Financial reports for the fiscal year ended March 31, 2006 (Consolidated)

May 10, 2006

NGK Spark Plug Co., Ltd. (URL: http://www.ngkntk.co.jp)
Stock Listing: Tokyo (1st Section), Nagoya (1st Section)
Code Number: 5334
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Rep: Norio Kato, President
Adoption of U.S. GAAP: Not adopted

1. Consolidated Financial Highlights (April 1, 2005 through March 31, 2006)

(1) Consolidated Financial Results (Yen in millions)

	Net sales		Operating income		Ordinary income		Net income	
Fiscal year ended March 31, 2006	284,884	18.1%	41,513	59.1%	43,130	55.6%	25,104	46.4%
Fiscal year ended March 31, 2005	241,185	5.4%	26,090	25.8%	27,711	44.6%	17,147	54.2%

	Net income per share (Basis)	Net income per share (Diluted)	Return on equity	Ordinary profit on total assets	Ordinary profit ratio
Fiscal year ended March 31, 2006	112.82 *yen*	106.91 *yen*	10.5%	12.2%	15.1%
Fiscal year ended March 31, 2005	77.01	72.92	8.0%	8.9%	11.5%

Notes: 1. Investment profit in equity method: Fiscal year ended March 31, 2006: 673 million yen
Fiscal year ended March 31, 2005: 655 million yen
2. Average number of shares of common stock outstanding: Fiscal year ended March 31, 2006: 221,602,342 shares
Fiscal year ended March 31, 2005: 221,530,519 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 previous fiscal year.

(2) Consolidated Financial Position (Yen in millions)

	Total assets	Shareholders' equity	Equity ratio	Equity per share
March 31, 2006	386,235	259,213	67.1%	1,166.97 *yen*
March 31, 2005	323,108	220,932	68.4%	997.13

Notes: Number of shares of common stock outstanding as of the fiscal year end: March 31, 2006: 222,036,516 shares
March 31, 2005: 221,481,620 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
Fiscal year ended March 31, 2006	34,749	(30,691)	(2,457)	43,304
Fiscal year ended March 31, 2005	36,092	(41,782)	(1,887)	40,524

(4) Scope of consolidation and application of equity method

Consolidated subsidiaries: 31 Equity method applied unconsolidated subsidiaries: - Equity method applied affiliates: 3

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

Consolidation (Addition): 1 (Exclusion): 1 Equity method (Addition): - (Exclusion): 1

2. Consolidated Financial Forecast (April 1, 2006 through March 31, 2007)

(Yen in millions)

	Net sales	Ordinary income	Net income
Six months ending September 30, 2006	154,000	22,700	14,000
Fiscal year ending March 31, 2007	307,000	44,300	28,000

Notes: Net income per share (Basis): 126.11yen

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. Management Policy

Basic Management Policy

As a technology-driven company that preempts market needs, 'NGK Spark Plug Co., Ltd.' (the Company) aims to be a leading company that is highly trusted by customers and society, by adding new values and providing excellent product quality requested by the contemporary market. It is the Company's fundamental policy to maximize corporate value and meet the shareholders' expectations. To this end, the Company devotes every effort in offering a 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

The Company regards returning profits to shareholders as one of its most important management policies and will continue to provide reassurance to its long-term shareholders under a basic policy of continuing to pay stable dividends. The Company also thinks that providing shareholder returns in line with earnings is important. Maintaining a target dividend payout ratio of at least 20% of consolidated net income for the time being, the Company will decide the amount of dividends by comprehensively taking into consideration the basic policy of paying stable dividends, the capital expenditure plan, and other factors. In accordance with this policy, the Company plans to increase the annual dividend for the fiscal year ended March 31, 2006, by 4 yen over the previous term to 20 yen, consisting of an interim dividend of 9 yen and a year-end dividend of 11 yen.

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

Targets and Strategies

We, as NGK Spark Plug Group, have mounted an all-out effort to achieve the objectives of return on equity (ROE) of 8% and operating income margin of 10% established in the three-year plan launched in the fiscal year ended March 31, 2004. By achieving ROE of 10.5% and an operating income margin of 14.6% for the fiscal year ended March 31, 2006, thus greatly exceeding the objectives for the final year of the plan, we believe that we have constructed a solid business base. This year marks the 70th anniversary of the founding of the Company. We have established a new three-year plan in which we aim to achieve net sales of 350 billion yen and operating income of 50 billion yen in addition to maintaining and building on these achievements.

2. Business Performance and Financial Position

Business performance

Review of Performance (Summary of Results: Fiscal year ended March 31, 2006)

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

In these circumstances, the automotive components business achieved solid growth boosted by the strong performance of Japanese automotive manufacturers. In the Communication Media Components and Technical Ceramics Businesses, sales of mainstay IC packages and medical products rose sharply. We achieved higher sales from all its businesses and recorded net sales of 284,884 million yen (an increase of 18.1% year on year), a record high sales figure for the second consecutive year.

Cost of sales increased 25,552 million yen (14.4%) from the previous fiscal year to 203,337 million yen. The cost of sales ratio (cost of sales divided by net sales) improved 2.3 percentage points from 73.7% the previous fiscal year to 71.4% owing to yen depreciation in the foreign exchange market and steady progress in reducing costs.

Selling, general and administrative expenses increased 2,724 million yen (7.3%) to 40,033 million yen. Principal reasons for the increase included a rise in the number of employees and higher physical distribution costs associated with the increase in sales.

As a result, operating income increased 15,422 million yen (59.1%) to 41,513 million yen. The operating income margin (operating income divided by sales) improved 3.8 percentage points from the previous fiscal year to 14.6%.

Net non-operating income after the deduction of non-operating expenses was 1,617 million yen, 99.8% of the prior-year amount, and ordinary income increased 15,419 million yen (55.6%) year on year to 43,130 million yen. The ordinary income margin (ordinary income divided by net sales) improved 3.6 percentage points from the previous fiscal year to 15.1%.

Regarding extraordinary profit and loss, we reported a loss of 4,098 million yen, an increase of 2,553 million yen from the previous fiscal year, owing to the booking of a non-recurring depreciation expense due to a change in the residual value of fixed assets.

Income taxes increased 4,790 million yen (53.4%) year on year to 13,765 million yen. The actual effective tax rate increased 1.0 percentage points from the previous fiscal year to 35.3%.

Minority interests in net income of consolidated subsidiaries increased about 3.6 times the level of the previous fiscal year to 162 million yen owing to inclusion in the scope of consolidation of 'NGK Spark Plugs Malaysia Berhad.' at the previous fiscal year-end and 'Siam NGK Spark Plug Co., Ltd.' at the close of the interim accounting period in the year ended March 31, 2006.

As a result of the above developments, net income increased 7,956 million yen (46.4%) from the previous fiscal year to 25,104 million yen. Net sales, operating income, ordinary income, and net income all reached record high levels for the second consecutive year.

Summary of segment

Business conditions by business segment and geographical area are as follows.

Business segment

<Automotive Components Business>

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

With regard to automotive sensors, shipments of mainstay zirconia exhaust gas oxygen sensors increased owing to higher demand for sensors for factory installation supported by vigorous automobile production in Japan, South Korea, and Europe as well as sharp growth in shipments of universal A/F heated exhaust gas oxygen sensors — which make possible more precise exhaust control — primarily in the environmentally progressive European and North American markets. Knock sensors, wide-range temperature sensors, and other high-priority products also contributed to higher sales.

As a result, net sales of the automotive components business were 165,279 million yen (an increase of 11.1% year on year) and operating income was 29,356 million yen (an increase of 17.7%).

<Communication Media Components and Technical Ceramics Businesses>

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

With regard to cutting tools, 'NTK Technical Ceramics Polska Spółka z o.o.', which began production in the previous fiscal year, got off to a good start. At the same time, sales developed favorably owing to excellent business conditions in the automotive and machinery industries, which are important customers for our products. OEM supply of medical oxygen concentrators to the largest company in the medical instruments industry went into full-scale operation and sales increased sharply. Sales of Hydroxyapatite Cement, a new bioceramics product, got off to a favorable start.

As a result, net sales of the communication media components and technical ceramics businesses were 116,032 million yen (an increase of 29.2% year on year) and operating income was 12,114 million yen (10.6 times the prior-year level).

<Other businesses>

Net sales of other businesses were 3,644 million yen (an increase of 34.1% year on year) and operating income was 42 million yen (7.1 times the prior-year level).

Geographic segment

<Japan>

In the automotive components business, mainstay spark plugs and oxygen sensors showed robust growth. We achieved a strong performance in the Communication Media Components and Technical Ceramics Businesses owing to increased demand for IC packages and full-scale delivery of high-priority products such as medical oxygen concentrators. Net sales were 250,551 million yen (an increase of 19.0% year on year) and operating income was 35,504 million yen (an increase of 66.9%).

<North America>

In the automotive components business, Japanese automobile manufacturers increased production and market conditions for after-market products were favorable. In the communication media components and technical ceramics businesses, sales of IC packages for MPU increased strongly. Net sales were 84,361 million yen (an increase of 13.6% year on year) and operating income was 1,925 million yen (an increase of 23.7%).

<Europe>

In the automotive components business, demand for glow plugs for diesel engine vehicles and sensors increased. Net sales were 48,541 million yen (an increase of 6.7% year on year) and operating income was 1,705 million yen (an increase of 1.2%).

<Other Regions>

Overall, demand increased in China and Southeast Asia, where the number of automotive industry and electronic component industry production sites is increasing, and in Central and South America and Oceania. In addition, two companies (NGK Spark Plugs Malaysia Berhad. and Siam NGK Spark Plug Co., Ltd.) were newly included in the scope of consolidation. Net sales were 27,563 million yen (an increase of 25.6% year on year) and operating income was 2,784 million yen (an increase of 66.6%).

Outlook for Fiscal Year Ending March 31, 2007

Despite uncertainties such as the impact on economic conditions in Japan and abroad of increases in the price of raw materials such as crude oil and steel, the performance of the U.S. economy, where interest rate increases continue, and foreign exchange movements, economic expansion in Japan is likely to continue for the time being, supported by robust capital investment, improvement in the employment situation, and strong performance of the corporate sector and the household sector owing to rising personal consumption.

Bearing in mind that there is no guarantee how long the current favorable economic environment will continue, We intends to continue making a concerted effort to strengthen every aspect of business operations, including the rationalization of production, continuation of cost reduction activities, and raising the quality of products and management to earn a high level of customer confidence based on a corporate stance of "Principle of Quality Goods" and "To Go a Step Further in Manufacturing".

For the fiscal year ending March 31, 2007, we forecast net sales of 307,000 million yen (an increase of 7.8% year on year), ordinary income of 44,300 million yen (an increase of 2.7%), and net income of 28,000 million yen (an increase of 11.5%).

We forecast foreign exchange rates of 112 yen to the U.S. dollar and 140 yen to the euro.

The Company plans to add a 3 yen per share commemorative dividend to mark the 70th anniversary of its founding to an ordinary dividend of 22 yen for an annual dividend of 25 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

In the fiscal year ended March 31, 2006, net cash flow provided by operating activities was 34,749 million yen, net cash used in investing activities was 30,691 million yen, and net cash used in financing activities was 2,457 million yen. As a result, net cash and cash equivalents at the fiscal year-end after adding a foreign currency translation adjustment of 1,179 million yen increased 2,779 million yen to 43,304 million yen (an increase of 6.9% year on year).

Cash flow from operating activities

Net cash provided by operating activities decreased 1,342 million yen (3.7%) from the previous year to 34,749 million yen. Although income before taxes and other adjustments increased 12,865 million yen (49.2%) to 39,032 million, trade receivables and income taxes paid increased.

Cash flow from investing activities

Net cash used in investing activities decreased 11,090 million yen (26.5%) from the previous year to 30,691 million yen. Although capital expenditures increased 10,816 million yen to 24,560 million yen, there was a net increase in fixed-term deposits of 19,488 million yen due to the procurement of funds through the issuance of bonds in the previous year.

Cash flow from financial activities

Net cash used in financing activities increased 569 million yen (30.2%) from the previous year to 2,457 million yen. The principal reason for the increase was an increase in dividends paid.

Supplemental information for cash flows

	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006
Equity Ratio:	63.4%	69.1%	68.4%	67.1%
Equity ratio based on market price ratio:	60.4%	72.5%	76.0%	157.8%
Repayment period:	1.6year	1.4year	1.0year	1.1year
Interest coverage ratio:	29.8times	23.7times	55.5times	51.8times

Notes: 1. Equity ratio: shareholders' equity / total assets
Equity ratio based on market value: Market capitalization / Total assets
Repayment period: Interest-bearing debt / Operating cash flow
Interest coverage ratio: Operating cash flow / Interest paid
2. The cash flow indicators are calculated using figures from the consolidated financial statements.
3. Market capitalization: Closing price on the last trading day of the fiscal year × Number of shares issued and outstanding at the period end (excluding treasury stock)
4. Operating cash flow is the net cash flow from operating activities in the Consolidated Statement of Cash Flows. Interest-bearing debt includes all debt on the Consolidated Balance Sheet on which interest is paid. Interest paid is the figure for interest paid in the Consolidated Statement of Cash Flows.

3. Consolidated Financial Statements

Consolidated Balance Sheet

(Yen in millions)

	March 31				Increase /
	2006		2005		(Decrease)
Assets					
Current assets:					
Cash and time deposit	64,327		61,432		2,894
Notes and accounts receivable, trade	54,243		41,960		12,282
Securities	24,070		15,320		8,749
Inventories	51,127		45,367		5,760
Deferred tax assets	8,505		7,562		942
Other current assets	8,853		7,460		1,392
Allowance for doubtful accounts	(224)		(187)		(36)
Total current assets	**210,902**	54.6%	**178,917**	55.4%	31,985
Fixed assets:					
Tangible assets:					
Building and structures	41,087		36,300		4,787
Machinery and vehicles	36,557		33,063		3,493
Land	16,385		15,200		1,184
Construction in progress	4,744		2,344		2,399
Other tangible assets	1,917		2,029		(111)
Total tangible assets	**100,691**	26.1%	**88,937**	27.5%	11,754
Intangible assets:					
Software	199		137		62
Consolidated goodwill	581		-		581
Total intangible assets	**780**	0.2%	**137**	0.0%	643
Investment and other assets:					
Investments securities	70,884		52,392		18,491
Deferred tax assets	1,173		1,034		139
Other assets	1,894		1,797		96
Allowance for doubtful accounts	(91)		(107)		15
Total investment and other assets	**73,860**	19.1%	**55,117**	17.1%	18,742
Total fixed assets	**175,332**	45.4%	**144,191**	44.6%	31,140
Total assets	**386,235**	100.0%	**323,108**	100.0%	63,126

(Yen in millions)

	March 31				Increase /
	2006		2005		(Decrease)
Liabilities					
Current liabilities:					
Accounts payable, trade	29,513		22,660		6,853
Short-term borrowing	10,462		8,319		2,143
Bonds due within one year	10,000		-		10,000
Income taxes payable	11,044		6,885		4,159
Deferred tax liabilities	215		208		6
Other current liabilities	23,055		17,806		5,248
Total current liabilities	**84,290**	21.8%	**55,880**	17.3%	28,410
Fixed Liabilities:					
Bonds	16,099		27,000		(10,901)
Employee retirement benefit liability	14,186		13,743		443
Accrued severance indemnities for officers	985		1,091		(106)
Negative consolidated goodwill	-		40		(40)
Deferred tax liabilities	9,042		2,658		6,383
Other fixed liabilities	864		682		182
Total fixed liabilities	**41,178**	10.7%	**45,217**	14.0%	(4,039)
Total liabilities	**125,468**	32.5%	**101,097**	31.3%	24,371
Minority interests in consolidated subsidiaries	**1,552**	0.4%	**1,078**	0.3%	474
Shareholders' equity:					
Common stock	**47,869**	12.4%	**47,869**	14.8%	-
Capital surplus	**55,167**	14.3%	**54,826**	17.0%	340
Retained earnings	**138,202**	35.8%	**117,394**	36.3%	20,808
Net unrealized gains on available-for-sale securities	**27,831**	7.2%	**15,352**	4.8%	12,479
Foreign currency translation adjustment	**(3,403)**	(0.9%)	**(7,701)**	(2.4%)	4,297
Less, treasury stock at cost	**(6,454)**	(1.7%)	**(6,808)**	(2.1%)	354
Total shareholders' equity	**259,213**	67.1%	**220,932**	68.4%	38,280
Total liabilities, minority interests and shareholders' equity	**386,235**	100.0%	**323,108**	100.0%	63,126

Consolidated Statement of Operations

(Yen in millions)

	Fiscal year ended March 31				Increase /
	2006		2005		(Decrease)
Net Sales	**284,884**	100.0%	**241,185**	100.0%	43,699
Cost of goods sold	**203,337**	71.4%	**177,785**	73.7%	25,552
Gross profit on sales	**81,547**	28.6%	**63,400**	26.3%	18,147
Selling, general and administrative expenses:					
Selling expenses	23,500		22,227		1,273
General and administrative expenses	16,532		15,082		1,450
Total S.G.A.	**40,033**	14.0%	**37,309**	15.5%	2,724
Operating income	**41,513**	14.6%	**26,090**	10.8%	15,422
Other income:					
Interest income	834		532		302
Dividend income	460		420		39
Amortization of consolidated goodwill	-		11		(11)
Income of rentals on fixed assets	804		833		(28)
Investment profit in equity method	673		655		17
Foreign exchange gain	485		192		293
Miscellaneous income	1,020		1,198		(177)
Total other income	**4,279**	1.5%	**3,844**	1.6%	434
Other expenses:					
Interest expenses	674		647		27
Depreciation of rentals on fixed assets	701		677		24
Loss on disposal of inventory	299		253		46
Warranty	500		289		210
Miscellaneous loss	486		356		130
Total other expenses	**2,662**	1.0%	**2,223**	0.9%	438
Ordinary income	**43,130**	15.1%	**27,711**	11.5%	15,419
Extraordinary profit:					
Gain on sales of fixed assets	16		26		(10)
Gain on sales of investment securities	10		2		8
Total extraordinary profit	**26**	0.0%	**28**	0.0%	(1)
Extraordinary losses:					
Loss on sales or disposal of fixed assets	633		1,444		(811)
Loss on write-down of impaired fixed assets	737		-		737
Non-recurring depreciation	2,749		-		2,749
Loss on write-down of investment securities	-		128		(128)
Loss on sales of investment securities	5		-		5
Total extraordinary losses	**4,125**	1.4%	**1,573**	0.7%	2,552
Income before income taxes and minority interests	**39,032**	13.7%	**26,166**	10.8%	12,865
Income taxes:					
Current	16,926		10,455		6,470
Deferred	(3,161)		(1,480)		(1,680)
Total income taxes	**13,765**	4.8%	**8,974**	3.7%	4,790
Less, minority interest in net income of consolidated subsidiaries	**162**	0.1%	**44**	0.0%	118
Net income	**25,104**	8.8%	**17,147**	7.1%	7,956

Consolidated Statement of Capital Surplus and Retained Earnings

(Yen in millions)

	Fiscal year ended March 31	
	2006	2005
Capital surplus:		
Balance at the beginning of the fiscal year	**54,826**	**54,825**
Increases due to:		
Profit from treasury stock disposition	340	1
Balance at the end of the fiscal year	**55,167**	**54,826**
Retained Earnings:		
Balance at the beginning of the fiscal year	**117,394**	**102,868**
Increases due to:		
Net Income	25,104	17,147
Decreases due to:		
Dividends	(4,207)	(2,547)
Bonuses to directors and corporate auditors	(88)	(72)
Balance at the end of the fiscal year	**138,202**	**117,394**

Consolidated Statement of Cash Flows

(Yen in millions)

	Fiscal year ended March 31		Increase /
	2006	2005	(Decrease)
Cash flow from operating activities:			
Income before taxes and minority interests	39,032	26,166	12,865
Depreciation	18,017	14,527	3,489
Loss on write-down of impaired fixed assets	737	-	737
Amortization of consolidated goodwill	64	(11)	75
Increase in allowance for retirement benefit for employees	433	708	(275)
Interest and dividend income	(1,295)	(952)	(342)
Investment profit in equity method	(673)	(655)	(17)
Interest expenses	674	647	27
Gain on sales of investment securities	(10)	(2)	(8)
Loss on sales of investment securities	5	-	5
Loss on write-down of investment securities	-	128	(128)
Gain on sales of fixed assets	(16)	(26)	10
Loss on sales or disposal of fixed assets	633	1,444	(811)
Net increase in accounts receivables, trade	(10,005)	(407)	(9,597)
Net increase in inventory	(3,003)	(2,240)	(762)
Net increase in account payable, trade	1,558	3,627	(2,068)
Other, net	315	17	297
Subtotal	**46,467**	**42,971**	3,496
Interest and dividend received	1,481	1,062	419
Interest paid	(670)	(650)	(19)
Income taxes paid	(12,528)	(7,290)	(5,237)
Net cash provided by operating activities	**34,749**	**36,092**	(1,342)
Cash flow from investing activities:			
Net increase in fixed-term deposit	(2,565)	(19,488)	16,923
Purchase of securities	(15,560)	(8,230)	(7,329)
Sales of securities	19,927	10,230	9,697
Purchase of investment securities	(8,318)	(12,237)	3,919
Sales of investment securities	1,027	1,033	(5)
Payment for acquisition of shares of subsidiaries	(67)	(74)	6
Net increase/(decrease) by acquisition of shares of subsidiaries	(468)	654	(1,123)
Purchase of tangible fixed assets	(24,560)	(13,744)	(10,816)
Sales of tangible fixed assets	84	228	(144)
Net decrease in loans	9	4	4
Other, net	(198)	(157)	(40)
Net cash used in investing activities	**(30,691)**	**(41,782)**	11,090
Cash flow from financing activities:			
Net increase/(decrease) in short-term borrowing	2,076	(6,149)	8,226
Repayment of long-term debt	-	(10,010)	10,010
Proceeds from issuance of long-term debt	-	16,929	(16,929)
Proceeds from issuance of common stock of a subsidiary	16	-	16
Purchase of treasury stock and fractional shares	(210)	(102)	(107)
Sales of treasury stock and fractional shares	4	6	(2)
Dividends paid	(4,205)	(2,547)	(1,657)
Other, net	(139)	(13)	(125)
Net cash used in financing activities	**(2,457)**	**(1,887)**	(569)
Effect of exchange rate changes on cash and cash equivalents	**1,179**	**(119)**	1,298
Net increase/(decrease) in cash and cash equivalents	**2,779**	**(7,697)**	10,477
Cash and cash equivalents at beginning of fiscal year	**40,524**	**48,222**	(7,697)
Cash and cash equivalents at end of fiscal year	**43,304**	**40,524**	2,779

Notes to Consolidated Financial Statements

1. Scope of consolidation and Application of Equity method

(1) Consolidated subsidiaries:	31	
Overseas	21	NGK Spark Plugs (U.S.A.), Inc. NTK Technologies, Inc. NGK Spark Plugs (U.K.) Ltd. NGK Spark Plug GmbH Cerâmica e Velas de Ignição NGK do Brasil Ltda. NGK Spark Plug (Australia) Pty., Ltd., Others
Domestic	10	Nittoku Seisakusho Co., Ltd. Kamioka Ceramic Co., Ltd. Iijima Ceramic Co., Ltd. Nakatsugawa Ceramic Co., Ltd., Others
(2) Change in scope of consolidation:		
Addition:	1	
Overseas	1	Siam NGK Spark Plug Co., Ltd. This company has been reclassified as a subsidiary, reflecting an acquisition of shares by the Company. We treated the acquisition date for the record as September 30, 2005; therefore we consolidated the balance sheet, statement of income and cash flow from end of interim period.
Exclusion:	1	
Overseas	1	NTK Technical Ceramics H.K. Ltd. This company was liquidated in this fiscal year. We consolidated the statement of income and cash flow up to liquidation.
(3) Unconsolidated subsidiaries:	4	
Overseas	4	Bujías NGK del Ecuador Cia. Ltda., Others

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 consolidated financial statements.

2. Equity Method

(1) Equity method-applied Companies:	3	
Overseas	1	Woo Jin Industry Co., Ltd.
Domestic	2	Ceramic Sensor Co., Ltd. Tokai Taima Kogu Co., Ltd.
(2) Change in equity method-applied:	1	
Exclusion:	1	
Overseas	1	Siam NGK Spark Plug Co., Ltd. This company has been reclassified as a subsidiary at the end of interim period; therefore we applied the equity method to its statement of income up to end of interim period.
(3) Companies not accounted for by the equity method:	8	
Overseas	7	Bujías NGK del Ecuador Cia. Ltda., Other
Domestic	1	Hayakawa Seiki Kogyo Co., Ltd.

Note: These 8 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 and Affiliates

All the overseas consolidated subsidiaries and affiliates close their books at December 31 every year, three months earlier than consolidated balance sheet date (March 31). 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. Gains 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 reducing balance method for the Company and its domestic consolidated subsidiaries and by the straight-line method for overseas consolidated subsidiaries.

Note: The Company and domestic subsidiaries changed the residual value from 5% of acquisition cost to 1 yen in fiscal year ended March 31, 2006, because it is almost impossible to sell a fixed asset at the end of its useful life. As a result, a depreciation as an operation expense increased 457 million yen, and a non-recurring depreciation was recorded 2,749 million yen as an extraordinary loss.

b) Software

Software is being amortized on a straight-line basis on an estimated useful life within five year.

(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.

(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)

	March 31	
	2006	2005
a) Accumulated depreciation of tangible assets	210,340	195,042
b) Accounted for by the equity method for significant affiliates and at cost for unconsolidated subsidiaries and other affiliates	5,094	4,927
c) Contingent Liabilities		
Guarantees of indebtedness	174	217
Notes receivable discounted	461	555
Export bills discounted	0	6

Consolidated Statement of Operations

Detail of write-down of impaired fixed assets (Fiscal year ended March 31, 2006)

a) Assets group

Location:	Ise factory (Ise, Mie prefecture)	
Use:	Production equipment for electronic components	
Asset type:	Machinery and vehicles	645 million yen
	Other tangible assets	91 million yen
	Software	0 million yen
	(Total)	737 million yen

b) Method of grouping assets

We group fixed assets by product division on management accounting.

c) Process that recognized impairment of fixed assets.

The Electronic Components Division, which was recognized impairment of fixed assets, has been under restructuring process since the withdrawal of the 455KHz ceramic filter business. However, we judged that restoring of profitability in short-term is difficult.

Consolidated Statement of Cash Flows

a) 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)

	March 31	
	2006	2005
Cash and time deposits	64,327	61,432
Securities	24,070	15,320
Subtotal	88,397	76,753
Time deposits with original maturities of three months or longer	(24,023)	(20,908)
Security other than short-term investments with an original maturity of three months or less	(21,069)	(15,320)
Cash and cash equivalents	43,304	40,524

b) Break down of net increase by acquisition of shares of new subsidiaries

(Yen in millions)

	March 31	
	2006	2005
A) Increase due to:		
Cash and cash equivalents of new subsidiaries	439	1,105
B) Decrease due to:		
Current assets of new subsidiaries	1,223	1,670
Fixed assets of new subsidiaries	548	152
Liabilities of new subsidiaries	(626)	(474)
Minority interests	(274)	(539)
Consolidated goodwill	686	50
Equity method	(648)	(408)
Payment for acquisition of shares of new subsidiaries	908	450
C) Net increase /(decrease) by acquisition of shares of new subsidiaries (A-B)	(468)	654

c) Non-cash financing activity

(Yen in millions)

	March 31	
	2006	2005
Decrease of treasury stock by conversion of convertible bonds	562	-
Conversion of convertible bonds into capital surplus	338	-
Decrease of convertible bonds	901	-

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)

	March 31	
	2006	2005
Machinery and vehicles:		
Equivalent of acquisition costs	125	119
Equivalent of accumulated depreciation	115	100
Equivalent of net book value as of balance sheet date	9	18
Tools and implements:		
Equivalent of acquisition costs	4,123	4,313
Equivalent of accumulated depreciation	2,255	2,206
Equivalent of net book value as of balance sheet date	1,868	2,106

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

(Yen in millions)

	March 31	
	2006	2005
Due within one year	774	827
Due within one year	1,103	1,297
Total	1,878	2,124

(3) Lease fees paid for this fiscal year

(Yen in millions)

	Fiscal year ended March 31	
	2006	2005
Lease payments	899	972
Equivalent of depreciation	899	972

(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)

	March 31					
	2006			2005		
	Cost	Fair and carrying value	Unrealized gains / (losses)	Cost	Fair and carrying value	Unrealized gains / (losses)
Securities with ending balances that exceed the historical acquisition costs						
(1) Equity Securities	10,042	56,933	46,890	8,795	34,590	25,794
(2) Bonds	4,007	4,015	7	11,812	11,860	48
(3) Others	-	-	-	-	-	-
Subtotal	14,050	60,948	46,898	20,607	46,451	25,843
Securities with ending balances that do not exceed the historical acquisition costs						
(1) Equity Securities	-	-	-	78	78	-
(2) Bonds	22,013	21,955	(58)	12,597	12,574	(22)
(3) Others	-	-	-	-	-	-
Subtotal	22,013	21,955	(58)	12,676	12,653	(22)
Total	36,064	82,904	46,839	33,283	59,104	25,820

2. Securities that are not valued at fair value

(Yen in millions)

	March 31	
	2006	2005
Available-for-sale securities:		
(1) Unlisted stocks	3,469	3,491
(2) Unlisted foreign bonds	485	180
(3) Others	3,001	10

3. Redemption schedule (after the balance sheet date) of available-for-sale securities that have a maturity

(Yen in millions)

	Within 1 Year	1 to 5 years	5 to 10 years	Over 10 years
March 31, 2006:				
(1) Bonds				
Government bonds	39	118	-	-
Corporate bonds	20,997	2,765	1,528	-
(2) Others	-	-	-	0
Total	21,036	2,884	1,528	0
March 31, 2005:				
(1) Bonds				
Government bonds	35	154	-	-
Corporate bonds	15,274	5,609	2,500	-
(2) Others	-	-	-	0
Total	15,310	5,763	2,500	0

For Derivative Transactions

1. Derivative transactions

The Company is a party to derivative instruments such as foreign currency forward exchange contracts. As a matter of corporate policy, derivatives are not held or issued for speculative trading purposes. These exposures include certain anticipated export sales or import purchases. Because the counterparties to these derivative transactions are limited to major financial institutions with high credit ratings, The Company does not anticipate any losses arising from the above transactions. General transaction guidelines on derivative transactions are decided by the Board of Directors, and the Accounting & Financial Section manages the execution of and control over its derivatives. The results of these transactions are reported to the Board of Directors.

2. Fair value of derivative transactions

Notional amounts, fair value and unrealized gain or loss

Currency-related transactions:

(Yen in millions)

	March 31					
	2006			2005		
	Notional amounts	Fair value	Unrealized losses	Notional amounts	Fair value	Unrealized losses
Sell:	24,955	25,052	(96)	17,279	17,528	(248)
Buy:	-	-	-	-	-	-
Total	24,955	25,052	(96)	17,279	17,528	(248)

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

Employee Retirement Benefit

1. Description of employee retirement benefit plans

The Company and its domestic consolidated subsidiaries have defined benefit pension plans and lump-sum retirement benefit plans. In addition, certain overseas consolidated subsidiaries have defined contribution plans.

2. The following table reconciles the benefit

(Yen in millions)

	March 31	
	2006	2005
Projected benefit obligation	42,892	42,289
Less, fair value of pension plan assets at end of year	(30,499)	(23,651)
Project benefit obligation in excess of pension plan assets	12,392	18,638
Less, unrecognized actuarial difference gain / (loss)	1,794	(4,894)
Net amounts of employee retirement benefit liability recognized on the consolidated balance sheet	14,186	13,743

3. The following table reconciles net periodic retirement benefit expenses

(Yen in millions)

	Fiscal year ended March 31	
	2006	2005
Service cost	2,175	2,158
Interest cost	801	778
Expected return on pension plan assets	(461)	(337)
Recognized actuarial difference	669	633
Net periodic retirement benefit expense	3,185	3,232

4. Major assumptions used in the calculation of above information

(Yen in millions)

	Fiscal year ended March 31	
	2006	2005
Method attributing the projected benefits to periods of service	Straight-line method	Straight-line method
Discount rate	2.0%	2.0%
Expected rate of return on pension plan assets	Primarily 2.25%	Primarily 1.75%
Amortization of actuarial difference	10 years	10 years

Income Taxes

1. Significant portion of deferred tax assets and liabilities

(Yen in millions)

	March 31	
	2006	2005
Deferred tax assets:		
Inter-company profits	3,150	2,932
Depreciation	4,653	3,190
Employee retirement benefit liability	5,903	5,147
Accrued bonus to employee	2,761	2,392
Inventories	769	700
Enterprise tax accruals	923	616
Others	2,398	2,058
Subtotal	20,559	17,037
Valuation allowance	(276)	-
Total deferred tax assets	20,282	17,037
Deferred tax liabilities:		
Unrealized gains on available-for-sale securities	(18,997)	(10,457)
Accelerated depreciation	(443)	(454)
Others	(420)	(395)
Total deferred tax liabilities	(19,860)	(11,307)
Net deferred tax assets	421	5,730

Note: Deferred tax and liabilities were follows.

(Yen in millions)

	March 31	
	2006	2005
Deferred tax assets:		
Current	8,505	7,562
Non-current	1,173	1,034
Deferred tax liabilities:		
Current	(215)	(208)
Non-current	(9,042)	(2,658)
Net deferred tax assets	421	5,730

2. The effective tax rates reflected in the consolidated statements of income for the years ended differ from the statutory tax rate for the following reasons:

(Yen in millions)

	Fiscal year ended March 31	
	2006	2005
Statutory tax rate of the Company	40.5%	40.5%
Adjust:		
Non-deductible expenses	0.7%	0.8%
Non-deductible incomes	(0.3%)	(0.7%)
Tax credit for R&D	(4.6%)	(5.1%)
Different tax rates applied to foreign subsidiaries	(1.2%)	(0.9%)
Effect of consolidation procedures	(0.4%)	0.2%
Valuation allowance	0.7%	-
Others	(0.1%)	(0.5%)
Effective tax rate	35.3%	34.3%

Segment Information

1. Information by industry segment

(Yen in millions)

	Automotive components	Communication media components and technical ceramics	Other	Total	Elimination	Consolidated
Fiscal year ended March 31, 2006						
Operating revenues-net sales:						
Outside customers	165,279	116,032	3,573	284,884	-	284,884
Inter-segment sales	-	-	71	71	(71)	-
Total net sales	165,279	116,032	3,644	284,955	(71)	284,884
Operating costs and expenses	135,923	103,917	3,601	243,442	(71)	243,371
Operating Income	29,356	12,114	42	41,513	-	41,513
Identifiable assets	235,696	149,212	1,326	386,235	-	386,235
Depreciation	8,607	6,644	15	15,268	-	15,268
Write-down of impaired fixed assets	-	737	-	737	-	737
Capital expenditures	18,534	8,360	24	26,919	-	26,919
Fiscal year ended March 31, 2005						
Operating revenues-net sales:						
Outside customers	148,726	89,804	2,654	241,185	-	241,185
Inter-segment sales	-	-	63	63	(63)	-
Total net sales	148,726	89,804	2,717	241,248	(63)	241,185
Operating costs and expenses	123,779	88,666	2,711	215,158	(63)	215,095
Operating Income	24,946	1,137	6	26,090	-	26,090
Identifiable assets	198,625	123,210	1,273	323,108	-	323,108
Depreciation	7,550	6,966	11	14,527	-	14,527
Capital expenditures	8,817	5,125	12	13,955	-	13,955

Note: A non-recurring depreciation of 2,749 million yen in fiscal year ended March 31, 2006 isn't included in a depreciation of the list mentioned above.

2. Information summarized by geographic area

(Yen in millions)

	Japan	North America	Europe	Other	Total	Elimination	Consolidated
Fiscal year ended March 31, 2006							
Operating revenues-net sales:							
Outside customers	127,126	83,583	47,489	26,684	284,884	-	284,884
Inter-segment sales	123,424	778	1,051	878	126,132	(126,132)	-
Total net sales	250,551	84,361	48,541	27,563	411,017	(126,132)	284,884
Operating costs and expenses	215,046	82,435	46,835	24,779	369,096	(125,725)	243,371
Operating Income	35,504	1,925	1,705	2,784	41,920	(406)	41,513
Identifiable assets	325,946	35,760	27,010	24,275	412,991	(26,756)	386,235
Fiscal year ended March 31, 2005							
Operating revenues-net sales:							
Outside customers	101,447	73,699	44,960	21,077	241,185	-	241,185
Inter-segment sales	109,176	556	548	874	111,156	(111,156)	-
Total net sales	210,624	74,256	45,509	21,952	352,341	(111,156)	241,185
Operating costs and expenses	189,348	72,699	43,823	20,280	326,152	(111,057)	215,095
Operating Income	21,275	1,556	1,685	1,671	26,189	(98)	26,090
Identifiable assets	273,617	30,840	26,700	16,788	347,946	(24,837)	323,108

3. Overseas sales

(Yen in millions)

	Fiscal year ended March 31			
	2006		2005	
Overseas sales:				
North America	118,330	41.5%	98,113	40.7%
Europe	49,140	17.3%	46,642	19.3%
Asia	31,213	11.0%	23,178	9.6%
Other area	24,874	8.7%	20,402	8.5%
Total overseas sales	223,560	78.5%	188,336	78.1%
Consolidated net sales	284,884	100.0%	241,185	100.0%

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

Group of Company

Our group of Companies is comprised of 35 subsidiaries and 7 affiliates as of March 31, 2006. The Group is primarily engaged in the manufacture and sales of automotive components, communication media components and technical ceramics.

Automotive components

Automotive components business is principally involved in the manufacture and sale of spark plugs, grow plugs, oxygen sensors, temperature sensors and knock sensors.

The Company manufactures those products and sells them. In addition, the Company supplies materials and semi-finished goods to group companies. Other domestic group companies purchase materials from the Company, and manufacture semi-finished goods or finished goods, and resell them to the Company. 'Cerâmicae Velas de Ignição NGK do Brasil Ltda.' manufactures spark plugs in integrated production lines. Other overseas group's-manufacturing companies purchase semi-finished goods and materials from the Company, and manufacture finished goods. They sell them to customers in each area. In addition, overseas group's-manufacturing companies supply semi-finished goods to the Company and group companies. Eight overseas group's-manufacturing companies and ten overseas group's-sales companies purchase finished goods from the Company and group companies, and sell them to customers in each area.
Group companies concerning automotive components business are as follows.

Domestic groups	(Manufacturing and sales)	
	NGK Spark Plug Co., Ltd.	
	(Manufacturing subsidiaries)	
	Kamioka Ceramic Co., Ltd.	
	Kani Ceramic Co., Ltd.	
	Nittoku Seisakusho Co., Ltd.	
	Nichiwa Kiki Co., Ltd.	
	Nakatsugawa Ceramic Co., Ltd.	
	Tono Ceramic Co., Ltd.	
	Nansei Ceramic Co., Ltd.	
	(Manufacturing affiliate)	
	Ceramic Sensor Co., Ltd.	
Overseas groups	(Manufacturing and sales subsidiaries)	
	Cerâmica e Velas de Ignição NGK do Brasil Ltda.	(Brazil)
	NGK Spark Plugs (U.S.A.), Inc.	(U.S.A.)
	Taiwan NGK Spark Plug Co., Ltd.	(Taiwan)
	P.T. NGK Busi Indonesia	(Indonesia)
	NGK Spark Plug (Shanghai) Co., Ltd.	(China)
	NGK Spark Plugs Malaysia Berhad.	(Malaysia)
	Siam NGK Spark Plug Co., Ltd.	(Thailand)
	(Manufacturing subsidiary)	
	NGK Spark Plug Industries Europe S.A.S.	(France)
	(Manufacturing and sales affiliate)	
	Woo Jin Industry Co., Ltd.	(Korea)
	(Sales subsidiaries)	
	NGK Spark Plug Europe GmbH	(Germany)
	NGK Spark Plugs (U.K.) Ltd.	(U.K.)
	NGK Spark Plug (Australia) Pty., Ltd.	(Australia)
	NGK Spark Plugs Canada Limited	(Canada)
	Bujías NGK de México S.A. de C.V.	(Mexico)
	NGK Spark Plugs (France) S.A.S.	(France)
	NGK Spark Plugs Singapore Pte Ltd	(Singapore)
	NGK Spark Plug Middle East FZE	(U.A.E.)
	Bujías NGK del Ecuador Cia. Ltda.	(Ecuador)
	NGK Spark Plugs (Italy) S.R.L.	(Italy)

Communication media components & Technical Ceramics

Communication media components & Technical Ceramic business is principally involved in the manufacture and sales of semiconductor components, electronic components, cutting tools, bio ceramics and industrial components.

The Company manufactures those products and sells them. In addition, the Company supplies materials and semi-finished goods to group companies. Domestic group companies purchase materials from the Company, manufacture semi-finished goods or finished goods, and resell them to the Company. 'Cerâmica e Velas de Ignição NGK do Brasil Ltda.' manufactures industrial components in integrated production lines. 'NTK Cutting Tools Korea Co., Ltd.' and 'NTK Technical Ceramics Polska Spółka z o.o. ' purchase semi-finished goods and materials from the Company, and manufacture finished cutting tools, and sell them to customers or resell to the Company. On the other hand, eight overseas group's-sales companies purchase finished goods from the Company, and sell them to customers in each area.

Group companies concerning Communication media components & Technical Ceramics business are as follows.

Domestic groups	(Manufacturing and sales)	
	NGK Spark Plug Co., Ltd.	
	(Manufacturing subsidiaries)	
	Kamioka Ceramic Co., Ltd.	
	Kani Ceramic Co., Ltd.	
	Iijima Ceramic Co., Ltd.	
	Nakatsugawa Ceramic Co., Ltd.	
	Nansei Ceramic Co., Ltd.	
	(Manufacturing affiliate)	
	Hayakawa Seiki Kogyo Co., Ltd.	
Overseas groups	(Manufacturing and sales subsidiaries)	
	Cerâmica e Velas de Ignição NGK do Brasil Ltda.	(Brazil)
	NTK Cutting Tools Korea Co., Ltd.	(Korea)
	NTK Technical Ceramics Polska Spółka z o.o.	(Poland)
	(Sales subsidiaries)	
	NTK Technologies, Inc.	(U.S.A.)
	NGK Spark Plugs (U.S.A.), Inc.	(U.S.A.)
	NGK Spark Plug Europe GmbH	(Germany)
	NGK Spark Plugs (U.K.) Ltd.	(U.K.)
	NGK Spark Plug (Australia) Pty., Ltd.	(Australia)
	NGK Spark Plugs (France) S.A.S.	(France)
	NGK Spark Plugs Singapore Pte Ltd	(Singapore)
	NTK Technical Ceramics (Taiwan) Ltd.	(Taiwan)

Others

The Company sells machinery tools and other materials. 'Nittoku Unyu Co., Ltd.' conducts distribution business, and 'Nittoku Alpha Service Co., Ltd.' conducts welfare business.