Annual Report 2006

Fiscal year ended March 31, 2006

Sharpening our edges

NGK SPARK PLUG CO., LTD.

Profile

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

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

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

These main products occupy an important market share worldwide.

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

Contents

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.

Financial Highlights

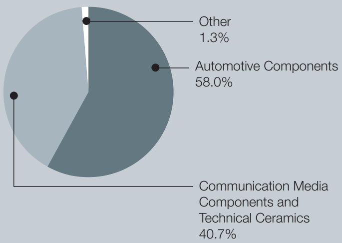
NGK SPARK PLUG CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Millions of Yen			Change (%)	Thousands of U.S. Dollars
	2006	2005	2004	2006/2005	**2006**
For the year:					
Net sales:	**¥284,885**	¥241,187	¥228,776	18.1%	**$2,434,915**
Automotive Components	**165,280**	148,726	147,696	11.1	**1,412,650**
Communication Media Components and Technical Ceramics	**116,032**	89,805	78,487	29.2	**991,726**
Other	**3,573**	2,655	2,593	34.6	**30,539**
Operating income	**41,513**	26,090	20,745	59.1	**354,812**
Net income	**25,104**	17,147	11,117	46.4	**214,564**
At year-end:					
Total assets	**¥386,235**	¥323,109	¥297,995	19.5%	**$3,301,154**
Shareholders' equity	**259,213**	220,933	205,964	17.3	**2,215,496**

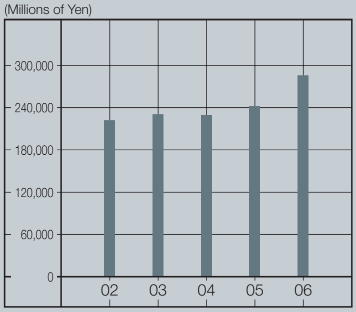
	Yen			Change (%)	U.S. Dollars
Per share data:					
Net income:					
—Basic	**¥112.82**	¥77.01	¥49.84	46.5%	**$0.96**
—Diluted	**106.91**	72.92	47.45	46.6	**0.91**
				Change (Yen)	
Cash dividends	**20.00**	16.00	11.00	¥4.00	**0.17**

Note: U.S. dollar amounts above and elsewhere in this Annual Report are converted from yen, for convenience only, at the rate of ¥117=U.S.$1.

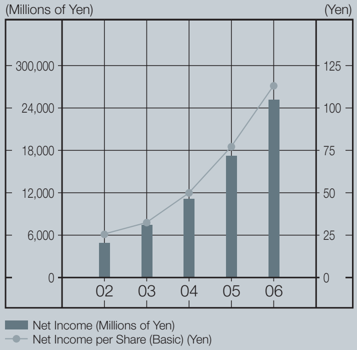
2006 Sales Composition by Industry Segment (%)



Net Sales



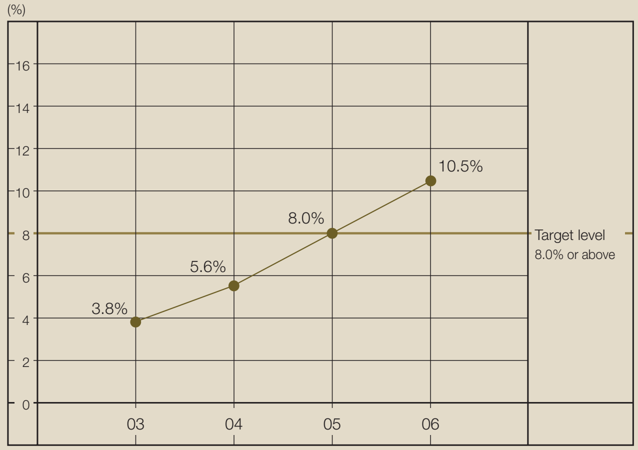
Net Income/ Net Income per Share (Basic)



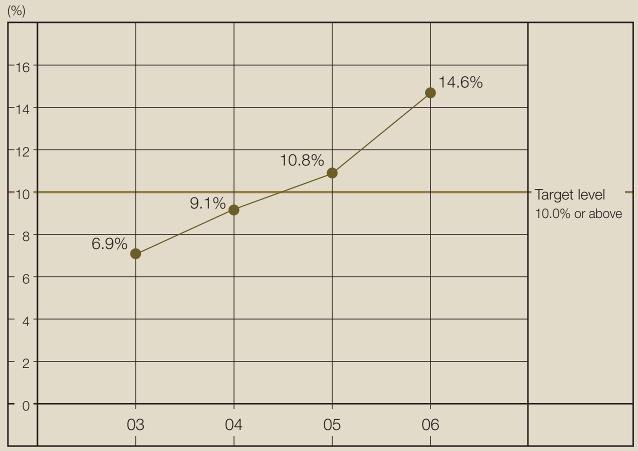
Surpassed

The Targets of our Medium-Term Management Plan and Results

Return on equity (ROE)



Operating income ratio



Norio Kato
President

We are pleased to report that NGK Spark Plug Co., Ltd. and its consolidated subsidiaries ("NGK Spark Plug Group" or the "Group") had another great year. Net sales increased 18.1% to ¥284,885 million, operating income surged 59.1% to ¥41,513 million and net income soared 46.4% to ¥25,104 million. Both sales and profits set record highs for two consecutive years.

Good progress with the medium-term management plan

Two principal factors account for these gratifying results. One is the incredibly strong performance of the automotive industry, which includes our principal customers. Another is soaring demand for IC packages, which not only contributed to the communication media components and technical ceramics businesses but also was the driving force of the business of the entire Group.

The fiscal year ended March 31, 2006, was the final year of the three-year medium-term management plan launched in fiscal 2003. In fact, the plan's third-year targets for net sales and operating income were attained in the second year. In the year under review, whereas the targets for ROE and the ratio of operating income to net sales were 8% and 10%, respectively, we achieved ROE of 10.5% and the ratio of operating income to net sales of 14.6%, thus strengthening the foundation of the business.

Future Business Expansion

Measures for international operations

As international sales account for some 80% of the Group's net sales, the effect of foreign exchange fluctuations on the Group's financial performance is not negligible. We intend to enhance our share of the global market and the cost competitiveness of our mainstay products while promoting reorganization and setting of targets to achieve optimized global production and procurement.

With their excellent growth potential, the markets of Brazil, Russia, India and China, collectively known as the BRICs, will have an important bearing on the Group's future prosperity. NGK Spark Plug opened a factory in Brazil in 1959, which has gained a secure position as the Group's sole plant for integrated manufacturing of spark plugs outside Japan. In 2003 we established a spark plug assembly plant in Shanghai, China. In Russia and India we opened new sales operations in 2005. In order to maintain our No.1 shares of the global market for spark plugs and oxygen sensors, we intend to act swiftly and decisively to seize the attractive opportunities arising in the BRICs and elsewhere.

Balanced capital investment

The Group's strategic products comprise glow plugs and other parts for diesel engines; IC packages for microprocessor units, communications devices and other semiconductor applications; semiconductor manufacturing equipment parts; and sophisticated ceramics products for medical applications. We intend to foster these businesses through focused and efficient capital investment so that a well-balanced portfolio of globally competitive businesses sustains the Group's growth and prosperity far into future.

Sharpening our edges

While adhering to our basic policy of continuing to pay stable dividends, we have also taken steps to ensure dividends reflect profits. The targeted payout ratio for the time being is at least 20%, taking into account the entire growth strategy, including the plan for capital investment.

New Medium-term Management Plan

Launching the new medium-term management plan

We have launched a new medium-term management plan covering the three-year period from fiscal 2006. We are resolved to promote selection and focus throughout our operations in order to harness the Group's strengths and establish a balanced business foundation in terms of both sales and profits, while always ensuring the entire Group draws inspiration from our corporate slogan: "Aiming to be an enterprise deserving the admiration and affection of people throughout the world."

The seven key strategies are as follows:

1) Introduce cost-competitive products to enhance customer satisfaction and increase market share by expanding sales channels to reach untapped customers and areas.
2) Promote cross-organizational sharing of information on products and technologies and swiftly reflect the shared information in "To Go a Step Further in Manufacturing" (to realize combination of high quality and cost reduction).
3) While monitoring market and technology trends with the utmost attention, swiftly exploit new products and new businesses.
4) Accelerate the business cycle in order to improve the overall efficiency of the business.
5) Flexibly integrate manufacturing and sales operations worldwide in order to be capable of responding swiftly and effectively.
6) Mindful of the importance of corporate social responsibility, fulfill CSR as a good corporate citizen, including compliance and environmental protection.
7) With a 10-year time horizon, focus on developing human resources capable of leading the Group in the next generation.

Strategies of Principal Businesses

Breaking strategies down into what is necessary for each business.

Automotive Components Business

In the coming three years, we will focus on strengthening our presence in the global marketplace by capitalizing on our world-leading products. For this purpose, we intend to sharpen the effectiveness of marketing by leveraging our global network and to promote cost reduction by integrating complementary capabilities from the perspective of optimized global production.

Strategies for each product category are as follows:

- Strengthen profitability of spark plugs for application in new automobiles by increasing sales of high value-added plugs.
- Foster the glow plug business so that it becomes the third profit engine of the automotive components business by expanding sales channels in the diesel engine market.
- Accelerate development of sensors in collaboration with system manufacturers to increase our share of the gasoline engine, diesel engine and motorcycle markets.

Communication Media Components and Technical Ceramics Businesses

While expanding the range of products that capitalize on the Group's strengths, we will allocate limited resources more efficiently to ensure quality while reducing costs.

Strategies for each product category are as follows:

- For semiconductor components, strengthen integrated production systems for organic IC packages to enhance productivity and thus establish a business structure capable of delivering stable profits.
- For cutting tools, establish systems for speedy delivery and strengthen international sales centering on Europe, North America and Asia.
- For technical ceramics products, expand sales of priority medical and environment-related products while cultivating new application fields.

Accomplishing these tasks requires us to make solid progress on several fronts. I have been emphasizing our corporate posture of "To Go a Step Further in Manufacturing" and "Principle of Quality Goods". I am convinced that by applying these strengths to maximum effect, while maintaining and adding to them, NGK Spark Plug Group will be able to become an even more formidable contender in the global marketplace.

Norio Kato

Norio Kato
President

Corporate Governance

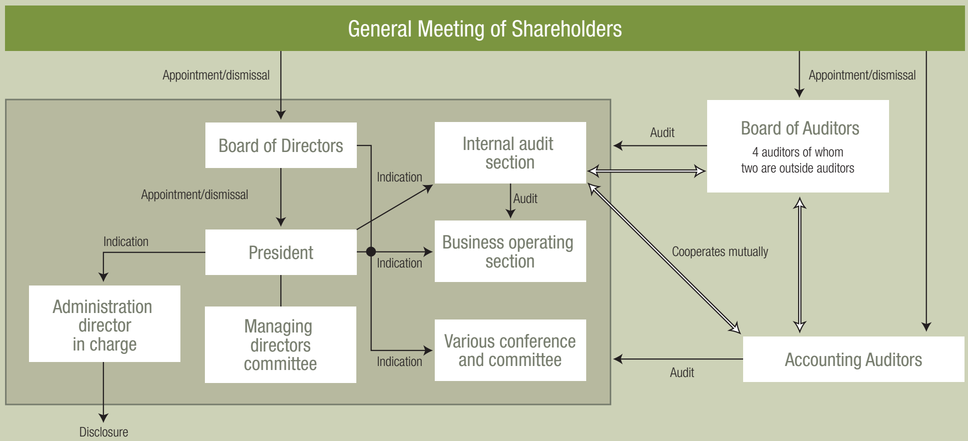
Gone are the days when companies were evaluated solely in economic terms. Today, any antisocial act triggers severe criticism in society. To earn trust and respect, a company needs to make a concerted effort to work hand in hand with society as a good corporate citizen.

NGK Spark Plug first formally articulated its corporate philosophy in 1996 and the Code of Conduct was established in 1998 to reconfirm the path we should follow. A handbook published in 2004 on the practical implications of the Code of Conduct clarifies the standards governing employee conduct and explains why strict adherence to those standards is essential. Raising awareness among employees about compliance and ethics is a continuing endeavor. Out aim is that everyone working for the Company recognizes corporate conduct is essentially the conduct of individuals and, based on that knowledge, acts in a responsible manner.

Adherence to the Code of Conduct consisting of 10 items

The slogan, “Deepen trust with people throughout the world by championing values attuned to their needs and aspirations,” expresses our corporate philosophy. To make it an everyday reality, we have established the Code of Conduct consisting of the 10 items listed below. Management is taking the initiative to ensure the Code of Conduct is thoroughly implemented throughout the Company and inculcated throughout the Group and its suppliers.

Corporate Governance Structure



1) Everywhere we operate, we respect human rights and comply with all laws and international rules, in letter and spirit
2) By making full use of the most suitable technology and our accumulated experience, while taking careful note of the protection of personal information and customer information, we provide safe products and services beneficial to society, delivering satisfaction to consumers and customers while winning their trust.
3) We engage in fair, transparent and appropriate transactions based on free competition. Also, we maintain sound and appropriate relations with government and other authorities.
4) Emphasizing communication with our shareholders and society at large, we disclose information on the Company in a fair manner through ongoing corporate communications.
5) Recognizing that environmental protection is an issue confronting humankind and is a prerequisite for sustainable development, we act voluntarily, vigorously and speedily to minimize the environmental impact of our activities.
6) We actively engage in social contributions as a good corporate citizen.
7) We foster a safe and excellent working environment where employee diversity and individuality are respected and employees can realize their full potential.
8) We confront antisocial forces and organizations that threat the order and safety of civil society.
9) In international business activities, we respect cultures and customs of local communities and endeavor to ensure that our business activities contribute to the development of local communities.
10) Management exercises leadership in making the letter and spirit of the Code of Conduct integral to everyday business practice, thoroughly implementing the Code of Conduct throughout the Company and inculcating it throughout the Group and its suppliers. To this end, management continually improves internal systems while striving to cultivate ethics.

The Company recognizes that the task of raising awareness of the Corporate Philosophy and the Code of Conduct and inculcating their values without compromise is of the utmost importance. As several instances of misconduct and antisocial behavior on the part of leading companies have come to light in Japan, there has been a growing emphasis on internal controls to ensure effective risk management. As well as rechecking risks that may arise in the course of doing business, we have commenced the establishment of internal controls in accordance with the Japanese version of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework.

The COSO Framework is not limited to the improvement of systems. The key is how to manage risks that may arise in the course of business. For risk management, it is important to identify and assess risks in advance, and moreover, sharing the findings with stakeholders will lead to greater management transparency.

Clearly, disclosure to shareholders and investors must be free of misstatements. Over and above that, however, we also believe that it is our responsibility to ensure that disclosure is fair. In order to enhance investor relations not only in Japan but also overseas, we intend to hold roadshows.

Environmental Management at the Core

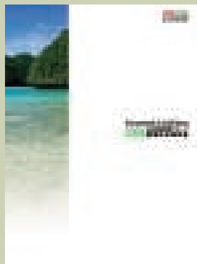
As environmental problems such as global warming and the decline of biodiversity become more pressing, companies are being urged to make much greater efforts to minimize the environmental impact of their activities.

Positioning environmental protection as a key task, NGK Spark Plug Group has obtained ISO 14001 certification jointly for 12 companies, including affiliates in Japan, and implemented environmental controls stricter than the regulatory requirements. Overseas, applying the same environmental policy as in Japan, we are unifying our approach to environmental protection and standards and centralizing information so that we will be able to cope with any environmental emergency in an integrated manner.

NGK Spark Plug Group Eco Vision 2010

We formulated an environmental action plan for the period until 2005 and, in our "Eco Vision 2010, announced the targets to be achieved by the end of the decade." The aim is to shift from conventional environmental activities focusing on legal compliance to a more proactive approach.

NGK Spark Plug Group is acutely aware of the threat posed by global warming, particularly so as we are a ceramics manufacturer, since the firing of ceramics involves the generation of carbon dioxide and other greenhouse gases. Despite lower greenhouse gas emissions associated with products thanks to improvements in design, the Group's total emissions have increased due to rising production. Having set the reduction of total emissions as a key target in Eco Vision 2010, we are making a concerted effort to develop new technologies to achieve it.



Publishing
"Environmental & Social Report"

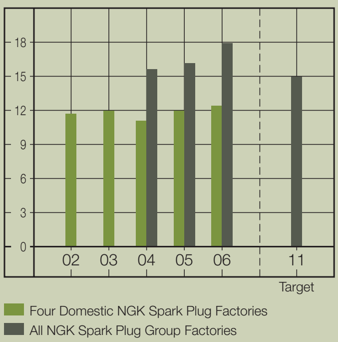
Eco-design

To promote the development of a sustainable recycling-oriented society in our capacity as a manufacturing company, it is necessary to consider the environmental impacts throughout product life cycles. The Group manufactures a wide range of products, including spark plugs, various types of automotive sensors, semiconductor components, electronic components, cutting tools and ceramics products for industrial and medical applications. In particular, we take pride in the fact that millions of end customers throughout the world use our sensors for environmentally friendly purposes in diverse situations. Since it would be inconsistent if a leading manufacturer of environmental products failed to do its utmost to ensure that its own activities were as environmentally friendly as possible, we have implemented numerous measures over many years covering resource saving, energy saving and production free of hazardous materials.

While championing eco-design at the design and development stages by, for example, using LCA (life cycle assessment) and the improving environmental efficiency, we are actively engaged in environmentally friendly procurement, production, distribution and disposal.

Energy Used in Production

(CO_2 equivalent, 10,000 tons CO_2)



Caring for Employees and Community

Fostering an eco-minded workforce

Sustainable development of an enterprise hinges on human resource development and the ability to accumulate and inherit know-how.

To foster an eco-minded workforce, our human resource development is geared to encouraging attitudes and values among employees so that they are predisposed to act in environmentally friendly ways: separating and recycling waste, reducing energy consumption and stopping unnecessary idling of vehicles. The accumulation of innumerable actions by eco-minded employees will result in the achievement of the NGK Spark Plug Group Eco Vision.

We believe that the combination of our traditional prowess in manufacturing and environmentally friendly activities will benefit society as well as NGK Spark Plug Group.

Valued member of society

Fulfillment of CSR is one of the themes of NGK Spark Plug Group’s medium-term management plan. Many Japanese companies have a long tradition of emphasizing the cultivation of good relations with local communities and customers from a long-term perspective, rather than pursuing short-term profits. Consequently, CSR is a concept readily embraced by Japanese companies.

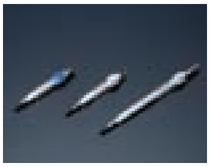
Mindful of CSR, as well as ensuring compliance, NGK Spark Plug Group is endeavoring to protect the environment and engage in activities befitting a good corporate citizen.

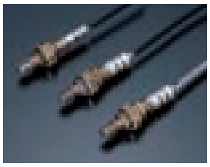
Keen to keep the local environment clean and attractive, we participate in clean-up campaigns organized by municipalities. To improve traffic safety in the vicinity of our factories, we man pedestrian crossings and engage in other activities devoted to traffic safety. Also, we participate in local festivals and our factories open their sports facilities to the local community.

* Results for fiscal 2005

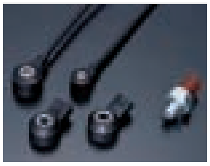
Automotive Components Business


Spark Plugs


Ceramic Glow Plugs


Exhaust Gas Oxygen Sensors


Wide Range Exhaust Gas Temperature Sensors


Knock Sensors

Outline of the Business

The Automotive Components Business manufactures and sells spark plugs, glow plugs, various automotive sensors, ceramic engine parts and other automotive components.

In addition to manufacturing at NGK Spark Plug Co., Ltd., the Company supplies raw materials and parts to seven subsidiaries and affiliates in Japan to which manufacturing is consigned and from which the Company purchases finished products, semi-products and assembly parts and sells them. Overseas, a subsidiary in Brazil is engaged in integrated manufacturing and sales of spark plugs and a total of eight manufacturing and sales subsidiaries and affiliates 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, overseas manufacturing and sales subsidiaries, which was mentioned above, and a total of 10 overseas sales subsidiaries in Europe and else where sell finished products procured from the Company and overseas manufacturing subsidiaries to customers in their regions.

Review of Results

Shipments of spark plugs for factory installation in new vehicles increased owing to higher new vehicle sales in emerging markets, including China and Southeast Asia, Eastern Europe, and Latin America coupled with an increase in overseas production by Japanese automobile manufacturers. In Europe, shipments of glow plugs, especially environmentally friendly quick-start ceramic glow plugs, are growing steadily as a result of heightened demand for diesel engine vehicles. Sales of after-market plugs increased worldwide, but particularly in North America, Southeast Asia, and Oceania.

With regard to automotive sensors, shipments of mainstay zirconia exhaust gas oxygen sensors increased owing to higher demand for sensors for factory installation supported by vigorous automobile production in Japan, South Korea, and Europe as well as sharp growth in shipments of universal A/F heated exhaust gas oxygen sensors — which make possible more precise exhaust control — primarily in the environmentally progressive European and North American markets. Knock sensors, wide-range exhaust gas temperature sensors, and other high-priority products also contributed to higher sales. As a result, sales of the automotive components business increased 11.1% year on year to ¥165,280 million and operating income rose 17.7% to ¥29,357 million.

Outlook

Shipments of plugs for factory installation in new vehicles are expected to be robust, supported by brisk sales of new vehicles in Japan and overseas. In particular, shipments of glow plugs are expected to increase in Europe where demand is growing. Regarding automotive sensors, it is forecast that brisk sales of new vehicles will also lead to higher shipments of both zirconia exhaust gas oxygen sensors and universal A/F heated exhaust gas oxygen sensors, similar to the situation for plugs. A great increase in shipments of wide-range exhaust gas temperature sensors is expected due to their more extensive application to diesel engines.

Communication Media Components and Technical Ceramics Businesses

Organic IC Packages

Electronic Components

Cutting Tools

Fine Ceramics

Oxygen Concentrators (Left)
Hydroxyapatite Cement (Right)

Outline of the Business

In the Communication Media Components and Technical Ceramics Businesses, we manufacture and sell IC packages and other semiconductor components, electronic components, cutting tools and ceramics products for industrial and medical applications.

As well as conducting manufacturing in Japan, the Company supplies raw materials and parts to five subsidiaries and affiliates in Japan to which manufacturing is consigned and from which the Company purchases finished products, semi-products and assembly parts and sells them. Overseas, a subsidiary in Brazil is engaged in integrated manufacturing and sales of ceramics products for industrial applications and subsidiaries in South Korea and Poland purchase semi-products and some raw materials from the Company, assemble finished cutting tools and sell them directly to customers or via the Company. A total of eight overseas sales subsidiaries in the U.S. and elsewhere sell finished products procured from the Company to customers in their region.

Review of Results

With regard to mainstay semiconductor components, shipments of IC packages for MPUs and semiconductor testing boards rose sharply against a backdrop of rapid growth in sales of communication devices in the BRICs and other emerging markets, most notably robust demand for mobile personal computers. Sales of ceramics products for new sectors, such as display device applications, rose as well.

With regard to cutting tools, a manufacturing subsidiary in Poland, which began production at the end of the previous fiscal year, got off to a good start. At the same time, sales developed favorably owing to excellent business conditions in the automotive and machinery industries, which are important customers for our products. OEM supply of medical oxygen concentrators to the largest company in the medical instruments industry went into full-scale operation and sales increased sharply. Sales of hydroxyapatite cement, a new bioceramics product, got off to a favorable start.

As a result, sales of the Communication Media Components and Technical Ceramics Businesses surged 29.2% year on year to ¥116,032 million and operating income soared 10.6 times the prior-year level to ¥12,114 million.

Outlook

Backed by strong demand for personal computers, the rapid increase in production of semiconductor components is expected to continue. As a result of brisk sales of cutting tools and bioceramics products and a wider application of components for semiconductor manufacturing equipment, sales in this segment are expected to increase greatly.

Global Network


Head Office


NGK Spark Plugs Malaysia Berhad.


Siam NGK Spark Plug Co., Ltd.


P.T. NGK Busi Indonesia

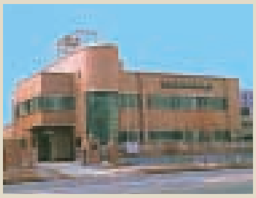

Ceramica e Velas de Ignicao NGK do Brasil Ltda.


Taiwan NGK Spark Plug Co., Ltd.


Woo Jin Industry Co., Ltd.


NGK Spark Plug Industries Europe S.A.S.


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


NTK Cutting Tools Korea Co., Ltd.


NGK Spark Plug (Shanghai) Co., Ltd.


NTK Technical Ceramics Polska Sp. zo. o.

Domestic Subsidiaries

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

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

Nichiwa Kiki Co., Ltd.
Production of spark plug resistor covers and cables, and automotive sensor parts

Kamioka Ceramic Co., Ltd.
Production of glow plugs and cutting tools

Kani Ceramic Co., Ltd.
Production of IC packages and automotive sensor parts

Iijima Ceramic Co., Ltd.
Production of IC packages

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

Nakatsugawa Ceramic Co., Ltd.
Production of IC packages and automotive sensor parts

Tono Ceramic Co., Ltd.
Production of spark plug parts

Nansei Ceramic Co., Ltd.
Production of electronic components and automotive sensor parts

Overseas Subsidiaries

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

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

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

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

NGK Spark Plugs Canada Limited
Sale of automotive components

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

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

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

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

NTK Cutting Tools Korea Co., Ltd.
Production and sale of cutting tools

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

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

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

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

NGK Spark Plug Middle East FZE
Sale of spark plugs

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

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

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

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

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

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

Affiliates

Woo Jin Industry Co., Ltd.
Production and sale of automotive components

Ceramic Sensor Co., Ltd.
Production of automotive sensors

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

Six-Year Summary

NGK SPARK PLUG CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2006, 2005, 2004, 2003, 2002 and 2001

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For the year:							
Net sales	**284,885**	¥241,186	¥228,776	¥228,929	¥221,419	¥224,269	**$2,434,915**
Costs of goods sold	**203,338**	177,786	171,481	177,857	176,225	166,778	**1,737,932**
Selling, general and administrative expenses	**40,034**	37,310	36,550	35,249	33,374	32,026	**342,171**
Operating income	**41,513**	26,090	20,745	15,823	11,820	25,465	**354,812**
Net income	**25,104**	17,147	11,117	7,347	4,844	13,056	**214,564**
Cash flows from operating activities	**34,750**	36,092	24,259	34,534	18,728	24,144	**297,009**
Cash flows from investing activities	**(30,692)**	(41,782)	14,784	(28,718)	(26,812)	(19,393)	**(262,325)**
Cash flows from financing activities	**(2,458)**	(1,888)	(21,792)	(13,787)	(32,719)	6,422	**(21,009)**
Depreciation	**15,269**	14,528	15,943	18,478	19,981	18,118	**130,504**
Capital expenditures	**26,919**	13,956	10,414	10,811	25,508	23,479	**230,077**
At year-end:							
Total assets	**¥386,235**	¥323,109	¥297,995	¥298,787	¥318,512	¥366,727	**$3,301,154**
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Automotive components	**165,280**	148,726	147,696	142,432	128,349	116,825	**1,412,650**
Communication media components and technical ceramics	**116,032**	89,805	78,487	83,437	89,681	104,013	**991,726**
Other	**3,573**	2,655	2,593	3,060	3,389	3,431	**30,539**
Sales by geographic area:							
Japan	**127,127**	101,448	99,058	88,744	83,835	94,984	**1,086,556**
North America	**83,584**	73,700	69,922	87,342	86,636	82,230	**714,393**
Europe	**47,490**	44,961	42,314	38,198	37,367	34,104	**405,897**
Other	**26,684**	21,077	17,482	14,645	13,581	12,951	**228,069**

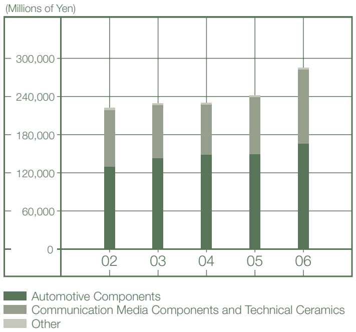
Other Data:						
Number of Shareholders	**11,169**	12,702	14,921	15,678	13,990	10,448
Number of Employees (Consolidated)	**9,815**	9,406	9,284	9,306	9,417	9,491

	Yen						U.S. Dollars
Per share data:							
Net income							
— Basic	**¥112.82**	¥ 77.01	¥ 49.84	¥ 32.36	¥ 20.51	¥ 57.19	**$0.96**
— Diluted	**106.91**	72.92	47.45	31.06	19.95	51.91	**0.91**
Cash dividends	**20.00**	16.00	11.00	11.00	11.00	12.00	**0.17**
Shareholders' equity	**1,166.97**	997.13	929.23	854.89	869.04	871.72	**9.98**

	Percent					
Ratios:						
Operating profit ratio	**14.6%**	10.8%	9.1%	6.9%	5.3%	11.4%
Equity ratio	**67.1**	68.4	69.1	63.4	62.6	56.9
Return on net sales	**8.8**	7.1	4.9	3.2	2.2	5.8
Return on assets	**7.1**	5.5	3.7	2.4	1.4	3.8
Return on equity	**10.5**	8.0	5.6	3.8	2.4	7.0

Note:U.S. dollar amounts above and elsewhere in this Annual Report are converted from yen, for convenience only, at the rate of ¥117=U.S.$1.

Net sales by segment operations



Overview of Results

During the fiscal year ended March 31, 2006, the economic environment in Japan was characterized by the spreading to the household sector of the strong performance in the corporate sector and continued economic expansion supported by domestic private-sector demand fueled a gradual increase in personal consumption. Overseas, striking growth in emerging markets led to robust sales of automobiles and of information and communications equipment such as personal computers and mobile telephones.

In these circumstances, the Automotive Components Business achieved solid growth boosted by the strong performance of Japanese automotive manufacturers. In the Communication Media Components and Technical Ceramics Businesses, sales of mainstay IC packages and medical products rose sharply. We achieved higher sales in all our businesses and recorded net sales of ¥284,885 million, an increase of 18.1% year on year, a record high sales figure for the second consecutive year.

Regarding profits, in addition to the depreciation of the yen, the growth of the business of organic IC packages for MPUs into a source of profits contributed to the highest ever operating income and net income for two years running. Operating income soared 59.1% year on year to ¥41,513 million and net income jumped 46.4% to ¥25,104 million.

Results of Operations

Sales

Net sales increased ¥43,699 million or 18.1% from the previous year to ¥284,885 million. Breakdown of sales by segment is described below.

Automotive Components Business

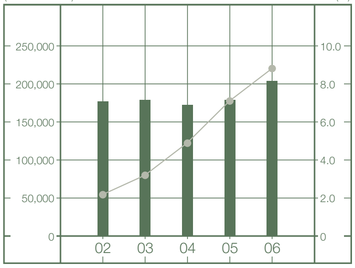
Thanks to an increase in production of Japanese automobile manufacturers and brisk sales of new vehicles in emerging markets, sales of spark plugs for factory installation in new vehicles and for the after-market and of exhaust gas sensors increased. In Europe, in particular, sales of glow plugs and other products for diesel engines increased sharply.

Communication Media Components and Technical Ceramics Businesses

In line with the higher demand for personal computers, mobile phones and other communication devices, sales of IC packages and other semiconductor components and of products for semiconductor manufacturing equipment increased. Also, increasing capital investment by customers resulted in robust sales of ceramics products for industrial applications while sales of medical products surged.

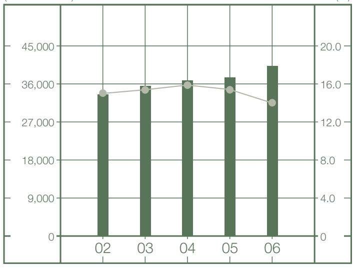
	Millions of yen		
	2005	**2006**	Increase
Automotive Components Business	148,726	**165,280**	+16,554
Communication Media Components and Technical Ceramics Businesses	89,805	**116,032**	+26,227
Other businesses	2,718	**3,644**	+926
Elimination	(63)	**(71)**	
Net sales	241,186	**284,885**	+43,699

Cost of Goods Sold and Gross Profit Margin



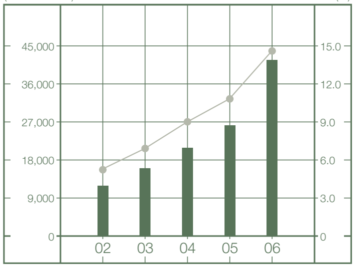
Cost of Sales (Millions of Yen)
Gross Profit Margin (%)

Selling, general and administrative expenses and Ratio to Net sales



Selling, general and administrative expenses (Millions of Yen)
Ratio to Net sales (%)

Operating Income and Operating Income to Net Sales



Operating Income (Millions of Yen)
Operating Income to Net Sales (%)

Costs of goods sold

Costs of goods sold increased ¥25,552 million or 14.4% from the previous year to ¥203,338 million. The ratio of costs of goods sold to net sales improved 2.3 percentage points from 73.7% the previous year to 71.4%. The situation by segment is described below.

Automotive Components Business

Despite an increase in production, there was only a slight improvement in the ratio of costs of goods sold to segment sales due to higher raw material costs and an increase in depreciation resulting from the upgrading of glow plug production lines, including construction of a new factory.

Communication Media Components and Technical Ceramics Businesses

There was a great improvement in the ratio of costs of goods sold to segment sales owing to the positive impact of increased sales and streamlining of operations against the background of the expansion of production of IC packages, industrial ceramics products and medical products.

Selling, general and administrative expenses

Selling, general and administrative expenses increased ¥2,724 million or 7.3% to ¥40,034 million. Principal reasons for the increase included a rise in the number of employees and higher physical distribution costs associated with the increase in sales.

Operating income

As a result, operating income increased ¥15,423 million or 59.1% to ¥41,513 million. The operating income margin (operating income divided by sales) improved 3.8 percentage points from 10.8% for the previous year to 14.6%.

Net income

Net income surged ¥7,957 million or 46.4% from the previous year to ¥25,104 million. While the loss on sale or disposal of property, plant and equipment decreased ¥801 million from the previous year to ¥617 million, impairment loss on fixed assets of ¥737 million and depreciation resulting from revision of residual value of ¥2,749 million were reported.

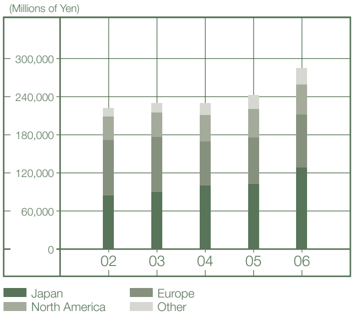
The impairment loss on fixed assets concerns recognition of impairment loss on business assets for manufacturing of electronic components in the Communication Media Components and Technical Ceramics Businesses. The depreciation resulting from revision of residual value was attributable to revise the estimated residual value of fixed assets for depreciation from 5% the acquisition cost to actual estimated disposal value (memorandum value of ¥1) from the under review.

Geographical Segment Information

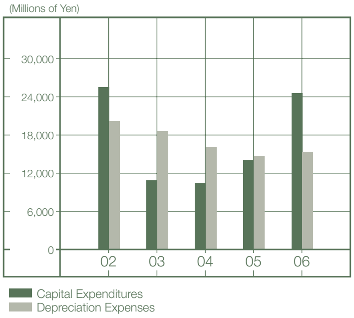
Japan

In the Automotive Components Business, sales of mainstay spark plugs and oxygen sensors showed robust growth. The Communication Media Components and Technical Ceramics Businesses performed well owing to

Net Sales by Region



Capital Expenditures and Depreciation Expenses



increased demand for IC packages and full-scale delivery of high-priority products such as oxygen concentrators for medical applications. As a result, sales in Japan amounted to ¥250,551 million, an increase of 19.0% year on year, and operating income shot up 66.9% to ¥35,505 million.

North America

In the Automotive Components Business, Japanese automobile manufacturers increased production and market conditions for the after-market products were favorable. In the Communication Media Components Business, sales of IC packages for MPUs increased strongly. As a result, sales in North America rose 13.6% from the previous year to ¥84,362 million and operating income increased 23.7% to ¥1,926 million.

Europe

Reflecting the higher demand for glow plugs and various types of sensors for diesel engines experienced by the Automotive Components Business, sales in Europe amounted to ¥48,541 million, an increase of 6.7% year on year, and operating income was ¥1,705 million, up 1.2%.

Other Regions

Overall, demand increased in China and Southeast Asia, where a growing number of production sites of the automotive and electronic components industries are located, as well as in Latin America and Oceania. Also, inclusion of two additional subsidiaries, namely, NGK Spark Plugs Malaysia Berhad and Siam NGK Spark Plug Co., Ltd., in the scope of consolidation had a positive impact on total sales in other regions. Sales in other regions advanced 25.6% from the previous year to ¥27,563 million and operating income surged 66.6% to ¥2,784 million.

Capital Expenditures

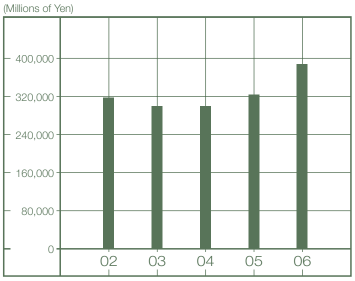
The Group’s capital expenditures totaled ¥26,919 million, which were for the purpose of increasing production, streamlining, improving quality and upgrading facilities.

Of the total capital expenditures, ¥18,535 million was allocated to the Automotive Components Business for the purpose of increasing production of spark plugs, glow plugs and oxygen sensors and streamlining and ¥8,360 million was allocated to the Communication Media Components and Technical Ceramics Businesses for the purpose of increasing production of IC packages and cutting tools, and ¥24 million was allocated to other businesses.

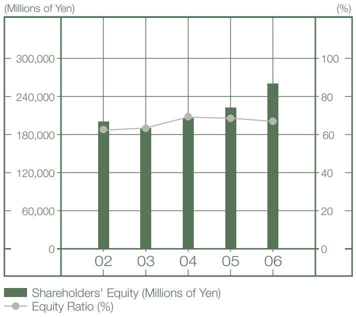
Financial Policy

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

Total Assets



Shareholders' Equity and Equity Ratio



organizations for the purpose of reducing investment risks.

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

Financial Condition

Total assets

Total assets were ¥386,235 million, having increased ¥63,126 million or 19.5% from the end of the previous fiscal year. Principal factors were as follows:

- Notes and accounts receivable increased ¥13,429 million owing to a substantial increase in sales, in particular, higher shipments for automobile manufacturers in Japan and overseas and for customers in the semiconductor and medical fields, as well as the impact of foreign exchange translation adjustment.
- Short-term investments increased ¥8,865 million due to the shift to short-term management of funds.
- Inventories increased ¥5,761 million due to the start of operation of a new factory and an increase in orders received from new customers as well as the impact of foreign exchange translation adjustment.
- Property, plant and equipment increased ¥11,754 million as a result of construction of a new factory building for production of glow plugs and expansion of the IC package production lines.
- Investment securities increased ¥18,208 million mainly due to an increase in the net unrealized gain on investment securities resulting from the rise of stock prices.

Total liabilities

Total liabilities amounted to ¥125,469 million, having increased ¥24,371 million or 24.1% from the end of the previous fiscal year. Principal factors were a ¥10,010 million increase in accounts payable, a ¥4,159 million increase in income taxes payable and an increase in deferred tax liabilities in line with the rise of stock prices.

Minority interests in consolidated subsidiaries

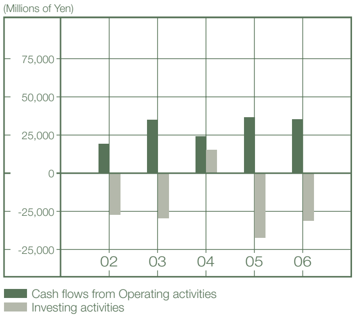
Minority interests in consolidated subsidiaries amounted to ¥1,553 million, having increased ¥475 million or 44.0% from the end of the previous fiscal year. This increase was mainly due to inclusion in the scope of consolidation of Siam NGK Spark Plug Co., Ltd. during the year ended March 31, 2006.

Shareholders’ equity

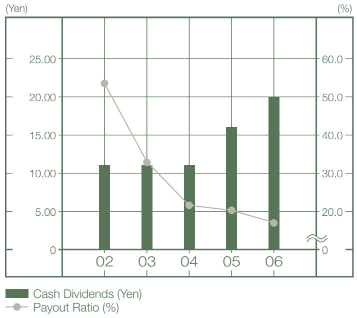
Shareholders’ equity totaled ¥259,213 million, an increase of ¥38,280 million from the end of the previous fiscal year. The increase was mainly attributable to reporting of higher net income and higher net unrealized gains on available-for-sale securities.

The shareholders’ equity ratio declined 1.3 percentage points from 68.4% at the end of the previous fiscal year to 67.1%. Shareholders’ equity per share based on the number of shares issued and outstanding at the end of the fiscal year was ¥1,166.97 compared with ¥997.13 at the end of the previous fiscal year.

Cash flows from Operating activities and Investing activities



Cash Dividends and Payout Ratio



Cash Flows

In the fiscal year ended March 31, 2006, net cash flow provided by operating activities was ¥34,750 million, net cash used in investing activities was ¥30,692 million, and net cash used in financing activities was ¥2,458 million. As a result, net cash and cash equivalents at the fiscal year-end after adding a foreign currency translation adjustment of ¥1,179 million increased ¥2,779 million to ¥43,304 million, an increase of 6.9% year on year.

Cash flows from operating activities

Net cash provided by operating activities decreased ¥1,342 million or 3.7% from the previous year to ¥34,750 million. Although income before income taxes and minority interests increased ¥12,865 million or 49.2% to ¥39,032 million, trade receivables and income taxes paid increased.

Cash flows from investing activities

Net cash used in investing activities decreased ¥11,090 million or 26.5% from the previous year to ¥30,692 million. Although purchase of property, plant and equipment increased ¥10,817 million to ¥24,561 million, there was a net increase in short-term investments of ¥17,490 million due to the procurement of funds through the issuance of bonds in the previous year.

Cash flows from financing activities

Net cash used in financing activities increased ¥570 million or 30.2% from the previous year to ¥2,458 million. The principal reason for the increase was an increase in dividends paid.

Dividend Policy

The Company regards returning profits to shareholders as one of its most important management policies and will continue to provide reassurance to its shareholders under the basic policy of continuing to pay stable dividends. The Company also thinks that providing shareholder returns in line with earnings is important. Maintaining a target dividend payout ratio of at least 20% of consolidated net income for the time being, the Company will decide the amount of dividends by comprehensively taking into consideration the basic policy of paying stable dividends, the capital expenditure plan, and other factors.

The Company increased the annual dividend for the fiscal year ended March 31, 2006, by ¥4 over the previous year to ¥20, consisting of an interim dividend of ¥9 and a year-end dividend of ¥11.

The Company intends to build up internal reserves for the purpose of investment in research and development, business expansion, and streamlining of operations essential to future growth, as well as for acquiring stakes in companies. To this end, the Company will strive to further improve business results and strengthen the financial position. The Company regards the acquisition of treasury stock as an effective means of increasing capital efficiency and will purchase treasury stock as appropriate.

Consolidated Balance Sheets

March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Assets			
Current assets:			
Cash and cash equivalents	**¥ 43,304**	¥ 40,525	**$ 370,120**
Short-term investments (Note 5)	**45,094**	36,229	**385,419**
Notes and accounts receivable, net of allowance for doubtful accounts (Notes 3 and 15)	**61,042**	47,613	**521,727**
Inventories (Note 4)	**51,128**	45,367	**436,991**
Deferred tax assets (Note 13)	**8,505**	7,563	**72,692**
Other current assets	**1,830**	1,620	**15,641**
Total current assets	**210,903**	178,917	**1,802,590**
Investments and other assets:			
Investment securities (Note 5)	**66,024**	47,816	**564,308**
Investments in unconsolidated subsidiaries and affiliates	**5,095**	4,927	**43,547**
Deferred tax assets (Note 13)	**1,174**	1,034	**10,034**
Other assets	**2,347**	1,477	**20,060**
	74,640	55,254	**637,949**
Property, plant and equipment, at cost:			
Land	**16,385**	15,201	**140,043**
Buildings and structures	**99,529**	91,110	**850,675**
Machinery and equipment	**190,375**	175,326	**1,627,137**
Construction in progress	**4,744**	2,344	**40,547**
	311,033	283,981	**2,658,402**
Less, accumulated depreciation	**(210,341)**	(195,043)	**(1,797,787)**
	100,692	88,938	**860,615**
	¥386,235	¥323,109	**$3,301,154**

See accompanying Notes to Consolidated Financial Statements.

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Liabilities, Minority Interests and Shareholders' Equity			
Current liabilities:			
Short-term borrowings (Note 7)	**¥ 10,463**	¥ 8,319	**$ 89,427**
Current portion of long-term debt (Note 7)	**10,039**	35	**85,803**
Accounts payable (Notes 6 and 15)	**37,361**	27,351	**319,325**
Accrued expenses	**13,237**	11,520	**113,137**
Income taxes payable	**11,045**	6,886	**94,402**
Deferred tax liabilities (Note 13)	**215**	208	**1,838**
Other current liabilities	**1,931**	1,561	**16,504**
Total current liabilities	**84,291**	55,880	**720,436**
Long-term debt (Note 7)	**16,217**	27,139	**138,607**
Employee retirement benefit liability (Note 8)	**14,187**	13,744	**121,256**
Deferred tax liabilities (Note 13)	**9,042**	2,659	**77,282**
Other long-term liabilities	**1,732**	1,676	**14,803**
Minority interests in consolidated subsidiaries	**1,553**	1,078	**13,274**
Shareholders' equity (Notes 12 and 16):			
Common stock, no par value:			
Authorized: 390,000,000 shares;			
Issued: 229,544,820 shares in 2006 and 2005	**47,869**	47,869	**409,137**
Capital surplus	**55,167**	54,826	**471,513**
Retained earnings	**138,203**	117,395	**1,181,222**
Net unrealized gains on available-for-sale securities	**27,832**	15,352	**237,880**
Foreign currency translation adjustment	**(3,404)**	(7,701)	**(29,094)**
Less, treasury stock at cost - 7,508,304 shares			
in 2006 and 8,063,200 shares in 2005	**(6,454)**	(6,808)	**(55,162)**
	259,213	220,933	**2,215,496**
Commitments and contingent liabilities (Notes 9, 10 and 11)			
	¥386,235	¥323,109	**$3,301,154**

Consolidated Statements of Income

For the Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Operating revenue:			
Net sales (Note 14)	**¥284,885**	¥241,186	**$2,434,915**
Operating costs and expenses (Notes 14 and 15):			
Costs of goods sold	**203,338**	177,786	**1,737,932**
Selling, general and administrative expenses	**40,034**	37,310	**342,171**
	243,372	215,096	**2,080,103**
Operating income	**41,513**	26,090	**354,812**
Other income (expenses):			
Interest and dividend income	**1,295**	953	**11,068**
Interest expenses	**(674)**	(647)	**(5,761)**
Loss on sale or disposal of property, plant and equipment	**(617)**	(1,418)	**(5,273)**
Impairment loss on fixed assets (Note 2(h))	**(737)**	—	**(6,299)**
Depreciation expenses resulting from revision of residual value (Note 2(g))	**(2,749)**	—	**(23,496)**
Equity in net earnings of affiliates	**673**	656	**5,752**
Foreign exchange gain	**486**	193	**4,154**
Other, net	**(158)**	340	**(1,350)**
	(2,481)	77	**(21,205)**
Income before income taxes and minority interests	**39,032**	26,167	**333,607**
Income taxes (Note 13)	**13,765**	8,975	**117,650**
Less, minority interests in net income of consolidated subsidiaries	**163**	45	**1,393**
Net income	**¥ 25,104**	¥ 17,147	**$ 214,564**

	Yen		U.S. Dollars
Per share:			
Net income:			
-Basic	**¥ 112.82**	¥ 77.01	**$ 0.96**
-Diluted	**106.91**	72.92	**0.91**
Cash dividends	**20.00**	16.00	**0.17**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

For the Years ended March 31, 2006 and 2005

	Number of common shares issued	Common stock	Capital surplus	Retained earnings	Net unrealized gains on available-for-sale securities	Foreign currency translation adjustment	Treasury stock
		Millions of Yen					
Balance at March 31, 2004	229,544,820	¥47,869	¥54,825	¥102,868	¥15,628	¥(8,516)	¥(6,710)
Net income for the year	—	—	—	17,147	—	—	—
Cash dividends	—	—	—	(2,547)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(73)	—	—	—
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	—	—	—	—	(276)	—	—
Translation adjustment	—	—	—	—	—	815	—
Purchase of treasury stock and fractional shares, net of sales	—	—	1	—	—	—	(98)
Balance at March 31, 2005	229,544,820	47,869	54,826	117,395	15,352	(7,701)	(6,808)
Net income for the year	—	—	—	25,104	—	—	—
Cash dividends	—	—	—	(4,208)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(88)	—	—	—
Conversion of convertible bonds (Note 12)	—	—	339	—	—	—	562
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	—	—	—	—	12,480	—	—
Translation adjustment	—	—	—	—	—	4,297	—
Purchase of treasury stock and fractional shares, net of sales	—	—	2	—	—	—	(208)
Balance at March 31, 2006	**229,544,820**	**¥47,869**	**¥55,167**	**¥138,203**	**¥27,832**	**¥(3,404)**	**¥(6,454)**

	Common stock	Capital surplus	Retained earnings	Net unrealized gains on available-for-sale securities	Foreign currency translation adjustment	Treasury stock
	Thousands of U.S. Dollars					
Balance at March 31, 2005	$409,137	$468,598	$1,003,376	$131,214	$(65,820)	$(58,188)
Net income for the year	—	—	214,564	—	—	—
Cash dividends	—	—	(35,966)	—	—	—
Bonuses to directors and corporate auditors	—	—	(752)	—	—	—
Conversion of convertible bonds (Note 12)	—	2,897	—	—	—	4,803
Net change in unrealized gains on available-for -sale securities, net of applicable income taxes	—	—	—	106,666	—	—
Translation adjustment	—	—	—	—	36,726	—
Purchase of treasury stock and fractional shares, net of sales	—	18	—	—	—	(1,777)
Balance at March 31, 2006	**$409,137**	**$471,513**	**$1,181,222**	**$237,880**	**$(29,094)**	**$(55,162)**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥39,032**	¥26,167	**$333,607**
Adjustments for:			
Depreciation	**18,018**	14,528	**154,000**
Impairment loss on fixed assets	**737**	—	**6,299**
Loss on sale or disposal of property, plant and equipment	**617**	1,418	**5,273**
Equity in net earnings of affiliates	**(673)**	(656)	**(5,752)**
Increase in trade receivables	**(10,006)**	(408)	**(85,522)**
Increase in inventories	**(3,003)**	(2,241)	**(25,667)**
Increase in trade payables	**1,559**	3,628	**13,325**
Other, net	**186**	535	**1,591**
Sub-total	**46,467**	42,971	**397,154**
Interest and dividend received	**1,482**	1,063	**12,667**
Interest paid	**(671)**	(651)	**(5,735)**
Income taxes paid	**(12,528)**	(7,291)	**(107,077)**
Net cash provided by operating activities	**34,750**	36,092	**297,009**
Cash flows from investing activities:			
Increase in property, plant and equipment	**(24,561)**	(13,744)	**(209,923)**
Increase in long-term investments	**(8,386)**	(12,312)	**(71,675)**
Decrease in long-term investments	**1,027**	1,033	**8,777**
Net decrease (increase) in short-term investments	**1,802**	(17,490)	**15,402**
Other, net	**(574)**	731	**(4,906)**
Net cash used in investing activities	**(30,692)**	(41,782)	**(262,325)**
Cash flows from financing activities:			
Increase in long-term debt	**—**	16,929	**—**
Repayment of long-term debt	**—**	(10,010)	**—**
Net increase (decrease) in short-term borrowings	**2,077**	(6,150)	**17,752**
Dividends paid	**(4,206)**	(2,547)	**(35,949)**
Purchase of treasury stock and fractional shares, net of sales	**(206)**	(96)	**(1,761)**
Other, net	**(123)**	(14)	**(1,051)**
Net cash used in financing activities	**(2,458)**	(1,888)	**(21,009)**
Effect of exchange rate changes on cash and cash equivalents	**1,179**	(119)	**10,077**
Net increase (decrease) in cash and cash equivalents	**2,779**	(7,697)	**23,752**
Cash and cash equivalents at beginning of year	**40,525**	48,222	**346,368**
Cash and cash equivalents at end of year	**¥43,304**	¥40,525	**$370,120**

See accompanying Notes to Consolidated Financial Statements.

1. Basis of Consolidated Financial Statements

(a) Basis of presenting the consolidated financial statements

The accompanying consolidated financial statements of NGK SPARK PLUG CO., LTD. (the "Company") and its consolidated subsidiaries (together with the Company, the "NGK Spark Plug Group") have been prepared in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law of Japan, and on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. These consolidated financial statements are compiled from the original consolidated financial statements in Japanese prepared by the Company as required by the Securities and Exchange Law of Japan and submitted to the Director of Kanto Finance Bureau of Japan.

(b) U.S. dollar amounts

The Company maintains its accounting records in Japanese Yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetic results of translating Japanese Yen into U.S. dollars at a rate of ¥117 to $1, the approximate rate of exchange at March 31, 2006. The inclusion of such dollar amounts is solely for the convenience of the readers and is not intended to imply that the assets and liabilities have been or could be readily converted, realized or settled in dollars at ¥117 to $1 or at any other rate.

(c) Reclassification

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

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

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

The number of consolidated subsidiaries, unconsolidated subsidiaries and affiliates for the years ended March 31, 2006 and 2005 was as follows:

	2006	2005
Consolidated subsidiaries:		
Domestic	**10**	10
Overseas	**21**	21
Unconsolidated subsidiaries, stated at cost	**4**	5
Affiliates, accounted for by the equity method	**3**	4
Affiliates, stated at cost	**4**	3

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

Overseas consolidated subsidiaries adopt accounting principles generally accepted in their respective countries, and no adjustments to conform to accounting principles generally accepted in Japan have been made to their financial statements on consolidation as allowed under accounting principles and practices generally accepted in Japan.

(b) Cash equivalents

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

(c) Investments and marketable securities

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

(d) Accounting for derivatives

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

(e) Inventories

Inventories are principally stated at moving average cost.

(f) Allowance for doubtful accounts

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

(g) Property, plant and equipment and depreciation

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

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

Effective from the year ended March 31, 2006, the Company and its domestic consolidated subsidiaries revised the estimated residual value of property, plant and equipment for depreciation from 5% of the acquisition cost to actual estimated disposal value, based on the Company's revaluation of the substantial usage and disposal condition of property, plant and equipment for the recent years. As a result, depreciation expenses increased by ¥457 million ($25,794 thousand) and the cumulative effect for prior years of ¥2,749 million ($23,496 thousand) was recorded as other expenses for the year ended March 31, 2006. Accordingly, operating income decreased by ¥316 million ($2,701 thousand) and income before income taxes and minority interests decreased by ¥3,127 million ($26,726 thousand) for the year ended March 31, 2006, as compared with the previous accounting method.

(h) Adoption of new accounting standard for impairment of fixed assets

On August 9, 2002, the Business Accounting Council of Japan issued "Accounting Standard for Impairment of Fixed Assets", which is effective for the fiscal years beginning April 1, 2005, with earlier adoption permitted. The Accounting Standards Board of Japan issued related practical guidance on October 31, 2003. The Company and its domestic consolidated subsidiaries have adopted this new accounting standard and related practical guidance effective for the year ended March 31, 2006. The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of the asset's net selling price and value in use. Fixed assets include land, plants, buildings and other forms of property as well as intangible assets and are to be grouped at the lowest level for which there are identifiable cash flows from other groups of assets.

For the purpose of recognition and measurement of an impairment loss, fixed assets of the NGK Spark Plug Group are grouped into cash-generating units based on the managerial accounting classification, other than idle or unused property. For the year ended March 31, 2006, the Company and its domestic consolidated subsidiaries recognized ¥737 million ($6,299 thousand) impairment loss on fixed assets, which consisted of manufacturing property for electronic components division located in Ise Factory of communication media components and technical ceramics segment, whose division recently became shrinking. As a result of adopting this new accounting standard, for the year ended March 31, 2006, operating income increased by ¥142 million ($1,214 thousand) and income before income taxes and minority interests decreased by ¥595 million ($5,085 thousand), as compared with the previous accounting method.

(i) Leases

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

(j) Employee retirement benefits

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

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

In accordance with the accounting standard for employee retirement benefits, the NGK Spark Plug Group has principally recognized the retirement benefits including pension cost and the related liability based on actuarial present value of projected benefit obligation using actuarial appraisal approach and the pension plan assets available for benefits at the respective fiscal year-ends. Unrecognized actuarial differences as changes in the projected benefit obligation or pension plan assets resulting from the experience different from that assumed and from changes in assumptions are amortized on a straight-line basis over ten years that represents a specific period not exceeding the average remaining service period of employees from the next year in which they arise in accordance with the Japanese accounting standard for employee retirement benefits.

(k) Accrued severance indemnities for officers
The NGK Spark Plug Group may pay severance indemnities to directors and corporate auditors, which are subject to the approval of the shareholders. The NGK Spark Plug Group has provided for the full amount of the liabilities of directors' and corporate auditors' severance indemnities at the respective balance sheet dates. At March 31, 2006 and 2005, other long-term liabilities in the accompanying consolidated balance sheets included these accruals for directors and corporate auditors in the amounts of ¥986 million ($8,427 thousand) and ¥1,092 million, respectively.

(l) Income taxes
Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforward. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period of the enactment date.

(m) Enterprise taxes
With the implementation of the "Revision of the Local Tax Law" (Legislation No.9, 2003) on March 31, 2005, size-based corporate taxes for local government enterprise taxes have been levied effective for the fiscal year beginning April 1, 2004. The NGK Spark Plug Group records enterprise taxes calculated based on the "added value" and "capital" amounts as selling, general and administrative expenses in accordance with practical guidance issued by Accounting Standards Board of Japan.

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

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

(o) Research and development expenses
Expenses related to research and development activities are charged to income as incurred. Research and development expenses relating to the NGK Spark Plug Group's activities include the plan or design for new products or processes, activities to significantly improve existing products or processes, and the daily improvement of existing products. For the years ended March 31, 2006 and 2005, research and development expenses amounted to ¥14,692 million ($125,573 thousand) and ¥14,360 million, respectively, and were included in costs of goods sold and selling, general and administrative expenses in the accompanying consolidated statements of income.

(p) Appropriation of retained earnings
Cash dividends and bonuses to directors and corporate auditors are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the Board of Directors and/or shareholders. Bonuses paid to directors and corporate auditors are recorded as a part of the appropriation of retained earnings, instead of being charged to income, as permitted by the Japanese accounting standard.

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

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

3. Notes and Accounts Receivable

At March 31, 2006 and 2005, notes and accounts receivable consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Trade receivables	**¥52,404**	¥40,365	**$447,897**
Unconsolidated subsidiaries and affiliates	**4,724**	4,086	**40,376**
Other	**4,138**	3,350	**35,368**
Less, allowance for doubtful accounts	**(224)**	(188)	**(1,914)**
	¥61,042	¥47,613	**$521,727**

4. Inventories

At March 31, 2006 and 2005, inventories consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Finished goods	**¥31,227**	¥28,517	**$266,897**
Work in process	**14,825**	11,747	**126,709**
Raw materials	**5,076**	5,103	**43,385**
	¥51,128	¥45,367	**$436,991**

5. Investments

At March 31, 2006 and 2005, short-term investments consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Marketable securities:			
Bonds	**¥20,715**	¥15,285	**$177,051**
Other non-marketable securities	**355**	36	**3,034**
Time deposits with an original maturity of more than three months	**24,024**	20,908	**205,334**
	¥45,094	¥36,229	**$385,419**

At March 31, 2006 and 2005, investment securities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Marketable securities:			
Equity securities	**¥56,933**	¥34,670	**$486,607**
Bonds	**5,256**	9,150	**44,923**
	62,189	43,820	**531,530**
Other non-marketable securities	**3,835**	3,996	**32,778**
	¥66,024	¥47,816	**$564,308**

Marketable securities are classified as available-for-sale and are stated at fair value with unrealized gains and losses excluded from the current earnings and reported as a net amount within the shareholders' equity account until realized. At March 31, 2006 and 2005, gross unrealized gains and losses for marketable securities are summarized as follows:

	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
	Millions of Yen			
At March 31, 2006:				
Marketable securities:				
Equity securities	**¥10,043**	**¥46,890**	**¥ —**	**¥56,933**
Bonds	**26,021**	**8**	**(58)**	**25,971**
	¥36,064	**¥46,898**	**¥(58)**	**¥82,904**
At March 31, 2005:				
Marketable securities:				
Equity securities	¥ 8,875	¥25,795	¥ —	¥34,670
Bonds	24,409	49	(23)	24,435
	¥33,284	¥25,844	¥(23)	¥59,105

	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
	Thousands of U.S. Dollars			
At March 31, 2006:				
Marketable securities:				
Equity securities	**$ 85,838**	**$400,769**	**$ —**	**$486,607**
Bonds	**222,401**	**69**	**(496)**	**221,974**
	$308,239	**$400,838**	**$(496)**	**$708,581**

For the year ended March 31, 2006, the NGK Spark Plug Group recorded no loss on write-down on marketable investment securities, while the NGK Spark Plug Group recorded a loss on write-down on marketable investment securities due to a permanent diminution in value in the amount of ¥129 million for the year ended March 31, 2005.

Expected maturities of available-for-sale debt securities at March 31, 2006 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥21,036	$179,795
Due after one year through five years	2,884	24,650
Due after five years through ten years	1,529	13,068
Due after ten years	1	8
	¥25,450	217,521

6. Accounts Payable

At March 31, 2006 and 2005, accounts payable consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Trade payables	**¥26,068**	¥19,505	**$223,701**
Unconsolidated subsidiaries and affiliates	**3,449**	3,158	**28,581**
Other	**7,844**	4,688	**67,043**
	¥37,361	¥27,351	**$319,325**

7. Short-term Borrowings and Long-term Debt

At March 31, 2006 and 2005, short-term borrowings consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Unsecured bank loans with interest at rates ranging from 1.075% to 4.698% per annum at March 31, 2006	**¥ 728**	¥ 785	**$ 6,222**
Export bills accepted by overseas consolidated subsidiaries and discounted with banks by the Company with interest at rates ranging from 1.375 % to 6.0 % per annum at March 31, 2006	**9,735**	7,534	**83,205**
	¥10,463	¥8,319	**$89,427**

At March 31, 2006 and 2005, long-term debt consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
1.86% unsecured bonds due March 2007	**¥10,000**	¥10,000	**$ 85,470**
Zero coupon convertible bonds with stock acquisition rights due March 2011	**16,099**	17,000	**137,598**
Capital lease obligations for overseas consolidated subsidiaries	**157**	174	**1,342**
	26,256	27,174	**224,410**
Less, current portion	**(10,039)**	(35)	**(85,803)**
	¥16,217	¥27,139	**$138,607**

The current conversion price of zero coupon convertible bonds due 2011 is ¥1,369 per share and is subject to adjustment in certain circumstances, including in the event of a stock split. At March 31, 2006, the number of shares of common stock necessary for conversion of all convertible bonds outstanding was approximately 12 million.

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

The aggregate annual maturities of long-term debt at March 31, 2006 were as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2007	¥10,039	$ 85,803
2008	39	333
2009	39	333
2010	40	342
2011	16,099	137,599
	¥26,256	224,410

8. Employee Retirement Benefits

The Company and its domestic consolidated subsidiaries have non-contributory defined benefit pension plans and lump-sum retirement benefit plans, which substantially cover all employees. Some of the overseas consolidated subsidiaries have defined contribution plans.

The following table reconciles the benefit liability and net periodic retirement benefit expense as at or for the years ended March 31, 2006 and 2005:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Reconciliation of benefit liability:			
Projected benefit obligation	**¥42,893**	¥42,290	**$366,607**
Less, fair value of pension plan assets at end of year	**(30,500)**	(23,652)	**(260,684)**
Projected benefit obligation in excess of pension plan assets	**12,393**	18,638	**105,923**
Unrealized actuarial differences (loss)	**1,794**	(4,894)	**15,333**
Net amounts of employee retirement benefit liability recognized on the consolidated balance sheets	**¥14,187**	¥13,744	**$121,256**

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

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Components of net periodic retirement benefit expense:			
Service cost	**¥2,175**	¥2,159	**$18,590**
Interest cost	**801**	778	**6,846**
Expected return on pension plan assets	**(461)**	(338)	**(3,940)**
Recognized actuarial differences	**670**	633	**5,726**
Net periodic retirement benefit expense	**¥3,185**	¥3,232	**$27,222**

Major assumptions used in the calculation of the above information for the years ended March 31, 2006 and 2005 were as follows:

	2006	2005
Method attributing the projected benefits to periods of services	**Straight-line method**	Straight-line method
Discount rate	**2.0%**	2.0%
Expected rate of return on pension plan assets	**2.25%**	1.75%
Amortization of actuarial differences	**10 years**	10 years

9. Contingent Liabilities

At March 31, 2006 and 2005, contingent liabilities in respect of trade notes and export bills discounted with banks with recourse in the ordinary course of business and guarantees of indebtedness principally of employees aggregated ¥637 million ($5,444 thousand) and ¥779 million, respectively.

10. Lease Commitments

The Company and its domestic consolidated subsidiaries have entered into various rental and lease agreements as lessee principally for buildings cancelable with a few months' advance notice and also for computer equipment, other office machines and vehicles which are not usually cancelable for 12 months to 84 months from the original contract dates.

Total rental and lease expenses including cancelable and non-cancelable leases for the years ended

March 31, 2006 and 2005 were ¥3,130 million ($26,752 thousand) and ¥2,100 million, respectively. For the years ended March 31, 2006 and 2005, lease expenses for non-cancelable lease agreements which were categorized as financing leases amounted to ¥899 million ($7,684 thousand) and ¥972 million, respectively.

The aggregate future minimum payments for such non-cancelable leases, including the imputed interest portion, at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Due within one year	**¥ 774**	¥ 828	**$ 6,615**
Due after one year	**1,104**	1,297	**9,436**
	¥1,878	¥2,125	**$16,051**

11. Derivative Instruments

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

At March 31, 2006 and 2005, aggregate contract balances of derivative instruments, other than those accounted for by the hedge accounting, amounted to ¥24,955 million ($213,291 thousand) and ¥17,280 million, respectively. Relating unrealized losses of ¥97 million ($829 thousand) and ¥248 million at March 31, 2006 and 2005, respectively, were recognized in the accompanying consolidated financial statements.

12. Shareholders' Equity

(a) At March 31, 2006 and 2005, capital surplus principally consisted of additional paid-in capital. At March 31, 2006 and 2005, retained earnings included legal reserve of the Company in the amount of ¥5,838 million ($49,897 thousand), respectively. The Commercial Code of Japan provides that an amount equivalent to at least 10% of cash payments as an appropriation of retained earnings shall be appropriated as legal reserve until a total amount of additional paid-in capital and such legal reserve equals 25% of common stock. The legal reserve is not available for distribution as dividends, but may be used to reduce a deficit or may be transferred to common stock by proper actions of the Board of Directors and/or shareholders of the Company.

(b) During the year ended March 31, 2006, the Company reissued 658,144 shares of the Company's common stock from treasury stock upon conversion of convertible bonds of ¥901 million ($7,701 thousand), and recorded an increase in capital surplus as gain on sale of treasury stock of ¥339 million ($2,897 thousand).

13. Income Taxes

Income taxes for the years ended March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Income taxes:			
Current	**¥16,926**	¥10,456	**$144,667**
Deferred	**(3,161)**	(1,481)	**(27,017)**
	¥13,765	¥ 8,975	**$117,650**

The tax effects on temporary differences that give rise to a significant portion of deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Deferred tax assets:			
Inter-company profits	**¥ 3,150**	¥ 2,932	**$ 26,923**
Depreciation	**4,654**	3,191	**39,778**
Employee retirement benefit liability	**5,904**	5,147	**50,461**
Accrued bonus to employees	**2,761**	2,392	**23,598**
Inventories	**769**	701	**6,573**
Enterprise tax accruals	**923**	616	**7,889**
Other	**2,398**	2,058	**20,496**
Less, valuation allowance	**(277)**	—	**(2,368)**
	20,282	17,037	**173,350**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	**18,997**	10,457	**162,368**
Accelerated depreciation	**443**	455	**3,786**
Other	**420**	395	**3,590**
	19,860	11,307	**169,744**
Net deferred tax assets	**¥ 422**	¥ 5,730	**$ 3,606**

At March 31, 2006 and 2005, deferred tax assets and liabilities were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Deferred tax assets:			
Current	**¥8,505**	¥7,563	**$72,692**
Non-current	**1,174**	1,034	**10,034**
Deferred tax liabilities			
Current	**215**	208	**1,838**
Non-current	**9,042**	2,659	**77,282**

In assessing the realizability of deferred tax assets, management of the NGK Spark Plug Group considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of the future taxable income during the periods in which those temporary differences become deductible. At March 31, 2006, a valuation allowance was provided to reduce the deferred tax assets to the extent that the management believes that the amount of the deferred tax assets is expected to be realizable.

Reconciliation of the differences between the Japanese statutory effective tax rate and the actual effective income tax rate on pre-tax income reflected in the accompanying consolidated statements of income for the years ended March 31, 2006 and 2005 was as follows:

	Percentage of pre-tax income	
	2006	2005
Japanese statutory effective tax rate	40.5%	40.5%
Increase (decrease) due to:		
Permanently non-deductible expenses	0.7	0.8
Tax exempt income	(0.3)	(0.7)
Tax credit for research and development expenses	(4.6)	(5.1)
Differences between Japanese and foreign tax rates	(1.2)	(0.9)
Other	0.2	(0.3)
Actual effective income tax rate	35.3%	34.3%

14. Segment Information

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

Information by industry segment for the years ended March 31, 2006 and 2005 was as follows:

	Automotive components	Communication media components and technical ceramics	Other	Total	Elimination	Consolidated
	Millions of Yen					
For the year 2006:						
Operating revenue - Net sales:						
External customers	¥165,280	¥116,032	¥3,573	¥284,885	¥—	¥284,885
Inter-segment sales	—	—	71	71	(71)	—
Total net sales	165,280	116,032	3,644	284,956	(71)	284,885
Operating costs and expenses	135,923	103,918	3,602	243,443	(71)	243,372
Operating income	¥ 29,357	¥ 12,114	¥ 42	¥ 41,513	¥—	¥ 41,513
Identifiable assets	¥235,696	¥149,213	¥1,326	¥386,235	¥—	¥386,235
Depreciation	8,607	6,645	16	15,268	—	15,268
Impairment loss on fixed assets	—	737	—	737	—	737
Capital expenditures	18,535	8,360	24	26,919	—	26,919
For the year 2005:						
Operating revenue - Net sales:						
External customers	¥148,726	¥ 89,805	¥2,655	¥241,186	¥ —	¥241,186
Inter-segment sales	—	—	63	63	(63)	—
Total net sales	148,726	89,805	2,718	241,249	(63)	241,186
Operating costs and expenses	123,780	88,667	2,712	215,159	(63)	215,096
Operating income	¥ 24,946	¥ 1,138	¥ 6	¥ 26,090	¥ —	¥ 26,090
Identifiable assets	¥198,625	¥123,210	¥1,274	¥323,109	¥ —	¥323,109
Depreciation	7,550	6,966	12	14,528	—	14,528
Capital expenditures	8,817	5,126	13	13,956	—	13,956
	Thousands of U.S. Dollars					
For the year 2006:						
Operating revenue - Net sales:						
External customers	$1,412,650	$ 991,726	$30,539	$2,434,915	$ —	$2,434,915
Inter-segment sales	—	—	607	607	(607)	—
Total net sales	1,412,650	991,726	31,146	2,435,522	(607)	2,434,915
Operating costs and expenses	1,161,735	888,188	30,787	2,080,710	(607)	2,080,103
Operating income	$ 250,915	$ 103,538	$ 359	$ 354,812	$ —	$ 354,812
Identifiable assets	$2,014,496	$1,275,325	$11,333	$3,301,154	$ —	$3,301,154
Depreciation	73,564	56,795	137	130,496	—	130,496
Impairment loss on fixed assets	—	6,299	—	6,299	—	6,299
Capital expenditures	158,419	71,453	205	230,077	—	230,077

Note: 1. As disclosed in Note 2(g), the Company and its domestic consolidated subsidiaries revised the estimated residual value of property, plant and equipment for depreciation from the year ended March 31, 2006. As a result, operating income for the year ended March 31, 2006 decreased by ¥122 million ($1,043 thousand) in automotive components segment and ¥194 million ($1,658 thousand) in communication media components and technical ceramics segment, respectively, as compared with the previous accounting method.

2. As described in Note 2(h), the Company and its domestic consolidated subsidiaries adopted a new accounting standard for impairment of fixed assets from the year ended March, 31, 2006. As a result, operating income for the year ended March 31, 2006 increased by ¥142 million ($1,214 thousand) in communication media components and technical ceramics segment, as compared with the previous accounting method.

Information summarized by geographic area for the years ended March 31, 2006 and 2005 was as follows:

	Japan	North America	Europe	Other	Total	Elimination	Consolidated
	Millions of Yen						
For the year 2006:							
Operating revenue - Net sales:							
External customers	**¥127,127**	**¥83,584**	**¥47,490**	**¥26,684**	**¥284,885**	**¥ —**	**¥284,885**
Inter-segment sales	**123,424**	**778**	**1,051**	**879**	**126,132**	**(126,132)**	**—**
Total net sales	**250,551**	**84,362**	**48,541**	**27,563**	**411,017**	**(126,132)**	**284,885**
Operating costs and expenses	**215,046**	**82,436**	**46,836**	**24,779**	**369,097**	**(125,725)**	**243,372**
Operating income	**¥ 35,505**	**¥ 1,926**	**¥ 1,705**	**¥ 2,784**	**¥ 41,920**	**¥ (407)**	**¥ 41,513**
Identifiable assets	**¥325,946**	**¥35,760**	**¥27,010**	**¥24,275**	**¥412,991**	**¥ (26,756)**	**¥386,235**
For the year 2005:							
Operating revenue - Net sales:							
External customers	¥101,448	¥73,700	¥44,961	¥21,077	¥241,186	¥ —	¥241,186
Inter-segment sales	109,176	556	549	875	111,156	(111,156)	—
Total net sales	210,624	74,256	45,510	21,952	352,342	(111,156)	241,186
Operating costs and expenses	189,349	72,700	43,824	20,280	326,153	(111,057)	215,096
Operating income	¥ 21,275	¥ 1,556	¥ 1,686	¥ 1,672	¥ 26,189	¥(99)	¥ 26,090
Identifiable assets	¥273,618	¥30,841	¥26,700	¥16,788	¥347,947	¥(24,838)	¥323,109
	Thousands of U.S. Dollars						
For the year 2006:							
Operating revenue - Net sales:							
External customers	**$1,086,556**	**$714,393**	**$405,897**	**$228,069**	**$2,434,915**	**$ —**	**$2,434,915**
Inter-segment sales	**1,054,906**	**6,650**	**8,983**	**7,512**	**1,078,051**	**(1,078,051)**	**—**
Total net sales	**2,141,462**	**721,043**	**414,880**	**235,581**	**3,512,966**	**(1,078,051)**	**2,434,915**
Operating costs and expenses	**1,838,000**	**704,581**	**400,308**	**211,786**	**3,154,675**	**(1,074,572)**	**2,080,103**
Operating income	**$ 303,462**	**$ 16,462**	**$ 14,572**	**$ 23,795**	**$ 358,291**	**$(3,479)**	**$ 354,812**
Identifiable assets	**$2,785,863**	**$305,641**	**$230,855**	**$207,479**	**$3,529,838**	**$(228,684)**	**$3,301,154**

Note: 1. As disclosed in Note 2(g), the Company and its domestic consolidated subsidiaries revised the estimated residual value of property, plant and equipment for depreciation from the year ended March 31, 2006. As a result, operating income for the year ended March 31, 2006 decreased by ¥316 million ($2,701 thousand) in Japan segment, as compared with the previous accounting method.

2. As described in Note 2(h), the Company and its domestic consolidated subsidiaries adopted a new accounting standard for impairment of fixed assets from the year ended March, 31, 2006. As a result, operating income for the year ended March 31, 2006 increased by ¥142 million ($1,214 thousand) in Japan segment, as compared with the previous accounting method.

For the years ended March 31, 2006 and 2005, overseas sales which included export sales from Japan and net sales of overseas consolidated subsidiaries other than Japan were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
North America	**¥118,330**	¥ 98,114	**$1,011,367**
Europe	**49,141**	46,643	**420,009**
Asia	**31,214**	23,178	**266,786**
Other area	**24,875**	20,402	**212,607**
	¥223,560	¥188,337	**$1,910,769**
Percentage of overseas sales to total consolidated net sales	**78.5%**	78.1%	

Note: With effect from the year ended March 31, 2006, overseas sales in Asia area were separately disclosed due to the increase of its materiality. The table above for the year 2005 disclosed above was reclassified to conform to the current year's classification for comparative purposes.

15. Related Party Transactions

During the years ended March 31, 2006 and 2005, the NGK Spark Plug Group had operational transactions with a significant 50%-owned affiliate accounted for by the equity method. A summary of the significant transactions with such an affiliate for the years ended, and as at March 31, 2006 and 2005 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
For the year:			
Purchases of parts as work in process	**¥32,354**	¥29,918	**$276,530**
Supply of raw materials	**27,445**	25,095	**234,573**
Rental income for property lent to affiliate	**786**	811	**6,718**
At the year-end:			
Accounts receivable	**¥ 2,884**	¥2,490	**$ 24,650**
Accounts payable	**3,335**	2,981	**28,504**

16. Subsequent Event

On June 29, 2006, the following appropriations of retained earnings were approved at an annual general meeting of shareholders of the Company:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends	¥2,442	$20,872
Bonuses to directors and corporate auditors	98	838

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of NGK SPARK PLUG CO., LTD. and its consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. This report, including the opinion, has been prepared for and only for the Company's shareholders as a body in accordance with the Securities and Exchange Law of Japan and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NGK SPARK PLUG CO., LTD. and its consolidated subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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

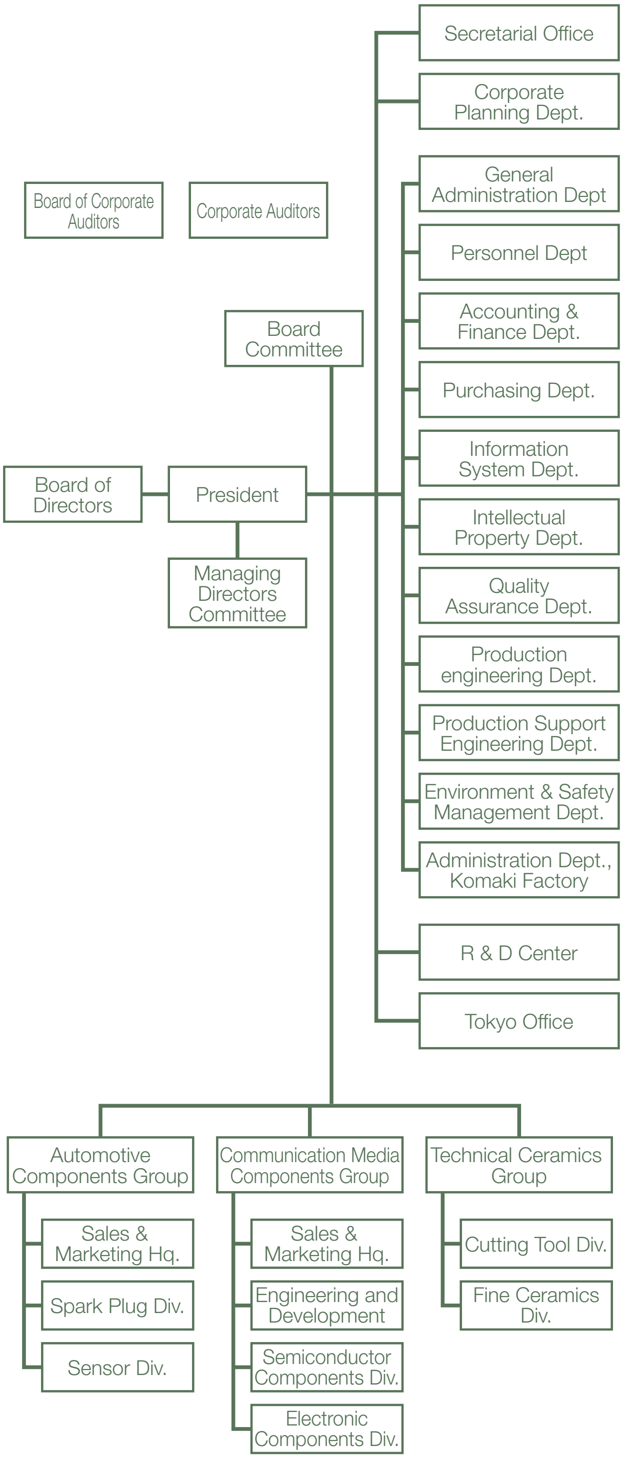
The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Nagoya, Japan
June 29, 2006

Organization

(As of June 29, 2006)



Board of Directors

(As of June 29, 2006)

President,
Chief Executive Officer

Norio Kato*

Executive Vice President

Genjiro Hashimoto*

Senior Managing Directors

Naomiki Kato
Ikuo Hotta
Kazuo Takiguchi
Jun Inagaki

Managing Directors

Akiyo Kasugai
Atsuhiro Chinari
Kazuo Kawahara
Chikanori Abe
Michio Obara
Takao Okumura

Directors

Tsutomu Kawamitsu
Shigeyasu Yamada
Hideaki Yagi
Junichi Kagawa
Yasuhiro Iwata
Tsuneo Ito
Tessho Yamada
Masami Kawashita
Katsuhiko Sumida
Seiji Nimura
Yo Tajima

Standing Corporate Auditors

Yoshiro Ushida
Osamu Tsuda

Corporate Auditors

Ikuko Ohtsuka
Hideaki Fujioka

*Representative Director

Corporate Data

(As of March 31, 2006)

NGK SPARK PLUG CO., LTD.

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

Established
October 1936

Common Shares
Authorized: 390,000,000
Issued: 229,544,820

Paid-in-Capital
¥47,869 million

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

Number of Employees
Consolidated: 9,815
Non-Consolidated: 5,106

Number of Shareholders
11,169

Transfer Agent
Mitsubishi UFJ Trust and Banking Corporation

Independent Auditors
ChuoAoyama PricewaterhouseCoopers

Common Stock Price Range

	FY2006	
	High	Low
April-June 2005	¥1,298	¥1,050
July-September 2005	1,708	1,294
October-December 2005	2,750	1,571
January-March 2006	3,150	2,320

NGK SPARK PLUGS
TECHNICAL CERAMICS
NGK SPARK PLUG CO., LTD.

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