

Annual Report 2002

Fiscal year ended March 31, 2002



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 the leading manufacturers ranging from automobiles to electronics for use as components in their production line.

The company is the world's largest manufacturer of spark plugs for use in automobiles, motorcycles and aircrafts, etc. in the world.

In the automotive field, oxygen sensors are added to be an increasingly important item and so hold are IC packages for MPU in electronics industry.

These main products occupy an important market share worldwide.

To cope with the highly advanced information-orientated society, we will continue to intensify our traditional objective; "contribute to the industry through development of ceramics".

We feel being responsible for creating and promoting a global development and production system for enhancement of our objective.



**Aiming to create
new values.**

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Financial Highlights

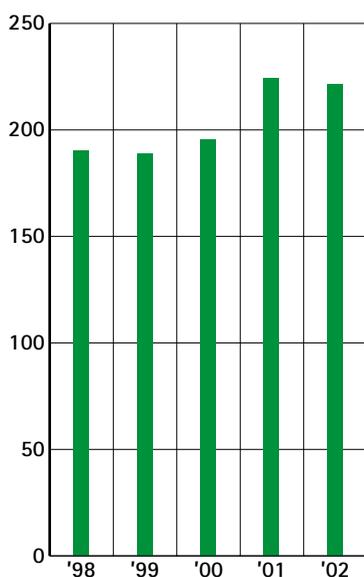
NGK SPARK PLUG CO., LTD. and consolidated subsidiaries
Years ended March 31, 2002, 2001 and 2000

	Millions of Yen			Thousands of U.S. Dollars	Percent Change
	2002	2001	2000	2002	2002 / 2001
For the year:					
Net sales	¥221,419	¥224,269	¥195,595	\$1,664,805	-1.3
Operating income	11,820	25,465	14,437	88,872	-53.6
Net income	4,844	13,056	6,578	36,421	-62.9
Depreciation	19,981	18,118	19,365	150,233	+10.3
Capital expenditures	25,508	23,479	17,492	191,789	+8.6
At year-end:					
Total assets	318,512	366,727	314,321	2,394,827	-13.1
Shareholders' equity	199,454	208,797	165,495	1,499,654	-4.5
		Yen		U.S. Dollars	
Per share data:					
Net income					
–Basic	¥20.80	¥57.19	¥29.56	\$0.16	-63.6
–Diluted	20.23	51.91	27.37	0.15	-61.0
Cash dividends	11.00	12.00	11.00	0.08	-8.3

Note: U.S. dollar amounts above and elsewhere in this Annual Report are converted from Yen, for convenience only, at the rate of ¥133-U.S.\$1. Billions is used in the American sense of one thousand million.

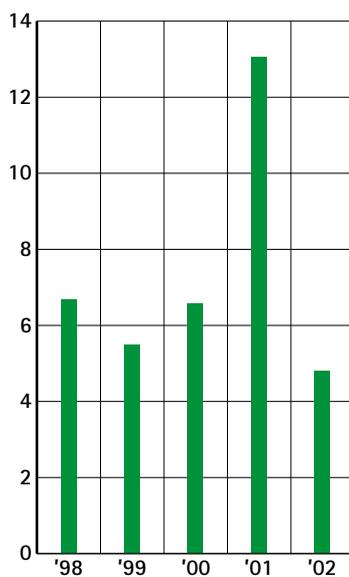
Net Sales

(Billions of Yen)



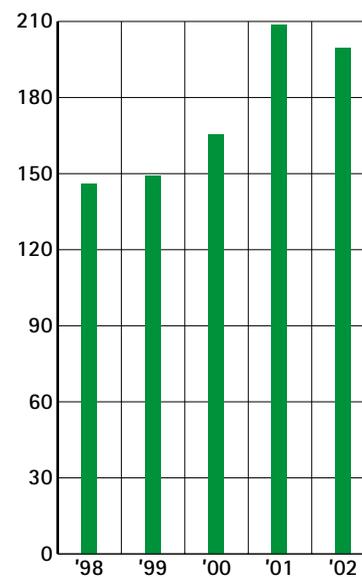
Net Income

(Billions of Yen)



Shareholders' Equity

(Billions of Yen)



A Message from the President



Shigenobu Kanagawa
President

I am pleased to have this opportunity to address our shareholders concerning the financial results for the fiscal year from April 1, 2001, to March 31, 2002.

In the fiscal year under review, the Japanese economy weakened, affected by the rapid slowdown of the US economy brought about by the collapse of the IT bubble. Corporate earnings deteriorated due to the decline in exports and sluggish capital investment, anxiety regarding employment grew and mounting credit risks. These factors, coupled with deflationary pressure, undermined the Japanese economy. Moreover, in the wake of the events of September 11, 2001, the slowdown of the European and Asian economies became apparent. Meanwhile, the yen depreciated toward the end of the fiscal year under review.

In these circumstances, NGK Spark Plug Group did its utmost to secure orders by vigorous, concerted marketing efforts. While the business of the Automotive Components Operation was robust, demand for the products of the

Communication Media Components and Technical Ceramics decreased. As a result, net sales were slightly lower than in the previous year and profits deteriorated sharply due to the decline in capacity utilization and the fall of product prices.

As for the future, there are signs that the Japanese economy is bottoming out. The US economy and other major economies overseas are also on a moderate recovery track. However, a decisive recovery of the IT sector is not expected to materialize in the short term and competition among automotive components suppliers has been intensifying as global procurement of components has become the norm in the automotive industry. In this situation, customers' requirements in terms of prices are increasingly severe and cost reduction is the most critical issue for the time being.

In view of these market conditions, we are working to boost the competitiveness of our products. We are reviewing our production systems from a global perspective and strengthening our technology development capabilities so as to establish mass-production technology for new products as soon as possible and create high-value-added products.

In these endeavors, we are determined to earn the continued support of our shareholders.

June 27, 2002

A handwritten signature in black ink that reads 'Shigenobu Kanagawa' in a cursive style.

Shigenobu Kanagawa
President

Management Policy



Basic Strategy

As a company providing technology-based products and services, NGK Spark Plug aims to become an industry leader that is trusted and highly regarded by its customers and society at large. We intend to achieve this by offering products characterized by superior quality and that deliver values attuned to the needs of the era. At the same time, to satisfy the expectations of our shareholders, we are endeavoring to boost the enterprise value by creating a working environment that encourages every employee to develop professionally, and thus make a valuable contribution to the progress of the Company.

Dividend Policy

Regarding dividends, it is the Company's basic policy to maintain stable dividend payment and to meet the expectations of shareholders while taking into consideration overall circumstances, including earnings prospects and the business outlook. Also, in order for us to ensure a steady return of profits to shareholders in the future, we must work to sharpen our competitive edge in the marketplace; this requires aggressive capital investment and R&D expenditure targeting promising fields. For this reason, we will continue to strive to increase our internal reserve.

Medium to Long-term Business Plan

The Company's business strategy focuses on three core operations: automotive-related business, information-telecommunications-related business, and ceramics-related business. We are resolved to strike the optimum balance among these businesses so that they complement and promote one another as much as possible. However, since exports account for a large part of earnings across all three operations, foreign exchange fluctuations have a considerable impact on earnings. In order to ensure steady

earnings and sustained growth in these circumstances, the Company has formulated the following business strategies and objectives:

- i. In order to achieve further growth in the mature automotive-related industry, management has identified as a priority the need to increase the competitive edge of its products. Our aim is to outstrip the competition and secure a solid position within the industry by building a global organizational framework that includes sales, production, and procurement operations.
- ii. In the information-telecommunications industry, which is expected to expand far into the future, the Company intends to increase customer satisfaction by anticipating emerging needs, and, on that basis, offering new products that satisfy new customer preferences. We also have our sights set on becoming the first-choice vendor for each type of product we handle. Moreover, the Company will actively move into new business fields that have strong earnings potential.
- iii. Without restricting operations to its traditional business fields, the Company will strive to develop and promote new products that promise a high return on investment and concentrate resources on those new businesses, thereby strengthening the Company's earnings base.

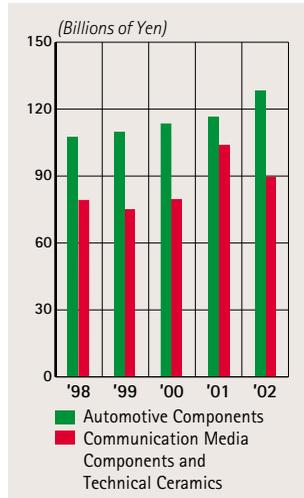
In a bid to achieve these targets, in the fiscal year under review the Company launched "Performance 1 to 3," a medium-term management plan covering three fiscal years. The Company is devoting all its efforts to achieving the objectives set out in the plan.

Review of Operations



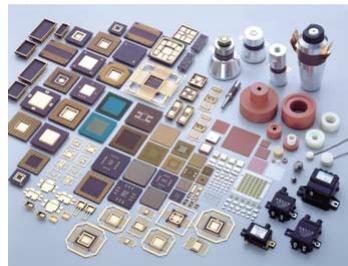
Automotive components

Sales of spark plugs in Japan decreased slightly from the previous year because sales of those for use in new automobiles were sluggish due to reduced production of automobiles. In contrast, exports held up well, led by shipments to the North American and European markets. As a result, sales of spark plugs increased from the previous year. Regarding automotive sensors, such as oxygen sensors, exports were sluggish due to reduced production by automobile manufacturers, the major customers, but sales in Japan increased from the previous year thanks to the depreciation of the yen and NGK Spark Plug's increasing share of the Japanese market. As a result, sales of the Automotive Components Operation increased 9.9% year on year to ¥128,349 million, and operating income increased 5.3% to ¥16,577 million.



Communication Media Components and Technical Ceramics

Demand for semiconductor devices for personal computers and communication network equipment declined rapidly due to the sharp reduction in investment in the IT-related industry, a backlash against the rapid expansion until two years ago. As a result, orders received for IC packages decreased greatly. We started shipment of a new type of plastic IC package for semiconductor manufacturers in the US in the second half of the fiscal year under review, but it did not lead to a recovery of sales. Orders received for electronic components for cellular phones, such as dielectric filters, decreased greatly as inventory adjustment lasted for a long time. Furthermore, demand for cutting tools and fine ceramics was very weak, affected by reduced production by the related industry and curtailment of capital investment. As a result, sales of the Communication Media Components and Technical Ceramics Operation were 13.8% lower than in the previous year at ¥89,682 million and an operating loss of ¥4,842 million was posted.



FISCAL 2002 TOPICS

In May 2001, NGK Spark Plug announced its successful development of three types of hydrogen sensors, namely, the Hydrogen Sensor that gauges hydrogen concentration, Hydrogen Flow Sensor and Hydrogen Sensor for Leak Monitoring, for vehicles that run on fuel cells. The Hydrogen Sensor has the same physical structure as the zirconia oxygen sensor, a product for which we are renowned. The Hydrogen Flow Sensor and the Hydrogen Sensor for Leak Monitoring use silicon micro-heaters. They are the world's first products



of their kind that can be installed on-board. For achieving practical application of fuel-cell vehicles, which automotive manufacturers are competing fiercely to develop, efficient control of hydrogen using these sensors will be indispensable. Besides application of these hydrogen sensors for fuel-cell vehicles, we intend to expand their application to stationary fuel cells for power sources, air-flow meters for gasoline or diesel engines, and other silicon micro-gas sensors.

Five - Year Summary

NGK SPARK PLUG CO., LTD. and consolidated subsidiaries
Years ended March 31, 2002, 2001, 2000, 1999 and 1998

	Millions of Yen					Thousands of U.S. Dollars
	2002	2001	2000	1999	1998	2002
For the year:						
Net sales	¥221,419	¥224,269	¥195,595	¥188,744	¥ 190,333	\$1,664,805
Net income	4,844	13,056	6,578	5,494	6,669	36,421
At year-end:						
Total assets	318,512	366,727	314,321	300,680	312,010	2,394,827
Shareholders' equity	199,454	208,797	165,495	149,117	146,139	1,499,654
Number of shares issued (in thousands)	229,544	239,522	222,546	222,529	222,529	
Per share data:						
	Yen					U.S. Dollars
Net income						
-Basic	¥20.80	¥57.19	¥29.56	¥24.69	30.01	\$0.16
-Diluted	20.23	51.91	27.37	22.82	27.43	0.15
Cash dividends	11.00	12.00	11.00	11.00	11.00	0.08
Shareholders' equity	869.04	871.72	743.65	670.11	656.73	6.53
Ratios:						
	Percent					
Equity ratio	62.6%	56.9%	52.7%	49.6%	46.8%	
Return on net sales	2.2%	5.8%	3.4%	2.9%	3.5%	
Return on assets	1.5%	3.8%	2.1%	1.8%	2.1%	
Return on equity	2.4%	7.0%	4.2%	3.7%	4.6%	

Note: U.S. dollar amounts above and elsewhere in this Annual Report are converted from yen, for convenience only, at the rate of ¥133-U.S.\$1. Billions is used in the American sense of one thousand million.

Financial Review

Sales and Profits

Net sales for the year under review were ¥221,419 million, a decrease of 1.3% from the previous year. The ratio of exports increased by 4.4 percentage points to 81.9%. Cost of goods sold was ¥176,225 million, an increase of 5.7%, and the ratio of cost to sales deteriorated by 5.2 percentage points to 79.6%. Selling, general and administrative expenses were ¥33,374 million, having increased by ¥1,348 million from the previous year. Other expenses (net) amounted to ¥3,760 million, compared with ¥3,367 million in the previous year. Gain on sale of investment securities amounted to ¥1,079 million and a loss on write-down of investment securities amounted to ¥2,671 million. As a result, operating income was ¥11,820 million, a decline of 53.6% from the previous year and net income was ¥4,844 million, a decrease of 62.9%.

¥10,179 million, the redemption of the fourth convertible bonds amounting to ¥19,970 million and payment of income taxes for the previous year, and the decrease in investments due to sale of investment securities and write-down.

Total liabilities amounted to ¥118,280 million at year-end, having decreased by 24.8% from the end of the previous year. This decrease was mainly attributable to the payment of accounts payable for machinery and equipment and income taxes payable and the redemption of the fourth convertible bonds and the decrease in deferred tax liabilities due to the decrease of unrealized gains on available-for-sale securities. Shareholders' equity amounted to ¥199,454 million, having decreased by 5.7% from the end of the previous year. As a result, the equity ratio rose to 62.6% from 56.9% in the previous year.

Financial Position

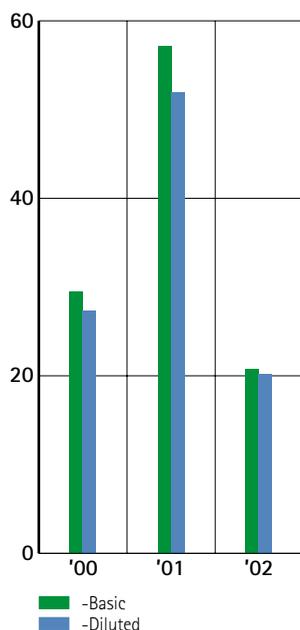
Total assets at year-end were ¥318,512 million, having decreased by 13.1% from the end of the previous year. This decrease was mainly attributable to the decrease in cash and cash equivalents due to acquisition and cancellation of the Company's stocks amounting to

Cash Flows

Net cash provided by operating activities amounted to ¥18,728 million due to the decrease in net income, compared with ¥24,144 million for the previous year. Net cash used in investing activities amounted to ¥26,812 million, compared with ¥19,393 million for

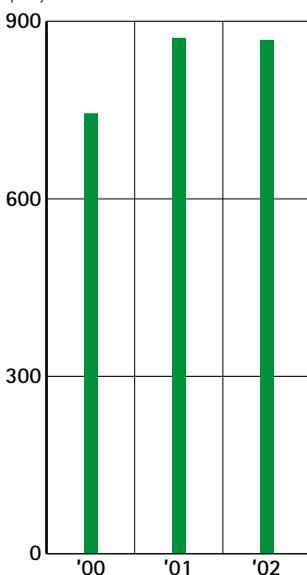
Net Income per Share

(Yen)



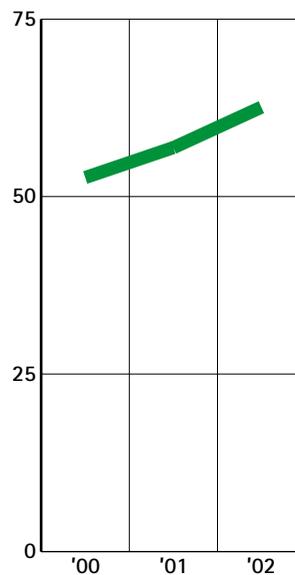
Shareholders' Equity per Share

(Yen)



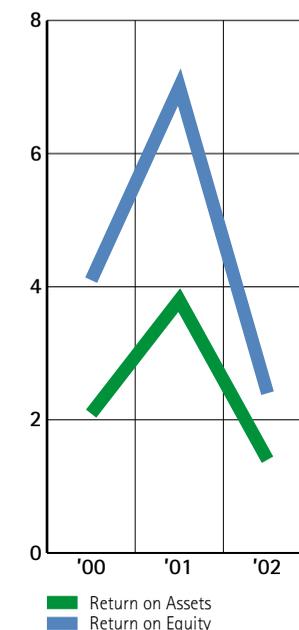
Equity Ratio

(%)



ROA & ROE

(%)



the previous year. This was mainly attributable to the increase in property, plant and equipment. Net cash used in financing activities amounted to ¥32,719 million as a result of the acquisition and cancellation of the Company's stocks and the redemption of the fourth convertible bonds, compared with net cash provided by financing activities amounting to ¥6,422 million for the previous year.

As a result, cash and cash equivalents, taking the effect of exchange rate changes into account, amounted to ¥39,436 million, having decreased by ¥40,305 million from ¥79,741 million for the previous year.

Breakdown by Region

Japan

Despite favorable growth in earnings of the automotive-related business, sales of the information-telecommunications business such as IC packages decreased considerably due to a rapid reduction in demand for semiconductor products. As a result, sales declined

6.1% to ¥187,904 million and operating income fell 58.6% to ¥9,123 million.

North America

In the North American market, sales expanded 5.3% from the previous year to ¥87,065 million and operating income rose 14.7% to ¥658 million, because translated yen amounts increased owing to the trend of yen depreciation in exchange rates.

Europe

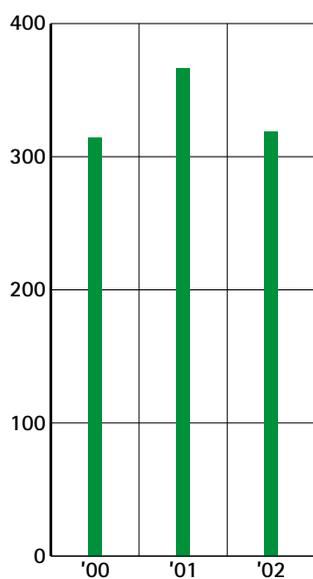
Sales in Europe grew strongly, particularly for automotive sensors. Sales rose 9.7% to ¥37,729 million and operating income increased 21.5% to ¥1,409 million.

Other regions

In Central and South America, Oceania and Southeast Asia, business was steady overall. Sales edged up 5.0% to ¥14,320 million, whereas operating income declined 22.8% to ¥1,142 million.

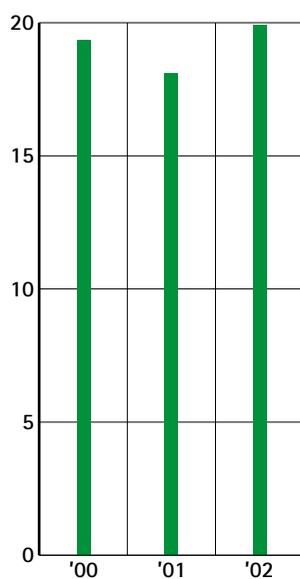
Total Assets

(Billions of Yen)



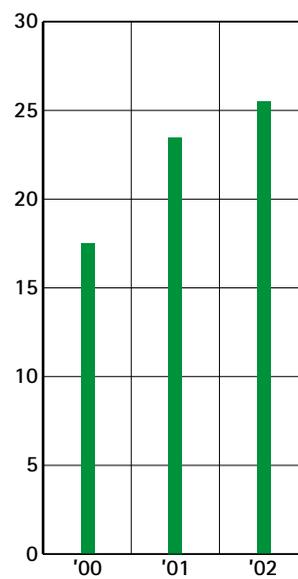
Depreciation

(Billions of Yen)



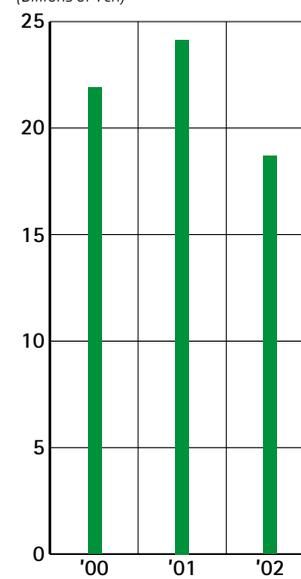
Capital Expenditures

(Billions of Yen)



Cash Flows from Operating Activities

(Billions of Yen)



Consolidated Balance Sheets

NGK SPARK PLUG CO., LTD. and consolidated subsidiaries

March 31, 2002 and 2001

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2002	2001	2002
Assets			
Current assets:			
Cash and cash equivalents	¥ 39,436	¥ 79,741	\$ 296,511
Short-term investments (Note 5)	10,928	12,649	82,166
Notes and accounts receivable, net of allowance for doubtful accounts (Notes 3 and 16)	46,624	45,872	350,556
Inventories (Note 4)	51,114	51,679	384,316
Deferred tax assets (Note 14)	6,340	5,957	47,669
Other current assets	2,566	1,661	19,293
Total current assets	157,008	197,559	1,180,511
Investments and other assets:			
Investment securities (Note 5)	47,252	54,879	355,278
Investments in and long-term loans to unconsolidated subsidiaries and affiliates (Note 5)	3,906	4,132	29,369
Deferred tax assets (Note 14)	1,234	822	9,278
Other assets	1,710	1,926	12,857
	54,102	61,759	406,782
Property, plant and equipment (Note 6)	107,402	107,409	807,534
	¥318,512	¥366,727	\$2,394,827

See accompanying Notes to Consolidated Financial Statements.

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2002	2001	2002
Liabilities, Minority Interests and Shareholders' Equity			
Current liabilities:			
Short-term borrowings (Note 8)	¥ 18,337	¥ 17,692	\$ 137,872
Current portion of long-term debt (Note 8)	537	20,235	4,037
Accounts payable (Notes 7 and 16)	26,138	35,018	196,526
Accrued expenses	12,479	13,267	93,827
Income taxes payable	1,482	8,700	11,143
Other current liabilities (Note 14)	1,447	1,268	10,880
Total current liabilities	60,420	96,180	454,285
Long-term debt (Note 8)	40,528	40,684	304,722
Employee retirement benefit liability (Note 9)	12,421	12,373	93,391
Deferred tax liabilities (Note 14)	3,576	6,319	26,887
Other long-term liabilities	1,335	1,706	10,038
Commitments and contingent liabilities (Notes 10 and 11)			
Minority interests in consolidated subsidiaries	778	668	5,850
Shareholders' equity (Notes 13 and 17):			
Common stock, no par value:			
Authorized: 390,000,000 shares;			
Issued: 229,544,820 shares in 2002 and 239,522,827 shares in 2001	47,869	47,854	359,917
Additional paid-in capital	54,825	54,810	412,218
Retained earnings	89,480	97,706	672,782
Net unrealized gains on available-for-sale securities	11,885	15,180	89,361
Foreign currency translation adjustment	(4,570)	(6,753)	(34,361)
Less, treasury stock at cost - 35,163 shares in 2002	(35)	-	(263)
	199,454	208,797	1,499,654
	¥318,512	¥366,727	\$2,394,827

Consolidated Statements of Income

NGK SPARK PLUG CO., LTD. and consolidated subsidiaries

For the years ended March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Operating revenue:			
Net sales (Note 15)	¥221,419	¥224,269	\$1,664,805
Operating costs and expenses (Notes 15 and 16):			
Cost of goods sold	176,225	166,778	1,325,000
Selling, general and administrative expenses	33,374	32,026	250,933
	209,599	198,804	1,575,933
Operating income	11,820	25,465	88,872
Other income (expenses):			
Interest and dividend income	1,092	1,770	8,211
Interest expenses	(1,818)	(2,582)	(13,669)
Loss on sale or disposal of property, plant and equipment	(1,126)	(1,932)	(8,466)
Gain on transfer of investment securities to trusts for retirement benefit plan	—	4,291	—
Transitional provision of adoption of new accounting standard for retirement benefits	—	(4,935)	—
Loss on write-down of investment securities	(2,671)	—	(20,083)
Gains on sales of investment securities	1,079	—	8,113
Foreign exchange gain	762	1,181	5,729
Miscellaneous, net	(1,078)	(1,160)	(8,105)
	(3,760)	(3,367)	(28,270)
Income before income taxes and minority interests	8,060	22,098	60,602
Income taxes (Note 14)	3,115	8,950	23,421
Less, minority interests in net income of consolidated subsidiaries	101	92	760
Net income	¥ 4,844	¥ 13,056	\$ 36,421

	Yen	U.S. Dollars
Per share:		
Net income:		
–Basic	¥20.80	¥57.19
–Diluted	20.23	51.91
Cash dividends	11.00	12.00

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

NGK SPARK PLUG CO., LTD. and consolidated subsidiaries

For the years ended March 31, 2002 and 2001

	Number of common shares issued	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on available -for-sale securities	Foreign currency translation adjustment	Treasury stock
Millions of Yen							
Balance at March 31, 2000	222,546,679	¥37,057	¥41,244	¥87,197	¥ —	¥ —	¥ (3)
Net income for the year	—	—	—	13,056	—	—	—
Cash dividends	—	—	—	(2,482)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(65)	—	—	—
Exercise of warrants	16,973,216	10,795	13,564	—	—	—	—
Conversion of convertible bonds	2,932	2	2	—	—	—	—
Net unrealized gains on available-for-sale securities, net of applicable income taxes of ¥10,942 million	—	—	—	—	15,180	—	—
Translation adjustment	—	—	—	—	—	(6,753)	—
Fractional shares sold, net	—	—	—	—	—	—	3
Balance at March 31, 2001	239,522,827	47,854	54,810	97,706	15,180	(6,753)	—
Net income for the year	—	—	—	4,844	—	—	—
Cash dividends	—	—	—	(2,819)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(72)	—	—	—
Conversion of convertible bonds	21,993	15	15	—	—	—	—
Cancellation of shares (Note 13)	(10,000,000)	—	—	(10,179)	—	—	—
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	—	—	—	—	(3,295)	—	—
Translation adjustment	—	—	—	—	—	2,183	—
Fractional shares acquired, net	—	—	—	—	—	—	(35)
Balance at March 31, 2002	229,544,820	¥47,869	¥54,825	¥89,480	¥11,885	¥(4,570)	¥ (35)

Thousands of U.S. Dollars							
Balance at March 31, 2001		\$359,804	\$412,105	\$734,631	\$114,135	\$(50,774)	\$ —
Net income for the year		—	—	36,421	—	—	—
Cash dividends		—	—	(21,195)	—	—	—
Bonuses to directors and statutory auditors		—	—	(541)	—	—	—
Conversion of convertible bonds		113	113	—	—	—	—
Cancellation of shares (Note 13)		—	—	(76,534)	—	—	—
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes		—	—	—	(24,774)	—	—
Translation adjustment		—	—	—	—	16,413	—
Fractional shares acquired, net		—	—	—	—	—	(263)
Balance at March 31, 2002		\$359,917	\$412,218	\$672,782	\$89,361	\$(34,361)	\$ (263)

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

NGK SPARK PLUG CO., LTD. and consolidated subsidiaries

For the years ended March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 8,060	¥22,098	\$ 60,602
Adjustments for:			
Depreciation	19,981	18,118	150,233
Loss on sale or disposal of property, plant and equipment	1,126	1,932	8,466
Loss on write-down of investment securities	2,671	—	20,083
Gain on sales of investment securities	(1,079)	—	(8,113)
Decrease (increase) in receivables	1,159	(4,128)	8,714
Decrease (increase) in inventories	3,900	(9,970)	29,323
Decrease in payables	(4,937)	(323)	(37,120)
Other, net	33	3,119	248
Sub total	30,914	30,846	232,436
Interest and dividend received	1,316	1,971	9,895
Interest paid	(2,016)	(2,817)	(15,158)
Income taxes paid	(11,486)	(5,856)	(86,361)
Net cash provided by operating activities	18,728	24,144	140,812
Cash flows from investing activities:			
Increase in property, plant and equipment	(28,450)	(21,351)	(213,910)
Increase in long-term investments and loans	(5,383)	(10,033)	(40,473)
Decrease in property, long-term investments and loans	5,334	1,546	40,105
Net decrease in short-term investments	1,687	10,445	12,684
Net cash used in investing activities	(26,812)	(19,393)	(201,594)
Cash flows from financing activities:			
Increase in long-term debt	—	5	—
Repayment of long-term debt	(19,973)	(18,285)	(150,173)
Net increase in short-term borrowings	309	5,625	2,323
Exercise of warrants	—	21,573	—
Dividends paid	(2,819)	(2,482)	(21,195)
Cancellation of shares	(10,179)	—	(76,534)
Other, net	(57)	(14)	(428)
Net cash (used in) provided by financing activities	(32,719)	6,422	(246,007)
Effect of exchange rate changes on cash and cash equivalents	498	627	3,744
Net (decrease) increase in cash and cash equivalents	(40,305)	11,800	(303,045)
Cash and cash equivalents at beginning of year	79,741	67,941	599,556
Cash and cash equivalents at end of year	¥39,436	¥79,741	\$296,511

See accompanying Notes to Consolidated Financial Statements.

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 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 in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards. Certain items presented in the original consolidated financial statements in Japanese submitted to the Director of Kanto Finance Bureau of Japan have been reclassified in these accounts for the convenience of readers outside Japan. The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than 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 ¥133 to \$1, the approximate rate of exchange at March 31, 2002. The inclusion of such dollar amounts is solely for the convenience of the readers and is not intended to imply that Yen and the assets and liabilities originating in Yen have been or could be readily converted, realized or settled in dollars at ¥133 to \$1 or at any other rate.

(c) Reclassification

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

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

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

The number of consolidated subsidiaries, unconsolidated subsidiaries and affiliates for the years ended March 31, 2002 and 2001 was as follows:

	2002	2001
Consolidated subsidiaries:		
Domestic	11	10
Overseas	17	16
Unconsolidated subsidiaries, stated at cost	5	5
Affiliates, accounted for by the equity method	5	5
Affiliates, stated at cost	2	2

The Company's overseas consolidated subsidiaries close their books at December 31 every year, three months earlier than the Company and other domestic consolidated subsidiaries. The Company consolidated such subsidiaries' financial statements as of their year-end. Significant transactions for the period between 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 with accounting principles generally accepted in Japan have been made to their financial statements on consolidation as allowed under accounting principles and practices generally accepted in Japan.

(b) Cash equivalents

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

(c) Investments and marketable securities

The NGK Group classifies certain investments in debt and equity securities as "held-to-maturity", "trading" or "available-for-sale", whose classification determines the respective accounting method as stipulated by the accounting standard for financial instruments. Marketable securities with market quotations for available-for-sale securities are stated at fair value and net unrealized gains or losses on these securities are reported as a separate component of shareholders' equity, net of applicable income taxes. Gains and losses on disposition of marketable securities are computed by the moving average method. Nonmarketable 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 hedging accounting is not appropriate or where there is no hedging designation, and the gains or losses on derivatives are recognized in the current earnings.

(e) Inventories

Inventories are principally stated at moving average cost.

(f) Allowance for doubtful accounts

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

(g) Property, plant and equipment and depreciation

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

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

(h) Leases

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

(i) Employee retirement benefits

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

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

The NGK Group adopted the new accounting standard for employee retirement benefits from the year ended March 31, 2001. Until the year ended March 31, 2000, the contribution to the pension plan was charged to income when paid, and the NGK Group principally provided for accrued severance indemnities at 100% of the amount which would be payable if all of its employees were voluntary to terminate their service at the balance sheet date, less net assets of the funded pension plan. In accordance with the new accounting standard, the NGK Group has principally recognized the retirement benefits

including pension cost and related liability based on actuarial present value of projected benefit obligation using actuarial appraisal approach and the pension plan assets available for benefits at the respective fiscal year-ends. A transitional provision of adoption of this new accounting standard of ¥4,935 million was charged to income as other expenses in a single fiscal year ended March 31, 2001, through the trusts foundation for the transfer of investment securities with a recorded gain of ¥4,291 million. Unrecognized actuarial differences as changes in the projected benefit obligation or pension plan assets resulting from the experience different from that assumed and from changes in assumptions are amortized on a straight-line basis over ten years as a certain period within remaining service lives of employees from the next year in which they arise.

(j) Accrued severance indemnities for officers

The NGK Group may pay severance indemnities to directors and statutory auditors, which are subject to the approval of the shareholders. The NGK Group has provided for the full amount of the liabilities of directors' and statutory auditors' severance indemnities at the respective balance sheet dates. At March 31, 2002 and 2001, other long-term liabilities in the accompanying consolidated balance sheets included these accruals for directors and statutory auditors in the amounts of ¥811 million (\$6,098 thousand) and ¥1,249 million, respectively.

(k) Income taxes

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

(l) Translation of foreign currency accounts

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

In respect of the financial statement items of overseas consolidated subsidiaries, all asset and liability accounts are translated into Japanese Yen by applying the exchange rates in effect at the respective fiscal year-ends. All income and expense

accounts are translated at the average rates of exchange prevailing during each year. Translation differences, after allocating to minority interests portions attributable to minority interests, are reported as foreign currency translation adjustment in a separate component of shareholders' equity in the accompanying consolidated balance sheets.

(m) Research and development expenses

Expenses related to research and development activities are charged to income as incurred. Research and development expenses relating to the NGK Group's activities such as not only a plan or design for a new product or process or for a significant improvement to an existing product or process, but also a daily improvement of an existing product, amounted to ¥13,368 million (\$100,511 thousand) and ¥12,391 million for the years ended March 31, 2002 and 2001, respectively, and were included in costs of goods sold and selling, general and administrative expenses in the accompanying consolidated statements of income.

(n) Appropriation of retained earnings

Cash dividends and bonuses to directors and statutory auditors are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the Board of Directors and/or shareholders

(o) Per share data

Basic net income per share is based on 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 as applicable to the respective years.

3. Notes and Accounts Receivable

At March 31, 2002 and 2001, notes and accounts receivable consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Trade receivables	¥41,367	¥40,434	\$311,030
Unconsolidated subsidiaries and affiliates	3,135	3,123	23,571
Other	2,353	2,617	17,692
Less, allowance for doubtful accounts	(231)	(302)	(1,737)
	¥46,624	¥45,872	\$350,556

4. Inventories

At March 31, 2002 and 2001, inventories consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Finished goods	¥29,915	¥27,019	\$224,925
Work in process	14,408	17,078	108,331
Raw materials	6,791	7,582	51,060
	¥51,114	¥51,679	\$384,316

5. Investments

At March 31, 2002 and 2001, short-term investments consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Marketable securities:			
Bonds	¥ 2,999	¥ 6,520	\$ 22,549
Other	2,999	—	22,549
	5,998	6,520	45,098
Other nonmarketable securities	206	188	1,549
Time deposits with an original maturity of more than three months	4,724	5,941	35,519
	¥10,928	¥12,649	\$ 82,166

At March 31, 2002 and 2001, investment securities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Marketable securities:			
Equity securities	¥30,181	¥38,346	\$226,925
Bonds	10,122	12,714	76,105
Other	2,086	2,087	15,684
	42,389	53,147	318,714
Other nonmarketable securities	4,863	1,732	36,564
	¥47,252	¥54,879	\$355,278

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, 2002 and 2001, gross unrealized gains and losses for marketable securities are summarized as follows:

	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
At March 31, 2002				
Marketable securities:				
Equity securities	¥9,799	¥20,515	¥(133)	¥30,181
Bonds	13,010	134	(23)	13,121
Other	5,099	—	(14)	5,085
	<u>¥27,908</u>	<u>¥20,649</u>	<u>¥(170)</u>	<u>¥48,387</u>

At March 31, 2001				
Marketable securities:				
Equity securities	¥ 12,406	¥ 26,130	¥(190)	¥ 38,346
Bonds	19,010	251	(27)	19,234
Other	2,100	—	(13)	2,087
	<u>¥ 33,516</u>	<u>¥ 26,381</u>	<u>¥(230)</u>	<u>¥ 59,667</u>

Thousands of U.S. Dollars				
At March 31, 2002				
Marketable securities:				
Equity securities	\$ 73,677	\$154,248	\$(1,000)	\$226,925
Bonds	97,820	1,007	(173)	98,654
Other	38,338	—	(105)	38,233
	<u>\$209,835</u>	<u>\$155,255</u>	<u>\$(1,278)</u>	<u>\$363,812</u>

During the year ended March 31, 2002, the NGK Group sold available-for-sale securities and recorded gains of ¥1,079 million (\$8,113 thousand) on the accompanying consolidated statements of income.

At March 31, 2002 and 2001, investments in and long-term loans to unconsolidated subsidiaries and affiliates consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Investments, accounted for by the equity method for significant affiliates and at cost for others	¥3,884	¥4,071	\$29,203
Interest bearing long-term loans	22	61	166
	<u>¥3,906</u>	<u>¥4,132</u>	<u>\$29,369</u>

6. Property, Plant and Equipment

At March 31, 2002 and 2001, property, plant and equipment consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Land	¥ 14,433	¥ 14,104	\$ 108,519
Buildings and structures	88,561	80,689	665,872
Machinery and equipment	175,205	163,749	1,317,331
Construction in progress	2,688	7,754	20,210
	<u>280,887</u>	<u>266,296</u>	<u>2,111,932</u>
Less, accumulated depreciation	(173,485)	(158,887)	(1,304,398)
	<u>¥107,402</u>	<u>¥107,409</u>	<u>\$ 807,534</u>

7. Accounts Payable

At March 31, 2002 and 2001, accounts payable consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Trade payables	¥21,226	¥21,410	\$159,594
Unconsolidated subsidiaries and affiliates	2,205	2,644	16,579
Other	2,707	10,964	20,353
	<u>¥26,138</u>	<u>¥35,018</u>	<u>\$196,526</u>

8. Short-term Borrowings and Long-term Debt

At March 31, 2002 and 2001, short-term borrowings consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Unsecured bank loans with interest at rates ranging from 2.82% to 6.95% per annum at March 31, 2002	¥ 3,611	¥ 2,859	\$ 27,150
Export bills accepted by consolidated subsidiaries and discounted with banks by the Company with interest at rates ranging from 1.375% to 6.125% per annum at March 31, 2002	14,726	14,833	110,722
	<u>¥18,337</u>	<u>¥17,692</u>	<u>\$137,872</u>

At March 31, 2002 and 2001, long-term debt consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
1.3% convertible bonds due March 2002	¥ —	¥20,000	\$ —
1.4% convertible bonds due March 2004	19,930	19,930	149,850
1.4% notes due March 2005	10,000	10,000	75,188
1.86% notes due March 2007	10,000	10,000	75,188
Unsecured bank loans due through 2002	—	2	—
Capital lease obligations for overseas consolidated subsidiaries	1,135	987	8,533
	<u>41,065</u>	<u>60,919</u>	<u>308,759</u>
Less, current portion	(537)	(20,235)	(4,037)
	<u>¥40,528</u>	<u>¥40,684</u>	<u>\$304,722</u>

The current conversion price of 1.4% convertible bonds due 2004 is ¥1,364 per share and is subject to adjustment in certain circumstances, including in the event of a stock split. The Company may, at its call option, redeem the bonds for the period from April 1, 2000 at 103% to 100% of the principal amount subject to certain conditions. At March 31, 2002, the number of shares of common stock necessary for conversion of all convertible bonds outstanding was approximately 15 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, 2002 were as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2003	¥ 537	\$ 4,037
2004	20,132	151,368
2005	10,176	76,511
2006	44	331
2007	10,044	75,519
2008 and thereafter	132	993
	¥41,065	\$308,759

9. Employee Retirement Benefits

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

The following table reconciles the benefit liability and net periodic retirement benefit expense as at or for the years ended March 31, 2002 and 2001:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Reconciliation of benefit liability:			
Projected benefit obligation	¥33,976	¥33,500	\$255,459
Less, fair value of pension plan assets at end of year	(19,236)	(19,577)	(144,632)
Projected benefit obligation in excess of pension plan assets	14,740	13,923	110,827
Less, unrecognized actuarial differences (loss)	(2,319)	(1,550)	(17,436)
Net amounts of employee retirement benefit liability recognized on the consolidated balance sheets	¥12,421	¥12,373	\$93,391
Components of net periodic retirement benefit expense:			
Service cost	¥1,825	¥1,861	\$13,722
Interest cost	968	935	7,278
Expected return of pension plan assets	(329)	(295)	(2,473)
Recognized actuarial differences	155	—	1,165
Initial transitional provision	—	4,935	—
Net periodic retirement benefit expense	¥2,619	¥7,436	\$19,692

Major assumptions used in the calculation of the above information for the years ended March 31, 2002 and 2001 were as follows:

	2002	2001
Method attributing the projected benefits to periods of services	Straight-line method	Straight-line method
Discount rate	3.0 %	3.0 %
Expected rate of return on pension plan assets	2.0 %	2.0 %
Amortization of actuarial differences	10 years	10 years

10. Contingent Liabilities

At March 31, 2002 and 2001, contingent liabilities in respect of trade notes and export bills discounted with banks with recourse in the ordinary course of business and guarantees of indebtedness principally of employees and the third parties aggregated ¥2,361 million (\$17,752 thousand) and ¥3,002 million, respectively.

11. 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, 2002 and 2001 were ¥3,494 million (\$26,271 thousand) and ¥3,272 million, respectively. For the years ended March 31, 2002 and 2001, the lease expenses for non-cancelable lease agreements which were categorized as financing leases amounted to ¥1,081 million (\$8,128 thousand) and ¥1,100 million, respectively.

The aggregate future minimum payments for such non-cancelable leases, including the imputed interest portion, at March 31, 2002 and 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Due within one year	¥ 943	¥ 964	\$ 7,090
Due after one year	1,466	1,570	11,023
	¥ 2,409	¥ 2,534	\$18,113

12. Derivative Instruments

The NGK Group is a party to derivative instruments such as foreign currency forward exchange contracts in the normal course of business to reduce its own exposure to fluctuations in exchange rates principally for hedge purposes. These exposures include certain anticipated export sales or import purchases, and long-term debt denominated in foreign currencies. The NGK Group is exposed to credit loss in the event of nonperformance

by the other parties. However, the NGK Group does not expect nonperformance by the counterparties.

At March 31, 2001, aggregate contract balances of derivative instruments, other than those accounted for by hedge accounting, amounted to ¥2,267 million. Relating unrealized losses of ¥55 million were recorded as other expenses for the year ended March 31, 2001. At March 31, 2002, the NGK Group had no outstanding derivative instrument contracts.

13. Shareholders' Equity

(a) The authorized number of shares of common stock, without par value, is 390 million at March 31, 2002, unless there may be a reduction due to a cancellation of treasury stock acquired.

During the year ended March 31, 2002, the Company acquired 10 million shares of the Company's common stock in consideration for ¥10,179 million (\$76,534 thousand), and canceled them through a charge to retained earnings.

Pursuant to the Commercial Code of Japan and the resolution by shareholders at the annual general meeting on June 27, 2002, the Company can purchase the treasury stock of the Company up to 10 million shares in maximum consideration for ¥12,000 million (\$90,225 thousand) for the period through the date of its next annual shareholders' general meeting.

(b) At March 31, 2002 and 2001, retained earnings included legal reserve of the Company in the amounts of ¥5,838 million (\$43,895 thousand) and ¥5,668 million, 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.

14. Income Taxes

Income taxes for the years ended March 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of
	2002	2001	U.S. Dollars
Income taxes:			2002
Current	¥4,308	¥11,670	\$32,391
Deferred	(1,193)	(2,720)	(8,970)
	¥3,115	¥8,950	\$23,421

The tax effects on temporary differences that give rise to a significant portion of deferred tax assets and liabilities at March 31, 2002 and 2001, were as follows:

	Millions of Yen		Thousands of
	2002	2001	U.S. Dollars
Deferred tax assets:			2002
Intercompany profits	¥2,908	¥2,674	\$21,865
Depreciation	3,039	2,687	22,849
Employee retirement benefit liability	2,428	2,174	18,256
Accrued bonus to employees	1,536	1,234	11,549
Inventories	979	976	7,361
Other	2,641	2,482	19,857
	13,531	12,227	101,737
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	8,572	10,942	64,451
Accelerated depreciation	616	607	4,632
Other	481	384	3,616
	9,669	11,933	72,699
Net deferred tax assets	¥3,862	¥294	\$29,038

At March 31, 2002 and 2001, deferred tax assets and liabilities were as follows:

	Millions of Yen		Thousands of
	2002	2001	U.S. Dollars
Deferred tax assets:			
Current	¥6,340	¥5,957	\$47,669
Non-current	1,234	822	9,278
Deferred tax liabilities			
Current	136	166	1,023
Non-current	3,576	6,319	26,887

In assessing the realizability of deferred tax assets, management of the NGK Group considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of the future taxable income during the periods in which those temporary differences become deductible. At March 31, 2002 and 2001, no valuation allowance was provided to reduce the deferred tax assets since the management believes that the amount of the deferred tax assets is expected to be fully realizable.

The difference between the Japanese statutory tax rate and the effective income tax rate on pre-tax income reflected in the accompanying consolidated statements of income for the years ended March 31, 2002 and 2001, was not material.

15. Segment Information

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

Information by industry segment for the years ended March 31, 2002 and 2001 was as follows:

	Communication Media Components and			Total	Elimination	Consolidated
	Automotive Components	Technical Ceramics	Other			
(Millions of Yen)						
For the year 2002:						
Operating revenue - Net sales:						
Outside customers	¥128,349	¥ 89,681	¥3,389	¥221,419	¥ -	¥221,419
Inter-segment sales	-	1	243	244	(244)	-
Total net sales	128,349	89,682	3,632	221,663	(244)	221,419
Operating costs and expenses	111,772	94,524	3,557	209,853	(254)	209,599
Operating income(loss)	¥ 16,577	¥ (4,842)	¥ 75	¥ 11,810	¥ 10	¥ 11,820
Identifiable assets	¥179,177	¥138,317	¥1,018	¥318,512	¥ -	¥318,512
Depreciation	¥ 8,014	¥ 11,960	¥ 7	¥ 19,981	-	¥ 19,981
Capital expenditures	¥ 12,593	¥ 12,904	¥ 11	¥ 25,508	-	¥ 25,508

For the year 2001:

Operating revenue - Net sales:						
Outside customers	¥116,825	¥104,013	¥ 3,431	¥ 224,269	¥ -	¥224,269
Inter-segment sales	-	5	503	508	(508)	-
Total net sales	116,825	104,018	3,934	224,777	(508)	224,269
Operating costs and expenses	101,096	94,335	3,892	199,323	(519)	198,804
Operating income	¥ 15,729	¥ 9,683	¥ 42	¥ 25,454	¥ 11	¥ 25,465
Identifiable assets	¥190,738	¥174,873	¥ 1,116	¥ 366,727	¥ -	¥366,727
Depreciation	¥ 7,122	¥ 10,992	¥ 4	¥ 18,118	-	¥ 18,118
Capital expenditures	¥ 8,221	¥ 15,249	¥ 9	¥ 23,479	-	¥ 23,479

(Thousands of U.S. Dollars)

For the year 2002:

Operating revenue - Net sales:						
Outside customers	\$ 965,030	\$ 674,294	\$25,481	\$1,664,805	\$ -	\$1,664,805
Inter-segment sales	-	7	1,828	1,835	(1,835)	-
Total net sales	965,030	674,301	27,309	1,666,640	(1,835)	1,664,805
Operating costs and expenses	840,391	710,707	26,745	1,577,843	(1,910)	1,575,933
Operating income(loss)	\$ 124,639	\$ (36,406)	\$ 564	\$ 88,797	\$ 75	\$ 88,872
Identifiable assets	\$1,347,196	\$1,039,977	\$ 7,654	\$2,394,827	\$ -	\$2,394,827
Depreciation	\$ 60,256	\$ 89,925	\$ 52	\$ 150,233	-	\$ 150,233
Capital expenditures	\$ 94,684	\$ 97,022	\$ 83	\$ 191,789	-	\$ 191,789

Information summarized by geographic area for the years ended March 31, 2002 and 2001 was as follows:

	Japan	North America	Europe	Other	Total	Elimination	Consolidated
(Millions of Yen)							
For the year 2002:							
Operating revenue - Net sales:							
Outside customers	¥ 83,835	¥86,636	¥37,367	¥13,581	¥221,419	¥ -	¥221,419
Inter-segment sales	104,069	429	362	739	105,599	(105,599)	-
Total net sales	187,904	87,065	37,729	14,320	327,018	(105,599)	221,419
Operating costs and expenses	178,781	86,407	36,320	13,178	314,686	(105,087)	209,599
Operating income	¥ 9,123	¥ 658	¥ 1,409	¥ 1,142	¥ 12,332	¥ (512)	¥ 11,820
Identifiable assets	¥255,623	¥42,076	¥22,122	¥12,742	¥332,563	¥ (14,051)	¥318,512
For the year 2001:							
Operating revenue - Net sales:							
Outside customers	¥ 94,984	¥82,230	¥34,104	¥12,951	¥224,269	¥ -	¥224,269
Inter-segment sales	105,237	484	278	692	106,691	(106,691)	-
Total net sales	200,221	82,714	34,382	13,643	330,960	(106,691)	224,269
Operating costs and expenses	178,167	82,140	33,222	12,166	305,695	(106,891)	198,804
Operating income	¥ 22,054	¥ 574	¥ 1,160	¥ 1,477	¥ 25,265	¥ 200	¥ 25,465
Identifiable assets	¥310,936	¥38,694	¥21,728	¥11,822	¥383,180	¥ (16,453)	¥366,727
	Japan	North America	Europe	Other	Total	Elimination	Consolidated
(Thousands of U.S. Dollars)							
For the year 2002:							
Operating revenue - Net sales:							
Outside customers	\$ 630,338	\$651,399	\$280,955	\$102,113	\$1,664,805	\$ -	\$1,664,805
Inter-segment sales	782,474	3,225	2,722	5,556	793,977	(793,977)	-
Total net sales	1,412,812	654,624	283,677	107,669	2,458,782	(793,977)	1,664,805
Operating costs and expenses	1,344,218	649,677	273,083	99,082	2,366,060	(790,127)	1,575,933
Operating income	\$ 68,594	\$ 4,947	\$ 10,594	\$ 8,587	\$ 92,722	\$ (3,850)	\$ 88,872
Identifiable assets	\$1,921,977	\$316,361	\$166,331	\$ 95,805	\$2,500,474	\$ (105,647)	\$2,394,827

For the years ended March 31, 2002 and 2001, 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
	2002	2001	2002
North America	¥108,023	¥102,303	\$ 812,203
Europe	40,516	38,253	304,632
Other area	32,812	33,344	246,706
	¥181,351	¥173,900	\$1,363,541
Percentage of overseas sales to total consolidated net sales	81.9%	77.5%	

16. Related Party Transactions

During the years ended March 31, 2002 and 2001, the NGK Group had operational transactions with a significant 50%-owned affiliate accounted for by the equity method. A summary of the significant transactions with such an affiliate for the years ended, or as at March 31, 2002 and 2001 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
For the year:			
Purchases of parts as work in process	¥22,844	¥24,910	\$171,759
Supply of raw materials	18,133	19,982	136,338
At the year-end:			
Accounts receivable	¥ 1,670	¥ 1,923	\$ 12,556
Accounts payable	2,121	2,516	15,947

17. Subsequent Event

On June 27, 2002, the following appropriations of retained earnings were approved at an annual general meeting of shareholders of the Company:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends	¥1,262	\$9,489
Bonuses to directors and statutory auditors	65	489

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3-28-12, Meieki, Nakamura-ku
Nagoya, 450-8565 Japan
Telephone 81-52-551-3001
Facsimile 81-52-551-3005

Report of Independent Accountants

To the Board of Directors 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, 2002 and 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of NGK SPARK PLUG CO., LTD. and its consolidated subsidiaries as of March 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

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

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation
Nagoya, Japan
June 27, 2002

Major Subsidiaries and Affiliates

Domestic Subsidiaries

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

Overseas Subsidiaries

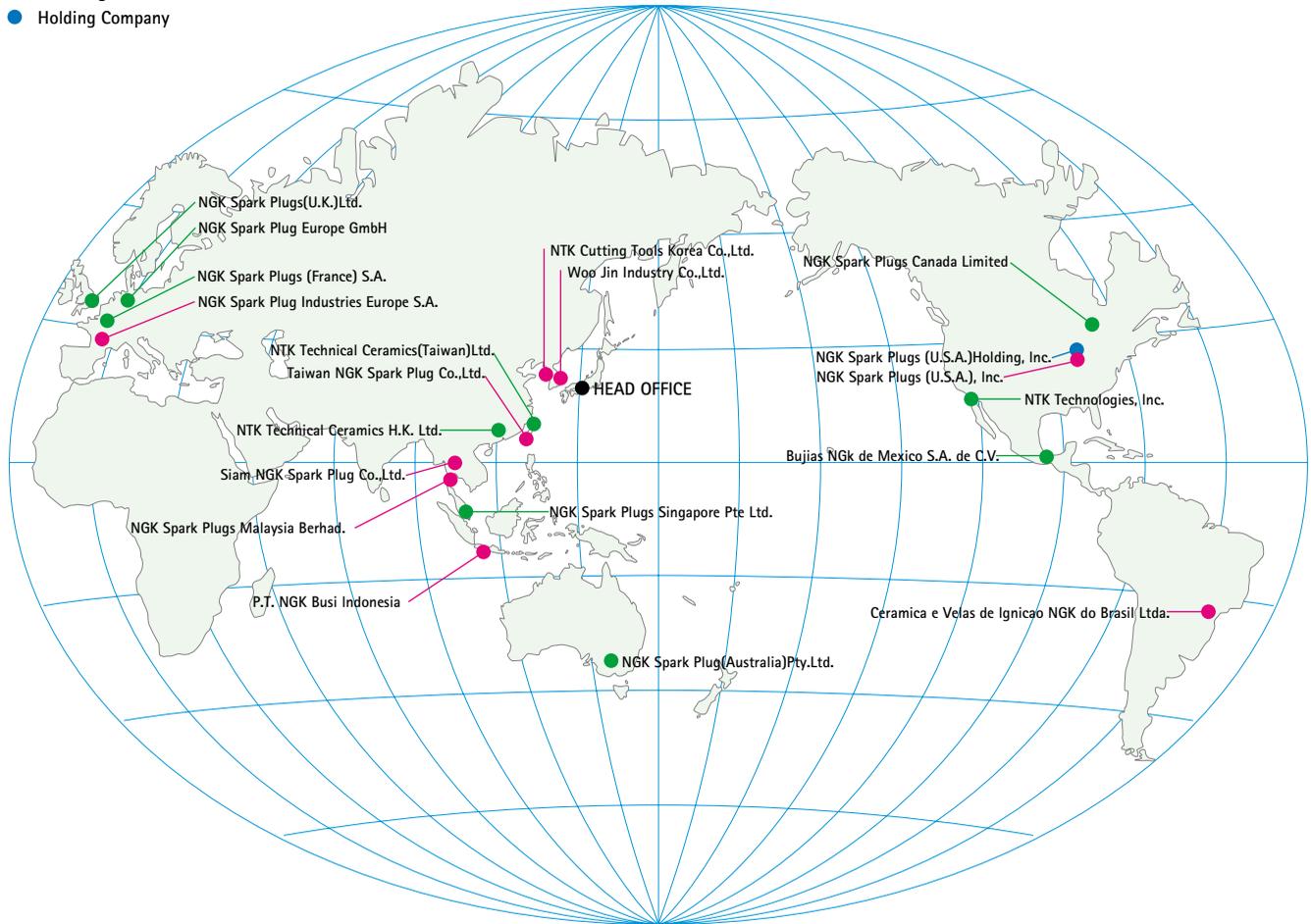
- NGK Spark Plugs (U.S.A.) ,Inc.
Production and sale of spark plugs, cutting tools and oxygen sensors for automobile
- NTK Technologies ,Inc.
Sale of communication media components and technical ceramics
- NGK Spark Plugs (U.K.) Ltd.
Sale of automotive components and communication media components and technical ceramics
- P.T.NGK Busi Indonesia
Production and sale of spark plugs
- NGK Spark Plug (Australia) Pty.Ltd.
Sale of automotive components and communication media components and technical ceramics
- NGK Spark Plugs Canada Limited
Sale of automotive components
- Taiwan NGK Spark Plug Co.,Ltd.
Production and sale of spark plugs
- NGK Spark Plug Industries Europe S.A.
Production and sale of spark plugs
- Bujias NGK de Mexico S.A. de C.V.
Sale of automotive components
- NGK Spark Plugs (France) S.A.
Sale of automotive components and communication media components and technical ceramics
- NTK Cutting Tools Korea Co.,Ltd.
Production and sale of cutting tools
- NTK Technical Ceramics H.K.Ltd.
Sale of communication media components and technical ceramics
- NTK Technical Ceramics (Taiwan) Ltd.
Sale of communication media components and technical ceramics
- NGK Spark Plugs (U.S.A.) Holding,Inc.
Holding company for U.S. subsidiaries
- NGK Spark Plugs Singapore Pte Ltd.
Sale of automotive components.
- Ceramica e Velas de Ignicao NGK do Brasil Ltda.
Production and sale of spark plugs, and technical ceramics
- NGK Spark Plug Europe GmbH
Sale of automotive components and communication media components and technical ceramics

Affiliates

- NGK Spark Plugs Malaysia Berhad.
Production and sale of spark plugs
- Siam NGK Spark Plug Co.,Ltd.
Production and sale of spark plugs
- Woo Jin Industry Co.,Ltd.
Production and sale of spark plugs and oxygen sensors for automobile
- Ceramic Sensor Co.,Ltd.
Production and sale of oxygen sensors for automobile
- Tokai Taima Kogu Co.,Ltd.
Production and sale of carbide cutting tools

Overseas Network

- Head Office
- Production & Sales Organization
- Sales Organization
- Holding Company



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



NTK Technologies, Inc.



NGK Spark Plug Industries Europe S.A.



Ceramica e Velas de Ignicao NGK do Brasil Ltda.



Siam NGK Spark Plug Co., Ltd.



NGK Spark Plugs Malaysia Berhad.



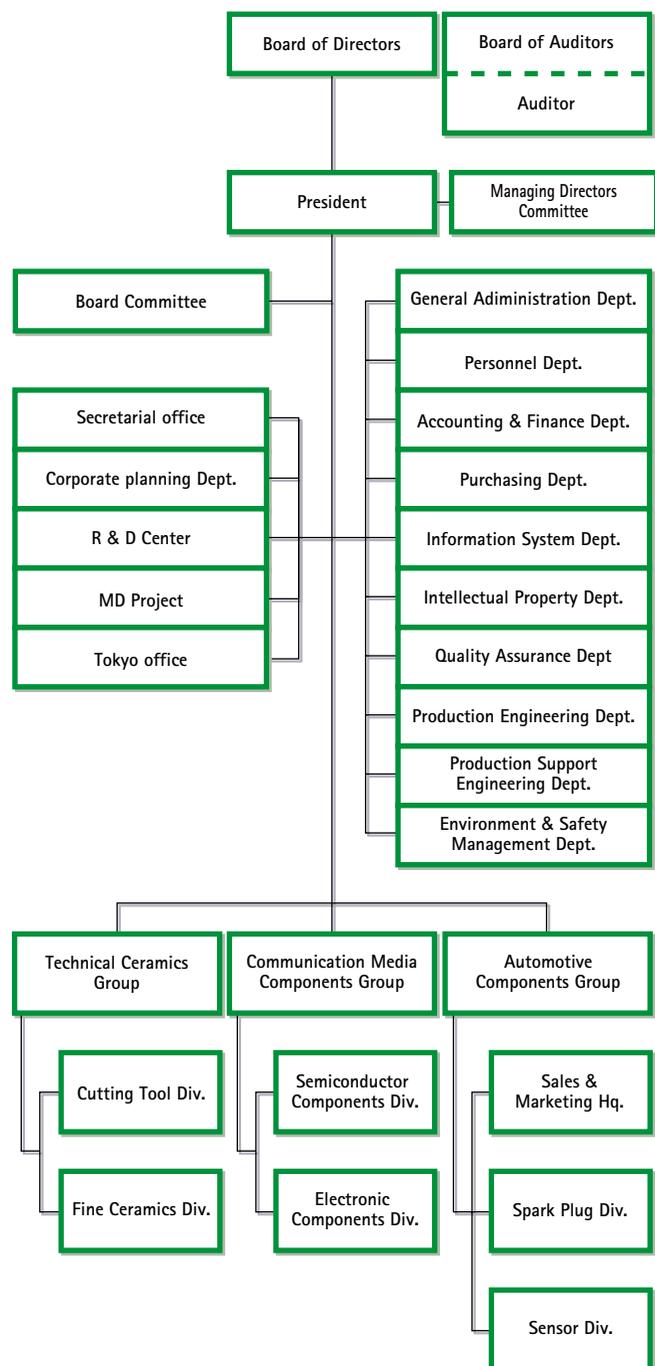
P.T. NGK Busi Indonesia



Taiwan NGK Spark Plug Co., Ltd.

Organization

(As of June 27, 2002)



Board of Directors

(As of June 27, 2002)

PRESIDENT

Shigenobu Kanagawa*

EXECUTIVE VICE PRESIDENTS

Seiji Haga*

Masao Sasaki

SENIOR MANAGING DIRECTORS

Katsumasa Nishiyama

Toshio Hattori

Hiroshi Tanaka

MANAGING DIRECTORS

Yoshiro Ushida

Norio Kato

Shin Suzuki

Toyoji Morimura

Masaru Aritani

DIRECTORS

Takashi Terada

Akio Takami

Naomiki Kato

Ikuo Hotta

Genjiro Hashimoto

Kazuo Takiguchi

Jun Inagaki

Akiyo Kasugai

Atsuhiko Chinari

Kazuo Kawahara

Chikanori Abe

Michio Obara

STANDING STATUTORY AUDITORS

Yoshiaki Miwa

Harunobu Sato

STATUTORY AUDITORS

Minoru Hoshino

Ikuko Ohtsuka

*Representative Director

Corporate Data

(As of March 31, 2002)

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 Listing

Tokyo Stock Exchange, First Section

Nagoya Stock Exchange, First Section

Number of Employees

5,491

Number of Shareholders

13,990

Transfer Agent

The Mitsubishi Trust and Banking Corporation

Independent Accountants

ChuoAoyama Audit Corporation

Common Stock Price Range

	FY2002	
	High	Low
2001/April-June	¥1,730	¥1,114
2001/July-September	1,200	750
2001/October-December	997	826
2002/January-March	1,209	943

NGK SPARK PLUG CO., LTD.

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

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