



# Pursuit of Sustainable Management

Annual Report 2012

Fiscal year ended March 31, 2012

**NGK SPARK PLUG CO., LTD.**

## Profile

NGK SPARK PLUG CO., LTD., established in 1936 as a manufacturer of spark plugs, has always cultivated ceramics as its core competence. The Company has a distinguished track record of applying the expertise cultivated in the field of ceramics in other fields to create new value. Today, NGK SPARK PLUG CO., LTD. is a leading manufacturer supplying its products to major manufacturers worldwide in the automotive, electronics and other industries. The Company's products are vital components of a host of finished products manufactured on production lines the world over.

NGK SPARK PLUG CO., LTD. is at the forefront of innovation in the information and communications and automotive industries that are destined to underpin 21st-century society. The Company is also increasingly active in the medical field, attuning its expertise to the needs of the aging society, and in the environmental sphere.

Drawing on a wealth of experience, NGK SPARK PLUG CO., LTD. continues to deploy its technological prowess in the service of its customers and society.



### Slogan

With established trust and confidence inside and outside the company, we aim to contribute to the peoples of the world by creating and putting at their disposal new values for the future.

### 1. Commitment

With full use of the most suitable technology and our accumulated experience, we continue striving to offer new values to the peoples of the world.

### 2. Management Policy

We offer a working environment in which each one of us is encouraged to make full use of his or her personality and capabilities.

With all our power we are dedicated to pursue management based on trust and confidence.

### 3. Action Guideline

Ever onward ! Always mindful of what is the best course, we swiftly put it into action.

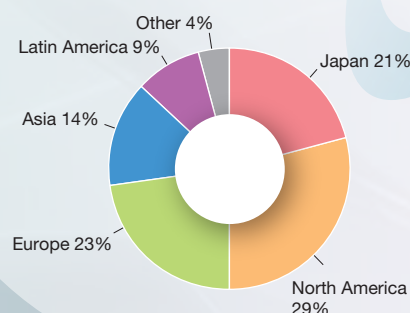
**Net Sales**  
**284,746**  
million yen

**Operating Income**  
**24,478**  
million yen

**Spark Plugs**  
**World Share**  
**No.1**

## Rate of Overseas Sales

**79%**



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## Automotive Components

### Automotive Components Business

In the Automotive Components Business, we manufacture and sell spark plugs, glow plugs, various automotive sensors, ceramic engine parts and other automotive components.

In Japan, the Company manufactures and sells these products. In addition, the Company supplies raw materials and parts to Ceramic Sensor Co., Ltd., Nittoku Seisakusho Co., Ltd, and four other subsidiaries in Japan to which manufacturing is consigned and from which the Company purchases finished products, semi-products and assembly parts and sells them. Overseas, Ceramica e Velas de Ignicao NGK do Brasil Ltda., a subsidiary in Brazil, is an integrated operation that manufactures and sells spark plugs, NGK Spark Plugs (U.S.A.), Inc. and ten other manufacturing and sales subsidiaries and associates in North America, China, South Korea, Southeast Asia and Europe purchase parts and raw materials from the Company, assemble finished products and sell them in their respective regions. Some of the semi-products and components manufactured at overseas factories are utilized as assembly parts by the Company and other manufacturing sites.

In addition, the above-mentioned overseas manufacturing and sales subsidiaries, NGK Spark Plug Europe GmbH and eight other overseas sales subsidiaries sell finished products procured from the Company and the overseas manufacturing subsidiaries to customers in their regions.

## Technical Ceramics

### Technical Ceramics Business

In the Technical Ceramics Business, we manufacture and sell cutting tools for machining, components for semiconductor manufacturing equipment, and other ceramics products for industrial applications.

In Japan, the Company manufactures and sells these products. In addition, the Company supplies raw materials and parts to Kamioka Ceramic Co., Ltd. and two other subsidiaries and affiliates in Japan to which manufacturing is consigned, purchases finished products, semi-products and parts from them and sells them. Overseas, Ceramica e Velas de Ignicao NGK do Brasil Ltda., a subsidiary in Brazil, is an integrated operation that manufactures and sells ceramics products for industrial applications and NTK Technical Ceramics Korea Co., Ltd. purchases semi-products and some raw materials from the Company, assembles finished cutting tools and sells them directly to customers or via the Company and its sales subsidiaries.

NGK Spark Plug Europe GmbH and seven other overseas sales subsidiaries sell finished products procured from the Company and the above-mentioned overseas manufacturing subsidiaries to customers in their regions.

## Communication Media Components

### Communication Media Components Business

In the Communication Media Components Business, we manufacture and sell IC packages and other semiconductor components.

In Japan, the Company manufactures and sells these components. In addition, the Company supplies raw materials and parts to NTK Ceramic Co., Ltd., a subsidiary, to which manufacturing is consigned and from which the Company purchases finished products, semi-products and parts and sells them.

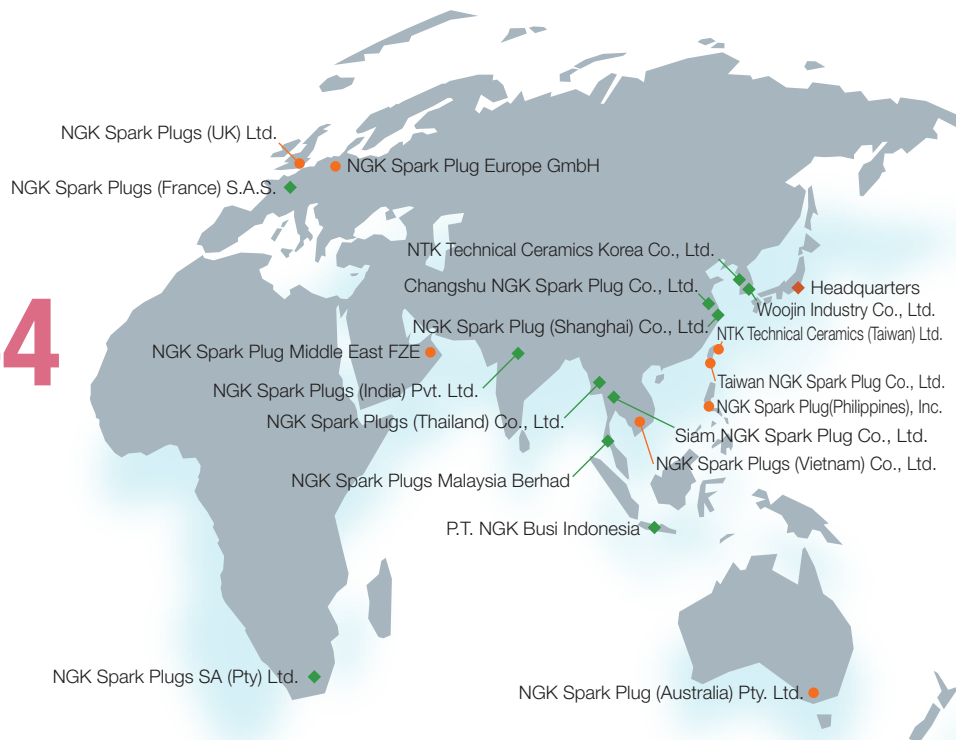
Overseas, NTK Technologies, Inc. and four other overseas sales subsidiaries sell finished products procured from the Company to customers in their regions.

#### Forward-Looking Statements

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

## Global Network

Employees  
**12,064**



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.



NGK Spark Plugs (Thailand) Co., Ltd.



Wootin Industry Co., Ltd.



NGK Spark Plugs (France) S.A.S.



NGK Spark Plugs SA (Pty) Ltd.



NTK Technical Ceramics Korea Co., Ltd.



NGK Spark Plug (Shanghai) Co., Ltd.



NGK Spark Plugs (India) Pvt. Ltd.





## 25 Overseas Sites

- ◆ Headquarters
- ◆ Manufacturing & Sales Organization
- Sales Organization
- Holding Company

### Domestic Subsidiaries

**Ceramic Sensor Co., Ltd.**  
Production of automotive sensors

**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

**NTK 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

**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 (UK) Ltd.**  
Sale of automotive components, communication media components and technical ceramics

**NGK Spark Plugs (France) S.A.S.**  
Production of spark plugs, sale of automotive components, communication media components and technical ceramics

**Taiwan NGK Spark Plug Co., Ltd.**  
Sale of automotive components

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

**NTK Technical Ceramics Korea Co., Ltd.**  
Production and sale of technical ceramics

**P.T. NGK Busi Indonesia**  
Production and sale of spark plugs, sale of automotive sensors

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

**Changshu NGK Spark Plug Co., Ltd.**  
Production and sales of automotive sensors

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

**NGK Spark Plugs (Philippines), Inc.**  
Sale of spark plugs

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

**NGK Spark Plugs (Thailand) Co., Ltd.**  
Production of automotive sensors, sale of automotive components and technical ceramics

**NGK Spark Plugs (Vietnam) Co., Ltd.**  
Sales of automotive components

**NGK Spark Plugs (India) Pvt. Ltd.**  
Production and sale of spark plugs, sale of automotive sensors

**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 and technical ceramics

### Associates

**Woojin Industry Co., Ltd.**  
Production and sale of automotive components

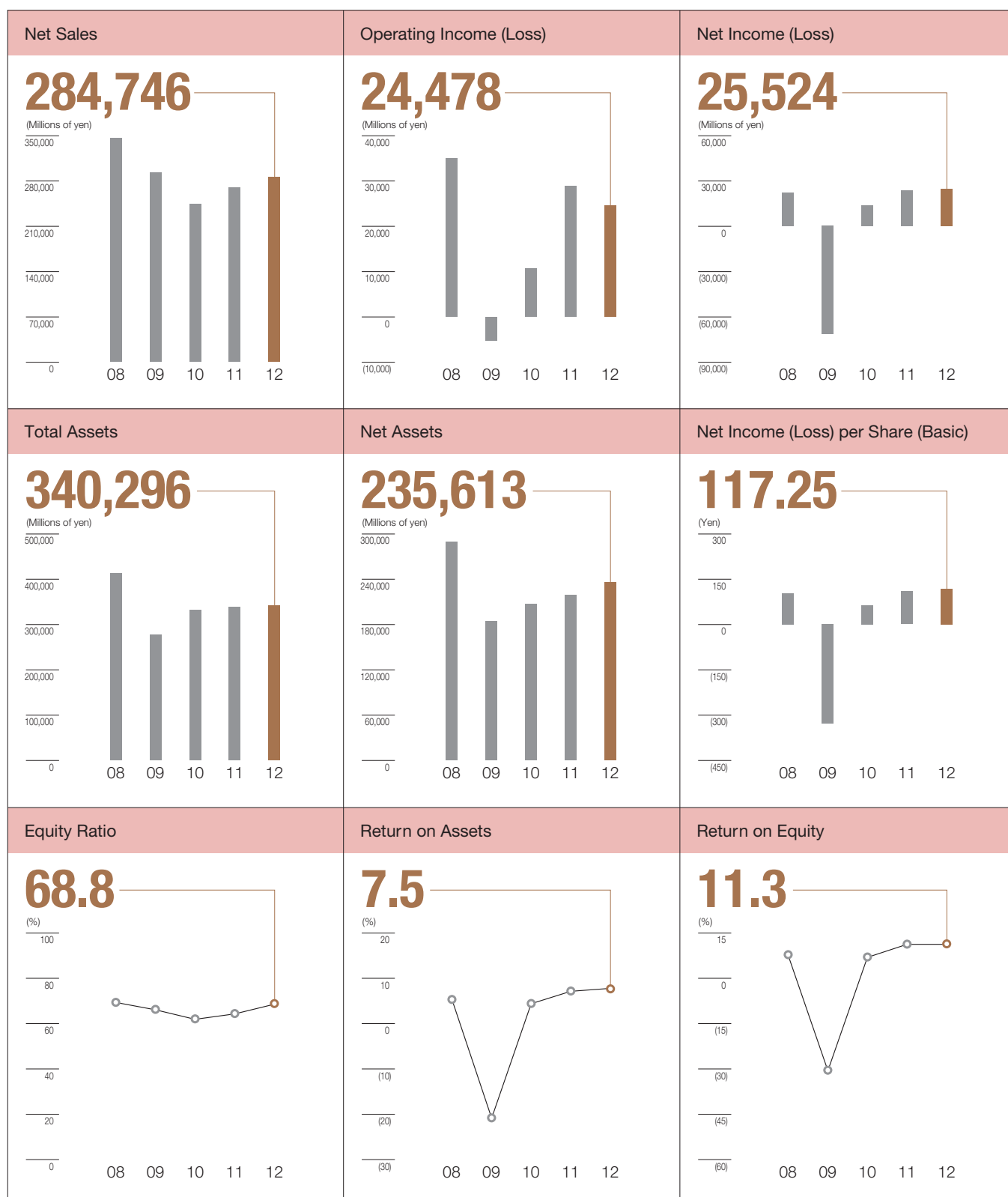
**Tokai Taima Kogu Co., Ltd.**  
Production and sale of mold tools

# Financial Highlights

NGK SPARK PLUG CO., LTD. and Consolidated Subsidiaries  
Years ended March 31, 2012, 2011 and 2010

	Millions of yen			Change (%)	Thousands of U.S. dollars
	2012	2011	2010	2012/2011	2012
For the year:					
Net sales:	¥284,746	¥269,233	¥243,914	5.8 %	\$3,472,512
Automotive Components	222,636	197,214	166,067	12.9	2,715,073
Communication Media Components	33,892	44,472	55,031	(23.8)	413,317
Technical Ceramics	23,738	23,053	19,155	3.0	289,488
Other	4,480	4,494	3,661	(0.3)	54,634
Operating income	24,478	28,771	10,684	(14.9)	298,512
Net income	25,524	23,680	13,510	7.8	311,268
At year-end:					
Total assets	¥340,296	¥337,318	¥331,476	0.9 %	\$4,149,951
Net assets	235,613	218,159	207,007	8.0	2,873,329
	%				
Ratios:					
Equity ratio	68.8 %	64.2 %	61.9 %		
ROA (Return on assets)	7.5	7.1	4.4		
ROE (Return on equity)	11.3	11.2	7.0		
	Yen			Change (%)	U.S. dollars
Per share data:					
Net income:					
—Basic	¥117.25	¥108.71	¥62.01	7.9 %	\$ 1.43
—Diluted	—	107.83	61.46	—	—
				Change (Yen)	
Cash dividends	22.00	22.00	11.00	¥0	0.26

Note: U.S. dollar amounts above and elsewhere in this Annual Report are converted from yen, for convenience only, at the rate of ¥82=U.S.\$1



### We took the first decisive step toward a new round of growth

Q1

**Now that a year has passed since you became president of NGK Spark Plug, what is your evaluation of the Group's performance for the fiscal year ended March 2012?**

With the world economy still struggling to emerge from a period of protracted stagnation, the environment in which we operate remains challenging. In these circumstances, adhering to our "Ever onward!" action guideline and committed to offering new value to people around the world, we continue to embrace both

changes and challenges in order to deal with problems and exploit opportunities, achieve further growth, and enhance corporate value. We aspire to be a global enterprise creating value far into the future.

Since assuming the presidency in June 2011, I have been focusing on measures to achieve sustained growth based on our policy of further strengthening the Automotive Components Business, which is our core competence. Leveraging the outstanding quality of our products and services, we seek to secure a commanding lead in the automotive components field so that we can prevail against the competition. We have decided to make major investments in the Automotive Components Business, namely, projects to increase production capacities for spark plugs and oxygen sensors. Once these projects are completed, we will have a production structure capable of taking full advantage of future market growth.

Clearly, internal combustion engine components, our mainstay products, will become increasingly sophisticated, incorporating the latest technology, to achieve higher fuel efficiency, curb emissions, and satisfy other exacting environmental criteria. We are resolved to continue our tradition of technological innovation meeting the needs of the era and to deliver high-value-added products in the required quantities to customers worldwide in a timely manner.

Taking advantage of the high profitability of the Automotive Components Business, we intend to maintain the high tempo of investment in R&D in order to create new products poised to become our next-generation mainstay products, such as the fuel cells that will play a vital role in the emergence of the age of renewables. In this regard, we have embarked



**Shinichi Odo**

*President and Chief Executive Officer*



on initiatives to align employee awareness and our organization with future needs.

For the fiscal year ended March 31, 2012, consolidated net sales increased 5.8% year on year to ¥284,746 million, operating income decreased 14.9% to ¥24,478 million, and net income increased 7.8% to ¥25,524 million. Despite the impact of the Great East Japan Earthquake, unstable electricity supply in the summer, and the devastating floods in Thailand, our swift and decisive responses to unexpected events enabled us to achieve solid results.

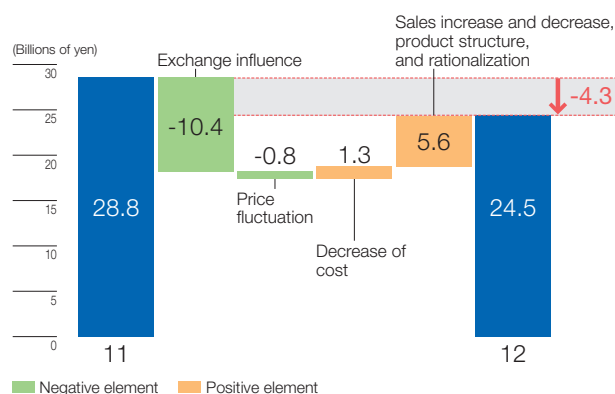
In the Automotive Components Business, regarding original equipment in new vehicles, we were compelled to curtail production for Japanese automobile manufacturers owing to the impact of the Great East Japan Earthquake and the flooding in Thailand. On the other hand, shipments for North American and European manufacturers remained robust throughout the year. Regarding automotive components for aftermarkets, sales in North America and emerging-market countries were buoyant.

The Communication Media Components Business was affected by the sluggish semiconductor market. With little growth in order-taking, sales greatly decreased in yen terms because of the strength of the Japanese currency. However, we managed to minimize losses by continuing the drastic reforms of the production structure, which we have been working on for several years.

In the Technical Ceramics Business, regarding shipments of products for industrial equipment and semiconductor manufacturing equipment, the sluggish European market caused sales to decline. Shipments of products for machine tools were robust in the U.S. and Asia.

In retrospect, fiscal 2011 was devoted to reconstruction from the Great East Japan Earthquake. In step with the rapid recovery of the Japanese economy to the pre-quake level, we articulated a strategy

Analysis of operating income increase and decrease for the year ended March 31, 2012



to further strengthen the Automotive Components Business and to channel profits from that business into R&D of next-generation products. As we embarked on investment and structural reforms based on this strategy, fiscal 2011 was a year in which we took the first decisive step toward a new round of growth.

## Q2

### How is the fiscal year ending March 2013 unfolding?

Japan has picked itself up and is moving on from the Great East Japan Earthquake. However, we expect the Group's business environment to remain challenging owing to the persisting European sovereign debt crisis, the slowing of the pace of growth of the emerging economies, and the likely continued strength of the yen.

In these circumstances, assuming an exchange rate of ¥80 to the U.S. dollar and ¥105 to the euro, our plan for fiscal 2012 calls for consolidated net sales of ¥278.7 billion, a decrease of 2.1% year on year, operating income of ¥27.0 billion, an increase of 10.3%, and net income of ¥21.4 billion, a decrease of 16.2%.

## A Message from the President

Q3

### How is the medium-term management plan progressing?

Three years ago, we formulated the fifth medium-term management plan, “The Evolution of NGK Spark Plug,” which sets out the Company’s desired future configuration together with a roadmap on how to get there. In fiscal 2011, the second year of the plan, the results were modest, especially in terms of operating income, compared with the first year when we achieved a strong recovery from the global financial crisis. However, we attained the net income target, which is evidence that we have transformed the Company into a lean organization capable of continually generating profit.

In fiscal 2011, despite the difficulty of grasping the impacts of the Great East Japan Earthquake, all departments, with those involved in procurement and supply chain management to fore, made a concerted effort to maintain QCD (quality, cost, delivery) throughout the Company. By minimizing the impacts, we were able to allay the concerns of our stakeholders. We will revise the medium-term management plan, which we were not

in a position to do last year, setting higher targets.

Global, speed, and fairness are the three keywords for the evolution of NGK Spark Plug. “Global” refers to cultivating a sense of unity between the headquarters and overseas subsidiaries in order to establish a framework for triggering in-house innovation. “Speed” refers to organizational reforms to strengthen corporate governance and accelerate decision-making. “Fairness” refers to the invigoration of workplaces by thoroughly implementing an equitable personnel evaluation system and developing a flat organizational structure. Mindful of these three keywords, we are committed to fulfilling our mission.

We operate globally with overseas sales accounting for 79% of our total sales. While responding agilely to macroeconomic trends and meeting society’s expectations regarding innovation, we recognize that it is essential to focus on enhancing customer satisfaction without being distracted by the vicissitudes of day-to-day business. Embracing challenges, we continue to evolve as an enterprise committed to creating new value.

#### Overview of the New Medium - Term Management Plan



Q4

**What kind of reforms are you implementing and how are you incentivizing your management team?**

In view of rapid change in the world economy and the business environment in which the Company operates, we introduced the corporate officers system on April 1, 2012, and reduced the size of the board of directors, in order to secure the Company's future prosperity and continued growth. With the introduction of this system, responsibilities of corporate management and execution of operations are clearly distinguished and strengthened, which should lead to speedier and more flexible decision-making and execution of operations. We have also introduced a performance-based system for officers' remuneration to enhance fairness by clarifying accountability and to improve the execution of operations by enhancing officers' recognition of the need for improvement and their motivation to achieve.

In regard to organizational reforms, the New Business Advancement Group established in April 2012 is an R&D organization that directly reports to the president. This group's mission is to expedite R&D by bringing management and workplaces closer together under the new organizational structure.

We will execute reforms with the aim of achieving sustained development in a rapidly changing world economy.

Q5

**What is your dividend policy?**

At NGK Spark Plug, we regard returning profits to shareholders as one of our most important



management policies. We also think it is important to provide shareholders with returns in line with earnings. While maintaining a target dividend payout ratio of at least 20% of consolidated net income for the time being, the Company decides the amount of dividends by comprehensively taking into consideration R&D investment, investment in business expansion, and capital investment for rationalization of operations. In accordance with this policy, the Company paid dividends per share of ¥22.0 for fiscal 2011. While adhering to the basic policy of maintaining stable dividends, we aim to increase the payout ratio.

In these endeavors, I would be grateful for the understanding and support of our shareholders and the wider investor community.

Shinichi Odo  
President and Chief Executive Officer

# Flexible Strategic Investment in Japan and Overseas

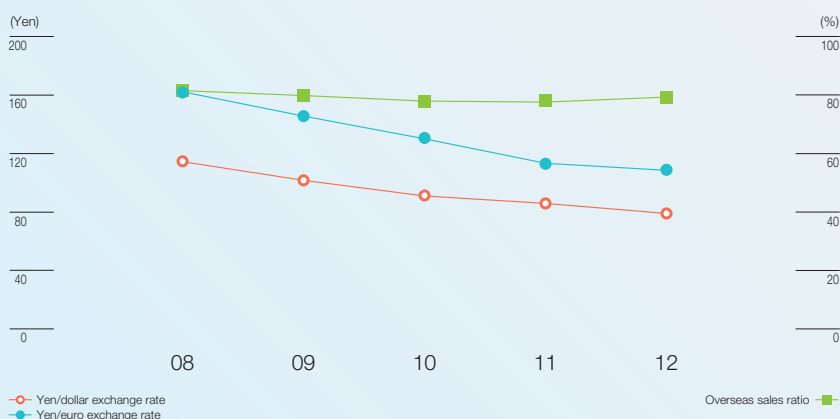
Overseas sales account for 79% of NGK Spark Plug's total sales. Given this high ratio of overseas sales, it is imperative that we structure our operations so as to mitigate the negative impact of the yen's appreciation. Nevertheless, while enhancing the ratio of overseas production and overseas procurement by making full use of our global network, our policy is to maintain production of core components, such as spark plug insulator and sensor

elements, in Japan in order to secure competitiveness in terms of technology and quality. On the other hand, dispersal of production sites mitigates risks associated with disasters. In the Communication Media Components Business, we are shifting production overseas in order to eradicate losses attributable to organic IC packages for PC applications. Through strategic capital investment in Japan and overseas, we aim to achieve sustained growth.

## Production of Organic IC Packages for MPUs Outsourced to Taiwanese Company

We are re-establishing the production structure for organic IC packages in response to changes in the business environment, notably the sluggish demand for PCs and the strong yen. Whereas production of organic IC packages was previously concentrated at our Komaki Factory, we decided to consign the entire production of low-end products for micro-processing units (MPUs), such as those for PC applications, to a partner in Taiwan in order to lower costs. Production in Japan will focus on high-value-added products, such as those for servers, medical applications, and in-vehicle applications. Employees at Komaki Factory manufacturing products for the Communication Media Components Business whose work is being transferred to Taiwan will be assigned to the mainstay Automotive Components Business to achieve the optimum resource allocation.

Exchange Rate and Overseas Sales Ratio



### New Plant for Spark Plug Insulators

Strong demand for spark plugs prompted our decision to invest ¥28.0 billion to construct a new plant for manufacturing insulators for spark plugs in Kani City, Gifu Prefecture. The plan calls for construction to start in November 2012 and for the new plant to come on stream from April 2014 onward. The targeted initial monthly production capacity is 13.50 million units.

The insulator is the heart of a spark plug, providing electrical insulation for the central electrode and the terminal so that high voltage does not leak from the central conductor. Over 40 years have passed since Komaki Factory, our main plant, started operation and its buildings are showing their age. Moreover, dispersal of production sites is an urgent issue in view of the business continuity plan (BCP).

Spark plug

Insulator calcination process



### Enhancement of Oxygen Sensor Production Capacity

We are increasing production capacity for the sensor element, a critical part of oxygen sensors, by investing ¥2.2 billion to construct a new factory for materials within the site of Komaki Factory and investing ¥3.0 billion to refurbish and expand production facilities for ceramic sensors at Ceramic Sensor Co., Ltd., a wholly owned subsidiary. These measures will boost our oxygen sensor production capacity by about 15% from May 2013 onward.

Oxygen sensors for automotive applications measure oxygen concentration in exhaust gas. Data obtained by the oxygen sensor is used by the vehicle for fuel economy. The increasing focus on environmental protection in emerging-market countries is spurring demand for oxygen sensors.



Oxygen sensor



New factory for materials (artist's impression)



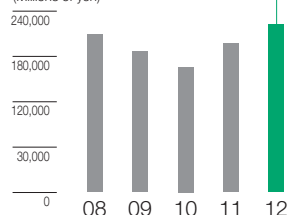
## Review of Operations

### Automotive Components Business

Net Sales

**222,636**

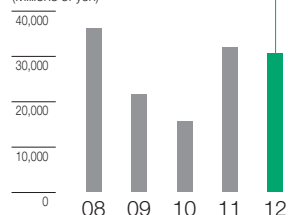
(Millions of yen)



Operating Income

**30,703**

(Millions of yen)



Net Sales Ratio

**78.2%**



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

#### Review of Results

Regarding automotive components for factory installation in new vehicles, we were affected by Japanese automobile manufacturers' adjustments to production in response to the Great East Japan Earthquake and the flooding in Thailand. On the other hand, shipments for North American and European manufacturers remained robust. Regarding automotive components for aftermarkets, sales in North America and emerging-market countries were buoyant.

As a result, segment sales increased 12.9% year on year to ¥222,636 million but operating income decreased 3.9% to ¥30,703 million.

#### Outlook

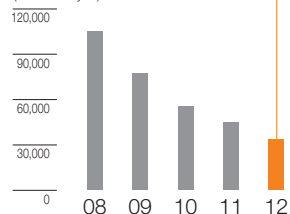
The Automotive Components Business is likely to benefit from increasing domestic demand brought about by the Japanese government's reintroduction of a subsidy program for eco-friendly vehicles and robust overseas demand led by the U.S. We forecast segment sales of ¥217,210 million, a decrease of 2.4% year on year, and operating income of ¥31,480 million, an increase of 2.5%.

## Communication Media Components Business

Net Sales

**33,892**

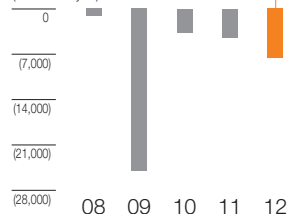
(Millions of yen)



Operating Loss

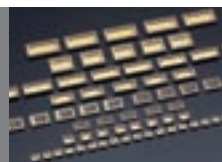
**(7,583)**

(Millions of yen)



Net Sales Ratio

**11.9%**



Ceramic IC Packages  
(for crystal device and  
SAW filter)



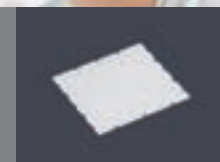
Organic IC Packages



Large-Scale Substrate for  
Wafer Tester



Optical Device Package



LED Package

### Review of Results

Shipments of communication media components for PCs, mobile phones, and other consumer products were robust. However, with little growth in order-taking, sales greatly decreased in yen terms because of the strength of the Japanese currency.

As a result, segment sales decreased 23.8% year on year to ¥33,892 million and an operating loss of ¥7,583 million was recorded, compared with the operating loss of ¥4,403 million for the previous fiscal year.

### Outlook

In the Communication Components Business, as well as seeking to capture new business, we aim to improve profitability by improving price competitiveness of the existing business through meticulous cost control and the consignment of the entire production of certain low-end products to a partner that provides manufacturing services. We forecast segment sales of ¥34,633 million, an increase of 2.2% year on year, and an operating loss of ¥5,706 million compared with the operating loss of ¥7,583 million recorded for the year under review.

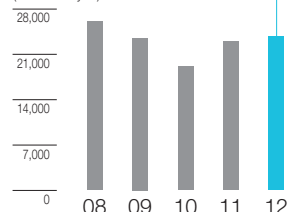
## Review of Operations

### Technical Ceramics Business

Net Sales

**23,738**

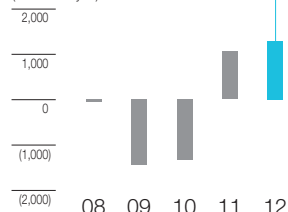
(Millions of yen)



Operating Income (Loss)

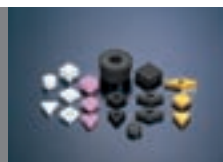
**1,308**

(Millions of yen)



Net Sales Ratio

**8.3%**



Cutting Tools



Electro-Static Chuck,  
Vacuum Chuck



Ultrasonic Transducer



Bio Ceramics



Oxygen Concentrator

#### Review of Results

Whereas shipments of products for industrial equipment and semiconductor manufacturing equipment were upbeat in the first half of the fiscal year, sales declined in the second half as customers adjusted their inventories in response to lower shipments of digital consumer appliances and because of the impact of the sluggish European market. Shipments of products for machine tools were robust in the U.S. and Asia.

As a result, segment sales increased 3.0% year on year to ¥23,738 million and operating income rose 21.6% to ¥1,308 million.

#### Outlook

We are working to establish a more stable earnings structure for the Technical Ceramics Business. We forecast segment sales of ¥21,367 million, a decrease of 10.0% year on year, and operating income of ¥1,184 million, a decrease of 9.5%.

## Commitment to CSR

### CSR of NGK Spark Plug Group

We view CSR not just as a responsibility but as an opportunity to be accountable through review of the NGK Spark Plug Group's economic, environmental and social activities from a global perspective, to enhance corporate value, and to contribute to the sustainable development of society in accordance with our Corporate Philosophy.

Our CSR activities are wide ranging and diverse. They include offering excellent products to customers, disclosing corporate information to shareholders and the wider investor community in an optimal, easy-to-understand manner, collaborating with suppliers for mutual development, ensuring a safe and employee-friendly working environment, and participating in and supporting activities in the local community.

To articulate the Group's action guidelines for CSR activities, we established the CSR Policy in April 2011, which comprises the Compliance Policy and nine other policies. In accordance with the CSR Policy, we intend to review and promote CSR based on a multifaceted approach far into the future.

### CSR Promotion System

As well as determining each year's key tasks for implementation of the CSR Policy, the CSR Committee

oversees and evaluates the CSR-related activities implemented by the respective committees, working groups and divisions, and makes proposals regarding them, in order to achieve total optimization of CSR activities, thereby strengthening the business foundation.

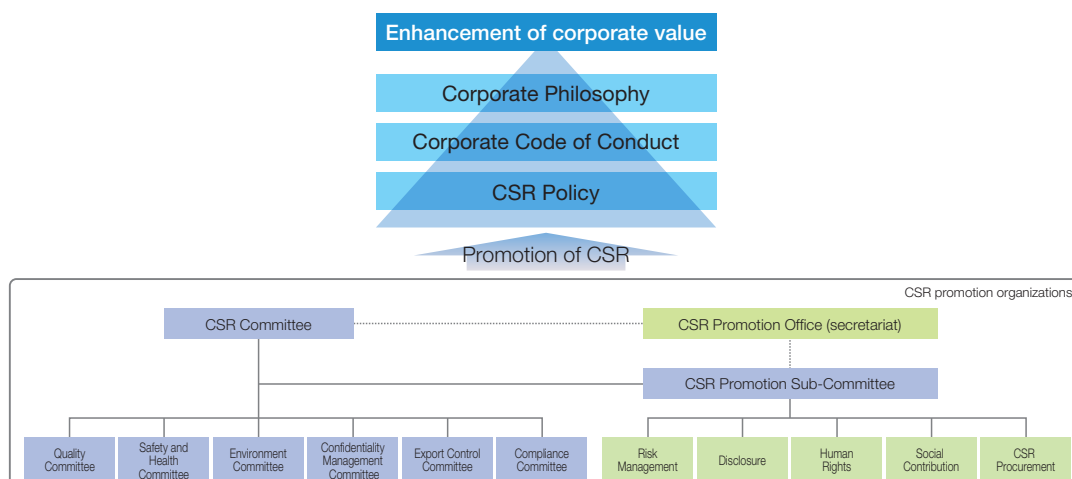
The CSR Promotion Sub-Committee establishes working groups as necessary, and discusses specific themes, such as compliance, BCP, and CSR procurement, and develops countermeasures. In November 2011, the Compliance Working Group was upgraded to the Compliance Committee, which is a subordinate organization of the CSR Committee.

Through close collaboration among the CSR Committee, the CSR Promotion Sub-Committee, and the task force committees, a company-wide CSR promotion system is put in place.

We publish an annual CSR report on our CSR activities and results, which is also available on our website.



CSR Report 2012

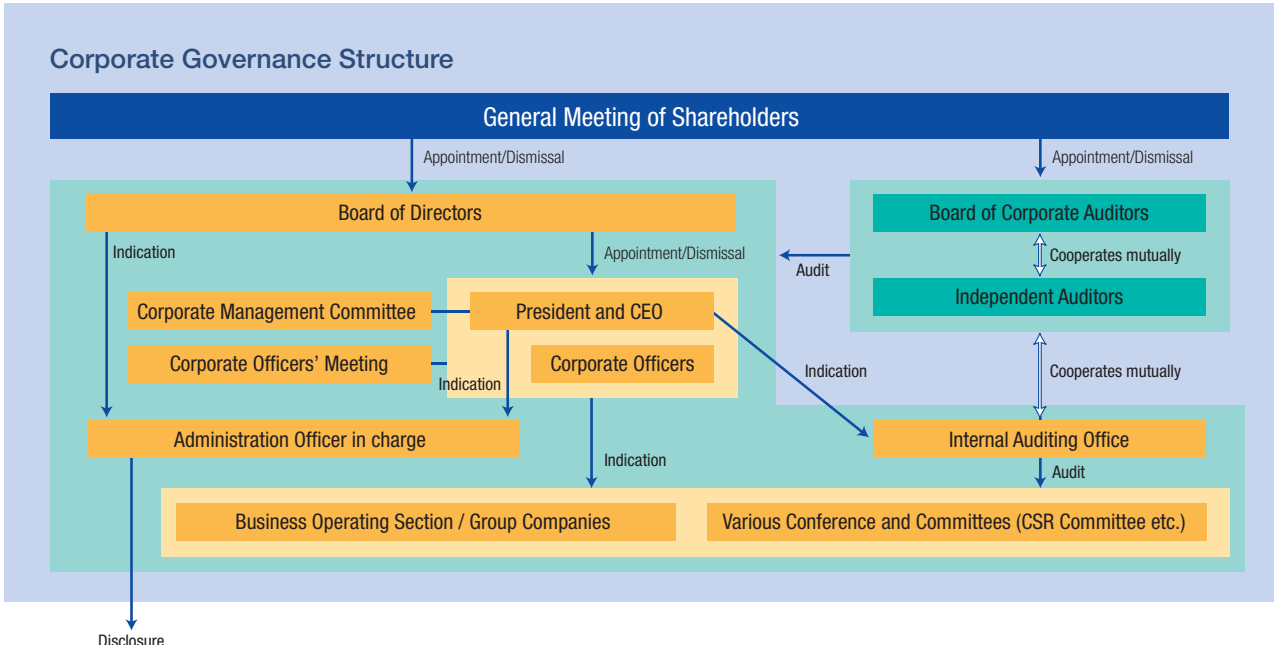


We believe that one of our most important managerial tasks is to establish and maintain a fair and efficient management system, thus securing soundness and transparency in management.

The Board of Directors, consisting of seven directors, deliberates and makes decisions on matters stipulated by laws or bylaws and management-related matters of importance, and supervises the execution of operations by each director. On April 1, 2012, we introduced the corporate officers system with the aim of expediting business execution in accordance with the policies decided by the Board of Directors and to clarify accountability. The 16 corporate officers, five of whom concurrently serve as directors, are elected by resolution of the Board of Directors. At the corporate officers' meeting held once a month, corporate officers report on the progress of business execution, share information and exchange opinions. The term of office of a corporate officer and that of a director are one year. We also introduced a performance-based system for officers' remuneration to enhance fairness by clarifying accountability and to improve the execution of operations by enhancing officers' recognition of the need for improvement and their motivation to achieve it.

The Board of Additors consists of four auditors (two of whom are external auditors). These auditors attend the meetings of the Board of Directors and, if necessary, various committee meetings, to grasp important issues. Through audits of major offices and subsidiaries, they also supervise directors' execution of duties.

The Internal Audit Department reports to management the results of audits of NGK Spark Plug Co., Ltd. and its affiliated companies, and, if necessary, makes proposals to correct problems and improve business operations. Pursuant to requirements for the internal control report system in accordance with the Financial Instruments and Exchange Act, the department assesses the effectiveness of internal control regarding financial reporting, to secure the reliability of the Group's financial statements, thereby maintaining and improving internal control.





### Compliance

Recognizing that NGK Spark Plug is a member of society, we enhance corporate ethics, comply with laws and ordinances, international rules, and company regulations, striving to become a company trusted by the international community.

#### Action Guidelines

- We comply with all relevant laws and ordinances, the Corporate Code of Conduct, and company regulations.
- We regularly educate and raise the awareness of all our employees so that they independently act ethically and knowledgeably to prevent compliance problems.
- Should a problem occur, we promptly deal with it and fulfill our accountability, striving to identify the causes and prevent recurrence.

### Compliance Promotion Structure

The Compliance Committee established as a task force committee of the CSR Committee is spearheading actions to ensure compliance. In February 2012, NGK Spark Plug set up a new compliance promotion structure clarifying the departments for which certain laws are particularly relevant, established the Compliance Regulations, and distributed the Compliance Guidebook to all employees of the NGK Spark Plug Group.

### Corporate Ethics Helpline

We have set up the "Corporate Ethics Helpline," an internal reporting system to prevent illegal activities and to swiftly resolve problems. We established reporting and consultation channels within and outside the company. These channels can be used by employees and others who have discovered an illegal act or a possible illegal act, in order to provide information and receive consultation.

### Export Controls

We endeavor to adhere to export controls and conduct trade in compliance with laws and regulations and to improve efficiency, and thus fulfill our responsibility as an enterprise with a high export ratio. These efforts are recognized as evidenced by NGK Spark Plug's maintenance of its status as an authorized exporter under the Authorized Exporters' Program since June 2008.

### Security Control / Information Security

We have established the Confidentiality Management Regulations and strive to appropriately manage confidential information of the Company, our customers, and our suppliers. Our Privacy Policy is available on our website.

### Protection and Utilization of Intellectual Property Rights

NGK Spark Plug is active in the acquisition and utilization of intellectual property rights to protect its current and newly developed products. We investigate third-party intellectual property rights to avoid the risk of infringement. It is our intention to strengthen management of intellectual property throughout the Group.

### Risk Management

NGK Spark Plug has made preparations to deal with various possible risks, such as natural disasters, accidents, and infectious diseases. If such a risk should arise, we will act to minimize the impact on our stakeholders. We will also work to restore and maintain the continuity of business operations, thereby earning the continued trust of our stakeholders.

#### Action Guidelines

- We strive to prevent factors that could affect business continuity.
- We conduct our activities, always according top priority to the protection of human life.
- We minimize the impact on other parties.
- We strive to rapidly restore business operations and maintain stable supply of products and services.
- We implement measures to prevent the recurrence

### Review of the Business Continuity Plan (BCP)

Drawing lessons from the Great East Japan Earthquake of March 2011, NGK Spark Plug swiftly reviewed and reaffirmed its business continuity plan (BCP). We are strengthening coordination within the Group and with our suppliers, in order to ensure that, in the event of an emergency, we are able to resume major businesses and important activities, and thus restore operations to normality within the target period.

### Response to New Infectious Diseases

On April 2011, the influenza virus (A/H1N1) that emerged in 2009 was reclassified as a seasonal influenza virus. However, as part of our efforts to protect the health of our employees, we will continue measures to prevent general influenza infections and endemic spread of influenza. We are preparing countermeasures, taking into account the emergence of novel influenza viruses, such as H5N1 avian influenza.

The NGK Spark Plug Group endeavors to identify the expectations of its stakeholders, respond to them and enhance corporate value, capitalizing on stakeholders' confidence in the Group.

### With Our Customers

To grasp the diverse needs of customers and promptly take action from the viewpoint of customers, we are committed to making company-wide efforts to improve our quality assurance system, aiming to offer safe and reliable products that deliver greater customer satisfaction.

### With Our Shareholders and Investors

Based on the recognition that our shareholders and investors are our supporters and partners in the sustainable development of our business operations and enhancement of corporate value, we strive to ensure transparent and fair information disclosure. As well as visiting institutional investors in Japan and overseas, we held a meeting for individual shareholders in fiscal 2011.

### With Our Employees

Recognizing that employees are the most important management resource, we respect the diversity and individuality of our employees and cultivate capable human resources for further development of the Group.

### With Our Suppliers

With a view to global optimization of procurement, we focus on strengthening cooperation with suppliers and promoting our CSR efforts throughout the supply chain. We hold an annual seminar for our main suppliers in order to share our policies with them.

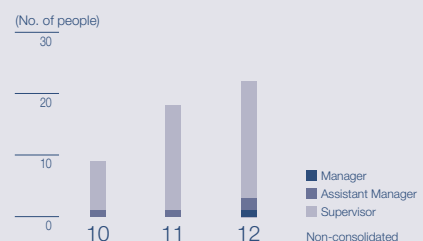
### With Local Communities and International Society

As part of our concerted effort to fulfill our responsibility as a good corporate citizen, we are involved in various social contribution activities in communities where our production sites are located. In conducting business around the world, we respect local cultures and customs and engage in activities that contribute to the development of local communities.

### Promoting Diversity: Development of Female-friendly Working Environment

The NGK Spark Plug Group's commitment to developing a female-friendly working environment is a vital part of its drive to promote diversity. These initiatives include not only ensuring equal opportunity for female and male employees but also establishing systems that ensure marriage and raising a family do not adversely affect female employees' career development. With a view to cultivating a more diverse workforce, we are promoting capable female employees to managerial positions.

### Number of Female Managerial Personnel



### Participation in Table for Two to Provide School Lunches in Developing Countries

Since October 2011, NGK Spark Plug has been involved in Table for Two, a program providing school lunches in developing countries. For each "healthy choice" meal served in the Head Factory's cafeteria, ¥20 (¥10 contributed by an employee and ¥10 by the Company) is donated. Accumulated donations were equivalent to 30,707 school meals by June 2012. The Komaki plant and the Ise plant have participated in the Table for Two program since April 2012.

### Contributing to Culture in Nagoya by Purchasing Naming Rights

NGK Spark Plug was selected as naming rights partner for Nagoya Citizens Auditorium, a major cultural facility in Nagoya. Accordingly, the hall's name has been NTK Hall since July 2012. Taking this opportunity, we will further contribute to cultural and artistic development with a view to vitalization of the local community.

Recognizing that environmental issues are a common challenge for all humankind and have an important bearing on our business, NGK Spark Plug is making a concerted effort to minimize our business activities' environmental impacts, including CO<sub>2</sub> emissions, water consumption, waste, and chemical substances, and to develop products and technologies with excellent environmental performance. We are also endeavoring to deepen communication with our stakeholders, including those in local communities, and to work together with them to contribute to the emergence of a sustainable society.

### Eco Vision 2015

Based on the results of initiatives undertaken during the past seven years, we formulated Eco Vision 2015, which sets out our new goals. We are working in accordance with the action guidelines covering environmental management, business operations, and cooperation with society.

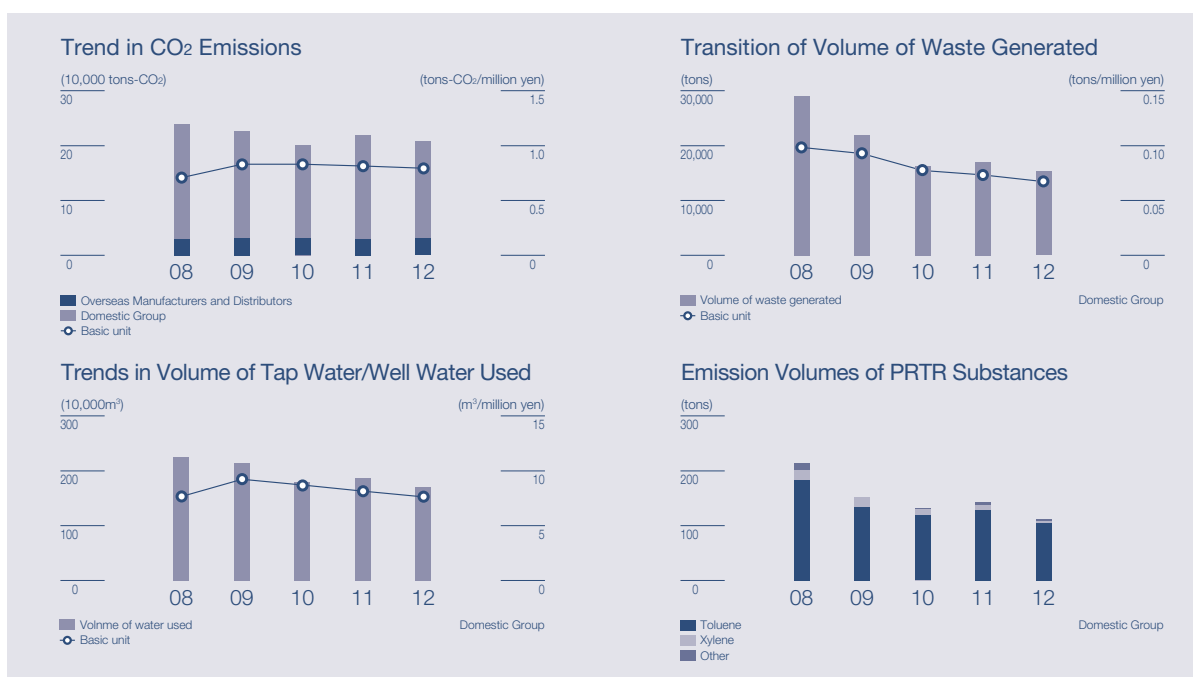
### Environmental Management

To conduct environmental protection activities systematically and effectively, NGK Spark Plug has established an environmental management system in accordance with the Group-wide environmental policy.

Operation of the system is checked by internal audits, and the central and regional environment committees check progress toward goals and identify issues of each group, division, region, and department, in order to facilitate continuous improvement. We are working to obtain ISO 14001 certifications. We have obtained integrated ISO 14001 certification covering NGK Spark Plug and its affiliated companies in Japan. Overseas subsidiaries are seeking to obtain ISO 14001 certification individually. So far, 13 overseas subsidiaries are ISO 14001 certified. The certification ratio was 98% at the end of fiscal 2011, which is the ratio of the number of employees of the Group's business sites that are ISO 14001 certified to the Group's total number of employees, including those overseas.

### Environmental Risk Management

NGK Spark Plug is doing its utmost to reduce environmental risks and to prevent environmental incidents and pollution. In this regard, we conduct soil surveys, apply stringent control for PCB, handle asbestos issues, and perform on-site checks of waste treatment contractors. We implement measures to prevent leakage of chemical substances and health hazards, and hold emergency drills.



## Six-Year Summary

NGK SPARK PLUG CO., LTD. and Consolidated Subsidiaries  
Years Ended March 31, 2012, 2011, 2010, 2009, 2008 and 2007

	Millions of yen						Thousands of U.S. dollars
	2012	2011	2010	2009	2008	2007	2012
<b>For the year:</b>							
Net sales	¥284,746	¥269,233	¥243,914	¥292,122	¥345,584	¥344,891	\$3,472,512
Costs of goods sold	213,409	195,461	192,722	251,833	262,243	248,565	2,602,549
Selling, general and administrative expenses	46,859	45,001	40,508	45,511	48,301	43,924	571,451
Operating income (loss)	24,478	28,771	10,684	(5,222)	35,040	52,402	298,512
Net income (loss)	25,524	23,680	13,510	(71,669)	22,144	34,073	311,268
Cash flows from operating activities	21,080	35,399	34,255	36,604	37,728	36,481	257,072
Cash flows from investing activities	(15,851)	(20,412)	(17,271)	(27,154)	(43,821)	(22,924)	(193,305)
Cash flows from financing activities	(4,688)	(7,154)	865	(10,461)	(2,930)	(14,042)	(57,171)
Depreciation	15,439	16,646	18,826	31,767	25,474	18,861	188,280
Capital expenditures	14,005	8,767	10,978	24,173	63,231	29,271	170,793
<b>At year-end:</b>							
Total assets	¥340,296	¥337,318	¥331,476	¥275,995	¥412,151	¥413,769	\$4,149,951
Net assets	235,613	218,159	207,007	184,385	288,299	288,977	2,873,329
<b>Sales by Reported Segments:</b>							
Automotive components	¥222,636	¥197,214	¥166,067	¥186,685	¥209,394	¥185,601	\$2,715,073
Communication media components	33,892	44,472	55,031	77,410	104,752	127,555	413,317
Technical ceramics	23,738	23,053	19,155	23,531	26,194	26,892	289,488
Other	4,480	4,494	3,661	4,496	5,244	4,843	54,634
<b>Other Data:</b>							
Number of shareholders	11,666	12,744	12,102	16,280	12,681	13,033	
Number of employees (Consolidated)	12,064	11,767	11,795	11,979	11,599	10,407	
	Yen						U.S. dollars
<b>Per Share Data:</b>							
Net income (loss)							
—Basic	¥117.25	¥108.71	¥62.01	¥(328.90)	¥100.93	¥154.24	\$1.43
—Diluted	—	107.83	61.46	(328.90)	95.80	146.44	—
Cash dividends	22.00	22.00	11.00	13.50	27.00	27.00	0.26
Net assets	1,075.24	994.36	942.41	838.11	1,312.72	1,302.52	13.11
	%						
<b>Ratios</b> ( Figures in parentheses are negative):							
Operating income ratio	8.6%	10.7%	4.4%	(1.8)%	10.1%	15.2%	
Equity ratio	68.8	64.2	61.9	66.2	69.4	69.4	
Return on net sales	9.0	8.8	5.5	(24.5)	6.4	9.9	
Return on assets	7.5	7.1	4.4	(20.8)	5.4	8.5	
Return on equity	11.3	11.2	7.0	(30.6)	7.7	12.5	

Note: U.S. dollar amounts above and elsewhere in this Annual Report are converted from yen, for convenience only, at the rate of ¥82=U.S.\$1

# Management's Discussion and Analysis

## Overview of Results

During the fiscal year ended March 31, 2012, the tempo of the world economy slowed. In Asia, expansion of domestic and foreign demand supported continued economic growth in China, India, and ASEAN countries. However, in the second half of the year, exports lost some of their vigor owing to the sluggish European economies and the damage caused by the major flooding in Thailand dampened the growth of Asian economies, signaling an economic slowdown. In Europe, the economic malaise persisted in line with the deepening of the sovereign debt crisis, which spread from Greece to other EU members in Southern Europe. Anxiety concerning the European sovereign debt crisis lessened somewhat toward the end of the fiscal year upon agreement of another bailout plan for Greece. Although the U.S. economy continued its modest recovery as the GDP growth rate gradually rose, high unemployment and a large fiscal deficit persisted. For the Japanese economy, reconstruction in the aftermath of the Great East Japan Earthquake of March 2011 was the priority in the fiscal year under review. Despite the rapid recovery of the Japanese economy to the pre-quake level, stock markets in Japan remained lackluster and the unprecedented strength of the yen continued against the backdrop of a slowing world economy and credit crunches in Europe and the U.S.

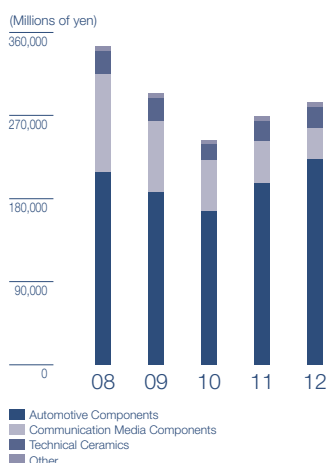
In the automotive industry, the NGK Spark Plug Group's principal business field, worldwide automotive sales remained robust led by the U.S. and China. However, Japanese automobile manufacturers were compelled in the aftermath of the Great East Japan Earthquake to curtail production because of shortages of parts and components and the need for production rescheduling and greater power saving in response to the government's measures to curb electricity demand in the summer, and they were also hit by the subsequent flooding in Thailand.

Regarding the Communication Media Components Business and the Technical Ceramics Components Business, the major trends in the semiconductor industry were the rapid take-up of mobile terminals, notably tablet PCs, and expansion of the smartphone market worldwide. Most of the semiconductor manufacturers affected by the Great East Japan Earthquake rapidly restored their operations and companies' IT investment also started to recover.

As a result, consolidated net sales for the fiscal year ended March 31, 2012, increased 5.8% year on year to ¥284,746 million. Operating income decreased 14.9% to ¥24,478 million and net income increased 7.8% to ¥25,524 million.

Effective from the fiscal year under review, the three consolidated subsidiaries in the U.S., namely, NGK Spark Plugs (U.S.A.) Holding, Inc., NGK Spark Plugs (U.S.A.), Inc.,

## Net Sales by Business Segment





## Management's Discussion and Analysis

and NTK Technologies, Inc., changed their fiscal year-end from December 31 to March 31. In addition to preparation for application of the International Financial Reporting Standards (IFRS), another important objective of this change is to increase the efficiency of formulation of the Group's business plan and improve the accuracy of financial closing processes by unifying the fiscal years of these subsidiaries with that of the parent company. Accordingly, the Group's operating results for the fiscal year under review reflect the operating results of these three subsidiaries for 15 months from January 1, 2011, to March 31, 2012. Due to the impact of this change, net sales, operating income, and net income were ¥15,899 million, ¥266 million, and ¥237 million higher, respectively.

America and emerging-market countries. Regarding the Communication Media Components Business, shipments of products for PCs, mobile phones, and other consumer products were robust. However, with little growth in order-taking, sales greatly decreased in yen terms because of the strength of the Japanese currency. With respect to the Technical Ceramics Business, shipments of products for industrial equipment and semiconductor manufacturing equipment, which were upbeat in the first half of the year, declined in the second half, reflecting a decrease in shipments of digital consumer appliances and the sluggish European market. Shipments of products for machine tools were robust in the U.S. and Asia.

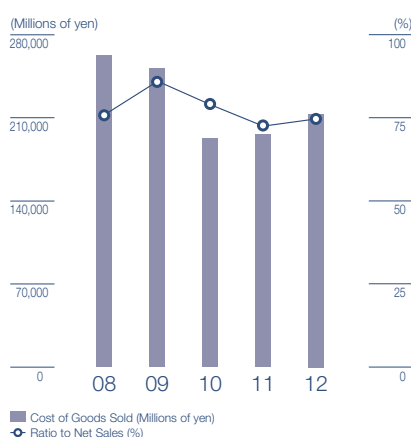
### Results of Operation

#### Net sales

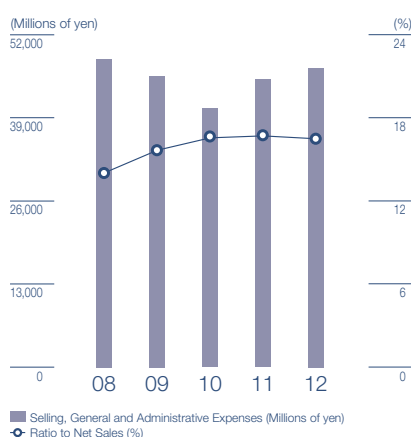
Net sales increased ¥15,513 million or 5.8% year on year to ¥284,746 million. Although the Automotive Components Business was affected by automobile manufacturers' production adjustments owing to the impact of the Great East Japan Earthquake and the flooding in Thailand, shipments for North American and European manufacturers remained robust throughout the year. Sales of automotive components for aftermarkets were buoyant, supported by demand in North

	2011	2012	Increase/ (decrease)
Automotive Components Business	¥197,214	<b>¥222,636</b>	¥25,422
Communication Media Components Business	44,472	<b>33,892</b>	(10,580)
Technical Ceramics Business	23,053	<b>23,738</b>	685
Other businesses	4,494	<b>4,480</b>	(14)
Consolidated net sales	269,233	<b>284,746</b>	15,513

#### Costs of Goods Sold and Ratio to Net Sales



#### Selling, General and Administrative Expenses and Ratio to Net Sales



#### Operating Income (Loss) and Operating Income (Loss) Ratio



### Costs of goods sold

Costs of goods sold increased ¥17,948 million or 9.2% from the previous fiscal year to ¥213,409 million. The ratio of costs of goods sold to net sales deteriorated, having increased 2.3 percentage points from 72.6% for the previous fiscal year to 74.9% for the fiscal year under review.

### Selling, general and administrative expenses

Selling, general and administrative expenses increased ¥1,858 million or 4.1% from the previous fiscal year to ¥46,859 million, mainly because of increases in advertising expenses, salaries and bonuses, and R&D expenses.

### Operating income

As a result, operating income decreased ¥4,293 million or 14.9% from the previous fiscal year to ¥24,478 million. The ratio of operating income to net sales deteriorated, having decreased 2.1 percentage points from 10.7% for the previous fiscal year to 8.6% for the year under review.

### Net income

Net income increased ¥1,844 million or 7.8% from the previous fiscal year to ¥25,524 million. Whereas a loss on impairment of fixed assets amounting to ¥1,141 million was recorded, reflecting the deterioration in the profitability of the organic IC package

business, income tax (benefits) expenses decreased ¥6,726 million compared with the previous fiscal year.

As a result, the return on equity increased 0.1 percentage points from 11.2% at the previous fiscal year-end to 11.3%, and net income per share increased ¥8.54 from ¥108.71 at the previous fiscal year-end to ¥117.25.

### Capital Expenditures

Capital expenditures amounted to ¥14,005 million, most of which were used for expansion of production capacity for automotive components. The breakdown of capital expenditures was as follows: ¥11,855 million for the Automotive Components Business, ¥1,294 million for the Communication Media Components Business, ¥856 million for the Technical Ceramics Business, and ¥0 million for other businesses.

### 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 enabling 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

### Capital Expenditures and Depreciation Expenses

(Millions of yen)

80,000

60,000

40,000

20,000

0

08

09

10

11

12

■ Capital Expenditures  
■ Depreciation Expenses

## Management's Discussion and Analysis

of current funds in accordance with financial planning, we are implementing ongoing measures to enhance the efficiency of receivables, payables and inventories. At the same time, the Group is strengthening 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 funding requirements, the Group uses indirect financing, in addition to internal reserves. For medium- to long-term funding needs, the Group engages in direct financing from financial markets by means of the issuance of corporate bonds, etc.

### Financial Condition

#### Total assets

Total assets were ¥340,296 million, having increased ¥2,978 million or 0.9% from the end of the previous fiscal year. The main factors were as follows:

- Among short-term investments, negotiable certificates of deposits increased mainly because of fund management.
- Investments and other assets decreased because of redemption of investment securities and reclassification of investment securities to short-term investments.

#### Total liabilities

Total liabilities amounted to ¥104,683 million, having decreased ¥14,476 million or 12.1% from the end of the previous fiscal year.

The main factor was as follows:

- Deferred tax liabilities decreased mainly because deferred tax assets increased as a result of the assessment of realizability of the Company's deferred tax assets and offset deferred tax liabilities.

#### Net assets

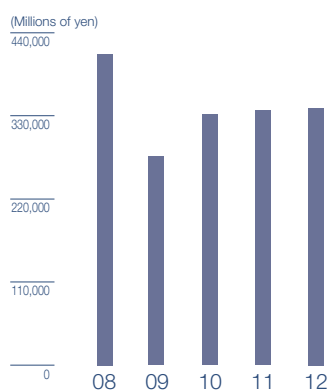
Net assets amounted to ¥235,613 million, having increased ¥17,454 million or 8.0% from the end of the previous fiscal year. The main items were a ¥13,370 million increase in retained earnings and a ¥4,510 million decrease in foreign currency translation adjustment.

Net assets per share based on the number of shares issued and outstanding at the end of the fiscal year amounted to ¥1,075.24 compared with ¥994.36 at the end of the previous fiscal year.

#### Cash flows

Cash and cash equivalents at March 31, 2012, were ¥51,825 million with a net decrease of ¥63 million, excluding the effect of exchange rate changes on cash and cash equivalents amounting to ¥604 million.

Total Assets



Net Assets and Equity Ratio



### Cash flows from operating activities

Net cash provided by operating activities was ¥21,080 million, having decreased ¥14,319 million from the previous fiscal year. This decrease was attributable to a decrease of ¥4,921 million in income before income taxes and minority interests and a decrease in trade payables.

### Cash flows from investing activities

Net cash used in investing activities amounted to ¥15,851 million, having decreased ¥4,561 million from the previous fiscal year. This decrease was mainly attributable to a decrease in purchase of investment securities.

### Cash flows from financing activities

Net cash used in financing activities amounted to ¥4,688 million, having decreased ¥2,466 million from the previous fiscal year. In the previous fiscal year, redemption of zero coupon convertible bonds with stock acquisition rights amounted to ¥2,666 million.

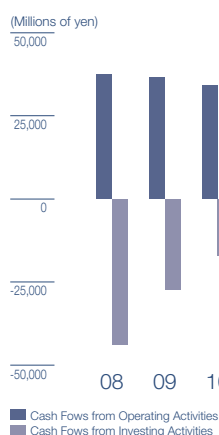
### Dividend Policy

The Company regards returning profits to shareholders as one of its most important management policies and will continue to meet

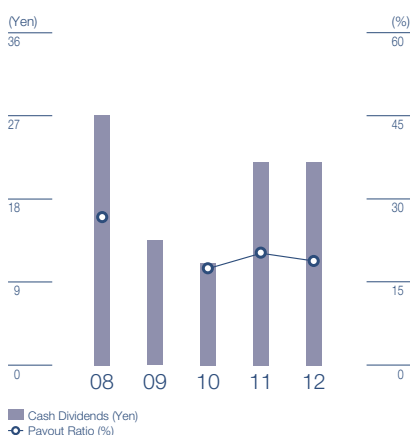
the expectations of shareholders under the basic policy of continuing to pay stable dividends. The Company also thinks it is important to provide shareholders with returns in line with earnings. While maintaining a target dividend payout ratio of at least 20% of consolidated net income for the time being, the Company decides the amount of dividends by comprehensively taking into consideration the basic policy of paying stable dividends and of maintaining sufficient internal reserves for R&D investment, investment in business expansion, capital investment for rationalization of operations, and investment in other companies, which are essential to future growth. The Company recognizes the effectiveness of share buybacks for enhancing capital efficiency and intends to repurchase its shares, as necessary. In order to ensure flexibility in the returning of profits to shareholders, the Company's Articles of Incorporation specifies dividends from surplus as a matter requiring resolution of the board of directors.

The Company paid dividends per share of ¥22.0 for the fiscal year ended March 31, 2012, consisting of an interim dividend of ¥11.0 and a year-end dividend of ¥11.0. The Company intends to pay out common dividends of ¥22.0 per share for the fiscal year ending March 31, 2013.

Cash Flows from Operating Activities and Investing Activities



Cash Dividends and Payout Ratio



# Consolidated Balance Sheets

NGK SPARK PLUG CO., LTD. and Consolidated Subsidiaries  
March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
<b>Current assets:</b>			
Cash and cash equivalents (Note 3)	¥ 51,825	¥ 51,888	\$ 632,012
Short-term investments (Notes 3 and 6)	25,709	16,302	313,524
Notes and accounts receivable, net of allowance for doubtful accounts (Notes 3 and 4)	56,648	50,640	690,829
Inventories (Note 5)	62,062	62,087	756,854
Deferred tax assets (Note 17)	8,626	8,100	105,195
Other current assets	2,027	2,045	24,720
Total current assets	206,897	191,062	2,523,134
<b>Investments and other assets:</b>			
Investment securities (Notes 3 and 6)	40,845	48,095	498,110
Investments in unconsolidated subsidiaries and associates	2,340	2,521	28,537
Intangible assets (Note 7)	4,379	5,566	53,402
Deferred tax assets (Note 17)	843	2,600	10,281
Other assets	1,610	1,409	19,634
Less allowance for doubtful accounts	(101)	(105)	(1,232)
Total investments and other assets	49,916	60,086	608,732
<b>Property, plant and equipment (Note 16):</b>			
Land	15,018	15,132	183,146
Buildings and structures	132,005	131,572	1,609,817
Machinery and equipment	220,758	222,141	2,692,171
Construction in progress	2,722	1,543	33,195
Total property, plant and equipment	370,503	370,388	4,518,329
Less accumulated depreciation	(287,020)	(284,218)	(3,500,244)
Net property, plant and equipment	83,483	86,170	1,018,085
Total assets	¥340,296	¥337,318	\$4,149,951

See accompanying Notes to Consolidated Financial Statements.



	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
<b>Current liabilities:</b>			
Short-term borrowings (Notes 3 and 9)	¥ 1,251	¥ 703	\$ 15,256
Current portion of long-term debt (Notes 3 and 9)	10,310	225	125,732
Accounts payable (Notes 3 and 8)	29,622	34,982	361,244
Accrued expenses	13,762	14,112	167,829
Income taxes payable	1,239	1,337	15,110
Deferred tax liabilities (Note 17)	76	72	927
Other current liabilities	1,958	1,743	23,878
Total current liabilities	58,218	53,174	709,976
<b>Long-term debt (Notes 3 and 9)</b>	25,838	35,769	315,098
<b>Employee retirement benefit liability (Note 10)</b>	17,729	17,616	216,207
<b>Deferred tax liabilities (Note 17)</b>	1,143	11,158	13,939
<b>Other long-term liabilities</b>	1,755	1,442	21,402
Total liabilities	104,683	119,159	1,276,622
<b>Commitments and contingent liabilities (Notes 11 and 12)</b>			
<b>Net assets (Note 14):</b>			
Shareholders' equity:			
Common stock:			
authorized 390,000,000 shares;			
issued 223,544,820 shares in 2012			
and 229,544,820 shares in 2011	47,869	47,869	583,768
Capital surplus	54,825	55,163	668,598
Retained earnings	151,441	138,071	1,846,841
Less treasury stock at cost:			
5,864,626 shares in 2012			
and 11,839,416 shares in 2011	(7,526)	(15,202)	(91,780)
Total shareholders' equity	246,609	225,901	3,007,427
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities	11,815	10,433	144,085
Foreign currency translation adjustments	(24,366)	(19,856)	(297,146)
Total accumulated other comprehensive income	(12,551)	(9,423)	(153,061)
Minority interests	1,555	1,681	18,963
Total net assets	235,613	218,159	2,873,329
Total liabilities and net assets	¥340,296	¥337,318	\$4,149,951

# Consolidated Statements of Income

NGK SPARK PLUG CO., LTD. and Consolidated Subsidiaries  
For the Years Ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
<b>Operating revenue:</b>			
Net sales (Note 19)	¥284,746	¥269,233	\$3,472,512
<b>Operating costs and expenses:</b>			
Costs of goods sold	213,409	195,461	2,602,549
Selling, general and administrative expenses	46,859	45,001	571,451
	260,268	240,462	3,174,000
Operating income	24,478	28,771	298,512
<b>Other income (expenses):</b>			
Interest and dividend income	1,973	1,665	24,061
Interest expenses	(630)	(647)	(7,683)
Loss on sale or disposal of property, plant and equipment	(147)	(199)	(1,793)
Depreciation of idle property, plant and equipment	(899)	(1,180)	(10,963)
Impairment loss on fixed assets (Note 15)	(1,141)	—	(13,914)
Equity in net (losses) earnings of associates	(25)	444	(305)
Foreign exchange loss	(1,341)	(1,826)	(16,354)
Cumulative effect on adoption of accounting standard for asset retirement obligations (Note 2(q))	—	(137)	—
Other, net	(368)	(70)	(4,488)
	(2,578)	(1,950)	(31,439)
Income before income taxes and minority interests	21,900	26,821	267,073
<b>Income tax (benefits) expenses (Note 17):</b>			
Current	4,077	4,177	49,719
Deferred	(7,951)	(1,325)	(96,963)
Total income tax (benefits) expenses	(3,874)	2,852	(47,244)
Income before minority interests	25,774	23,969	314,317
<b>Less minority interests in net income of consolidated subsidiaries</b>	250	289	3,049
Net income	¥ 25,524	¥ 23,680	\$ 311,268

	Yen	U.S. dollars
<b>Per share:</b>		
Net income:		
Basic	¥117.25	¥108.71
Diluted	—	107.83
Cash dividends (Note 14)	22.00	22.00
		0.26

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Comprehensive Income

NGK SPARK PLUG CO., LTD. and Consolidated Subsidiaries  
For the Years Ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
<b>Income before minority interests</b>	<b>¥25,774</b>	<b>¥23,969</b>	<b>\$314,317</b>
<b>Other comprehensive income:</b>			
Net changes in unrealized gains on available-for-sale securities	1,397	(1,650)	17,037
Net changes in foreign currency translation adjustments	(4,555)	(6,890)	(55,549)
Share of other comprehensive income of associates accounted for using the equity method	(150)	(233)	(1,829)
Total other comprehensive income (Note 18)	(3,308)	(8,773)	(40,341)
<b>Comprehensive income</b>	<b>¥22,466</b>	<b>¥15,196</b>	<b>\$273,976</b>
<b>Comprehensive income attributable to:</b>			
Owners of the parent	¥22,396	¥14,948	\$273,122
Minority interests	70	248	854
Total comprehensive income	¥22,466	¥15,196	\$273,976

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Changes in Net Assets

NGK SPARK PLUG CO., LTD. and Consolidated Subsidiaries  
For the Years Ended March 31, 2012 and 2011

	Number of shares of common stock issued	Shareholders' equity					Accumulated other comprehensive income					Total net assets
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on available—for—sale securities	Foreign currency translation adjustments	Total accumulated other comprehensive income	Minority interests		
Millions of yen												
Balance at April 1, 2010	229,544,820	¥47,869	¥55,163	¥117,985	¥(15,004)	¥206,013	¥12,083	¥(12,774)	¥ (691)	¥1,685	¥207,007	
Net income for the year	—	—	—	23,680	—	23,680	—	—	—	—	23,680	
Cash dividends	—	—	—	(3,594)	—	(3,594)	—	—	—	—	(3,594)	
Purchases of treasury stock and fractional shares, net of sales	—	—	—	—	(198)	(198)	—	—	—	—	(198)	
Net changes other than shareholders' equity for the year	—	—	—	—	—	—	(1,650)	(7,082)	(8,732)	(4)	(8,736)	
Balance at March 31, 2011	229,544,820	47,869	55,163	138,071	(15,202)	225,901	10,433	(19,856)	(9,423)	1,681	218,159	
Net income for the year	—	—	—	25,524	—	25,524	—	—	—	—	25,524	
Cash dividends	—	—	—	(4,789)	—	(4,789)	—	—	—	—	(4,789)	
Purchases of treasury stock and fractional shares, net of sales	—	—	(1)	—	(26)	(27)	—	—	—	—	(27)	
Retirement of treasury stock (Note 14)	(6,000,000)	—	(337)	(7,365)	7,702	—	—	—	—	—	—	
Net changes other than shareholders' equity for the year	—	—	—	—	—	—	1,382	(4,510)	(3,128)	(126)	(3,254)	
Balance at March 31, 2012	223,544,820	¥47,869	¥54,825	¥151,441	¥ (7,526)	¥246,609	¥11,815	¥(24,366)	¥(12,551)	¥1,555	¥235,613	
Thousands of U.S. dollars												
Balance at March 31, 2011		\$583,768	\$672,720	\$1,683,792	\$(185,390)	\$2,754,890	\$127,231	\$(242,146)	\$(114,915)	\$20,500	\$2,660,475	
Net income for the year		—	—	311,268	—	311,268	—	—	—	—	311,268	
Cash dividends		—	—	(58,402)	—	(58,402)	—	—	—	—	(58,402)	
Purchases of treasury stock and fractional shares, net of sales		—	(12)	—	(317)	(329)	—	—	—	—	(329)	
Retirement of treasury stock (Note 14)		—	(4,110)	(89,817)	93,927	—	—	—	—	—	—	
Net changes other than shareholders' equity for the year		—	—	—	—	—	16,854	(55,000)	(38,146)	(1,537)	(39,683)	
Balance at March 31, 2012		\$583,768	\$668,598	\$1,846,841	\$ (91,780)	\$3,007,427	\$144,085	\$(297,146)	\$(153,061)	\$18,963	\$2,873,329	

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Cash Flows

NGK SPARK PLUG CO., LTD. and Consolidated Subsidiaries  
For the Years Ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥21,900	¥26,821	\$267,073
Adjustments for:			
Depreciation	15,439	16,646	188,280
Impairment loss on fixed assets	1,141	—	13,914
Amortization of goodwill	11	111	134
Equity in net losses (earnings) of associates	25	(444)	305
Increase in trade receivables	(8,097)	(2,127)	(98,744)
Increase in inventories	(2,343)	(6,904)	(28,573)
(Decrease) increase in trade payables	(4,509)	2,297	(54,988)
Other, net	566	2,008	6,903
Subtotal	24,133	38,408	294,304
Interest and dividend received	1,810	1,748	22,073
Interest paid	(629)	(647)	(7,671)
Income taxes paid	(4,234)	(4,110)	(51,634)
Net cash provided by operating activities	21,080	35,399	257,072
<b>Cash flows from investing activities:</b>			
Increase in property, plant and equipment	(12,472)	(7,420)	(152,098)
Increase in intangible assets	(427)	(636)	(5,207)
Increase in long-term investments	(4,631)	(21,715)	(56,476)
Decrease in long-term investments	6,570	3,551	80,122
Net (increase) decrease in short-term investments	(5,218)	5,583	(63,634)
Other, net	327	225	3,988
Net cash used in investing activities	(15,851)	(20,412)	(193,305)
<b>Cash flows from financing activities:</b>			
Repayment of long-term debt	(279)	(2,876)	(3,403)
Net increase (decrease) in short-term borrowings	599	(353)	7,305
Dividends paid	(4,785)	(3,591)	(58,354)
Purchase of treasury stock and fractional shares, net of sales	(27)	(198)	(329)
Other, net	(196)	(136)	(2,390)
Net cash used in financing activities	(4,688)	(7,154)	(57,171)
Effect of exchange rate changes on cash and cash equivalents	(604)	(2,309)	(7,364)
Net (decrease) increase in cash and cash equivalents	(63)	5,524	(768)
Cash and cash equivalents at beginning of year	51,888	46,364	632,780
Cash and cash equivalents at end of year	¥51,825	¥51,888	\$632,012

See accompanying Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

## 1. Basis of Consolidated Financial Statements

The accompanying consolidated financial statements of NGK SPARK PLUG CO., LTD. (the "Company") and its consolidated subsidiaries (together with the Company, the "NGK Spark Plug Group") have been prepared in accordance with the provisions set forth in the Financial Instrument and Exchange Law of Japan and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards ("IFRS").

The accompanying consolidated financial statements have been reformatted and translated into English, with some expanded descriptions, from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instrument and Exchange Law of Japan. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the approximate exchange rate prevailing at March 31, 2012, which was ¥82 to U.S. \$1.00. The translation should not be construed as a representation that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

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

## 2. Summary of Significant Accounting Policies

### (a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. Investments in significant unconsolidated subsidiaries and associates are accounted for by the equity method. Investments in unconsolidated subsidiaries and associates not accounted for by the equity method are stated at cost. All intercompany transactions and accounts have been eliminated. The difference between the cost of investments in subsidiaries and the underlying equity in their net assets, adjusted based on the fair value at the time of acquisition, is principally deferred as goodwill and amortized over the estimated useful life, generally 5 years, on a straight-line basis.

The number of consolidated subsidiaries, unconsolidated subsidiaries and associates for the years ended March 31, 2012 and 2011 was as follows:

	2012	2011
Consolidated subsidiaries:		
Domestic	9	9
Overseas	23	23
Unconsolidated subsidiaries stated at cost	1	1
Associates accounted for by the equity method	2	2
Associates stated at cost	4	4

Through the fiscal year ended March 31, 2011, all of the Company's overseas consolidated subsidiaries closed their books at December 31, three months earlier than the Company and the domestic consolidated subsidiaries. For these overseas subsidiaries, the Company consolidates the subsidiaries' financial statements as of their year-end. Significant transactions for the period between the December 31 year-end and the Company's year-end are adjusted for on consolidation. Effective from the fiscal year ended March 31, 2012, however, three consolidated subsidiaries located in U.S.A., NGK Spark Plugs (U.S.A.) Holding, Inc., NGK Spark Plugs (U.S.A.), Inc. and NTK Technologies, Inc., changed their fiscal year-end date from December 31 to March 31 in order to improve the NGK Spark Plug Group's managerial planning and the disclosures on a consolidated basis and to prepare for the future adoption of IFRS. Accordingly, the accompanying consolidated statements of income for the year ended March 31, 2012 included those consolidated subsidiaries' operating results for the 15-month period from January 1, 2011 to March 31, 2012. As a result, for the year ended March 31, 2012, net sales, operating income and net income were ¥15,899 million (\$193,890 thousand), ¥266 million (\$3,244 thousand) and ¥237 million (\$2,890 thousand) more, respectively, than the amount that would have been recorded without the change.

### (Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements)

The Company has adopted Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements," issued by the Accounting Standards Board of Japan ("ASBJ"). PITF No. 18 requires that accounting policies and procedures applied by a parent company and its subsidiaries to similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. PITF No. 18, however, as a tentative measure, allows a parent company to prepare consolidated financial statements using foreign subsidiaries' financial statements prepared in accordance with either IFRS or U.S. generally accepted accounting principles ("U.S. GAAP"). In this case, adjustments for the following five items are required in the consolidation process so that their impact on net income is accounted for in accordance with Japanese GAAP, unless the impact is not material.

(a) Goodwill not subject to amortization

- (b) Actuarial gains and losses of defined benefit retirement plans recognized outside profit and loss
- (c) Capitalized expenditures for research and development activities
- (d) Fair value measurement of investment properties and revaluation of property, plant and equipment and intangible assets
- (e) Accounting for net income attributable to minority interests

#### **(Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method)**

The Company also has adopted ASBJ PITF No. 24, "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method." PITF No. 24 requires that accounting policies and procedures applied by an investment company and its associates to similar transactions and events under similar circumstances should, in principle, be unified for applying the equity method. PITF No. 24, however, as a tentative measure, allows an investment company to apply the equity method using foreign associates' financial statements prepared in accordance with either IFRS or U.S. GAAP. In this case, adjustments for the same five items as PITF No. 18 are required in the consolidation process so that their impact on net income is accounted for in accordance with Japanese GAAP, unless the impact is not material.

#### **(b) Cash equivalents**

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

#### **(c) Investments and marketable securities**

The NGK Spark Plug Group classifies certain investments in debt and equity securities as "held-to-maturity," "trading" or "available-for-sale." The classification determines the respective accounting method to be applied to the investments as stipulated by the accounting standards for financial instruments. The NGK Spark Plug Group has no securities categorized as trading or held-to-maturity securities. Available-for-sale securities are stated at fair value if such value is available, and net unrealized gain or loss on these securities is reported as a component of accumulated other comprehensive income, net of applicable income taxes. Gains and losses on the disposal of available-for-sale securities are computed by the moving average method. Available-for-sale securities without available fair value are carried at cost determined by the moving average method. Adjustments in the carrying values of individual investment securities are charged to income through write-downs when a decline in value is deemed other than temporary.

#### **(d) Accounting for derivatives**

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

#### **(e) Inventories**

Inventories held for sale in the ordinary course of business are valued at the lower of cost, determined principally by the moving average method, or net realizable value. If net realizable value has fallen below cost at the end of the period, the cost basis is reduced to net realizable value and regarded as decreased profitability of inventories.

#### **(f) Allowance for doubtful accounts**

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

#### **(g) Property, plant and equipment and depreciation**

Property, plant and equipment, including significant renewals and additions, are stated at cost. Depreciation is calculated based on the estimated useful life of the asset as follows:

- (a) The declining balance method for property, plant and equipment, except for buildings, of the Company and its domestic consolidated subsidiaries
- (b) The straight-line method for the buildings of the Company and its domestic consolidated subsidiaries
- (c) The straight-line method for the property, plant and equipment of the overseas consolidated subsidiaries

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

#### **(h) Leases**

The Company and its domestic consolidated subsidiaries have adopted the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13) and its "Guidance on Accounting Standard for Lease Transactions" (Guidance No. 16), revised by ASBJ on March 30, 2007. The revised accounting standards require that all finance lease transactions be accounted for in a manner similar to that used for ordinary sale and purchase transactions. The Company and its domestic consolidated subsidiaries as lessee capitalize the assets used under finance leases commenced on or after April 1, 2008 at an amount equivalent to the total lease payments, except for certain immaterial or short-term finance leases which are accounted for as operating leases, in accordance with the revised standard. Depreciation is calculated using the straight-line method over the lease term and assuming no residual value. As permitted, finance leases which commenced prior to April 1, 2008 and have been accounted for with accounting treatment similar to that used for operating leases continue to be accounted for with accounting treatment similar to that used for operating leases, with the disclosure of certain "as if capitalized" information (See also Note 11).



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#### **(i) Impairment of fixed assets**

The Company and its domestic consolidated subsidiaries have adopted the “Accounting Standard for Impairment of Fixed Assets” and the related practical guidance. 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 is recognized in the income statement by reducing the carrying amount of the impaired asset or a group of assets to the recoverable amount, measured by 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, other than idle or unused property, are grouped into cash generating units based on managerial accounting classifications.

#### **(j) Employee retirement benefits**

Employees who terminate their service with the NGK Spark Plug Group are entitled to retirement benefits generally determined by basic rates of pay at the time of retirement, 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 retirement benefits including pension cost and the related liability based on the actuarial present value of the projected benefit obligation using the actuarial appraisal approach and the fair value of pension plan assets available for benefits at the respective fiscal year-end. Unrecognized actuarial differences arising from changes in the projected benefit obligation or the value of pension plan assets from the amounts assumed and from changes in the assumptions themselves are amortized on a straight-line basis over ten years, a specific period not exceeding the average remaining service period of employees, from the year following the year in which they arise. Past service cost is amortized on a straight-line basis over ten years, a specific period not exceeding the average remaining period of the employees.

#### **(k) Translation of foreign currency accounts**

Receivables, payables and securities, other than stocks of subsidiaries and certain other securities, are translated into Japanese yen at exchange rates prevailing at the fiscal year-end. Transactions in foreign currencies are recorded based on the exchange rates prevailing on the transaction dates. Resulting translation gains and losses are included in current earnings.

For financial statement items of the overseas consolidated subsidiaries, all asset and liability accounts are translated into Japanese yen by applying the exchange rate in effect at the respective fiscal year-end. All income and expense accounts are translated at the average rate of exchange prevailing during each year. Translation differences, after allocating portions attributable

to minority interests, are reported in foreign currency translation adjustments as a component of accumulated other comprehensive income in the accompanying consolidated balance sheets.

#### **(l) Research and development expenses**

Expenses related to research and development activities are charged to income as incurred. Research and development expenses arise from a wide range of the NGK Spark Plug Group’s activities, including basic and applied research for material development, the planning and designing of new products and processes and activities aimed at improving existing products and processes. For the years ended March 31, 2012 and 2011, research and development expenses aggregated ¥16,036 million (\$195,561 thousand) and ¥15,763 million, respectively. These amounts included research and development activities for basic and applied research and the development of new products and processes in the amount of ¥3,543 million (\$43,207 thousand) and ¥3,152 million at March 31, 2012 and 2011, respectively, which were recorded as general and administrative expenses. The remaining expenses were recorded for the respective years in the accompanying consolidated statements of income as manufacturing costs.

#### **(m) Income taxes**

Income taxes are accounted for by 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 carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the promulgation date.

#### **(n) Enterprise taxes**

The NGK Spark Plug Group records enterprise taxes calculated based on the “added value” and “capital” amounts when levied as size-based corporate taxes for local government enterprise taxes, which are included in selling, general and administrative expenses.

#### **(o) Appropriation of retained earnings**

Cash dividends are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the Board of Directors of the Company.

#### **(p) Per share data**

Basic net income per share is computed by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding during the year. For the year ended March 31, 2011, diluted net income per

share is computed assuming that all convertible bonds were converted at the time of issue unless having antidilutive effects. For the year ended March 31, 2012, diluted net income per share is not disclosed as the NGK Spark Plug Group had no diluted common shares. 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 year.

#### **(q) Asset retirement obligations**

Effective April 1, 2010, the Company and its domestic consolidated subsidiaries have adopted "Accounting Standards for Asset Retirement Obligations" (ASBJ Statement No. 18) and "Guidance on Accounting Standards for Assets Retirement Obligations" (ASBJ Guidance No. 21). This standard requires the Company to recognize a liability for the asset retirement obligation, which is defined as a statutory or similar obligation with regard to the removal of tangible fixed assets and incurred when tangible fixed assets are acquired, constructed, developed or used in an ordinary way together with the removal of hazardous substances, etc., contained in tangible fixed assets, using a method stipulated by law, etc., upon the removal of the tangible fixed assets, even though there may not be any obligation concerning the removal of the tangible fixed assets themselves. This change had no material impact on the consolidated operating results, although the cumulative effect on adoption of this accounting standard was recorded as other expenses in the accompanying consolidated statements of income for the year ended March 31, 2011.

#### **(r) Comprehensive income**

Effective March 31, 2011, the Company has adopted the "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25). As a result of the adoption of this accounting standard, the Company presented the consolidated statements of comprehensive income in the consolidated financial statements effective from the year ended March 31, 2011.

#### **(s) Accounting Standards for Accounting Changes and Error Corrections**

The Company and its domestic consolidated subsidiaries have adopted the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24, issued on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, issued on December 4, 2009) for accounting changes and corrections of prior period errors made from the fiscal year beginning on April 1, 2011.

### **3. Financial Instruments**

#### **(a) Qualitative information on financial instruments**

The NGK Spark Plug Group does not permit the investment of surplus funds in securities other than short-term bank deposits and debt securities with high liquidity from issuers with high credit ratings in accordance with fund management policies. The NGK Spark Plug Group uses indirect financing from financial institutions such as correspondent banks to satisfy short-term funding requirements and direct financing from financial markets principally by the issuance of corporate bonds to satisfy long-term funding requirements.

The NGK Spark Plug Group is exposed to credit risk primarily with respect to trade receivables. In order to reduce credit risk of these receivables, the NGK Spark Plug Group sets payment terms according to the credit capability of its customers. In some cases, the NGK Spark Plug Group receives security deposits in advance.

The NGK Spark Plug Group holds investments in securities such as negotiable certificates of deposits, debt securities and equity securities, whose fair values are monitored on a quarterly basis.

The NGK Spark Plug Group is a party to derivative instruments such as foreign currency forward exchange contracts and currency option contracts in the normal course of business principally for hedging purposes, in order to reduce its own exposure to fluctuations in exchange rates. The NGK Spark Plug Group does not hold or issue derivative financial instruments for trading purposes. Under the NGK Spark Plug Group's financial management policies, contract balances of currency derivatives are limited to certain anticipated export sales or import purchases.

## (b) Fair value of financial instruments

The fair and carrying value of financial instruments at March 31, 2012 and 2011, other than unlisted equity securities for which the fair value was extremely difficult to determine, was as follows:

	Carrying value	Fair value	Difference
	Millions of yen		
At March 31, 2012:			
Financial assets:			
Cash and cash equivalents	¥ 51,825	¥ 51,825	¥ —
Short-term investments	25,709	25,709	—
Trade receivables	50,727	50,727	—
Investment securities:			
Available-for-sale securities	40,116	40,116	—
Total	¥168,377	¥168,377	¥ —
Financial liabilities (*1):			
Short-term borrowings	¥ (1,251)	¥ (1,251)	¥ —
Trade payables	(23,558)	(23,558)	—
Bonds payable, including current portion	(35,000)	(35,833)	(833)
Total	¥ (59,809)	¥ (60,642)	¥(833)
Derivative instruments (*2)	¥ (639)	¥ (639)	¥ —

At March 31, 2011:

Financial assets:			
Cash and cash equivalents	¥ 51,888	¥ 51,888	¥ —
Short-term investments	16,302	16,302	—
Trade receivables	44,394	44,394	—
Investment securities: Available-for-sale securities	47,358	47,358	—
Total	¥159,942	¥159,942	¥ —
Financial liabilities (*1):			
Short-term borrowings	¥ (703)	¥ (703)	¥ —
Trade payables	(30,183)	(30,183)	—
Bonds payable, including current portion	(35,000)	(35,959)	(959)
Total	¥ (65,886)	¥ (66,845)	¥(959)
Derivative instruments (*2)	¥ (380)	¥ (380)	¥ —

Thousands of U.S. dollars

At March 31, 2012:

Financial assets:			
Cash and cash equivalents	\$ 632,012	\$ 632,012	\$ —
Short-term investments	313,524	313,524	—
Trade receivables	618,622	618,622	—
Investment securities: Available-for-sale securities	489,220	489,220	—
Total	\$2,053,378	\$2,053,378	\$ —
Financial liabilities (*1):			
Short-term borrowings	\$ (15,256)	\$ (15,256)	\$ —
Trade payables	(287,293)	(287,293)	—
Bonds payable, including current portion	(426,829)	(436,988)	(10,159)
Total	\$ (729,378)	\$ (739,537)	\$(10,159)
Derivative instruments (*2)	\$ (7,793)	\$ (7,793)	\$ —

\*1) Amounts in parenthesis reflect liabilities.

\*2) The value of derivative instruments is shown as a net position.

Notes:

(1) Details of the methods and assumptions used to estimate the fair value of financial instruments are summarized below:  
The fair value of cash and cash equivalents, trade receivables, short-term borrowings and trade payables is approximately equal to the carrying value due to their short-term maturities. The fair value of investment equity securities is based on quoted market prices. The fair value of bonds and other securities included in investment securities, bonds payable and derivative instruments is based on the price provided by corresponding financial institutions.

(2) The following securities are not included in the table above because the fair value was extremely difficult to determine.

	Carrying value		Thousands of U.S. dollars
	Millions of yen	2011	2012
	2012		
Investments (equity securities) in unconsolidated subsidiaries and associates	¥2,340	¥2,521	\$28,537
Unlisted equity securities	417	417	5,085

(3) Expected maturities of financial assets at March 31, 2012 were as follows:

	Due in one year or less	Due after one year through five years	Due after five years
	Millions of yen		
At March 31, 2012:			
Cash and cash equivalents	¥ 49,820	¥ —	¥—
Trade receivables	50,727	—	—
Investments	24,595	9,901	—
	¥125,142	¥9,901	¥—

Thousands of U.S. dollars

At March 31, 2012:

Cash and cash equivalents	\$ 607,561	\$ —	\$ —
Trade receivables	618,622	—	—
Investments	299,939	120,744	—
	\$1,526,122	\$120,744	\$ —

Contractual maturities of bonds payable at March 31, 2012 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2013	¥10,000	\$121,951
2014	—	—
2015	10,000	121,951
2016	15,000	182,927
	¥35,000	\$426,829

#### 4. Notes and Accounts Receivable

At March 31, 2012 and 2011, notes and accounts receivable consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Trade receivables	¥48,813	¥43,151	\$595,281
Unconsolidated subsidiaries and associates	1,916	1,243	23,366
Other	6,091	6,363	74,280
Less allowance for doubtful accounts	(172)	(117)	(2,098)
	¥56,648	¥50,640	\$690,829

#### 5. Inventories

At March 31, 2012 and 2011, inventories consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Finished goods	¥38,648	¥38,935	\$471,317
Work-in-process	15,897	16,061	193,866
Raw materials	7,517	7,091	91,671
	¥62,062	¥62,087	\$756,854

For the years ended March 31, 2012 and 2011, a write-down of ¥520 million (\$6,341 thousand) and ¥481 million, respectively, was recognized as costs of goods sold.

#### 6. Investments

At March 31, 2012 and 2011, short-term investments consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Securities with fair value:			
Bonds	¥17,329	¥ 7,992	\$211,329
Other	3,086	2,120	37,634
	20,415	10,112	248,963
Time deposits with an original maturity of more than three months	5,294	6,190	64,561
	¥25,709	¥16,302	\$313,524

At March 31, 2012 and 2011, investment securities consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Securities with fair value:			
Equity securities	¥30,334	¥30,325	\$369,927
Bonds	9,293	16,538	113,329
Other	489	495	5,964
	40,116	47,358	489,220
Other securities without fair value	729	737	8,890
	¥40,845	¥48,095	\$498,110

At March 31, 2012 and 2011, the cost and fair value of available-for-sale securities were summarized as follows:

	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
	Millions of yen			
At March 31, 2012:				
Equity securities	¥12,093	¥19,337	¥(1,096)	¥30,334
Bonds	26,737	21	(136)	26,622
Other	3,582	5	(12)	3,575
	¥42,412	¥19,363	¥(1,244)	¥60,531
At March 31, 2011:				
Equity securities	¥12,614	¥18,781	¥(1,070)	¥30,325
Bonds	24,644	18	(132)	24,530
Other	2,771	—	(156)	2,615
	¥40,029	¥18,799	¥(1,358)	¥57,470

	Thousands of U.S. dollars			
At March 31, 2012:				
Equity securities	\$147,476	\$235,817	\$(13,366)	\$369,927
Bonds	326,061	256	(1,659)	324,658
Other	43,683	61	(146)	43,598
	\$517,220	\$236,134	\$(15,171)	\$738,183

For the years ended March 31, 2012 and 2011, a loss on the write-down of available-for-sale securities in the amount of ¥552 million (\$6,732 thousand) and ¥222 million, respectively, was recognized as other expenses due to the other than temporary diminution in value.

#### 7. Intangible Assets

At March 31, 2012 and 2011, intangible assets consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Software	¥4,185	¥5,495	\$51,036
Goodwill	—	27	—
Other intangible assets	194	44	2,366
	¥4,379	¥5,566	\$53,402

## 8. Accounts Payable

At March 31, 2012 and 2011, accounts payable consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Trade payables	¥23,447	¥30,065	\$285,939
Unconsolidated subsidiaries and associates	112	118	1,366
Other	6,063	4,799	73,939
	¥29,622	¥34,982	\$361,244

## 9. Short-term Borrowings and Long-term Debt

At March 31, 2012 and 2011, short-term borrowings consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Unsecured bank loans with interest at rates ranging from 1.7% to 11.1% per annum at March 31, 2012	¥1,251	¥703	\$15,256

At March 31, 2012 and 2011, long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
1.65% unsecured bonds due July 2012	¥10,000	¥10,000	\$121,951
1.85% unsecured bonds due July 2014	10,000	10,000	121,951
1.22% unsecured bonds due September 2015	15,000	15,000	182,927
Capitalized lease obligations	1,148	994	14,001
	36,148	35,994	440,830
Less current portion	(10,310)	(225)	(125,732)
	¥25,838	¥35,769	\$315,098

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 bank, as well as cash deposited with it, 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 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, 2012 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2013	¥10,310	\$125,732
2014	281	3,427
2015	10,213	124,549
2016	15,141	184,646
2017	105	1,281
Thereafter	98	1,195
	¥36,148	\$440,830

## 10. Employee Retirement Benefits

The Company has a lump-sum retirement benefit plan and has established a defined benefit pension plan that cover 80% of the 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 of and for the years ended March 31, 2012 and 2011:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Reconciliation of benefit liability:			
Projected benefit obligation *	¥46,591	¥45,111	\$568,183
Less fair value of pension plan assets at end of year	(24,183)	(23,301)	(294,915)
Projected benefit obligation in excess of value of pension plan assets	22,408	21,810	273,268
Unrecognized actuarial differences	(4,422)	(3,873)	(53,927)
Unrecognized past service cost	(257)	(321)	(3,134)
Net amounts of employee retirement benefit liability	¥17,729	¥17,616	\$216,207

\*The projected benefit obligation of certain 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
	2012	2011	2012
Components of net periodic retirement benefit expense:			
Service cost	¥2,500	¥2,564	\$30,488
Interest cost	894	900	10,902
Expected return on pension plan assets	(628)	(629)	(7,658)
Recognized actuarial differences	801	923	9,768
Amortization of past service cost	38	38	463
Net periodic retirement benefit expense	¥3,605	¥3,796	\$43,963

Major assumptions used in the calculation of the above information for the years ended March 31, 2012 and 2011 were as follows:

	2012	2011
Method attributing the projected benefits to periods of services	<b>Straight-line method</b>	Straight-line method
Discount rate	<b>2.0%</b>	2.0%
Expected rate of return on pension plan assets	<b>2.75%</b>	2.75%
Amortization of actuarial differences	<b>10 years</b>	10 years
Amortization of past service cost	<b>10 years</b>	10 years

## 11. Lease Commitments

At March 31, 2012 and 2011, the NGK Spark Plug Group had annual commitments under operating leases as lessee. The aggregate future minimum payments for non-cancelable operating leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Due within one year	<b>¥337</b>	¥318	<b>\$4,110</b>
Due after one year	<b>432</b>	474	<b>5,268</b>
	<b>¥769</b>	¥792	<b>\$9,378</b>

As disclosed in Note 2(h), as lessee, finance leases which commenced prior to April 1, 2008 and have been accounted for with accounting treatment similar to that used for operating leases continue to be accounted for with accounting treatment similar to that used for operating leases, with the disclosure of certain "as if capitalized" information and are not capitalized. The aggregate future minimum payments under finance leases which commenced prior to April 1, 2008, including the imputed interest portion, at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Due within one year	<b>¥54</b>	¥230	<b>\$659</b>
Due after one year	<b>17</b>	72	<b>207</b>
	<b>¥71</b>	¥302	<b>\$866</b>

Total rental and lease expenses for both cancelable and non-cancelable leases for the years ended March 31, 2012 and 2011 were ¥2,411 million (\$29,402 thousand) and ¥2,528 million, respectively. For the years ended March 31, 2012 and 2011, lease expenses for such finance leases amounted to ¥231 million (\$2,817 thousand) and ¥468 million, respectively.

## 12. Contingent Liabilities

At March 31, 2012 and 2011, contingent liabilities in respect to guarantees of indebtedness principally of employees amounted to ¥64 million (\$780 thousand) and ¥80 million, respectively.

## 13. Derivative Instruments

At March 31, 2012 and 2011, derivative instruments which were stated at fair value, except for the derivative instruments accounted for by hedge accounting, and recognized for valuation gains and losses as current earnings are summarized as follows:

	Notional principal or contract amounts	Fair value	Valuation gains (losses)
	Millions of yen		
At March 31, 2012:			
Foreign exchange contracts:			
Forward contracts to sell	<b>¥14,246</b>	<b>¥(574)</b>	<b>¥(574)</b>
Currency call options	<b>1,364</b>	<b>(71)</b>	<b>(71)</b>
Currency put options	<b>1,118</b>	<b>6</b>	<b>6</b>
			<b>¥(639)</b>

At March 31, 2011:

Foreign exchange contracts:			
Forward contracts to sell	¥15,399	¥(295)	¥(295)
Currency call options	5,191	(92)	(92)
Currency put options	4,281	7	7
			<b>¥(380)</b>

Thousands of U.S. dollars

At March 31, 2012:

Foreign exchange contracts:			
Forward contracts to sell	<b>\$173,732</b>	<b>\$(7,000)</b>	<b>\$(7,000)</b>
Currency call options	<b>16,634</b>	<b>(866)</b>	<b>(866)</b>
Currency put options	<b>13,634</b>	<b>73</b>	<b>73</b>
			<b>\$(7,793)</b>

## 14. Net Assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under Japanese Corporate Law (the "Law"), in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is



included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting. Additional paid-in capital and legal earnings reserve may not be distributed as dividends. All additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

At March 31, 2012 and 2011, respectively, capital surplus consisted principally of additional paid-in capital. In addition, retained earnings included legal earnings reserve of the Company in the amount of ¥5,838 million (\$71,195 thousand) at March 31, 2012 and 2011, respectively.

The maximum amount that the Company can distribute as dividends is calculated based on the separate financial statements of the Company in accordance with Japanese laws and regulations.

During the year ended March 31, 2012 and pursuant to a resolution of its Board of Directors, the Company retired 6,000,000 shares of its treasury stock through a recording of decreases in retained earnings of ¥7,365 million (\$89,817 thousand) and capital surplus of ¥337 million (\$4,110 thousand).

During the year ended March 31, 2012, the Company paid interim dividends of ¥2,394 million (\$29,195 thousand), ¥11.00 (\$0.13) per share. On May 8, 2012, the Board of Directors of the Company approved cash dividends of ¥2,394 million (\$29,195 thousand), ¥11.00 (\$0.13) per share, for the appropriation of retained earnings to shareholders of record as of March 31, 2012.

## 15. Impairment Loss on Fixed Assets

Although no impairment loss was recorded for the year ended March 31, 2011, the NGK Spark Plug Group recognized an impairment loss on fixed assets in the amount of ¥1,141 million (\$13,914 thousand) as other expenses for the year ended March 31, 2012. The loss arose in connection with machinery and equipment and other properties used for production and sale of IC packages in the communication media components segment that became impaired because performance in the IC package business worsened due to a change in the supply and demand balance, increased costs to stabilize quality and a weaker dollar against the yen. Recoverable amounts were estimated using value in use as nil.

## 16. Investment and Rental Property

The Company and certain consolidated subsidiaries had idle property and rental property located in Aichi prefecture, Japan and elsewhere. The NGK Spark Plug Group recorded net rental income from rental property as other income in the accompanying consolidated statements of income in the amount of ¥18 million (\$220 thousand) and ¥20 million for the years ended March 31, 2012 and 2011, respectively. At March 31,

2012 and 2011, respectively, investment and rental property consisted of idle property of ¥11,015 million (\$134,329 thousand) and ¥14,710 million and rental property of ¥126 million (\$1,537 thousand) and ¥128 million. Information about fair value of investment and rental property at March 31, 2012 and 2011 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Carrying amount at the beginning of the year	¥14,838	¥16,385	\$180,951
Changes during the year:			
Decrease as depreciation of idle property	(899)	(1,180)	(10,963)
Decrease as transfer of assets for business use	(2,680)	—	(32,683)
Other	(118)	(367)	(1,439)
Carrying amount at the end of the year	¥11,141	¥14,838	\$135,866
Fair value at the end of the year *	¥11,291	¥14,983	\$137,695

\*Fair value was measured principally at reasonably adjusted value based on appraisal values or municipal property tax bases.

## 17. Income Taxes

The tax effects of temporary differences that gave rise to a significant portion of deferred tax assets and liabilities at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets:			
Net operating loss carryforwards	¥ 4,263	¥ 7,324	\$ 51,988
Impairment loss on fixed assets	5,668	7,090	69,122
Employee retirement benefit liability	6,602	7,446	80,512
Depreciation	2,895	3,570	35,305
Accrued expenses	3,574	3,935	43,585
Inventories	2,002	1,987	24,415
Other	1,232	1,259	15,024
Less valuation allowance	(7,608)	(21,660)	(92,780)
	18,628	10,951	227,171
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	6,261	7,137	76,354
Retained earnings of overseas consolidated subsidiaries	2,923	2,962	35,646
Other	1,194	1,382	14,561
	10,378	11,481	126,561
Net deferred tax liabilities	¥ 8,250	¥ (530)	\$100,610



At March 31, 2012 and 2011, deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets:			
Current	¥8,626	¥ 8,100	\$105,195
Noncurrent	843	2,600	10,281
Deferred tax liabilities:			
Current	76	72	927
Noncurrent	1,143	11,158	13,939

In assessing the realizability of deferred tax assets, management of the NGK Spark Plug Group considers whether 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 future taxable income during the periods in which the temporary differences become deductible. At March 31, 2012 and 2011, a valuation allowance was provided to reduce deferred tax assets to the amount that management believed the deferred tax assets were realizable.

For the years ended March 31, 2012 and 2011, the reconciliation of the differences between the combined Japanese statutory tax rate and the effective income tax rate on pre-tax income reflected in the accompanying consolidated statements of income was as follows.

	Percentage of pre-tax income (%)	
	2012	2011
Combined Japanese statutory tax rate	40.6%	40.1%
Increase (decrease) due to:		
Permanently nondeductible expenses	0.7	0.7
Tax exempt income	(0.6)	(0.5)
Differences between Japanese and foreign tax rates	(4.7)	(3.3)
Unrecognized intercompany profit	(3.5)	(2.2)
Changes in valuation allowance	(59.1)	(24.8)
Effect on income tax rate changes	7.0	—
Other	1.9	0.6
Effective income tax rate	(17.7)%	10.6%

On December 2, 2011, the “Act on the Partial Amendment of the Income Tax Act etc. for the Purpose of Creating a Taxation System Responding to Changes in Economic and Social Structures” (Act No. 114, 2011) and “Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction Following the Great East Japan Earthquake” (Act No. 117, 2011) were promulgated. Accordingly, corporate income tax rates will be lowered and a special restoration surtax will be imposed from the fiscal years beginning on or after April 1, 2012. Therefore, the effective statutory income tax rates used for the measurement of deferred tax assets and liabilities are changed, depending when temporary differences are expected to be recovered or settled. As a result, deferred income tax expense increased by ¥1,543 million (\$18,817 thousand) for the year ended March 31, 2012.

## 18. Other Comprehensive Income

Amounts reclassified as net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income were as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Unrealized gains on available-for-sale securities:		
Decrease during the year	¥ (31)	\$ (378)
Reclassification adjustments	552	6,732
Subtotal, before tax	521	6,354
Tax benefit	876	10,683
Subtotal, net of tax	1,397	17,037
Foreign currency translation adjustments:		
Decrease during the year	(4,518)	(55,098)
Reclassification adjustments	(37)	(451)
Subtotal, before tax	(4,555)	(55,549)
Tax effect	—	—
Subtotal, net of tax	(4,555)	(55,549)
Share of other comprehensive income of associates accounted for by the equity method:		
Decrease during the year	(150)	(1,829)
Total other comprehensive income	¥(3,308)	\$ (40,341)

## 19. Segment Information

### (a) General information about reportable segments

The reportable segments of the Company are the business units for which the Company is able to obtain financial information separately in order for the Board of Directors of the Company to conduct periodic investigations to determine the distribution of management resources and evaluate business results. The Company has its business units identified by products. Each business unit plans its comprehensive domestic and overseas strategy for its products and conducts its business activities. Accordingly, the NGK Spark Plug Group consists of three reportable segments. “Automotive components,” “Communication media components” and “Technical ceramics.”

- In the “Automotive components” segment, the Company manufactures and sells spark plugs, glow plugs, various automotive sensors, ceramic engine parts and other automotive components.
- In the “Communication media components” segment, the Company manufactures and sells IC packages and other semiconductor components.
- In the “Technical ceramics” segment, the Company manufactures and sells cutting tools, ceramics products for industrial and medical applications.

## (b) Information about reportable segment profit and loss, segment assets and other material items

Information about reportable segments as of and for the years ended March 31, 2012 and 2011 was as follows:

	Reportable segments						
	Automotive components	Communication media components	Technical ceramics	Other	Total	Adjustments	Consolidated
	Millions of yen						
For the year 2012:							
Operating revenue - net sales:							
External customers	¥ 222,636	¥ 33,892	¥ 23,738	¥ 4,480	¥ 284,746	¥—	¥ 284,746
Intersegment sales	—	—	—	—	—	—	—
Total net sales	222,636	33,892	23,738	4,480	284,746	—	284,746
Segment income (loss)	¥ 30,703	¥ (7,583)	¥ 1,308	¥ 50	¥ 24,478	¥—	¥ 24,478
Segment assets	¥ 276,426	¥ 33,654	¥ 28,821	¥ 1,395	¥ 340,296	¥—	¥ 340,296
Other items:							
Depreciation	¥ 12,260	¥ 1,836	¥ 1,329	¥ 14	¥ 15,439	¥—	¥ 15,439
Impairment loss on fixed assets	—	1,141	—	—	1,141	—	1,141
Increase in property, plant and equipment and intangible assets	11,855	1,294	856	—	14,005	—	14,005

For the year 2011:							
Operating revenue - net sales:							
External customers	¥ 197,214	¥ 44,472	¥ 23,053	¥ 4,494	¥ 269,233	¥—	¥ 269,233
Intersegment sales	—	—	—	—	—	—	—
Total net sales	197,214	44,472	23,053	4,494	269,233	—	269,233
Segment income (loss)	¥ 31,943	¥ (4,403)	¥ 1,075	¥ 156	¥ 28,771	¥—	¥ 28,771
Segment assets	¥ 263,299	¥ 45,071	¥ 27,751	¥ 1,197	¥ 337,318	¥—	¥ 337,318
Other items:							
Depreciation	¥ 12,424	¥ 2,658	¥ 1,553	¥ 11	¥ 16,646	¥—	¥ 16,646
Impairment loss on fixed assets	—	—	—	—	—	—	—
Increase in property, plant and equipment and intangible assets	6,365	1,738	651	13	8,767	—	8,767

Thousands of U.S. dollars

For the year 2012:							
Operating revenue - net sales:							
External customers	\$2,715,073	\$413,317	\$289,488	\$54,634	\$3,472,512	\$—	\$3,472,512
Intersegment sales	—	—	—	—	—	—	—
Total net sales	2,715,073	413,317	289,488	54,634	3,472,512	—	3,472,512
Segment income (loss)	\$ 374,427	\$ (92,476)	\$ 15,951	\$ 610	\$ 298,512	\$—	\$ 298,512
Segment assets	\$3,371,049	\$410,415	\$351,475	\$17,012	\$4,149,951	\$—	\$4,149,951
Other items:							
Depreciation	\$ 149,512	\$ 22,390	\$ 16,207	\$ 171	\$ 188,280	\$—	\$ 188,280
Impairment loss on fixed assets	—	13,914	—	—	13,914	—	13,914
Increase in property, plant and equipment and intangible assets	144,573	15,781	10,439	—	170,793	—	170,793

Note: As disclosed in Note 2(a), from the fiscal year ended March 31, 2012, three consolidated subsidiaries located in U.S.A. changed their fiscal year-end date from December 31 to March 31. As a result, for the year ended March 31, 2012, net sales and segment income were ¥12,429 million (\$151,573 thousand) and ¥295 million (\$3,598 thousand) more, respectively, in the "Automotive components" segment, net sales and segment loss were ¥2,641 million (\$32,207 thousand) and ¥55 million (\$671 thousand) more, respectively, in the "Communication media components" segment and net sales and segment income were ¥829 million (\$10,110 thousand) and ¥26 million (\$317 thousand) more, respectively, in the "Technical ceramics" segment than the amounts that would have been reported without the change.

### (c) Enterprise-wide information

Information about geographic areas as of and for the years ended March 31, 2012 and 2011 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Operating revenue - net sales:			
Japan	¥ 58,798	¥ 59,988	\$ 717,049
North America	83,135	71,025	1,013,841
Europe	66,046	60,465	805,439
Asia	39,914	42,240	486,756
Other area	36,853	35,515	449,427
	¥284,746	¥269,233	\$3,472,512

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Property, plant and equipment:			
Japan	¥71,277	¥73,129	\$ 869,232
Other area	12,206	13,041	148,853
	¥83,483	¥86,170	\$1,018,085

The NGK Spark Plug Group had no single external customer which accounted for more than 10% of net sales for the years ended March 31, 2012 and 2011.

# Independent Auditor's Report



## Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of NGK SPARK PLUG CO., LTD. and its consolidated subsidiaries (the "NGK Spark Plug Group"), which comprise the consolidated balance sheets as at March 31, 2012 and 2011, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the NGK Spark Plug Group as at March 31, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 of Notes to Consolidated Financial Statements.

*KPMG AZSA LLC*

July 30, 2012  
Nagoya, Japan

# Stock Information

(As of March 31, 2012)

## Common Shares

Authorized: 390,000,000

Issued: 223,544,820

## Stock Listings

Tokyo Stock Exchange, 1st Section

Nagoya Stock Exchange, 1st Section

## Transfer Agent

Mitsubishi UFJ Trust and Banking Corporation

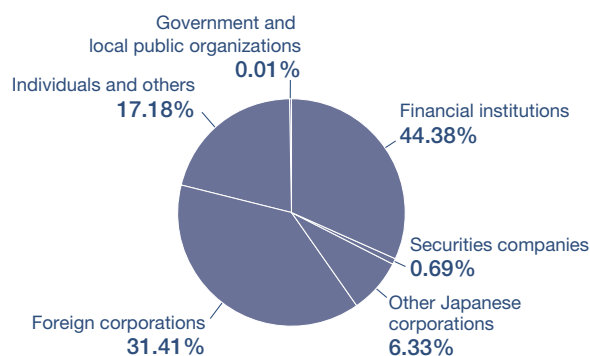
## Independent Auditors

KPMG AZSA LLC

## Number of Shareholders

11,666

## Share Distribution by Owner



5,864,000 shares (5,864 units) of treasury stock are included in "Individuals and others."

## Major Shareholders

Name	Number of shares held (1,000 shares)	Ownership ratio of total number of shares issued (%)
State Street Bank and Trust Company	16,827	7.53
The Dai-ichi Life Insurance Company, Limited	16,752	7.49
Meiji Yasuda Life Insurance Company	13,794	6.17
The Master Trust Bank of Japan, Ltd. (trust account)	10,493	4.69
Japan Trustee Services Bank, Ltd. (trust account)	10,470	4.68
Nippon Life Insurance Company	7,125	3.19
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	6,541	2.93
National Mutual Insurance Federation of Agricultural Cooperatives	6,138	2.75
Mellon Bank, N.A. as Agent for its Client Mellon Omnibus US Pension	5,470	2.45
State Street Bank and Trust Company 505225	5,374	2.40

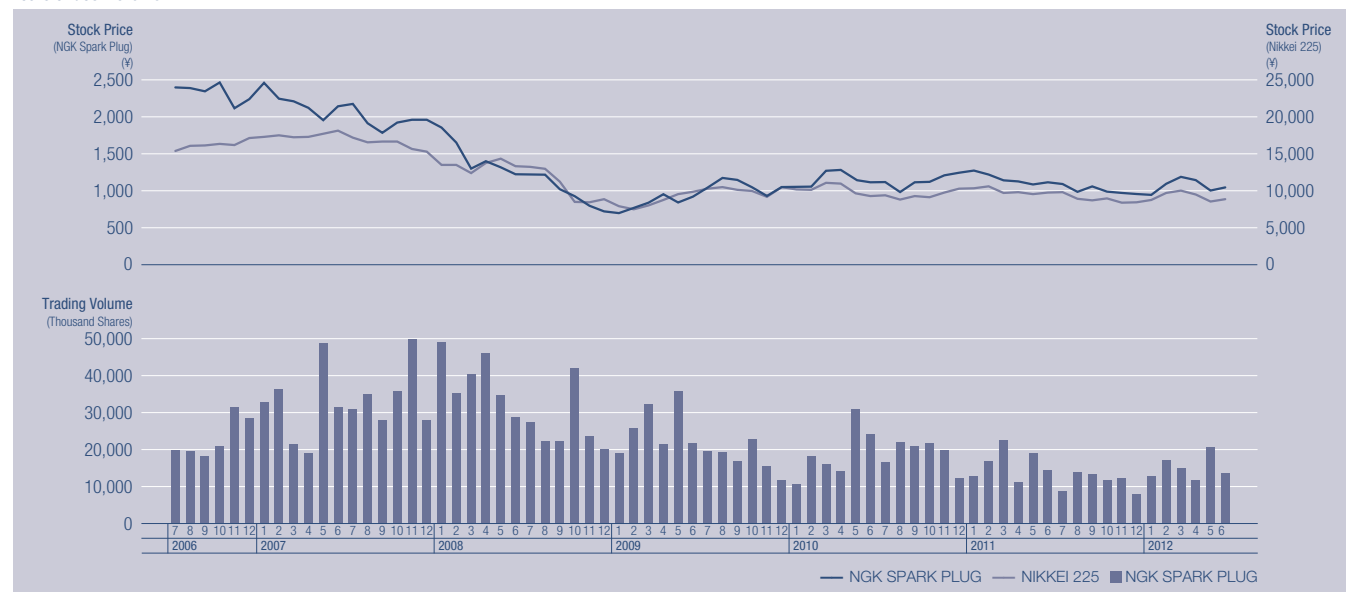
Notes:

Although the Company held treasury stock of 5,864 thousand shares as of March 31, 2012, the Company is excluded from the above list of major shareholders.

All figures are based on the Japanese "Securities Report."

## Stock Price Range and Trading Volume

Years ended March 31



# Corporate Data

(As of March 31, 2012)

## NGK SPARK PLUG CO., LTD.

### Headquarters

14-18 Takatsuji-cho, Mizuho-ku, Nagoya 467-8525, Japan  
<http://www.ngkntk.co.jp>

### Established

October 1936

### Paid-in Capital

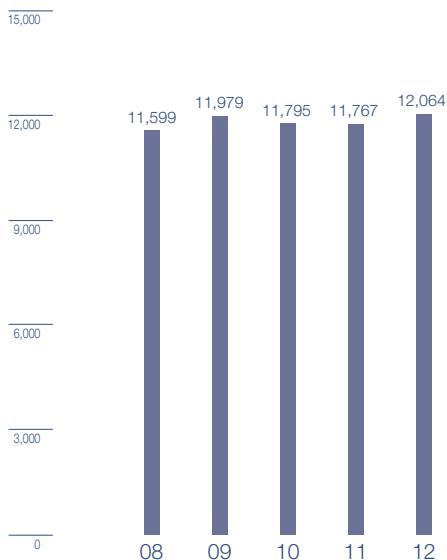
¥47,869 million

### Number of Employees

Consolidated: 12,064

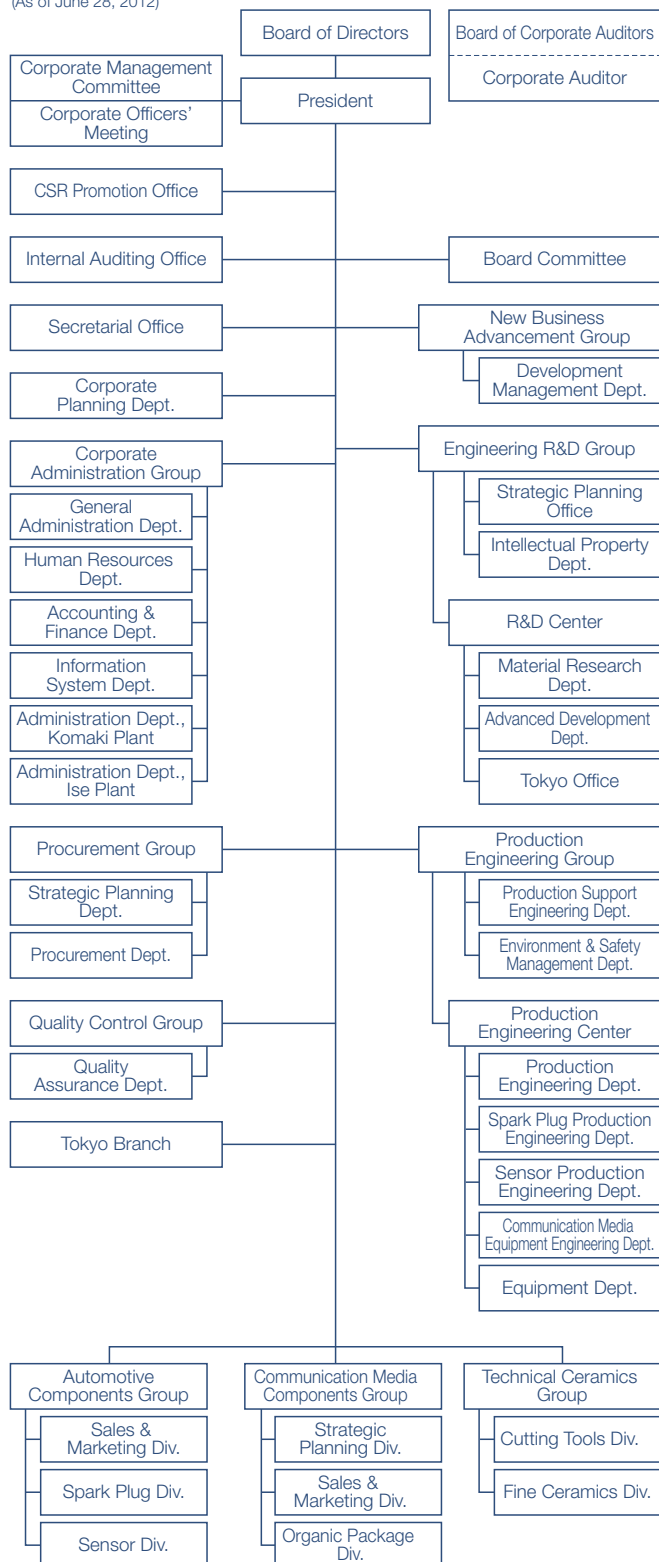
Non-Consolidated: 5,845

### Number of Employees (Consolidated)



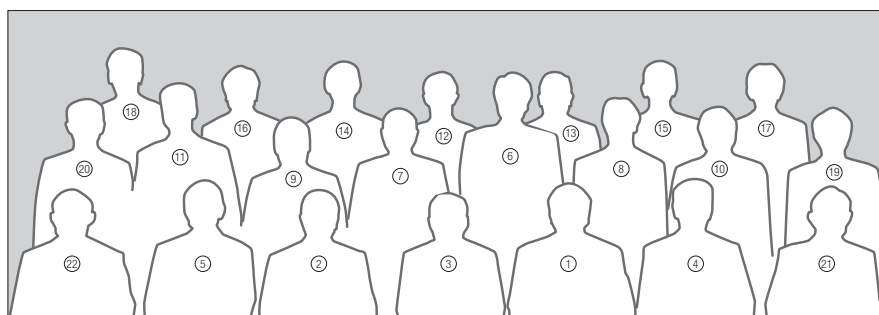
## Organization

(As of June 28, 2012)



# Directors, Corporate Officers and Corporate Auditors

(As of June 28, 2012)



## Representative Director and Chairman of the Board

① Norio Kato\*

## Representative Director and Vice Chairman of the Board

② Kazuo Kawahara\*

## President and Chief Executive Officer

③ Shinichi Odo\*

## Member of the Board Senior Executive Officer

④ Takafumi Oshima  
⑤ Shinji Shibagaki

## Member of the Board Executive Officer

⑥ Shogo Kawajiri  
⑦ Takeshi Nakagawa

## Executive Officer

⑧ Junichiro Suzuki  
⑨ Hideyuki Koiso

## Corporate Officer

⑩ Keiichi Matsunari  
⑪ Hitoshi Iimi  
⑫ Takao Hamada  
⑬ Tadao Kawai  
⑭ Tepppei Okawa  
⑮ Hidemitsu Suzuki  
⑯ Takahiro Suzuki  
⑰ Hisashi Nakanishi  
⑱ Takeshi Kawai

## Standing Corporate Auditor

⑲ Masami Asai  
⑳ Yo Tajima

## Corporate Auditor

㉑ Shigehisa Sao  
㉒ Kenichi Masuda

\*Representative Director





14-18 Takatsuji-cho, Mizuho-ku, Nagoya 467-8525, Japan  
<http://www.ngkntk.co.jp>

