components and technical ceramics

NGK Spark Plugs Canada Limited
Sale of automotive components

NGK Spark Plug Europe GmbH
Sale of automotive components, communication media components and technical ceramics

NGK Spark Plugs (U.K.), Ltd.
Sale of automotive components, communication media components and technical ceramics

NGK Spark Plug Industries Europe S.A.S.
Production of spark plugs

NGK Spark Plugs (France) S.A.S.
Sale of automotive components and communication media components

NTK Technical Ceramics Polska Sp.zo.o.
Production of cutting tools

Taiwan NGK Spark Plug Co.,Ltd.
Production and sale of spark plugs, sale of automotive sensors

NTK Technical Ceramics (Taiwan) Ltd.
Sale of communication media components and technical ceramics

NTK Technical Ceramics Korea Co.,Ltd.
Production and sale of cutting tools, sale of ceramic products for industrial applications

P.T. NGK Busi Indonesia
Production and sale of spark plugs

NGK Spark Plugs Singapore Pte Ltd
Sale of communication media components and technical ceramics

NGK Spark Plug (Shanghai) Co., Ltd.
Production and sale of spark plugs and automotive sensors

NGK Spark Plugs Malaysia Berhad.
Production and sale of spark plugs, sale of automotive sensors

Siam NGK Spark Plug Co., Ltd.
Production and sale of spark plugs and glow plugs, sale of automotive sensors

NGK Spark Plugs (India) Pvt.Ltd.
Production and sale of spark plugs

Ceramica e Velas de Ignicao NGK do Brasil Ltda.
Production and sale of automotive components and technical ceramics

Bujias NGK de Mexico S.A. de C.V.
Sale of automotive components

NGK Spark Plug Middle East FZE
Sale of spark plugs

NGK Spark Plugs SA (Pty) Ltd.
Production and sale of spark plugs

NGK Spark Plug (Australia) Pty.Ltd.
Sale of automotive components, communication media components and technical ceramics

Affiliates

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

Aiming at Improved Managerial Transparency

State of Corporate Governance

NGK SPARK PLUG CO., LTD. seeks to increase its corporate value by gaining the greater trust of all stakeholders and fulfilling its responsibility to society in a thoroughgoing manner. We believe that one of the most important managerial challenges to reach this goal is the development and maintenance of a fair and efficient managerial system while ensuring managerial soundness and transparency.

We also place great importance on the timely and appropriate disclosure of corporate information to our investors, which is essential to the healthy operation of the securities exchanges. We are making efforts to enhance mechanisms for information management and internal control by setting forth the timing and the parties accountable in the Internal Information Control Rules, among other measures.

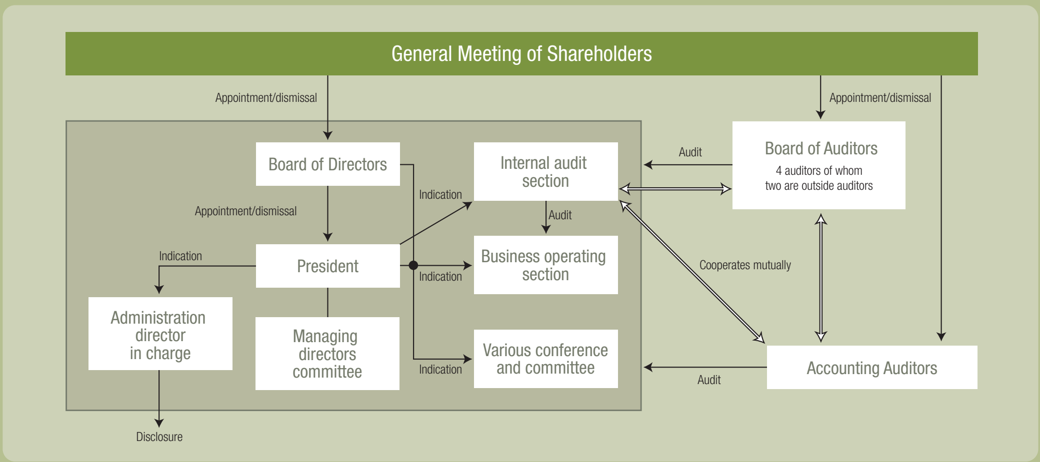
In addition, the Company is redoubling efforts to raise awareness about compliance. The Code of Conduct was established with an aim to make each and every officer and employee fully aware of and to instill in them the Company's commitment, management policy and action guideline, which constitute the Corporate Philosophy, and to clarify the Company's basic attitude essential to translating the code into practical action.

The managerial structures for decision-making, execution and oversight, as well as information control and internal control mechanisms, are illustrated below.

State of Key Internal Control Systems

(1) The Board of Auditors is composed of four auditors, including two outside auditors. The two outside auditors, who have no conflicts of interests with the Company such as business relationships and do not belong to any organization with conflicts of interests, keep informed on important affairs by attending the Board of Directors meetings and receiving business reports. Through periodic exchanges of opinions with the President in addition to audits of major business locations and subsidiaries, they also audit the execution of duties by the directors.

Corporate Governance Structure



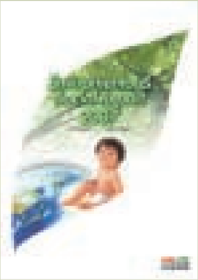
(2) The Company's four-member Internal Audit Section conducts business audits for the Company and its affiliates, and reports audit and inspection results to management and recommends corrective and improvement measures as needed. It keeps in close touch with the corporate directors, with whom it exchanges information regarding the audit policy, plans and the state of audit implementation during periodic and ad hoc conferences. In addition, the section and the auditors attempt to improve their auditing competency on a mutual basis. Examples of mutual involvements include corporate auditors accompanying the section staff to internal audits and the section preparing investigations and reports for auditors at the request of auditors, as needed.
(3) In the area of risk control, internal rules and guidelines were prepared under the leadership of the directors. They are designed, along with training and seminars, to prevent incidents of loss and damage. In the event of the occurrence of an actual risk, a cross-organizational structure encompassing the NGK Spark Plug Group will be mobilized to bring the matter under control.

Rolling Out Voluntary, Proactive Initiatives Quickly

Environmental Protection Activities

NGK SPARK PLUG CO., LTD. has embarked on measures aimed at energy conservation, zero emissions of wastes, recycling and stronger control over chemical substances, in an effort to curb global warming and contribute to the creation of a recycle-oriented society.

As the first commitment period of the Kyoto Protocol is about to begin, a greater number of reports are being published to make clear to the world the current state of global warming and future forecasts. This in turn has resulted in growing concerns worldwide over the need to mitigate further global warming. The heads of state who gathered together for the recent G-8 Summit in Germany also agreed to "consider seriously" activities aimed at halving greenhouse gas emissions including CO_2 by 2050.



Publishing
"Environmental & Social Report"

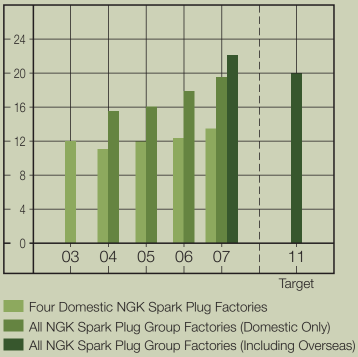
NGK SPARK PLUG CO., LTD. which accords high priority to global warming prevention, has rolled out a variety of energy-conserving technologies and innovations in the area of environmental technology in an attempt to minimize greenhouse gas emissions. We aim to be a company with the ability to contribute to the prevention of global warming not only through our energy conservation efforts on the manufacturing front, but also through the development of and the penetration of the world with our energy-conserving products.

To cope with increasingly stringent regulations governing hazardous chemical substances, the Company addresses the issue by keeping abreast of new developments in environmental legislation and regulations around the world in light of the high export ratio of its products for use throughout the world. In particular, the Company makes sure that its products are manufactured at all of its global manufacturing sites in accordance with its unified global standards with respect to chemical substances contained in the products.

The NGK Spark Plug Group is building an environmental management system based on ISO 14001. The Group has obtained single certification that covers its four factories in Japan including the Head Office Factory and 11 Japanese consolidated subsidiaries. The number of subsidiaries outside Japan with ISO 14001 certification stood at 11 as of April 2007.

These actions have successfully led the Company to achieve zero emissions of waste throughout Japan.

Energy Used in Production
(CO_2 equivalent, 10,000 tons CO_2)



Six-Year Summary

NGK SPARK PLUG CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2007, 2006, 2005, 2004, 2003 and 2002

	Millions of Yen						Thousands of U.S. Dollars
	2007	2006	2005	2004	2003	2002	**2007**
For the year:							
Net sales	**¥344,891**	¥284,885	¥241,186	¥228,776	¥228,929	¥221,419	**$2,922,805**
Costs of goods sold	**248,565**	203,338	177,786	171,481	177,857	176,225	**2,106,483**
Selling, general and administrative expenses	**43,924**	40,034	37,310	36,550	35,249	33,374	**372,237**
Operating income	**52,402**	41,513	26,090	20,745	15,823	11,820	**444,085**
Net income	**34,073**	25,104	17,147	11,117	7,347	4,844	**288,754**
Cash flows from operating activities	**36,481**	34,750	36,092	24,259	34,534	18,728	**309,161**
Cash flows from investing activities	**(22,924)**	(30,692)	(41,782)	14,784	(28,718)	(26,812)	**(194,271)**
Cash flows from financing activities	**(14,042)**	(2,458)	(1,888)	(21,792)	(13,787)	(32,719)	**(119,000)**
Depreciation	**18,861**	15,269	14,528	15,943	18,478	19,981	**159,839**
Capital expenditures	**29,271**	26,919	13,956	10,414	10,811	25,508	**248,059**
At year-end:							
Total assets	**¥413,769**	¥386,235	¥323,109	¥297,995	¥298,787	¥318,512	**$3,506,517**
Equity	**288,977**	260,766	222,011	206,633	190,351	200,232	**2,448,958**
Sales by Industry Segment:							
Automotive components	**185,601**	165,280	148,726	147,696	142,432	128,349	**1,572,890**
Communication media components and technical ceramics	**154,447**	116,032	89,805	78,487	83,437	89,681	**1,308,873**
Other	**4,843**	3,573	2,655	2,593	3,060	3,389	**41,042**
Sales by geographic area:							
Japan	**149,433**	127,127	101,448	99,058	88,744	83,835	**1,266,381**
North America	**105,955**	83,584	73,700	69,922	87,342	86,636	**897,924**
Europe	**57,683**	47,490	44,961	42,314	38,198	37,367	**488,839**
Other	**31,820**	26,684	21,077	17,482	14,645	13,581	**269,661**

Other Data:						
Number of Shareholders	**13,033**	11,169	12,702	14,921	15,678	13,990
Number of Employees (Consolidated)	**10,407**	9,815	9,406	9,284	9,306	9,417

	Yen						U.S. Dollars
Per share data:							
Net income							
— Basic	**¥154.24**	¥112.82	¥ 77.01	¥ 49.84	¥ 32.36	¥ 20.51	**$1.31**
— Diluted	**146.44**	106.91	72.92	47.45	31.06	19.95	**1.24**
Cash dividends	**27.00**	20.00	16.00	11.00	11.00	11.00	**0.23**
Total net assets	**1,302.52**	1,166.97	997.13	929.23	854.89	869.04	**11.04**

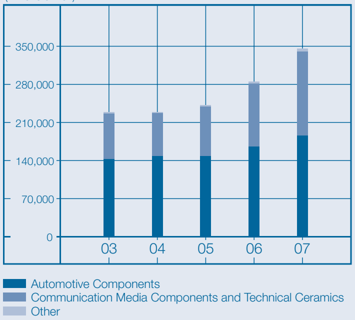
	Percent					
Ratios:						
Operating profit ratio	**15.2%**	14.6%	10.8%	9.1%	6.9%	5.3%
Equity ratio	**69.4**	67.1	68.4	69.1	63.4	62.6
Return on net sales	**9.9**	8.8	7.1	4.9	3.2	2.2
Return on assets	**8.5**	7.1	5.5	3.7	2.4	1.4
Return on equity	**12.5**	10.5	8.0	5.6	3.8	2.4

Note:U.S. dollar amounts above and elsewhere in this Annual Report are converted from yen, for convenience only, at the rate of ¥118=U.S.$1.

Management's Discussion and Analysis

Net sales by segment operations

(Millions of Yen)



Overview of Results

During the fiscal year ended March 31, 2007, while the U.S. economy, despite a concern regarding the possibility of a slowdown owing to a drop in residential investment, performed strongly backed by vigorous private-sector investment and personal consumption, emerging economies centering on the BRICs maintained high growth. Having shrugged off deflation following the lifting of the zero-interest rate policy, the Japanese economy achieved its longest postwar period of uninterrupted growth, albeit growth at a moderate pace, surpassing the Izanagi boom from 1965 to 1970.

In the automotive industry, the Group's principal business field, worldwide production of automobiles achieved solid increases on a unit basis despite somewhat sluggish sales of new automobiles in the Japanese market, while in the information and communications field, which is another important business field for the Group, strong demand continued for personal computers and mobile phones.

In order to keep pace with this market expansion, the Group strove to increase production capacity, enhance production efficiency, and expand its global network. As a result, the Group posted record high figures for the third consecutive year; net sales increased 21.1% to ¥344,891 million, operating income rose 26.2% to ¥52,402 million, and net income soared 35.7% to ¥34,073 million.

Results of Operations

Net Sales

Net sales increased ¥60,006 million or 21.1% from the previous year to ¥344,891 million. This increase reflected the trend toward depreciation of the yen and the fact that the sales of initial inventories by the Automotive Components Business in the newly cultivated markets met with great success. Also, this increase reflected a special factor, namely, that the Communication Media Components and Technical Ceramics Businesses recorded shipments exceeding production capacity in order to respond to major customers' plans to greatly increase their inventories to alleviate their concerns about procurement.

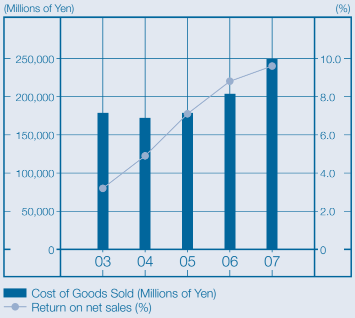
	Millions of yen		
	2006	**2007**	Increase/decrease
Automotive Components Business	165,280	**185,601**	+20,321
Communication Media Components and Technical Ceramics Businesses	116,032	**154,447**	+38,415
Other businesses	3,644	**4,937**	+1,293
Elimination	(71)	**(94)**	
Net sales	284,885	**344,891**	+60,006

Costs of goods sold

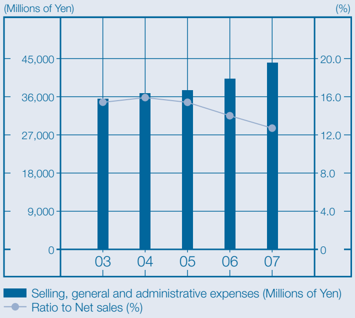
Costs of goods sold increased ¥45,227 million or 22.2% from the previous year to ¥248,565 million. The ratio of costs of goods sold to net sales increased 0.7 percentage points from 71.4% for the previous year to 72.1%. This increase was attributable to the change in the product mix, higher prices of precious metals and increased depreciation expenses.

In the automotive components business, the rise in costs of platinum and other raw materials offset the impact of increased production and rationalization, resulting in a slight increase in the ratio of costs of goods sold to segment sales compared with the previous year.

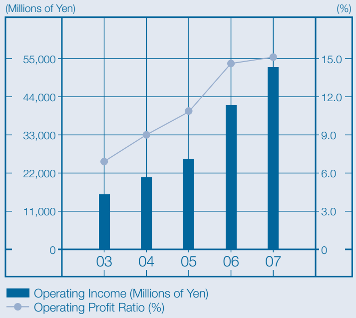
Cost of Goods Sold and Return on net sales



Selling, general and administrative expenses and Ratio to Net sales



Operating Income and Operating Profit Ratio



In the communication media components and technical ceramics business, an improvement in the ratio of costs of goods sold to segment sales was slight owing to the increased contracting of production to partner companies resulting from the acceptance of orders exceeding production capacity.

Selling, general and administrative expenses

Selling, general and administrative expenses increased ¥3,890 million or 9.7% to ¥43,924 million. The principal reasons for the increase included a rise in the number of employees and higher physical distribution costs associated with the increase in sales and the sharp rise in fuel costs.

Operating income

As a result, operating income increased ¥10,889 million or 26.2% compared with the previous year to ¥52,402 million. The operating profit ratio improved 0.6 percentage points from 14.6% for the previous year to 15.2%.

Net income

Other income amounted to ¥983 million, whereas other expenses amounting to ¥2,481 million were recorded for the previous year. This result was attributable to the fact that whereas a loss on impairment of fixed assets of ¥737 million and Depreciation expenses resulting from revision of residual value of ¥2,749 million were reported for the previous year, no such items were reported for the year under review.

The effective tax rate after application of deferred tax accounting was 35.7% for the fiscal year ended March 31, 2007, compared with 35.3% for the previous year. This change reflected the lower rate of tax deduction for testing and research expenses.

As a result, net income surged ¥8,969 million or 35.7% from the previous year to ¥34,073 million, the return on equity increased 2.0 percentage points from 10.5% at the previous year-end to 12.5%, and net income per share increased ¥41.42 from ¥112.82 at the previous year-end to ¥154.24.

Business Segment

Automotive Components Business

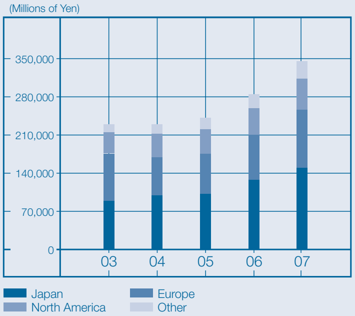
As production of Japanese and Korean automobile manufacturers increased strongly spurred by the growing demand in emerging markets and the sharp rise in fuel costs, sales of our mainstay products, such as spark plugs and zirconia oxygen sensors, achieved solid growth. Sales of our priority products that respond to increasingly strict environmental regulations, such as quick-start high-temperature glow plugs, whole area air-fuel ratio sensors, and wide-range temperature sensors, grew strongly in Europe and other advanced economies. In the replacement market, our shipments exceeded the initial plan as we managed to cater to the increasing demand in high-growth markets such as Eastern Europe and Russia.

As a result, segment sales rose 12.3% from the previous year to ¥185,601 million and operating income increased 13.1% to ¥33,200 million.

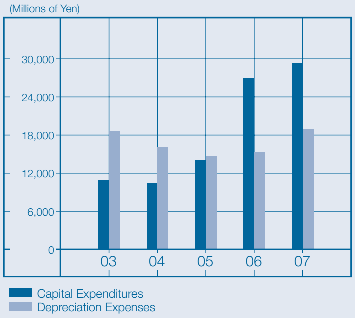
Communication Media Components and Technical Ceramics Businesses

This segment recorded robust results in line with the higher demand for personal computers, mobile phones and other communication devices, which are the major business fields of this segment, in the BRICs. In particular, sales of MPU organic IC packages, a mainstay product, were record-breaking toward the end of the year, reflecting

Net Sales by Region



Capital Expenditures and Depreciation Expenses



shortfalls in customers' inventories. Sales of ceramics products for industrial applications were buoyant owing to customers' increased production of automobile- and IT-related products and demand associated with the improvement of infrastructure in Eastern Europe and Asia.

As a result, segment sales surged 33.1% from the previous year to ¥154,447 million and operating income jumped 58.2% to ¥19,163 million.

Other Businesses

Sales of other businesses increased 35.5% from the previous year to ¥4,937 million but operating income decreased 7.1% to ¥39 million.

Geographical Segment Information

Japan

Owing to the depreciation of the yen coupled with expansion of the global market, direct sales to customers and shipments of finished goods and knock-down parts for subsidiaries overseas increased. As a result, sales in Japan amounted to ¥306,693 million, an increase of 22.4% year on year, and operating income was ¥44,520 million, up 25.4%.

North America

Reflecting strong sales of organic IC packages for MPUs in the Communication Media Components Business, sales in North America rose 26.6% from the previous year to ¥106,818 million and operating income increased 32.3% to ¥2,548 million.

Europe

In addition to the growth in sales of the priority products responding to environmental regulations and a great increase in sales of replacement spark plugs in Eastern Europe and Russia experienced by the Automotive Components Business, sales in Europe amounted to ¥59,006 million, an increase of 21.6% year on year, and operating income surged 86.0% to ¥3,171 million.

Other Regions

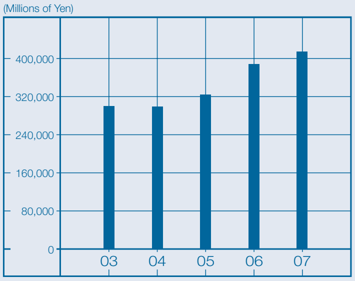
Sales in other regions increased 19.2% from the previous year to ¥32,865 million and operating income rose 27.5% to ¥3,551 million, reflecting the expansion of the automotive markets as well as appreciation of currencies of countries in Latin America and Oceania.

Capital Expenditures

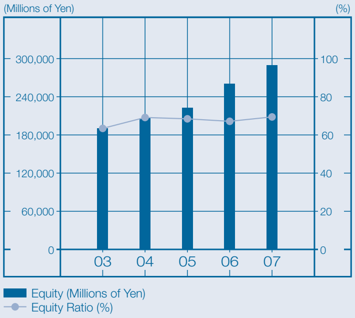
The NGK Spark Plug Group's capital expenditures totaled ¥29,271 million, which were mainly for the purpose of increasing production capacity of various products. Projects included facilities at Komaki Factory for increasing production of glow plugs and organic IC packages and construction of an extension at Ceramic Sensor Co., Ltd., our production base for oxygen sensors.

Of the total capital expenditures, ¥17,668 million was allocated to the Automotive Components Business, ¥11,411 million was allocated to the Communication Media Components and Technical Ceramics Businesses, and ¥192 million was allocated to other businesses.

Total Assets



Equity and Equity Ratio



Financial Policy

The NGK Spark Plug Group's financial policy is to secure working capital to underpin smooth business operations and to systematically prepare for medium- to long-term funding needs to enable flexible capital expenditures in the future so as to support stable management and the ability to respond to changing circumstances. To this end, as well as retention and management of current funds according to financial planning, we are implementing ongoing measures to enhance efficiency of receivables and payables and inventories. At the same time, we are improving internal rules such as the Fund Management Regulations and operating the Investment Committee and other organizations for the purpose of reducing investment risks.

To satisfy short-term demand for funds, we use internal reserves in addition to financing from financial institutions by means of discounting of notes. For medium- to long-term funding needs, we engage in direct financing from financial markets by means of issuance of bonds etc.

Financial Condition

Total assets

Total assets were ¥413,769 million, having increased ¥27,534 million or 7.1% from the end of the previous fiscal year. The principal factors were as follows:

- Inventories increased ¥14,305 million owing to higher sales as well as the impact of foreign exchange translation adjustment.
- Property, plant and equipment increased ¥18,576 million as a result of capital investment for facilities to increase MPU IC package and glow plug production capacities and for construction of an oxygen sensor factory in order to meet the growing demand for the Company's mainstay products.
- Investment securities decreased ¥6,655 million as the Company refrained from purchasing long-term bonds in readiness for redemption of corporate bonds and capital investment.

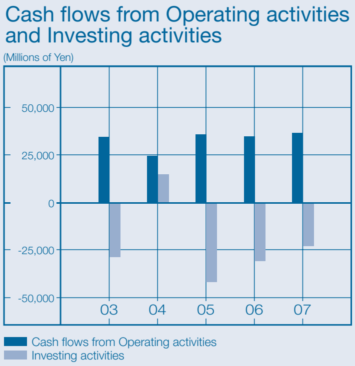
Total liabilities

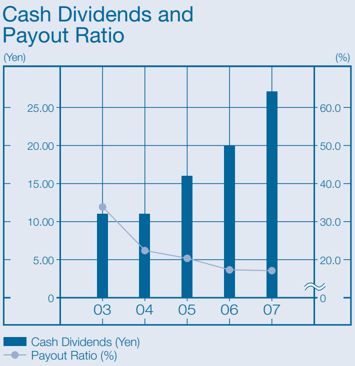
Total liabilities amounted to ¥124,792 million, having decreased ¥677 million or 0.5% from the end of the previous fiscal year. In addition to the redemption at maturity of the second series of unsecured bonds in the amount of ¥10 billion, accounts payable increased due to expansion of production.

Net assets

Effective the fiscal year ended March 31, 2007, the previous "Shareholders' Equity" section includes minority interests and is presented as the "Net Assets" section due to the change in the accounting standard. The amount corresponding to the previous total shareholders' equity is ¥287,171 million, an increase of ¥27,958 million or 10.8% from the end of the previous fiscal year. The main items were a ¥34,073 million increase attributable to net income, a ¥4,107 million increase in foreign currency translation adjustment due to depreciation of the yen, a ¥5,530 million decrease in retained earnings attributable to dividends payment, and a ¥3,599 million decrease due to purchase of treasury stock.

The equity ratio increased 2.3 percentage points from 67.1% at the end of the previous fiscal year to 69.4%. Net assets per share based on the number of shares issued and outstanding at the end of the fiscal year was ¥1,302.52 compared with ¥1,166.97 at the end of the previous fiscal year.





Cash Flows

In the fiscal year ended March 31, 2007, net cash and cash equivalents at the fiscal year-end after deducting a foreign currency translation adjustment of ¥1,561 million decreased ¥2,046 million or 4.7% from the previous fiscal year-end to ¥41,258 million at the year-end.

Cash flows from operating activities

Net cash provided by operating activities increased ¥1,731 million from the previous year to ¥36,481 million. The main items were an increase of ¥14,353 million in income before income taxes and minority interests and increases in inventories, trade receivables and income taxes paid.

Cash flows from investing activities

Purchases of property, plant and equipment increased ¥11,860 million to ¥36,421 million because of the increased production capacity for various products, including facilities for increasing production of glow plugs and organic IC packages at Komaki Factory and construction of an extension at Ceramic Sensor Co., Ltd. As a result of liquidation of operating capital to satisfy the fund requirement for such capital investment and for redemption of bonds, net cash used in investing activities decreased ¥7,768 million from the previous year to ¥22,924 million.

Cash flows from financing activities

Net cash used in financing activities rose from ¥2,458 million in the previous year to ¥14,042 million. The principal reason for this rise was an increase in cash outlays resulting from increased dividend payments and purchase of treasury stock as well as redemption at maturity of the second series of unsecured bonds in the amount of ¥10 billion issued in 2000.

Dividend Policy

The Company regards returning profits to shareholders as one of its most important management policies and will continue to provide reassurance to its long-term shareholders under the basic policy of continuing to pay stable dividends. The Company also thinks it is important to provide shareholders with returns in line with earnings. Maintaining a target dividend payout ratio of at least 20% of consolidated net income for the time being, in deciding the amount of dividends the Company will comprehensively take into consideration the basic policy of paying stable dividends and of maintaining sufficient internal reserves for the purpose of capital investment in research and development, business expansion, and rationalization of operations essential to future growth, as well as for investing in other companies. The Company recognizes the effectiveness of share buybacks for the purpose of enhancing capital efficiency, and intends to purchase the Company's shares, as necessary.

In accordance with the above policy, the Company increased the annual dividend for the fiscal year ended March 31, 2007, by ¥7 compared with the previous year to ¥27, consisting of an interim dividend of ¥14 composed of a common dividend of ¥11 and a commemorative dividend of ¥3 to mark the Company's 70th anniversary, and a year-end dividend of ¥13. Also, the Company bought back 1.5 million shares in the market.

Consolidated Balance Sheets

March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Current assets:			
Cash and cash equivalents	**¥ 41,258**	¥ 43,304	**$ 349,644**
Short-term investments (Note 5)	**34,977**	45,094	**296,416**
Notes and accounts receivable, net of allowance for doubtful accounts (Notes 3 and 14)	**69,616**	61,042	**589,966**
Inventories (Note 4)	**65,433**	51,128	**554,517**
Deferred tax assets (Note 13)	**9,961**	8,505	**84,415**
Other current assets	**2,084**	1,830	**17,661**
Total current assets	**223,329**	210,903	**1,892,619**
Investments and other assets:			
Investment securities (Note 5)	**59,461**	66,116	**503,907**
Investments in unconsolidated subsidiaries and affiliates	**5,810**	5,095	**49,237**
Deferred tax assets (Note 13)	**1,263**	1,174	**10,703**
Other assets	**4,746**	2,347	**40,220**
Allowance for doubtful accounts	**(108)**	(92)	**(915)**
	71,172	74,640	**603,152**
Property, plant and equipment, at cost:			
Land	**16,847**	16,385	**142,771**
Buildings and structures	**105,898**	99,529	**897,441**
Machinery and equipment	**209,291**	190,375	**1,773,653**
Construction in progress	**12,639**	4,744	**107,110**
	344,675	311,033	**2,920,975**
Less, accumulated depreciation	**(225,407)**	(210,341)	**(1,910,229)**
	119,268	100,692	**1,010,746**
Total assets	**¥413,769**	¥386,235	**$3,506,517**

See accompanying Notes to Consolidated Financial Statements.

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Current liabilities:			
Short-term borrowings (Note 7)	**¥ 15,468**	¥ 10,463	**$ 131,085**
Current portion of long-term debt (Note 7)	**39**	10,039	**331**
Accounts payable (Notes 6 and 14)	**42,636**	37,361	**361,322**
Accrued expenses	**14,146**	13,237	**119,881**
Income taxes payable	**11,188**	11,045	**94,814**
Deferred tax liabilities (Note 13)	**199**	215	**1,686**
Other current liabilities	**981**	1,931	**8,313**
Total current liabilities	**84,657**	84,291	**717,432**
Long-term debt (Note 7)	**16,178**	16,217	137,101
Employee retirement benefit liability (Note 8)	**14,166**	14,187	120,051
Deferred tax liabilities (Note 13)	**7,901**	9,042	66,958
Other long-term liabilities	**1,890**	1,732	16,017
Equity (Note 12)**:**			
Common stock	**47,869**	47,869	**405,669**
Capital surplus	**55,171**	55,167	**467,551**
Retained earnings	**166,643**	138,203	**1,412,229**
Less, treasury stock at cost	**(10,053)**	(6,454)	**(85,195)**
Total shareholders' equity	**259,630**	234,785	**2,200,254**
Other components of equity	**27,541**	24,428	**233,399**
Minority interests	**1,806**	1,553	**15,305**
Total equity	**288,977**	260,766	**2,448,958**
Total liabilities and equity	**¥413,769**	¥386,235	**$3,506,517**

Consolidated Statements of Income

For the Years ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Operating revenue:			
Net sales (Note 15)	**¥344,891**	¥284,885	**$2,922,805**
Operating costs and expenses (Notes 14 and 15)**:**			
Costs of goods sold	**248,565**	203,338	**2,106,483**
Selling, general and administrative expenses	**43,924**	40,034	**372,237**
	292,489	243,372	**2,478,720**
Operating income	**52,402**	41,513	**444,085**
Other income (expenses):			
Interest and dividend income	**2,204**	1,295	**18,678**
Interest expenses	**(906)**	(674)	**(7,678)**
Loss on sale or disposal of property, plant and equipment	**(555)**	(617)	**(4,703)**
Impairment loss on fixed assets (Note 2(j))	**—**	(737)	**—**
Depreciation expenses resulting from revision of residual value (Note 2(h))	**—**	(2,749)	**—**
Equity in net earnings of affiliates	**482**	673	**4,085**
Foreign exchange gain	**187**	486	**1,584**
Other, net	**(429)**	(158)	**(3,636)**
	983	(2,481)	**8,330**
Income before income taxes and minority interests	**53,385**	39,032	**452,415**
Income taxes (Note 13)	**19,068**	13,765	**161,593**
Less, minority interests in net income of consolidated subsidiaries	**244**	163	**2,068**
Net income	**¥ 34,073**	¥ 25,104	**$ 288,754**

	Yen		U.S. Dollars
Per share:			
Net income:			
-Basic	**¥ 154.24**	¥ 112.82	**$ 1.31**
-Diluted	**146.44**	106.91	**1.24**
Cash dividends (Note 12(d))	**27.00**	20.00	**0.23**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

For the Years ended March 31, 2007 and 2006

		Shareholders' equity					Other components of equity				
	Number of common shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Foreign currency translation adjustment	Total other components of equity	Minority interests	Total equity
						Millions of Yen					
Balance at March 31, 2005	229,544,820	¥47,869	¥54,826	¥117,395	¥ (6,808)	¥213,282	¥15,352	¥(7,701)	¥ 7,651	¥1,078	¥222,011
Net income for the year	—	—	—	25,104	—	25,104	—	—	—	—	25,104
Cash dividends	—	—	—	(4,208)	—	(4,208)	—	—	—	—	(4,208)
Bonuses to directors and corporate auditors	—	—	—	(88)	—	(88)	—	—	—	—	(88)
Conversion of convertible bonds (Note 12)	—	—	339	—	562	901	—	—	—	—	901
Purchases of treasury stock and fractional shares, net of sales	—	—	2	—	(208)	(206)	—	—	—	—	(206)
Net changes other than shareholders' equity for the year	—	—	—	—	—	—	12,480	4,297	16,777	475	17,252
Balance at March 31, 2006	229,544,820	47,869	55,167	138,203	(6,454)	234,785	27,832	(3,404)	24,428	1,553	260,766
Net income for the year	—	—	—	34,073	—	34,073	—	—	—	—	34,073
Cash dividends	—	—	—	(5,530)	—	(5,530)	—	—	—	—	(5,530)
Bonuses to directors and corporate auditors	—	—	—	(103)	—	(103)	—	—	—	—	(103)
Purchases of treasury stock and fractional shares, net of sales	—	—	4	—	(3,599)	(3,595)	—	—	—	—	(3,595)
Net changes other than shareholders' equity for the year	—	—	—	—	—	—	(994)	4,107	3,113	253	3,366
Balance at March 31, 2007	**229,544,820**	**¥47,869**	**¥55,171**	**¥166,643**	**¥(10,053)**	**¥259,630**	**¥26,838**	**¥ 703**	**¥27,541**	**¥1,806**	**¥288,977**
						Thousands of U.S. Dollars					
Balance at March 31, 2006		$405,669	$467,517	$1,171,212	$(54,695)	$1,989,703	$235,864	$(28,847)	$207,017	$13,161	$2,209,881
Net income for the year		—	—	288,754	—	288,754	—	—	—	—	288,754
Cash dividends		—	—	(46,864)	—	(46,864)	—	—	—	—	(46,864)
Bonuses to directors and corporate auditors		—	—	(873)	—	(873)	—	—	—	—	(873)
Purchases of treasury stock and fractional shares, net of sales		—	34	—	(30,500)	(30,466)	—	—	—	—	(30,466)
Net changes other than shareholders' equity for the year		—	—	—	—	—	(8,423)	34,805	26,382	2,144	28,526
Balance at March 31, 2007		**$405,669**	**$467,551**	**$1,412,229**	**$(85,195)**	**$2,200,254**	**$227,441**	**$ 5,958**	**$233,399**	**$15,305**	**$2,448,958**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the Years ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥53,385**	¥39,032	**$452,415**
Adjustments for:			
Depreciation	**18,861**	18,018	**159,839**
Impairment loss on fixed assets	**—**	737	**—**
Loss on sale or disposal of property, plant and equipment	**555**	617	**4,703**
Equity in net earnings of affiliates	**(482)**	(673)	**(4,085)**
Increase in trade receivables	**(5,920)**	(10,006)	**(50,170)**
Increase in inventories	**(11,929)**	(3,003)	**(101,093)**
Increase in trade payables	**2,433**	1,559	**20,619**
Other, net	**(1,008)**	186	**(8,542)**
Sub-total	**55,895**	46,467	**473,686**
Interest and dividend received	**2,171**	1,482	**18,398**
Interest paid	**(909)**	(671)	**(7,703)**
Income taxes paid	**(20,676)**	(12,528)	**(175,220)**
Net cash provided by operating activities	**36,481**	34,750	**309,161**
Cash flows from investing activities:			
Increase in property, plant and equipment	**(36,421)**	(24,561)	**(308,653)**
Increase in long-term investments	**(1,408)**	(8,386)	**(11,932)**
Decrease in long-term investments	**3,101**	1,027	**26,280**
Net decrease (increase) in short-term investments	**12,426**	1,802	**105,305**
Other, net	**(622)**	(574)	**(5,271)**
Net cash used in investing activities	**(22,924)**	(30,692)	**(194,271)**
Cash flows from financing activities:			
Repayment of long-term debt	**(10,000)**	—	**(84,746)**
Net increase in short-term borrowings	**4,943**	2,077	**41,890**
Dividends paid	**(5,527)**	(4,206)	**(46,839)**
Purchase of treasury stock and fractional shares, net of sales	**(3,595)**	(206)	**(30,466)**
Other, net	**137**	(123)	**1,161**
Net cash used in financing activities	**(14,042)**	(2,458)	**(119,000)**
Effect of exchange rate changes on cash and cash equivalents	**(1,561)**	1,179	**(13,229)**
Net (decrease) increase in cash and cash equivalents	**(2,046)**	2,779	**(17,339)**
Cash and cash equivalents at beginning of year	**43,304**	40,525	**366,983**
Cash and cash equivalents at end of year	**¥41,258**	¥43,304	**$349,644**

See accompanying Notes to Consolidated Financial Statements.

1. Basis of Consolidated Financial Statements

(a) Basis of presenting the consolidated financial statements

The accompanying consolidated financial statements of NGK SPARK PLUG CO., LTD. (the “Company”) and its consolidated subsidiaries (together with the Company, the “NGK Spark Plug Group”) have been prepared 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 ¥118 to $1, the approximate rate of exchange at March 31, 2007. The inclusion of such dollar amounts is solely for the convenience of the readers and is not intended to imply that the assets and liabilities have been or could be readily converted, realized or settled in dollars at ¥118 to $1 or at any other rate.

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 differences 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 are principally deferred as goodwill or negative goodwill and amortized over five years on a straight-line basis.

The number of consolidated subsidiaries, unconsolidated subsidiaries and affiliates for the years ended March 31, 2007 and 2006 was as follows:

	2007	2006
Consolidated subsidiaries:		
Domestic	10	10
Overseas	23	21
Unconsolidated subsidiaries, stated at cost	3	4
Affiliates, accounted for by the equity method	3	3
Affiliates, stated at cost	5	4

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

Overseas consolidated subsidiaries adopt accounting principles generally accepted in their respective countries, and no 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) Accounting standard for presentation of net assets in the balance sheet

The Accounting Standards Board of Japan (“ASBJ”) issued “Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Statement No.5)” and Implementation Guidance “Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No.8)” on December 9, 2005, which are applied for the year ending on May 1, 2006. The standard requires presenting the equity section in the balance sheet as similar to International Financial Reporting Standards. The NGK Spark Plug Group has adopted these new accounting standards from the year ended March 31, 2007. If the previous accounting method had been applied for the consolidated balance sheet at March 31, 2007, equity would have amounted to ¥287,171 million ($2,443,653 thousand). The consolidated statement of shareholders’ equity for the year ended March 31, 2006 previously reported is retroactively restated under the new standard.

(c) 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.

(d) 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 component of equity, net of applicable income taxes. Gains and losses on disposal 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.

(e) 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.

(f) Inventories

Inventories are principally stated at moving average cost.

(g) Allowance for doubtful accounts

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

(h) 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 other income or expenses.

Effective from the year ended March 31, 2006, the Company and its domestic consolidated subsidiaries revised the estimated residual value of property, plant and equipment for depreciation from 5% of the acquisition cost to actual estimated disposal value, based on the Company's revaluation of the substantial usage and disposal condition of property, plant and equipment for the recent years. As a result, depreciation expenses increased by ¥457 million and the cumulative effect for prior years of ¥2,749 million was recorded as other expenses for the year ended March 31, 2006. Accordingly, operating income decreased by ¥316 million and income before income taxes and minority interests decreased by ¥3,127 million for the year ended March 31, 2006, as compared with the previous accounting method.

(i) 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 as accepted by the "Opinion Concerning Accounting Standard for Leases" issued by the Business Accounting Council of Japan ("BACJ") and the related practical guideline issued by the Japanese Institute of Certified Public Accountants ("JICPA").

(j) Accounting standard for impairment of fixed assets

On August 9, 2002, BACJ issued "Accounting Standard for Impairment of Fixed Assets", which is effective for the fiscal years beginning April 1, 2005. ASBJ issued related practical guidance on October 31, 2003. The Company and its domestic consolidated subsidiaries adopted this new accounting standard and related practical guidance effective from the year ended March 31, 2006. 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 or value in use. Fixed assets include land, plants, buildings and other forms of property as well as intangible assets and are to be grouped at the lowest level for which there are identifiable cash flows from other groups of assets.

For the purpose of recognition and measurement of an impairment loss, fixed assets of the NGK Spark Plug Group are grouped into cash-generating units based on the managerial accounting classification, other than idle or unused property. For the year ended March 31, 2006, the Company and its domestic consolidated subsidiaries recognized ¥737 million impairment loss on fixed assets, which consisted of manufacturing property for electronic components division located in Ise Factory of communication media components and technical ceramics segment, whose division recently became shrinking. As a result of adopting this new accounting standard, for the year ended March 31, 2006, operating income increased by ¥142 million and income before income taxes and minority interests decreased by ¥595 million, as compared with the previous accounting method.

(k) 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.

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 the 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.

(l) Accrued severance indemnities for directors and corporate auditors

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, 2007 and 2006, other long-term liabilities in the accompanying consolidated balance sheets included these accruals for directors and corporate auditors in the amounts of ¥741 million ($6,280 thousand) and ¥986 million, respectively.

(m) 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-ends. 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 component of equity in the accompanying consolidated balance sheets.

(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 a wide range of phases, such as basic and applied research for material development and other themes, the plan or design for 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, 2007 and 2006, research and development expenses aggregated ¥16,253 million ($137,737 thousand) and ¥14,692 million, respectively. Such amounts included a portion of research and development activities for basic or applied research, and a development of new products or processes in the amounts of ¥2,842 million ($24,085 thousand) and ¥2,844 million at March 31, 2007 and 2006, respectively, which was recorded as general and administrative expenses, and the rest of them was recorded as manufacturing costs for the respective years in the accompanying consolidated statements of income.

(o) 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 of the enactment date.

(p) 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 are levied. The NGK Spark Plug Group records enterprise taxes calculated based on the "added value" and "capital" amounts as selling, general and administrative expenses in accordance with practical guidance issued by ASBJ.

(q) Accounting standard for directors' bonus

From the year ended March 31, 2007, the NGK Spark Plug Group has adopted "Accounting Standard for Directors' Bonus (ASBJ Statement No.4)" issued by ASBJ on November 29, 2005. The standard requires that the directors' bonuses, including those for corporate auditors, shall be accounted for as an expense of the accounting period in which such bonuses are accrued. Until the year ended March 31, 2006, bonuses to directors and corporate auditors were recorded as a part of the appropriation of retained earnings in the fiscal year when a proposed appropriation of retained earnings for directors and corporate auditors' bonuses was approved by the Board of Directors and/or shareholders. As a result, as the NGK Spark Plug Group has accrued such bonus, operating income and income before income taxes and minority interests decreased by ¥113 million ($958 thousand) for the year ended March 31, 2007, respectively, as compared with the previous accounting method.

(r) 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. See Note 2(q) for the accounting for bonuses to directors and corporate auditors.

(s) Accounting standard for business combinations
BACJ issued "Accounting Standard for Business Combinations" on October 31, 2003, and ASBJ issued "Accounting Standard for Business Divestitures (ASBJ Statement No.7)" and Implementation Guidance "Guidance on Accounting Standard for Business Combinations and Accounting Standard on Business Divestitures (ASBJ Guidance No. 10)" on December 27, 2005, which are applied for the year beginning on April 1, 2006. The NGK Spark Plug Group has adopted these standards from the year ended March 31, 2007. As a result, although operating income decreased by ¥21 million ($178 thousand), there was no effect on income before income taxes and minority interests for the year ended March 31, 2007, as compared with the previous accounting method. The difference between the cost of investments and the fair value of acquired net assets, which was recorded as consolidating adjustment account in the prior year's consolidated financial statements, is shown as goodwill or negative goodwill in the consolidated financial statements for the year ended March 31, 2007 in accordance with the revised disclosure regulations. At March 31, 2007, goodwill of ¥754 million ($6,390 thousand) and negative goodwill of ¥53 million ($449 thousand) were included in other assets and other long-term liabilities in the accompanying consolidated balance sheets, while consolidating adjustment account of ¥582 million was included in other assets at March 31, 2006.

(t) 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.

3. Notes and Accounts Receivable

At March 31, 2007 and 2006, notes and accounts receivable consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Trade receivables	**¥59,609**	¥52,404	**$505,161**
Unconsolidated subsidiaries and affiliates	**5,239**	4,724	**44,398**
Other	**5,071**	4,138	**42,975**
Less, allowance for doubtful accounts	**(303)**	(224)	**(2,568)**
	¥69,616	¥61,042	**$589,966**

4. Inventories

At March 31, 2007 and 2006, inventories consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Finished goods	**¥41,083**	¥31,227	**$348,161**
Work in process	**17,493**	14,825	**148,246**
Raw materials	**6,857**	5,076	**58,110**
	¥65,433	¥51,128	**$554,517**

5. Investments

At March 31, 2007 and 2006, short-term investments consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Marketable securities:			
Bonds	**¥11,744**	¥20,715	**$ 99,525**
Other	**3,000**	—	**25,424**
	14,744	20,715	**124,949**
Other non-marketable securities	**39**	355	**331**
Time deposits with an original maturity of more than three months	**20,194**	24,024	**171,136**
	¥34,977	¥45,094	**$296,416**

At March 31, 2007 and 2006, investment securities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Marketable securities:			
Equity securities	**¥56,075**	¥56,933	**$475,212**
Bonds	**2,502**	5,256	**21,203**
	58,577	62,189	**496,415**
Other non-marketable securities	**884**	3,927	**7,492**
	¥59,461	¥66,116	**$503,907**

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 equity account until realized. At March 31, 2007 and 2006, 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, 2007:				
Marketable securities:				
Equity securities	**¥10,870**	**¥45,205**	**¥ —**	**¥56,075**
Bonds	**14,285**	**3**	**(42)**	**14,246**
Other	**2,999**	**1**	**—**	**3,000**
	¥28,154	**¥45,209**	**¥(42)**	**¥73,321**
At March 31, 2006:				
Marketable securities:				
Equity securities	¥10,043	¥46,890	¥ —	¥56,933
Bonds	26,021	8	(58)	25,971
Other	—	—	—	—
	¥36,064	¥46,898	¥(58)	¥82,904

	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
	Thousands of U.S. Dollars			
At March 31, 2007:				
Marketable securities:				
Equity securities	**$ 92,119**	**$383,093**	**$ —**	**$475,212**
Bonds	**121,059**	**25**	**(356)**	**120,728**
Other	**25,415**	**9**	**—**	**25,424**
	$238,593	**$383,127**	**$(356)**	**$621,364**

Expected maturities of available-for-sale securities at March 31, 2007 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥14,784	$125,288
Due after one year through five years	90	763
Due after five years through ten years	1,500	12,712
Due after ten years	—	—
	¥16,374	$138,763

6. Accounts Payable

At March 31, 2007 and 2006, accounts payable consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Trade payables	**¥29,209**	¥26,068	**$247,534**
Unconsolidated subsidiaries and affiliates	**3,610**	3,449	**30,593**
Other	**9,817**	7,844	**83,195**
	¥42,636	¥37,361	**$361,322**

7. Short-term Borrowings and Long-term Debt

At March 31, 2007 and 2006, short-term borrowings consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Unsecured bank loans with interest at rates ranging from 3.5 % to 5.02 % per annum at March 31, 2007	**¥ 787**	¥ 728	**$ 6,670**
Export bills accepted by overseas consolidated subsidiaries and discounted with banks by the Company with interest at rates ranging from 1.625 % to 6.625 % per annum at March 31, 2007	**14,681**	9,735	**124,415**
	¥15,468	¥10,463	**$131,085**

At March 31, 2007 and 2006, long-term debt consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
1.86% unsecured bonds due March 2007	**¥ —**	¥10,000	**$ —**
Zero coupon convertible bonds with stock acquisition rights due March 2011	**16,099**	16,099	**136,432**
Capital lease obligations for overseas consolidated subsidiaries	**118**	157	**1,000**
	16,217	26,256	**137,432**
Less, current portion	**(39)**	(10,039)	**(331)**
	¥16,178	¥16,217	**$137,101**

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, 2007, 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 may 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, 2007 were as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 39	$ 331
2009	39	331
2010	40	338
2011	16,099	136,432
	¥16,217	$137,432

8. Employee Retirement Benefits

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. 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, 2007 and 2006:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Reconciliation of benefit liability:			
Projected benefit obligation	**¥44,454**	¥42,893	**$376,729**
Less, fair value of pension plan assets at end of year	**(30,530)**	(30,500)	**(258,729)**
Projected benefit obligation in excess of pension plan assets	**13,924**	12,393	**118,000**
Unrecognized actuarial differences	**242**	1,794	**2,051**
Net amounts of employee retirement benefit liability recognized on the consolidated balance sheets	**¥14,166**	¥14,187	**$120,051**

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
	2007	2006	**2007**
Components of net periodic retirement benefit expense:			
Service cost	**¥2,164**	¥2,175	**$18,339**
Interest cost	**807**	801	**6,839**
Expected return on pension plan assets	**(479)**	(461)	**(4,059)**
Recognized actuarial differences	**68**	670	**576**
Net periodic retirement benefit expense	**¥2,560**	¥3,185	**$21,695**

Major assumptions used in the calculation of the above information for the years ended March 31, 2007 and 2006 were as follows:

	2007	2006
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	**2.00%**	2.25%
Amortization of actuarial differences	**10 years**	10 years

9. Contingent Liabilities

At March 31, 2007 and 2006, 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 aggregated ¥664 million ($5,627 thousand) and ¥637 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. As disclosed in Note 2(i), the leased property of the Company and its domestic consolidated subsidiaries under such noncancelable lease agreements which were categorized as financing leases is not capitalized and the related rental and lease expenses are charged to income as incurred as accepted by the current accounting standard for leases.

Total rental and lease expenses including cancelable and non-cancelable leases for the years ended March 31, 2007 and 2006 were ¥3,248 million ($27,525 thousand) and ¥3,130 million, respectively. For the years ended March 31, 2007 and 2006, lease expenses for non-cancelable lease agreements which were categorized as financing leases amounted to ¥981 million ($8,314 thousand) and ¥899 million, respectively.

The aggregate future minimum payments for such non-cancelable leases, including the imputed interest portion, at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Due within one year	**¥ 736**	¥ 774	**$ 6,238**
Due after one year	**1,170**	1,104	**9,915**
	¥1,906	¥1,878	**$16,153**

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 fluctuation 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, 2007 and 2006, aggregate contract balances of derivative instruments, other than those accounted for by the hedge accounting, amounted to ¥24,993 million ($211,805 thousand) and ¥24,955 million, respectively. Relating unrealized gains of ¥107 million ($907 thousand) at March 31, 2007 and unrealized losses of ¥97 million at March 31, 2006 were recognized in the accompanying consolidated financial statements.

12. Equity

(a) The authorized number of shares of common stock without par value is 390 million. At March 31, 2007 and 2006, respectively, the number of shares of common stock issued was 229,544,820 shares. At March 31, 2007 and 2006, the number of treasury stock held by the NGK Spark Plug Group was 9,071,938 and 7,508,304 shares, respectively. During the year ended March 31, 2007, the Company purchased 1,500,000 shares of treasury stock of the Company of ¥3,446 million ($29,203 thousand) based on the resolution of the Board of Directors on June 29, 2006 under the Corporate Law of Japan (former the Commercial Code of Japan)

(b) At March 31, 2007 and 2006, respectively, capital surplus principally consisted of additional paid-in capital. In addition, retained earnings included legal reserve of the Company in the amount of ¥5,838 million ($49,475 thousand) at March 31, 2007 and 2006, respectively. The Corporate Law of Japan (formerly the Commercial Code of Japan) provides that an amount equivalent to 10% of cash dividends 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 reduction of legal reserve is restricted under the certain circumstances by proper actions of shareholders of the Company.

(c) During the year ended March 31, 2006, the Company reissued 658,144 shares of the Company's common stock from treasury stock upon conversion of convertible bonds of ¥901 million, and recorded an increase in capital surplus as gain on sale of treasury stock of ¥339 million.

(d) During the year ended March 31, 2007, the Company paid interim dividends of ¥14 per share, including the commemorative dividend for the 70th anniversary of the Company's founding of ¥3 per share. In addition, on May 9, 2007, the following cash dividends for appropriation of retained earnings were approved by the Board of Directors of the Company.

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends (¥13 per share)	**¥ 2,866**	**$24,288**

13. Income Taxes

Income taxes for the years ended March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Income taxes:			
Current	**¥21,080**	¥16,926	**$178,644**
Deferred	**(2,012)**	(3,161)	**(17,051)**
	¥19,068	¥13,765	**$161,593**

The tax effects on temporary differences that give rise to a significant portion of deferred tax assets and liabilities at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Deferred tax assets:			
Inter-company profits	**¥ 3,681**	¥ 3,150	**$ 31,195**
Depreciation	**5,162**	4,654	**43,746**
Employee retirement benefit liability	**5,950**	5,904	**50,423**
Accrued bonus to employees	**2,912**	2,761	**24,678**
Inventories	**1,178**	769	**9,983**
Enterprise tax accruals	**874**	923	**7,407**
Other	**2,737**	2,398	**23,195**
Less, valuation allowance	**(233)**	(277)	**(1,975)**
	22,261	20,282	**188,652**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	**18,332**	18,997	**155,356**
Accelerated depreciation	**382**	443	**3,237**
Other	**423**	420	**3,585**
	19,137	19,860	**162,178**
Net deferred tax assets	**¥ 3,124**	¥ 422	**$ 26,474**

At March 31, 2007 and 2006, deferred tax assets and liabilities were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Deferred tax assets:			
Current	¥9,961	¥8,505	$84,415
Non-current	1,263	1,174	10,703
Deferred tax liabilities:			
Current	199	215	1,686
Non-current	7,901	9,042	66,958

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, 2007 and 2006, a valuation allowance was provided to reduce the deferred tax assets to the extent that the management believes that the amount of the deferred tax assets is expected to be 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, 2007 and 2006 was as follows:

	Percentage of pre-tax income	
	2007	2006
Japanese statutory effective tax rate	**40.5%**	40.5%
Increase (decrease) due to:		
Permanently non-deductible expenses	**0.7**	0.7
Tax exempt income	**(0.5)**	(0.3)
Tax credit for research and development expenses	**(3.0)**	(4.6)
Differences between Japanese and foreign tax rates	**(1.5)**	(1.2)
Other	**(0.5)**	0.2
Actual effective income tax rate	**35.7%**	35.3%

14. Related Party Transactions

During the years ended March 31, 2007 and 2006, 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, and as at March 31, 2007 and 2006 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
For the year:			
Purchases of parts as work in process	**¥35,369**	¥32,354	**$299,737**
Supply of raw materials	**30,310**	27,445	**256,864**
Rental income for property lent to affiliate	**821**	786	**6,958**
At the year-end:			
Accounts receivable	**¥ 3,103**	¥2,884	**$26,297**
Accounts payable	**3,481**	3,335	**29,500**

15. Segment Information

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

Information by industry segment for the years ended March 31, 2007 and 2006 was as follows:

	Automotive components	Communication media components and technical ceramics	Other	Total	Elimination	Consolidated
			Millions of Yen			
For the year 2007:						
Operating revenue - Net sales:						
External customers	**¥185,601**	**¥154,447**	**¥4,843**	**¥344,891**	**¥ —**	**¥344,891**
Inter-segment sales	**—**	**—**	**94**	**94**	**(94)**	**—**
Total net sales	**185,601**	**154,447**	**4,937**	**344,985**	**(94)**	**344,891**
Operating costs and expenses	**152,401**	**135,284**	**4,898**	**292,583**	**(94)**	**292,489**
Operating income	**¥ 33,200**	**¥ 19,163**	**¥ 39**	**¥ 52,402**	**¥ —**	**¥ 52,402**
Identifiable assets	**¥244,769**	**¥167,301**	**¥1,699**	**¥413,769**	**¥ —**	**¥413,769**
Depreciation	**10,587**	**8,259**	**15**	**18,861**	**—**	**18,861**
Capital expenditures	**17,668**	**11,411**	**192**	**29,271**	**—**	**29,271**
For the year 2006:						
Operating revenue - Net sales:						
External customers	¥165,280	¥116,032	¥3,573	¥284,885	¥ —	¥284,885
Inter-segment sales	—	—	71	71	(71)	—
Total net sales	165,280	116,032	3,644	284,956	(71)	284,885
Operating costs and expenses	135,923	103,918	3,602	243,443	(71)	243,372
Operating income	¥ 29,357	¥ 12,114	¥ 42	¥ 41,513	¥ —	¥ 41,513
Identifiable assets	¥235,696	¥149,213	¥1,326	¥386,235	¥ —	¥386,235
Depreciation	8,608	6,645	16	15,269	—	15,269
Impairment loss on fixed assets	—	737	—	737	—	737
Capital expenditures	18,535	8,360	24	26,919	—	26,919
			Thousands of U.S. Dollars			
For the year 2007:						
Operating revenue - Net sales:						
External customers	**$1,572,890**	**$1,308,873**	**$41,042**	**$2,922,805**	**$ —**	**$2,922,805**
Inter-segment sales	**—**	**—**	**797**	**797**	**(797)**	**—**
Total net sales	**1,572,890**	**1,308,873**	**41,839**	**2,923,602**	**(797)**	**2,922,805**
Operating costs and expenses	**1,291,534**	**1,146,475**	**41,508**	**2,479,517**	**(797)**	**2,478,720**
Operating income	**$ 281,356**	**$ 162,398**	**$ 331**	**$ 444,085**	**$ —**	**$ 444,085**
Identifiable assets	**$2,074,314**	**$1,417,805**	**$14,398**	**$3,506,517**	**$ —**	**$3,506,517**
Depreciation	**89,720**	**69,992**	**127**	**159,839**	**—**	**159,839**
Capital expenditures	**149,729**	**96,703**	**1,627**	**248,059**	**—**	**248,059**

Note: 1. As disclosed in Note 2(q), from the year ended March 31, 2007, the NGK Spark Plug Group has adopted a new accounting standard for directors' bonus. As a result, operating income for the year ended March 31, 2007 decreased by ¥59 million ($500 thousand) in automotive components segment and ¥54 million ($458 thousand) in communication media components and technical ceramics segment, as compared with the previous accounting method.

2. As disclosed in Note 2(s), from the year ended March 31, 2007, the NGK Spark Plug Group has adopted a new accounting standard for business combinations and related implementation guidance. As a result, operating income for the year ended March 31, 2007 decreased by ¥21 million ($178 thousand) in automotive components segment, as compared with the previous accounting method.

Information summarized by geographic area for the years ended March 31, 2007 and 2006 was as follows:

	Japan	North America	Europe	Other	Total	Elimination	Consolidated
				Millions of Yen			
For the year 2007:							
Operating revenue - Net sales:							
External customers	**¥149,433**	**¥105,955**	**¥57,683**	**¥31,820**	**¥344,891**	**¥ —**	**¥344,891**
Inter-segment sales	**157,260**	**863**	**1,323**	**1,045**	**160,491**	**(160,491)**	**—**
Total net sales	**306,693**	**106,818**	**59,006**	**32,865**	**505,382**	**(160,491)**	**344,891**
Operating costs and expenses	**262,173**	**104,270**	**55,835**	**29,314**	**451,592**	**(159,103)**	**292,489**
Operating income	**¥ 44,520**	**¥ 2,548**	**¥ 3,171**	**¥ 3,551**	**¥ 53,790**	**¥ (1,388)**	**¥ 52,402**
Identifiable assets	**¥334,789**	**¥ 44,364**	**¥33,665**	**¥32,040**	**¥444,858**	**¥ (31,089)**	**¥413,769**
For the year 2006:							
Operating revenue - Net sales:							
External customers	¥127,127	¥83,584	¥47,490	¥26,684	¥284,885	¥ —	¥284,885
Inter-segment sales	123,424	778	1,051	879	126,132	(126,132)	—
Total net sales	250,551	84,362	48,541	27,563	411,017	(126,132)	284,885
Operating costs and expenses	215,046	82,436	46,836	24,779	369,097	(125,725)	243,372
Operating income	¥ 35,505	¥ 1,926	¥ 1,705	¥ 2,784	¥ 41,920	¥ (407)	¥ 41,513
Identifiable assets	¥325,946	¥35,760	¥27,010	¥24,275	¥412,991	¥ (26,756)	¥386,235
				Thousands of U.S. Dollars			
For the year 2007:							
Operating revenue - Net sales:							
External customers	**$1,266,381**	**$897,924**	**$488,839**	**$269,661**	**$2,922,805**	**$ —**	**$2,922,805**
Inter-segment sales	**1,332,712**	**7,313**	**11,212**	**8,856**	**1,360,093**	**(1,360,093)**	**—**
Total net sales	**2,599,093**	**905,237**	**500,051**	**278,517**	**4,282,898**	**(1,360,093)**	**2,922,805**
Operating costs and expenses	**2,221,805**	**883,644**	**473,178**	**248,424**	**3,827,051**	**(1,348,331)**	**2,478,720**
Operating income	**$ 377,288**	**$ 21,593**	**$ 26,873**	**$ 30,093**	**$ 455,847**	**$ (11,762)**	**$ 444,085**
Identifiable assets	**$2,837,195**	**$375,966**	**$285,297**	**$271,525**	**$3,769,983**	**$ (263,466)**	**$3,506,517**

Note: 1. As disclosed in Note 2(q), from the year ended March 31, 2007, the NGK Spark Plug Group has adopted a new accounting standard for directors' bonus. As a result, operating income for the year ended March 31, 2007 decreased by ¥109 million ($924 thousand) in Japan segment and ¥4 million ($34 thousand) in other segment, as compared with the previous accounting method.

2. As disclosed in Note 2(s), from the year ended March 31, 2007, the NGK Spark Plug Group has adopted a new accounting standard for business combinations and related implementation guidance. As a result, operating income for the year ended March 31, 2007 decreased by ¥21 million ($178 thousand) in Japan segment, as compared with the previous accounting method.

For the years ended March 31, 2007 and 2006, 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
	2007	2006	**2007**
North America	**¥156,160**	¥ 118,330	**$1,323,390**
Europe	**59,177**	49,141	**501,500**
Asia	**34,775**	31,214	**294,703**
Other area	**28,447**	24,875	**241,076**
	¥278,559	¥223,560	**$2,360,669**
Percentage of overseas sales to total consolidated net sales	**80.8%**	78.5%	

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, 2007 and 2006, and the related consolidated statements of income, changes in 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 audit 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, 2007 and 2006, 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.

As described in Note 2(j), effective from the year ended March 31, 2006, the Company and its domestic consolidated subsidiaries adopted a new accounting standard for impairment of fixed assets.

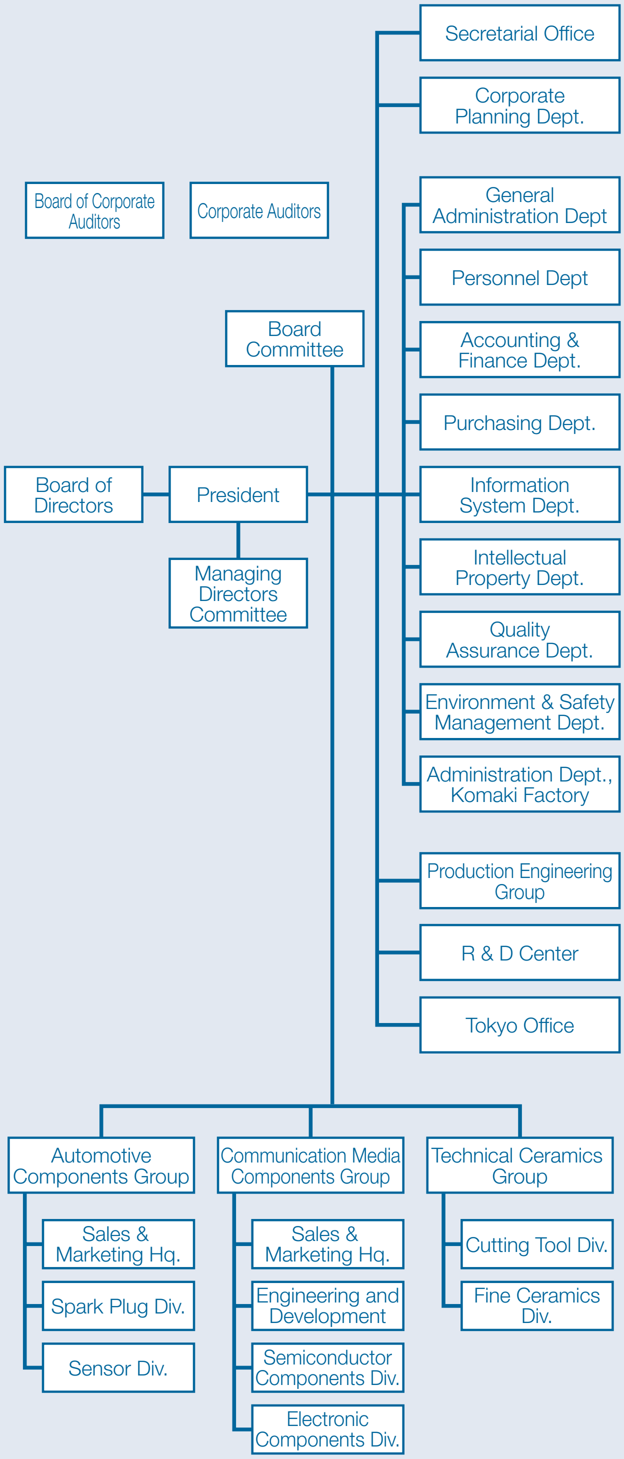
The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

Misuzu Audit Corporation

Misuzu Audit Corporation
Nagoya, Japan
June 28, 2007

Organization

(As of June 28, 2007)



Board of Directors

(As of June 28, 2007)

President,
Chief Executive Officer

Norio Kato*

Executive Vice President

Genjiro Hashimoto*
Naomiki Kato*

Senior Managing Directors

Akiyo Kasugai
Atsuhiro Chinari
Kazuo Kawahara
Chikanori Abe
Michio Obara

Managing Directors

Tsutomu Kawamitsu
Shigeyasu Yamada
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Junichi Kagawa
Yasuhiro Iwata

Directors

Tsuneo Ito
Tessho Yamada
Masami Kawashita
Katsuhiko Sumida
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Yo Tajima
Masahiko Yamada
Norio Teranishi
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Takafumi Oshima
Shinichi Odo

Standing Corporate Auditors

Osamu Tsuda
Masami Asai

Corporate Auditors

Ikuko Ohtsuka
Hideaki Fujioka

*Representative Director

Corporate Data

(As of March 31, 2007)

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, 1st Section
Nagoya Stock Exchange, 1st Section

Number of Employees
Consolidated: 10,407
Non-Consolidated: 5,626

Number of Shareholders
13,033

Transfer Agent
Mitsubishi UFJ Trust and Banking Corporation

Independent Auditors
Misuzu Audit Corporation

Common Stock Price Range

	FY2007	
	High	Low
April-June 2006	¥2,765	¥1,980
July-September 2006	2,480	2,095
October-December 2006	2,600	2,010
January-March 2007	2,535	2,120

NGK SPARK PLUG CO., LTD.

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