

# Financial Reports for the Six Months Ended September 30, 2004 (Consolidated)

November 10, 2004

NGK Spark Plug Co., Ltd. (URL: <http://www.ngkntk.co.jp/>)  
 Stock Listing: Tokyo (1<sup>st</sup> Section), Nagoya (1<sup>st</sup> Section)  
 Code Number: 5334  
 Head Office: 14-18 Takatsuji-cho, Mizuho-ku, Nagoya, 467-8525, Aichi, Japan  
 Rep: Norio Kato, President  
 Adoption of U.S. GAAP: Not adopted

## 1. Consolidated Financial Highlights (April 1, 2004 through September 30, 2004)

### (1) Consolidated Financial Results (Yen in millions)

	Net sales		Operating income		Ordinary income	
Six months ended September 30, 2004	122,306	8.3%	14,097	37.7%	15,822	54.3%
Six months ended September 30, 2003	112,906	(5.6%)	10,237	32.5%	10,253	39.9%
Fiscal year ended March 31, 2004	228,776		20,745		19,163	

	Net income		Net income per share (Basis)	Net income per share (Diluted)
Six months ended September 30, 2004	9,439	49.9%	42.61 yen	40.35 yen
Six months ended September 30, 2003	6,296	63.5%	28.41	27.01
Fiscal year ended March 31, 2004	11,117		49.84	47.45

- Notes: 1. Investment profit in equity method: Six months ended September 30, 2004: 300 million yen  
 Six months ended September 30, 2003: 289 million yen  
 Fiscal year ended March 31, 2004: 453 million yen
2. Average number of shares of common stock outstanding: Six months ended September 30, 2004: 221,555,348 shares  
 Six months ended September 30, 2003: 221,601,202 shares  
 Fiscal year ended March 31, 2004: 221,590,922 shares
3. Change in accounting treatment: Not applicable
4. Regarding net sales, operating income, ordinary income, and net income, the percentage figures show rate of changes from the corresponding period of the previous year.

### (2) Consolidated Financial Position (Yen in millions)

	Total assets	Shareholders' equity	Equity ratio	Equity per share
September 30, 2004	319,180	212,698	66.6%	960.10 yen
September 30, 2003	312,606	201,403	64.4%	908.90
March 31, 2004	297,994	205,963	69.1%	929.23

- Notes: Number of shares of common stock outstanding as of period end: September 30, 2004: 221,538,269 shares  
 September 30, 2003: 221,591,620 shares  
 March 31, 2004: 221,572,594 shares

### (3) Consolidated Cash Flows (Yen in millions)

	From operating activities	From investing activities	From financing activities	Cash and cash equivalents at the end of the period
Six months ended September 30, 2004	18,400	(39,930)	9,110	35,699
Six months ended September 30, 2003	11,320	(16,657)	(3,114)	23,101
Fiscal year ended March 31, 2004	24,258	14,784	(21,792)	48,222

#### (4) Scope of consolidation and application of equity method

Consolidated subsidiaries: 30 Equity method applied unconsolidated subsidiaries: - Equity method applied affiliates: 5

#### (5) Change in scope of consolidation and application of equity method

Consolidation (Addition): - (Exclusion): - Equity method (Addition): - (Exclusion): -

## 2. Consolidated Financial Forecast (April 1, 2004 through March 31, 2005)

(Yen in millions)

	Net sales	Ordinary income	Net income
Fiscal year ending March 31, 2005	240,000	26,500	16,000

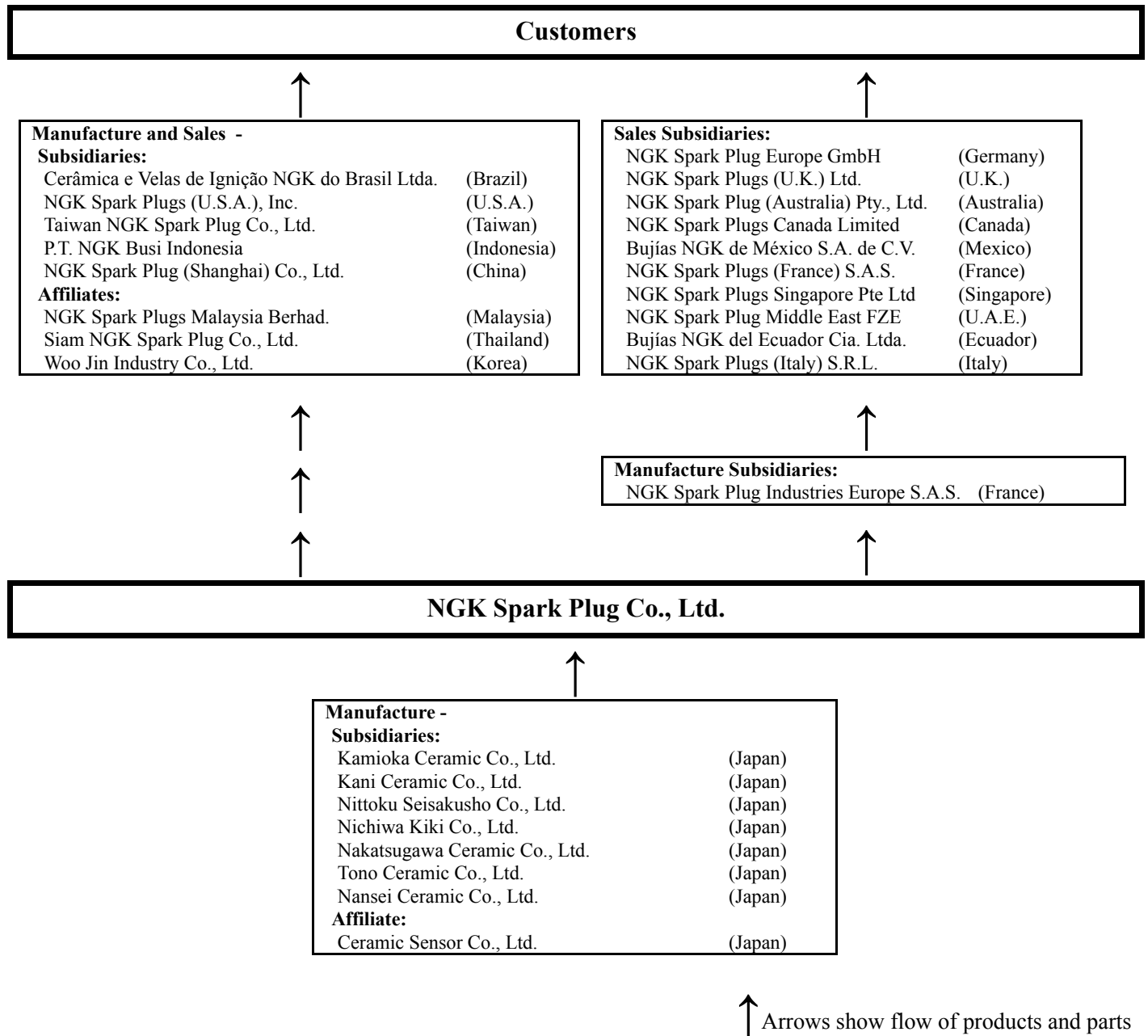
Notes: Net income per share (Diluted): 71.89yen

Caution: The above forecasts have been made based on information available as of the release date of this material, and actual business results may vary from forecasted figures due to a number of subsequent factors.

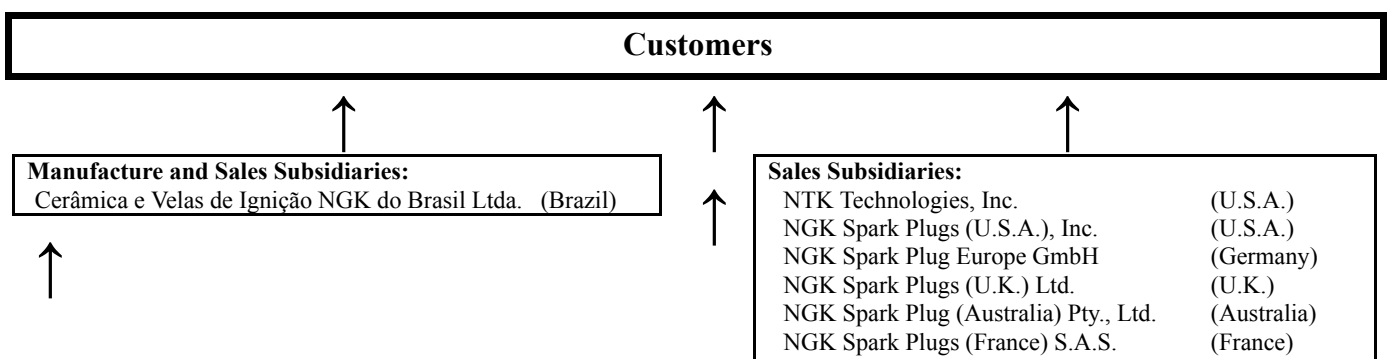
## 1. Group of Company

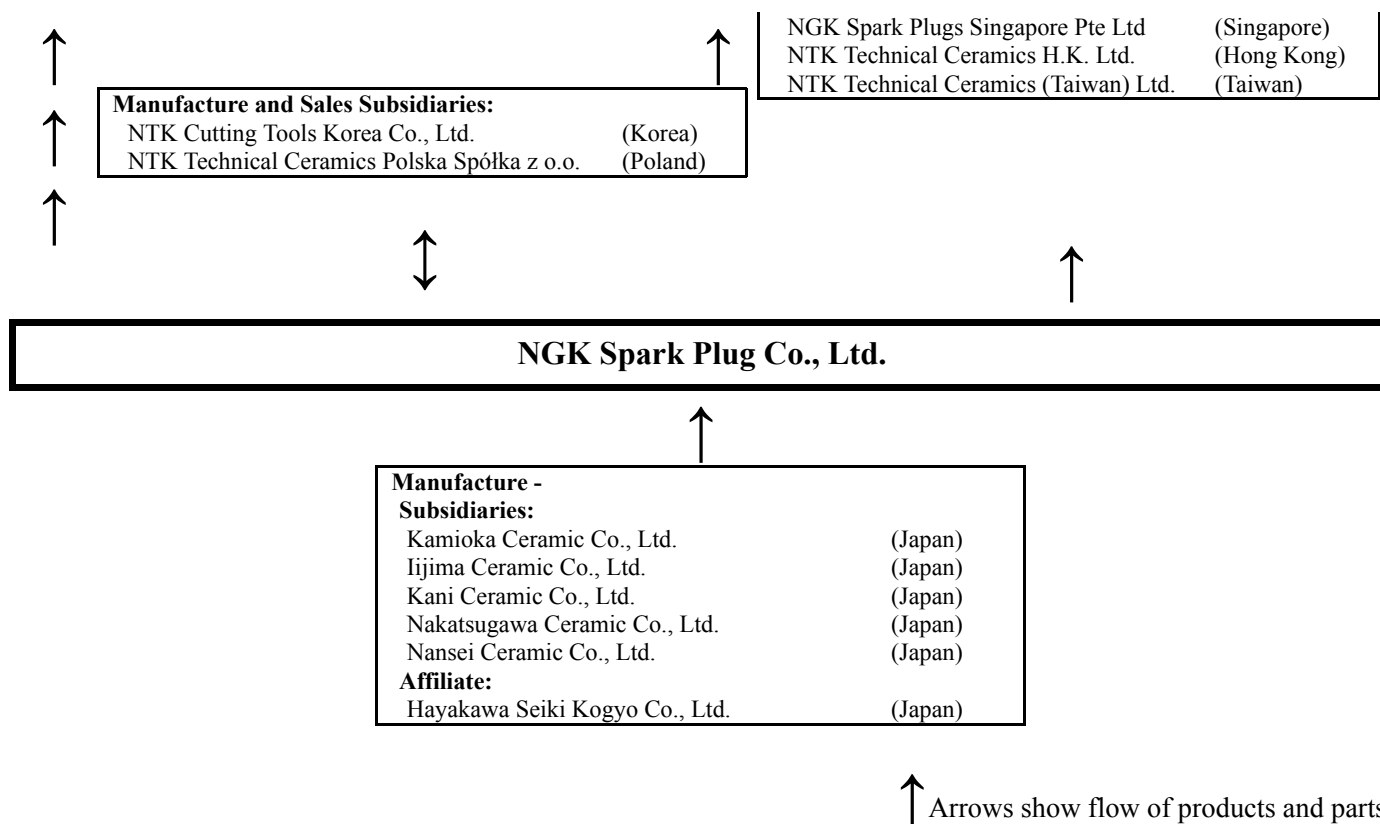
Our group of Companies is comprised of 34 subsidiaries and 7 affiliates as at September 30, 2004. The Group is primarily engaged in the manufacture and sales of automotive components, communication media components and technical ceramics. Outline of the position concerning business is as following:

### Automotive components



### Communication media components & Technical Ceramics





## Other Subsidiaries and Affiliates

<b>Other Subsidiaries and Affiliates:</b>	
NGK Spark Plugs (U.S.A.) Holding, Inc.	(U.S.A.)
Nittoku Unyu Co., Ltd.	(Japan)
Nittoku Alpha Service Co., Ltd.	(Japan)
Tokai Taima Kogyo Co., Ltd.	(Japan)
Other three companies	

## 2. Management Policy

### Basic Management Policy

As a technology-driven company that preempts market needs, NGK Spark Plug aims to be a leading company that is highly trusted by customers and the society, by adding new values and providing excellent product quality requested by the epoch. It is NGK Spark Plug's fundamental policy to maximize corporate value and meet the shareholders' expectations. To this end, NGK Spark Plug devotes every effort in offering working environment in which each employee can make full use of his/her personality and capability, and strives to move forward constantly in a swift manner.

### Policy regarding the distribution of profits

Our basic dividend policy is to maintain stable payouts and meet shareholders' expectations, while, at the same time, ensure that dividends are in line with business performance, payout ratio, and outlook of future business. It is also our recognition that aggressive investment in R&D and capital equipment in the growing area of business is indispensable in order to maintain and enhance competitive market advantage that ensures shareholders' value for the future. To this end, we plan to retain earnings as well.

## 3. Business Performance and Financial Position

### Business performance

#### Review of Performance (Summary of Results: Six months ended September 30, 2004)

We, as the NGK Spark Plug Group, have been striving to bring up our business performance through aggressive marketing activities enhanced by manufacturing and sales synergies, leveraging its global production and distribution network as well as competitive product lines.

As a result, the Company's posted record-high consolidated results during six months ended September 30, 2004 as follows:

			<u>% Change from the previous year</u>
Net Sales	122,306	million yen	Up 8.3%
Operating Income	14,097	million yen	Up 37.7%
Ordinary Income	15,822	million yen	Up 54.3%
Net Income	9,439	million yen	Up 49.9%

## Summary of segment

### Business segment

#### <Automotive Components Business>

Regarding Spark Plugs, oversea business resulted strong in North America and Europe. Shipment quantity for factory installation in new cars, especially precious-metal plugs, increased due to strong vehicle production at domestic manufactures. Regarding automotive sensors such as the oxygen sensors, total shipment quantity declined slightly, dragged down by reduced production at U.S. automakers who are our major customers despite steady demands from the domestic and European markets where the number of vehicle application increased. Affected by exchange rates shifted to weaker U.S. dollar, Automotive Components Business posted net sales of 76,316 million yen, up 1.2% over the corresponding period of the previous year, and operating income of 13,362 million yen (down 4.6%).

#### <Communication Media Components and Technical Ceramics Businesses>

As a result of the expansion of digital consumer electronics market as well as strong demand for PC's and mobile phones, shipments of MPU packages and communication media device packages increased significantly. Sales of cutting tools increased as well, mainly for the uses of metal processing in the automotive components and precision machinery industries. In the area of fine ceramics, orders received for capital investment related uses increased in line with the economic recovery, and sales for medical uses resulted strong as well. As a result, Communication Media Components and Technical Ceramics Businesses posted net sales of 44,737 million yen, up 23.1% over the corresponding period of the previous year. Regarding profitability, an improvement of capacity utilization due to strong demand for ceramic IC packages and an improvement of process yield for organic IC packages supported favorable outcome, resulting operating income of 734 million yen.

#### <Other businesses>

Net sales in other businesses totaled 1,286 million yen, up 4.4% over the corresponding period of the previous year, while operating income was 0 million yen (down 71.4%).

### Geographic segment

In Japan, net sales were 105,277 million yen, up 9.6% over the corresponding period of the previous year, and operating income was 10,858 million yen (up 59.8%). The detail of each business is as following:

In the Automotive Components Business, shipment quantity increased. However net sales decreased slightly due to the weak U.S. dollar. The Communication Media Components Business took an upturn toward strong recovery.

In North America, net sales were 37,440 million yen, up 4.0% over the corresponding period of the previous year, and operating income was 1,059 million yen (up 0.8%). The detail of each business is as following:

In the Automotive Components Business, shipment quantity declined slightly due to the slump at major U.S. automakers. The Communication Media Components Business improved due to an increase in shipment quantity of IC packages for MPU.

In Europe, net sales were 24,774 million yen, up 8.8% over the corresponding period of the previous year, and operating income was 1,200 million yen (up 3.4%). This result was due to solid performance in each business.

In other regions, net sales were 10,890 million yen, up 28.6% over the corresponding period of the previous year, and operating income was 856 million yen (up 3.2%). This result was due to strong performance in Latin America and Oceania, partially offset by some initial cost of NGK Spark Plug (Shanghai) Co., Ltd.

## Outlook for Fiscal Year Ending March 31, 2005

Regarding the fiscal year ending March 31, 2005, while domestic automobile production is expected to continue to grow firmly, slowdown of the digital home electronics, mobile phone, and PC markets, all of which supported favorable semiconductor production, and influence in manufacturing and logistic cost increases due to a steep rise of raw material prices particularly crude oil, remain as uncertainty. In addition, the exchange rate that is shifting to weaker U.S. dollar does not allow optimism, as the NGK Spark Plug Group has a large portion of export sales.

Under these circumstances, we forecast consolidated net sales of 240,000 million yen, up 4.9% over the corresponding period of the previous year, ordinary income of 26,500 million yen (up 38.3%), net income of 16,000 million yen (up 43.9%). These forecasts assume exchange rates of 105 yen=US\$1, and 130 yen=1 euro for the second half of fiscal year ending March 31, 2005.

### Dividends

In light of the results in the interim period, NGK Spark Plug has decided to pay the interim cash dividends of 6 yen per

share, adding a special dividend of 0.5 yen per share to the ordinary dividend of 5.5 yen, and projects that year-end cash dividends will also be 6 yen per share, increased by 0.5 yen from the previous announcement. Accordingly, total cash dividends applicable to the fiscal year ending March 31, 2005 will be 12 yen per share (ordinary dividend of 11 yen, plus special dividend of 1 yen per share).

**Disclaimer regarding Forward-Looking Statements.**

This document contains forward-looking statements. These statements are based on internal projections and estimates and should not be interpreted as representation that quantitative or qualitative objectives therein will be fulfilled.

**Financial position**

Cash and cash equivalents decreased 12,522 million yen (down 26.0%) compared with the previous fiscal year-end, to 35,699 million yen at September 30, 2004. This is mainly due to an increase of net cash used for investing activities such as placements on fixed-term deposit and purchases of securities, which exceeded increases of net cash provided from operating activities that generated a net income increase and from financing activities in which we raised funds by issuing the Euro-Yen convertible bonds.

**Cash flow from operating activities**

Net cash provided by operating activities increased 7,080 million yen compared with the corresponding period of the previous year (up 62.5%) to 18,400 million yen primarily due to an increase of net interim income amounted to 14,953 million yen and to a decrease in payment of income tax of 1,320 million yen.

**Cash flow from investing activities**

Net cash used in investing activities increased 23,272 million yen (up 139.7%) to 39,930 million yen primarily due to an increase in placements on fixed-term deposit of 16,929 million yen and purchases of investment securities of 3,405 million yen.

**Cash flow from financial activities**

Net cash provided by financial activities amounted to 9,110 million yen. This is mainly due to an increase in proceeds of 17,000 million yen from the issuance of the Euro-Yen convertible bond partially offset by a decrease in net proceeds from short-term borrowings of 4,691 million yen.

**Supplemental information for cash flows**

	March 31, 2003	September 30, 2003	March 31, 2004	September 30, 2004
Equity Ratio:	63.4%	64.4%	69.1%	66.6%
Equity ratio based on market price ratio:	60.4%	68.8%	72.5%	79.7%
Repayment period:	1.6year	-	1.4year	-
Interest coverage ratio:	29.8times	22.5times	23.7times	62.6times

Notes: 1. Equity ratio: shareholders' equity / total assets

Equity market price ratio: issued common stock stated at market price / total assets

Repayment period: interest bearing debt / cash flows from operating activities

Interest coverage ratio: (cash flows from operating activities + interest paid) / interest paid.

2. Each ratio is calculated based on the figures in the consolidated financial statements.

3. Market price is calculated based on closing price at the end of period multiplied by the number of shares outstanding at the end of period, excluding treasury stock.

4. Cash flows provided by operating activities are the amount of operating cash flows in the consolidated statements of cash flows. Interest-bearing debt includes short-term borrowings, current portion of long-term debt, and long-term debt in the consolidated balance sheets. Additionally, interest paid is the amount of interest paid in the consolidated statements of cash flows.

**4. Consolidated Financial Statements**

**Consolidated Balance Sheet**

(Yen in millions)			
September 30		March 31	
2004	2003	2004	

**Assets****Current assets:**

Cash and Time deposit	63,024		54,168		47,579	
Notes and accounts receivable, trade	43,210		43,173		41,054	
Securities	12,563		10,271		11,670	
Inventories	41,317		43,710		42,223	
Deferred tax assets	7,125		7,726		7,035	
Other current assets	6,726		6,255		6,033	
Allowance for doubtful accounts	(281)		(440)		(290)	
<b>Total current assets</b>	<b>173,685</b>	54.4%	<b>164,866</b>	52.7%	<b>155,306</b>	52.1%

**Fixed assets:****Tangible assets:**

Building and structures	37,274		40,114		38,464	
Machinery and equipment	31,935		34,783		32,890	
Other tangible assets	19,712		19,042		19,320	
<b>Total tangible assets</b>	<b>88,921</b>	27.9%	<b>93,939</b>	30.1%	<b>90,674</b>	30.4%

**Intangible assets:**

Software	146		125		154	
Consolidated goodwill	-		20		3	
<b>Total intangible assets</b>	<b>146</b>	0.0%	<b>146</b>	0.0%	<b>157</b>	0.1%

**Investment and other assets:**

Investments securities	53,605		49,633		49,044	
Other assets	2,902		4,149		2,923	
Allowance for doubtful accounts	(81)		(129)		(112)	
<b>Total investment and other assets</b>	<b>56,426</b>	17.7%	<b>53,653</b>	17.2%	<b>51,855</b>	17.4%

<b>Total fixed assets</b>	<b>145,494</b>	45.6%	<b>147,739</b>	47.3%	<b>142,688</b>	47.9%
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<b>Total assets</b>	<b>319,180</b>	100.0%	<b>312,606</b>	100.0%	<b>297,994</b>	100.0%
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(Yen in millions)

**Liabilities****Current liabilities:**

	September 30		March 31			
	2004	2003	2004			
Accounts payable, trade	18,944	20,384	17,183			
Short-term borrowing	8,329	11,997	14,458			
Bonds due within one year	10,000	-	10,000			
Convertible bonds due within one year	-	19,930	-			
Income taxes payable	6,139	4,402	3,432			
Other Current liabilities	17,485	16,484	17,842			
<b>Total current liabilities</b>	<b>60,898</b>	19.1%	<b>73,199</b>	23.4%	<b>62,917</b>	21.1%

**Fixed Liabilities:**

Bonds	27,000		20,000		10,000	
Employee retirement benefit liability	13,295		12,704		13,033	
Provisions for severance indemnities	991		798		893	
Other fixed liabilities	3,784		3,809		4,517	
<b>Total fixed liabilities</b>	<b>45,070</b>	14.1%	<b>37,311</b>	12.0%	<b>28,444</b>	9.6%

<b>Total liabilities</b>	<b>105,969</b>	33.2%	<b>110,510</b>	35.4%	<b>91,361</b>	30.7%
<b>Minority interests in consolidated subsidiaries</b>	<b>512</b>	0.2%	<b>692</b>	0.2%	<b>668</b>	0.2%
<b>Shareholders' equity:</b>						
Common stock	47,869	15.0%	47,869	15.3%	47,869	16.1%
Capital surplus	54,825	17.2%	54,824	17.5%	54,825	18.4%
Retained earnings	111,016	34.8%	99,266	31.7%	102,868	34.5%
Net unrealized gains on available-for-sale securities	15,072	4.7%	11,818	3.8%	15,628	5.2%
Foreign currency translation adjustment	(9,338)	(3.0%)	(5,682)	(1.8%)	(8,516)	(2.9%)
Less, treasury stock at cost	(6,747)	(2.1%)	(6,693)	(2.1%)	(6,710)	(2.2%)
<b>Total shareholder's equity</b>	<b>212,698</b>	66.6%	<b>201,403</b>	64.4%	<b>205,963</b>	69.1%
<b>Total liabilities, minority interests and shareholders' equity</b>	<b>319,180</b>	100.0%	<b>312,606</b>	100.0%	<b>297,994</b>	100.0%

### Consolidated Statement of Operations

	(Yen in millions)					
	Six months ended				Fiscal year ended	
	September 30		September 30		March 31	
	2004		2003		2004	
<b>Net Sales</b>	<b>122,306</b>	100.0%	<b>112,906</b>	100.0%	<b>228,776</b>	100.0%
<b>Cost of goods sold</b>	<b>89,385</b>	73.1%	<b>84,221</b>	74.6%	<b>171,481</b>	75.0%
<b>Gross profit on sales</b>	<b>32,920</b>	26.9%	<b>28,685</b>	25.4%	<b>57,294</b>	25.0%
<b>Selling, general and administrative expenses</b>	<b>18,823</b>	15.4%	<b>18,447</b>	16.3%	<b>36,549</b>	15.9%
<b>Operating income</b>	<b>14,097</b>	11.5%	<b>10,237</b>	9.1%	<b>20,745</b>	9.1%
<b>Other income:</b>						
Interest income	238		282		571	
Dividend income	237		191		342	
Amortization of consolidated goodwill	0		-		-	
Income of rentals on fixed assets	390		415		854	
Investment profit in equity method	300		289		453	
Foreign exchange gain	877		-		-	
Miscellaneous income	749		778		1,126	
<b>Total other income</b>	<b>2,795</b>	2.3%	<b>1,957</b>	1.7%	<b>3,349</b>	1.5%
<b>Other expenses:</b>						
Interest expenses	301		503		1,026	
Depreciation of rentals on fixed assets	316		337		699	
Loss on disposal of inventory	142		333		609	
Foreign exchange loss	-		201		644	
Miscellaneous loss	309		566		1,951	
<b>Total other expenses</b>	<b>1,069</b>	0.9%	<b>1,941</b>	1.7%	<b>4,931</b>	2.2%
<b>Ordinary income</b>	<b>15,822</b>	12.9%	<b>10,253</b>	9.1%	<b>19,163</b>	8.4%
<b>Extraordinary profit:</b>						
Gain on sales of fixed assets	6		9		57	
Gain on sales of investment securities	2		26		47	
<b>Total extraordinary profit</b>	<b>9</b>	0.0%	<b>35</b>	0.0%	<b>105</b>	0.1%
<b>Extraordinary losses:</b>						
Loss on sale or disposal of fixed assets	735		316		854	
Loss on write-down of						

investment securities	143		-		-	
<b>Total extraordinary losses</b>	<b>878</b>	0.7%	<b>316</b>	0.3%	<b>854</b>	0.4%
<b>Income before income taxes and minority interests</b>	<b>14,953</b>	12.2%	<b>9,973</b>	8.8%	<b>18,414</b>	8.1%
<b>Income taxes</b>						
Current	6,063		4,594		8,235	
Deferred	(578)		(936)		(974)	
<b>Total income taxes</b>	<b>5,485</b>	4.5%	<b>3,657</b>	3.2%	<b>7,261</b>	3.2%
<b>Minority interest of consolidated subsidiaries</b>	<b>28</b>	0.0%	<b>19</b>	0.0%	<b>35</b>	0.0%
<b>Net income</b>	<b>9,439</b>	7.7%	<b>6,296</b>	5.6%	<b>11,117</b>	4.9%

### Consolidated Statement of Capital Surplus and Retained Earnings

	(Yen in millions)		
	Six months ended		Fiscal year ended
	September 30		March 31
	2004	2003	2004
<b>Capital surplus:</b>			
<b>Balance at the beginning of the period</b>	<b>54,825</b>	<b>54,824</b>	<b>54,824</b>
Increases due to:			
Profit from treasury stock disposition	0	0	0
<b>Balance at the end of the period</b>	<b>54,825</b>	<b>54,824</b>	<b>54,825</b>
<b>Retained Earnings:</b>			
<b>Balance at the beginning of the period</b>	<b>102,868</b>	<b>94,260</b>	<b>94,260</b>
Increases due to:			
Net Income	9,439	6,296	11,117
Decreases due to:			
Dividends	(1,218)	(1,218)	(2,437)
Bonuses to directors and corporate auditors	(72)	(72)	(72)
<b>Balance at the end of the period</b>	<b>111,016</b>	<b>99,266</b>	<b>102,868</b>

### Consolidated Statement of Cash Flows

	(Yen in millions)		
	Six months ended		Fiscal year ended
	September 30		March 31
	2004	2003	2004
<b>Cash flow operating activities:</b>			
Income before taxes and minority interests	14,953	9,973	18,414
Depreciation	6,971	7,745	15,942
Amortization of consolidated goodwill	(0)	17	34
Increase in allowance for retirement benefit for employees	265	266	601
Interest and dividend income	(476)	(473)	(914)
Investment profit in equity method	(300)	(289)	(453)
Interest expenses	301	503	1,026
Gain on sales of investment securities	(2)	(26)	(47)



Loss on write-down of investment securities	143	-	-
Gain on sales of fixed assets	(6)	(9)	(57)
Loss on sale or disposal of fixed assets	735	316	854
Minority interest of consolidated subsidiaries	(28)	(19)	(35)
Net increase in accounts receivables, trade	(2,302)	(4,752)	(4,181)
Net decrease in inventory	794	3,666	3,006
Net increase/(decrease) in account payable, trade	1,383	(784)	(1,727)
Other, net	(742)	13	1,232
<b>Subtotal</b>	<b>21,687</b>	<b>16,144</b>	<b>33,694</b>
Interest and dividend received	575	569	1,039
Interest paid	(294)	(504)	(1,025)
Income taxes paid	(3,569)	(4,889)	(9,450)
<b>Net cash provided by operating activities</b>	<b>18,400</b>	<b>11,320</b>	<b>24,258</b>
<b>Cash flow investing activities:</b>			
Net decrease/(increase) in fixed-term deposit	(26,012)	(9,082)	20,487
Purchase of securities	(5,257)	(6,008)	(9,696)
Sales of securities	3,477	5,998	14,124
Purchase of investment securities	(6,417)	(3,011)	(3,020)
Sales of investment securities	33	72	3,157
Purchase of shares of subsidiaries	(70)	(156)	(156)
Purchase of tangible fixed assets	(5,783)	(4,489)	(10,310)
Sales of tangible fixed assets	117	55	243
Net decrease/(increase) in loans	3	(5)	8
Other, net	(20)	(29)	(52)
<b>Net cash provided by (used in) investing activities</b>	<b>(39,930)</b>	<b>(16,657)</b>	<b>14,784</b>
<b>Cash flow from financing activities:</b>			
Net increase/(decrease) in short-term borrowing	(6,549)	(1,858)	630
Repayment of long-term debt	-	-	(19,930)
Proceeds from issuance of long-term debt	16,929	-	-
Purchase of treasury stock and fractional shares	(37)	(18)	(38)
Sales of treasury stock and fractional shares	0	1	4
Dividends paid	(1,219)	(1,219)	(2,437)
Other, net	(13)	(20)	(20)
<b>Net cash provided by (used in) investing activities</b>	<b>9,110</b>	<b>(3,114)</b>	<b>(21,792)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(103)</b>	<b>346</b>	<b>(236)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(12,522)</b>	<b>(8,105)</b>	<b>17,015</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>48,222</b>	<b>31,207</b>	<b>31,207</b>
<b>Cash and cash equivalents at end of the period</b>	<b>35,699</b>	<b>23,101</b>	<b>48,222</b>

## **Notes to Consolidated Financial Statements**

### **1. Scope of consolidation and Application of Equity method**

(1) Consolidated subsidiaries:	30	
Overseas	20	NGK Spark Plugs (U.S.A.), Inc., NGK Spark Plug GmbH, NTK Technologies, Inc., NGK Spark Plugs (U.K.) Ltd., Cerâmica e Velas de Ignição NGK do Brasil Ltda., Other
Domestic	10	Iijima Ceramic Co., Ltd., Nakatsugawa Ceramic Co., Ltd., Nittoku Seisakusyo Co., Ltd., Kamioka Ceramic Co., Ltd., Other
(2) Change in scope of consolidation:	Not applicable	
(3) Unconsolidated subsidiaries	4	
Overseas	4	Bujías NGK del Ecuador Cia. Ltda., Other

Note: These 4 unconsolidated subsidiaries are small in terms of their total assets, total sales, total net income or loss and total retained earnings and others, and do not have a significant effect on the semiannual consolidated financial statements.

## 2. Equity Method

(1) Equity method-applied Companies:	5	
Overseas	3	NGK Spark Plugs Malaysia Berhad., Siam NGK Spark Plug Co., Ltd., Woo Jin Industry Co., Ltd.
Domestic	2	Ceramic Sensor Co., Ltd., Tokai Taima Kogu Co., Ltd.
(2) Change in equity method-applied:	Not applicable	
(3) Companies not accounted for by the equity method:	6	
Overseas	5	Bujías NGK del Ecuador Cia. Ltda., Other
Domestic	1	Hayakawa Seiki Kogyo Co., Ltd.

Note: These 6 companies are not accounted for by the equity method as their impact is not significant on consolidated net income or loss for the period or on consolidated retained earnings or other results.

## 3. Accounting Periods of Consolidated Subsidiaries

All of overseas consolidated subsidiaries and affiliates close their books at June 30 every year, three months earlier than consolidated balance sheet date (September 30). Significant transactions for the period between their closing date and the consolidated balance sheet date are adjusted on consolidation.

## 4. Accounting Policies

### (1) Valuation methods of assets

#### a) Securities

Marketable securities for available-for-sale securities:

Marketable securities with market quotations stated at fair value. Net unrealized gains and losses are reported as a separate component of shareholders' equity, net of applicable income taxes. Gain and losses on disposition are computed by moving average.

Non-marketable securities for available-for-sale securities:

Non-marketable securities without available market quotations for available-for-sale securities are carried at cost determined by moving average method

#### b) Inventory

Inventories are principally stated at moving average cost.

#### c) Derivative

Fair value method

### (2) Depreciation method and amortization method

#### a) Tangible assets

Tangible assets have been principally depreciated by the decline-balance method for the Company and its domestic consolidated subsidiaries and by the straight-line method for overseas consolidated subsidiaries.

#### b) Software

Software is being amortized on a straight-line basis over an estimated useful life of five years

### (3) Account policy for allowance

#### a) Allowance for doubtful accounts

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

#### b) Employee retirement benefit liability

In accordance with the accounting standard for employee retirement benefits, 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. 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.

c) Accrued severance indemnities for officers

The liabilities of directors' and corporate auditors' severance indemnities are provided for the full amount estimated at the period-end based on the internal regulations of the Company.

(4) 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 period-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 period-ends. All income and expense accounts are translated at the average rates of exchange prevailing during each period. 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.

(5) Leases

Lease transactions except for the finance leases are accounted by the method equivalent to rental transactions.

(6) Consumption tax

Tax-excluding method

## 5. Cash and Cash equivalents

Cash and cash equivalents consist of cash on hand, bank deposits that can be readily withdrawn, and short-term, highly liquid investments with an original maturity of three months or less and little risk of changes in value.

## Footnotes

### Consolidated Balance Sheet

	(Yen in millions)		
	September 30		March 31
	2004	2003	2004
a) Depreciation of tangible assets	190,876	185,976	187,583
b) Contingent Liabilities			
Guarantees of indebtedness	252	301	277
Notes receivable discounted	357	420	344
Export bills discounted	315	729	424

### Consolidated Statement of Cash Flows

Reconciliation of cash and time deposits in the consolidated balance sheet to cash and cash equivalents in the consolidated statement of cash flows

	(Yen in millions)		
	September 30		March 31
	2004	2003	2004
Cash and Time deposits	63,024	54,168	47,579
Securities	12,563	10,271	11,670
Subtotal	75,587	64,440	59,250
Time deposits with original maturities of three months or longer	(27,325)	(31,067)	(1,357)
Security other than short-term investments			

with an original maturity of three months or less	(12,563)	(10,271)	(9,670)
Cash and cash equivalents	<u>35,699</u>	<u>23,101</u>	<u>48,222</u>

## **Leases**

Finance lease transactions other than those with an unconditional title transfer clause to lessee

(1) Equivalent of acquisition costs, accumulated depreciation and net book value as of balance sheet date

	(Yen in millions)		
	September 30		March 31
	2004	2003	2004
Machinery and equipment:			
Equivalent of acquisition costs	119	158	164
Equivalent of accumulated depreciation	93	121	126
Equivalent of net book value as of balance sheet date	26	36	37
Tools and implements:			
Equivalent of acquisition costs	4,517	4,759	4,761
Equivalent of accumulated depreciation	2,453	2,462	2,465
Equivalent of net book value as of balance sheet date	2,064	2,296	2,295

(2) Future minimum lease payments as of balance sheet date

	(Yen in millions)		
	September 30		March 31
	2004	2003	2004
Due within one year	836	919	915
Due over one years	1,253	1,414	1,417
Total	<u>2,090</u>	<u>2,333</u>	<u>2,333</u>

(3) Lease fees paid for this fiscal year

	(Yen in millions)		
	Six months ended September 30		Fiscal year ended March 31
	2004	2003	2004
Equivalent of depreciation	500	522	1,051
Equivalent of interest	500	522	1,051

(4) Depreciation methods of leased assets

Depreciation of leased assets is calculated at 100% of acquisition costs, using the straight-line method over the lease term.

## **Fair Value Information of Securities**

1. Available-for-sale securities that have a market value

	(Yen in millions)							
	September 30			March 31				
	2004		2003	2004		2004		
Cost	Fair and Unrealized		Cost	Fair and Unrealized		Cost	Fair and Unrealized	
	Carrying Value	gains/ (losses)		Carrying Value	gains/ (losses)		Carrying Value	gains/ (losses)

(1) Equity Securities	8,857	34,153	25,362	9,020	28,875	19,855	9,000	35,218	26,217
(2) Bond	22,482	22,546	64	19,109	19,144	34	11,810	11,884	73
(3) Other	810	810	-	3,206	3,208	1	3,209	3,209	-
Total	<u>32,150</u>	<u>57,510</u>	<u>25,426</u>	<u>31,337</u>	<u>51,229</u>	<u>19,891</u>	<u>24,020</u>	<u>50,311</u>	<u>26,291</u>

## 2. Securities that are not valued at fair value

	(Yen in millions)		
	September 30		March 31
	2004	2003	2004
	Fair and Carrying Value	Fair and Carrying Value	Fair and Carrying Value
Available-for-sale securities:			
(1) Unlisted stocks (excluding those traded over-the-counter)	3,492	3,475	3,483
(2) Unlisted foreign bonds	222	438	300
(3) Others	52	61	2,049

## **For Derivative Transactions**

### Notional amounts, fair value and unrealized gain or loss

#### Currency-related transactions:

	(Yen in millions)		
	September 30		March 31
	2004	2003	2004
Notional amounts	11,965	3,801	6,096
Fair Value	12,033	3,695	5,869
Unrealized gains/(losses)	(67)	106	226

Note: Fair values at the end of each fiscal period are estimated based on prevailing forward exchange rates at that date.

## **Segment Information**

### **1. Information by industry segment**

	(Yen in millions)					
	Automotive components	Communication media components and technical ceramics	Other	Total	Elimination	Consolidated
<u>Six months ended September 30, 2004</u>						
Operating revenues—net sales:						
Outside customers	76,316	44,737	1,252	122,306	-	122,306
Inter-segment sales	-	-	34	34	(34)	-
Total net sales	76,316	44,737	1,286	122,340	(34)	122,306
Operating costs and expenses	62,953	44,003	1,285	108,242	(34)	108,208
Operating Income	13,362	734	0	14,097	-	14,097

### Six months ended September 30, 2003

Operating revenues—net sales:						
Outside customers	75,398	36,340	1,167	112,906	-	112,906
Inter-segment sales	-	-	64	64	(64)	-
Total net sales	75,398	36,340	1,232	112,971	(64)	112,906
Operating costs and expenses	61,394	40,109	1,230	102,734	(64)	102,669

Operating Income / (Loss)	14,004	(3,769)	2	10,237	-	10,237
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#### Fiscal year ended March 31, 2004

##### Operating revenues—net sales:

Outside customers	147,696	78,486	2,593	228,776	-	228,776
Inter-segment sales	-	-	145	145	(145)	-
Total net sales	147,696	78,486	2,738	228,921	(145)	228,776
Operating costs and expenses	121,487	83,980	2,708	208,176	(145)	208,031
Operating Income / (Loss)	26,209	(5,494)	30	20,745	-	20,745

## 2. Information summarized by geographic area

(Yen in millions)

	Japan	North America	Europe	Other	Total	Elimination	Consolidated
<u>Six months ended September 30, 2004</u>							
Operating revenues—net sales:							
Outside customers	50,298	37,113	24,473	10,420	122,306	-	122,306
Inter-segment sales	54,979	326	301	470	56,077	(56,077)	-
Total net sales	105,277	37,440	24,774	10,890	178,383	(56,077)	122,306
Operating costs and expenses	94,418	36,381	23,574	10,034	164,409	(56,200)	108,208
Operating Income	10,858	1,059	1,200	856	13,974	122	14,097

#### Six months ended September 30, 2003

##### Operating revenues—net sales:

Outside customers	46,578	35,593	22,656	8,078	112,906	-	112,906
Inter-segment sales	49,458	409	123	391	50,383	(50,383)	-
Total net sales	96,036	36,002	22,779	8,470	163,289	(50,383)	112,906
Operating costs and expenses	89,243	34,952	21,619	7,640	153,455	(50,786)	102,669
Operating Income	6,793	1,050	1,160	829	9,834	403	10,237

#### Fiscal year ended March 31, 2004

##### Operating revenues—net sales:

Outside customers	99,057	69,922	42,314	17,481	228,776	-	228,776
Inter-segment sales	97,323	853	235	821	99,233	(99,233)	-
Total net sales	196,381	70,775	42,550	18,303	328,010	(99,233)	228,776
Operating costs and expenses	182,104	69,001	40,194	16,884	308,185	(100,154)	208,031
Operating Income	14,277	1,774	2,335	1,418	19,824	920	20,745

## 3. Overseas sales

(Yen in millions)

Six months ended September 30		Fiscal year ended March 31
2004	2003	2004

Overseas sales:

North America	49,351	40.4%	46,679	41.3%	94,522	41.3%
Europe	25,429	20.8%	23,773	21.1%	45,066	19.7%
Other	21,303	17.4%	18,358	16.3%	39,006	17.1%
Total overseas sales	96,084	78.6%	88,811	78.7%	178,595	78.1%
Consolidated net sales	122,306	100.0%	112,906	100.0%	228,776	100.0%

Note: Overseas sales included export sales from Japan and net sales of overseas consolidated subsidiaries other than Japan.