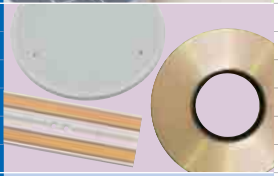
Annual Report 2007

Year Ended March 31, 2007



NGK INSULATORS, LTD.

Financial Highlights

NGK Insulators, Ltd. and Consolidated Subsidiaries
Years Ended March 31

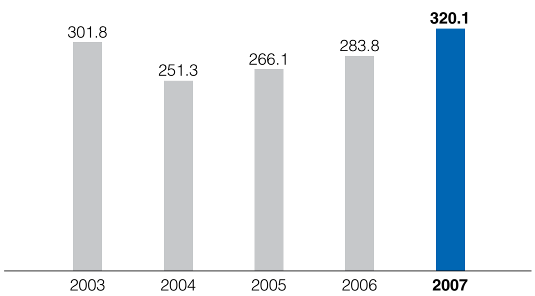
	Millions of Yen	Thousands of U.S. Dollars	Millions of Yen				
	2007	**2007**	2006	2005	2004	2003	2002
Net Sales	**¥320,120**	**$2,712,881**	¥283,753	¥266,128	¥251,317	¥301,751	¥300,327
Operating Income	**52,017**	**440,822**	31,275	24,277	18,974	15,703	15,336
Net Income	**29,413**	**249,263**	16,523	12,013	8,443	9,179	8,325
Total Assets	**514,806**	**4,362,763**	489,441	423,414	415,502	442,763	448,883
Total Equity/Total Shareholders' Equity	**304,346**	**2,579,204**	258,292	236,899	238,167	221,602	230,444
Depreciation	**23,780**	**201,525**	19,018	17,162	17,091	20,426	20,358
Capital Expenditures	**25,956**	**219,966**	41,238	31,171	16,566	24,045	26,873
Research and Development Expenses	**12,151**	**102,975**	11,279	12,181	14,093	14,055	16,481
	Yen	U.S. Dollars	Yen				
Net Income per Share	**¥87.23**	**$0.739**	¥48.99	¥34.75	¥24.42	¥25.78	¥23.09
	%						
Return on Equity	**10.8%**		6.7%	5.1%	3.7%	4.1%	3.5%
Number of Employees	**10,696**		10,342	9,329	8,693	11,071	11,005

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥118=$1, the exchange rate prevailing at March 30, 2007.

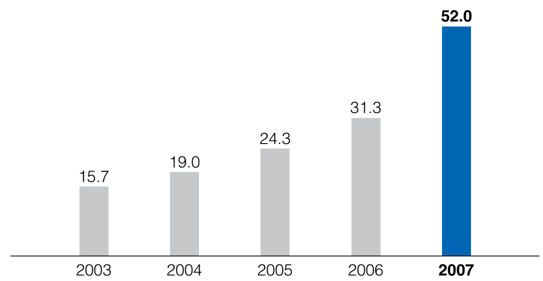
Profile

Despite a surge in the severity of competition on the global stage, NGK, in line with its commitment to being a company of excellence based on global standards, is steadily evolving to fulfill its corporate mission to constantly provide value to clients, shareholders, employees and society as a whole. Firmly grounded in distinctive ceramics technology, NGK continues to make its presence felt across the "Triple-E" business domains of Energy, Ecology and Electronics.

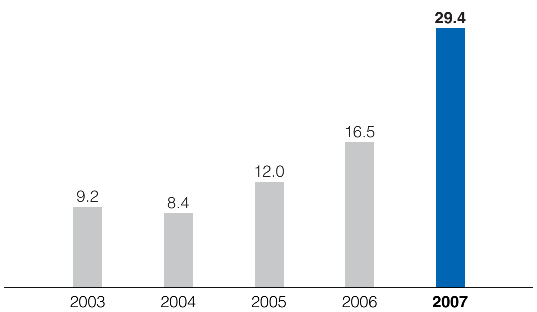
Net Sales (Billions of Yen)



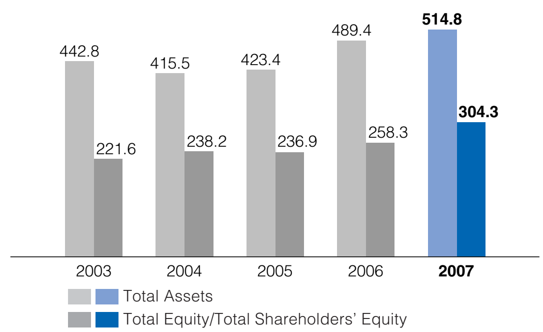
Operating Income (Billions of Yen)



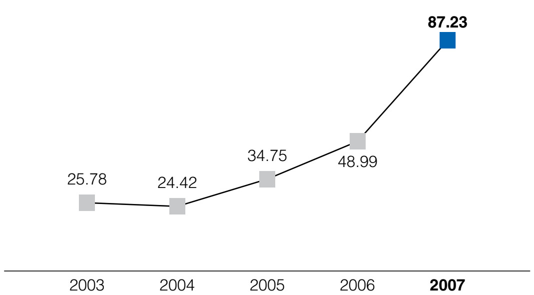
Net Income (Billions of Yen)



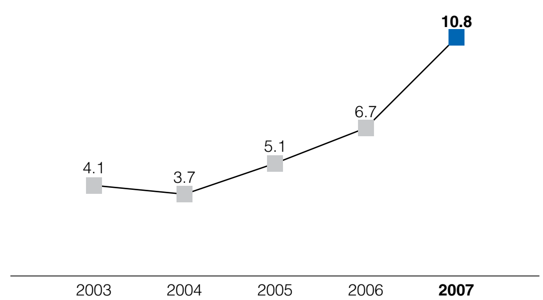
Total Assets / Total Equity/Total Shareholders' Equity (Billions of Yen)



Net Income per Share (Yen)



Return on Equity (%)



Contents

Second Consecutive Period of Record Earnings

In fiscal 2006, the year ended March 31, 2007, the NGK Group posted increased year-on-year sales in the Ceramics Products Business Group on the back of sharply higher sales of silicon carbide diesel particulate filters (SiC-DPFs), and in the Power Business Group, due to higher sales of insulators for power transmission and substations, and NAS® (sodium sulfur) batteries used for large-scale power storage. In the Electronics Business Group, too, sales rose thanks to increased sales of ceramic products for semiconductor manufacturing equipment and beryllium copper products. However, sales declined in the Engineering Business Group, pulled lower by a year-on-year decrease in sales of environmental treatment facilities. All told, this performance lifted consolidated net sales 12.8% to ¥320,120 million.

Operating income rose 66.3% year-on-year to ¥52,017 million, while net income jumped 78.0% to ¥29,413 million. ROE for the year was 10.8%. In addition to higher sales and enhanced productivity, earnings benefited from a relatively weak yen, substantial earnings growth in the Ceramics Products Business Group, and improved profitability in the Power and Electronics Business Groups.

From the fiscal year under review, the Group began accounting for Tajimi Country Club Co., Ltd. through the equity method. Accompanying this change, as part of steps to further reinforce our consolidated financial position, we appraised the depreciated value of this affiliate's assets. This and other changes led to the posting of equity in loss of unconsolidated subsidiaries and associated companies of ¥1,814 million as other expenses.

The Group's performance during the full fiscal year culminated in a third consecutive period of year-on-year sales growth, higher operating income for the fourth year running, and a third consecutive period of double-digit growth in net income. Earnings reached a record high for the second straight year.

Preparing for Further Growth

The Group now faces several key issues. Along with promoting extensive cost reductions and major improvements in sales and earnings in existing businesses, we must focus on investing management resources in diesel-related products, electronics, and in new businesses centered on NGK's proprietary ceramics technology to quickly develop them into strategic businesses. Solving these issues will entail enhancing manufacturing skills and providing training tailored to different employee grades at our worksites, as well as boosting earnings power by continuing to strengthen capabilities at Group manufacturing sites. At the same time, we will also give due attention to training personnel capable of handling NGK's steadily expanding overseas operations. In terms of R&D, as we push ahead with the early commercialization of existing research themes, every effort will be put into the search for the next group of products that will drive the Company's operations, backed up by the necessary ongoing input to achieve this goal.

On a different note, in April 2007, some of NGK's environmental treatment facility operations were spun off and integrated with wholly owned subsidiary NGK-E Solution, Ltd. In parallel, the subsidiary's facility maintenance and repair operations were spun off and established as a new company. Furthermore, discussions are under way between the NGK Group and the Fuji Electric Group, one of Japan's top makers of electrical equipment in the water and sewerage field, regarding integration of the two Groups' respective water environment operations sometime in April 2008. This move is part of our efforts to transform NGK into a comprehensive engineering firm capable of providing optimal solutions underpinned by advanced and distinctive technologies.

Shareholder-oriented Management

At NGK, we have selected ROE as a key management indicator as we strive to promote shareholder-oriented management. Through efforts that include boosting profitability in existing core businesses and generating earnings from new businesses, the Company's ROE has risen to 10.8%, meeting our medium-term target for ROE of at least 10%. In terms of returning profits to shareholders, we have decided to increase the year-end dividend by ¥2.00, from ¥7.00 to ¥9.00 per share, in light of year-on-year sales and earnings growth achieved on both a consolidated and non-consolidated basis. Together with the interim dividend of ¥7.00 per share already paid, this will result in a full-year dividend of ¥16.00 per share, an increase of ¥3.00 per share compared to the previous fiscal year.

Guided by the initiatives we have described, the NGK Group will strive to raise corporate value while promoting shareholder-oriented management that emphasizes capital efficiency and is based on a group-management perspective. The entire Group stands united in taking the bold steps required to initiate our next stage of powerful growth. Your ongoing and steadfast support will be vital to our success in this endeavor.

August 2007

Masaharu Shibata

Masaharu Shibata
Chairman

Shun Matsushita

Shun Matsushita
President and Chief Executive Officer

Power Business Group

This business segment covers the production and sale of insulators and devices for power companies and manufacturers of heavy electrical equipment in Japan and overseas. The business also produces NAS® batteries that are used for large-scale power storage.

Insulator Business

We manufacture a variety of electrical insulators for mega-capacity power transmission, which have to withstand harsh operating conditions, such as heavy contamination and earthquakes. NGK's porcelain bushing for 1,000-kV ultra-high voltage (UHV) substation equipment is the world's largest porcelain product, with a height of 11.5 meters and a maximum diameter of 1.6 meters. These insulators, supplied throughout the world, are manufactured utilizing the most advanced production technologies and have acquired worldwide acclaim for superior technology and high quality.

NAS® Battery Business

Demand for electric power peaks with the season of year and time of day. By storing power at times of low demand and discharging it when demand is high, we can shave off the peaks and level the demand efficiently. Such a system can also be utilized as an emergency power supply. Using fine ceramics, NGK has developed a NAS® (sodium sulfur) battery system that has realized large-scale electric power storage. These systems have already been installed at power companies, sewage treatment plants, factories, commercial centers and other locations where they have successfully reduced power costs and improved the stability of power supplies. NAS® battery systems also show great promise for use in the field of power generation utilizing renewable energy sources that, by their very nature, tend to fluctuate in terms of reliability.

Electrical Equipment Business

NGK supplies electrical equipment such as line arresters, current limiting arcing horns (CLAH), and switching devices for power distribution. These products, which are based on our abundant experience in the field of electrical equipment contribute to improving the quality of the power supply, and are required more than ever in our highly-networked information society.

Ceramics Products Business Group

This business segment encompasses three operations: automotive ceramics, where NGK is involved in the production of components essential to automotive exhaust gas purification; industrial process apparatus, in which the company manufactures high heat- and chemical corrosion-resistant ceramic products; and industrial heating systems and refractories, built on NGK's sophisticated firing technologies.

Automotive & Industrial Ceramics Business

Our line of honeycomb ceramics, HONEYCERAM®, is an indispensable part of the automobile catalytic converter. It has been adopted by automakers throughout the world and is manufactured not only in Japan, but also in Europe, the United States, Indonesia, South Africa and China. NGK also supplies numerous other products that contribute to energy saving and environmental conservation. These include diesel particulate filters (DPFs) that remove particulate matter in exhaust gas from diesel engines and NOx sensors which utilize Zirconia thick-film technology.

New Diesel Particulate Filter Business

Exploiting honeycomb ceramic technologies, NGK has commercialized filters that collect particulate matter emitted from diesel vehicles.

Diesel particulate filters (DPFs) are composed of a ceramic honeycomb structure and channels plugged at alternating ends, thereby forcing diesel exhaust gas flow through thin ceramic walls that act as filters for the particulate matter.

NGK started mass-production of its silicon carbide (SiC)-DPFs from April 2003. Since then, NGK's SiC-DPFs have been supplied to automobile manufacturers worldwide, most notably in Europe, the United States, South Korea and Japan. Demand for SiC-DPFs is expected to grow due to the worldwide trend toward stricter regulation of diesel exhaust emissions.

Industrial Process Business

Membrane engineering technology, derived from ceramic and organic membrane filters, is utilized in a variety of applications, including equipment for manufacturing mineral water and water for pharmaceuticals, preparation equipment for pharmaceuticals, and in home-use "C1" water purifiers. This technology is highly rated in a number of fields, among them beverage and food processing, pharmaceuticals and electronics.

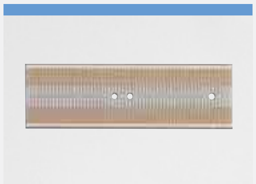
Using its advanced firing technology and expertise cultivated in ceramics manufacturing over the years, NGK is developing distinctive heating systems such as firing kilns qualified to cleanliness class 1000, drying kilns using infrared heaters, and refractories with superb thermal conductivity and oxidization resistance.

In addition, NGK is providing corrosion-resistant pumps and valves, glass-lined apparatuses, high-temperature dust collectors and a diverse array of other facilities across a wide range of industries.

Electronics Business Group

This business segment is composed of three operations: specialty metals, which deals in beryllium copper; high-performance ceramics for providing ceramic products for semiconductor manufacturing equipment; and electronic components, a business engaged in developing components by applying functional ceramics technology.

Electronic Components Business



Leading-edge ceramic technology is greatly expanding the potential for electronic components. By applying piezoelectric ceramics technology, NGK has succeeded in developing ceramic micro-actuators for printer heads. HICERAM®, translucent alumina ceramics, are used for the arc tubes of high-voltage sodium lamps and ceramic metal halide lamps.

High-performance Ceramics Business

Fine ceramics are advanced materials that have a number of attractive characteristics. For example, they outperform metals and plastics in terms of toughness, lightness, heat resistance and corrosion resistance. NGK has developed various applications for industry by drawing the maximum benefit from these attractive properties. The electrostatic chuck and heater show stable performance even under high temperature and corrosive conditions.

Specialty Metals Business

Beryllium copper has unique properties, such as high spring performance and conductivity. It is used as a conductive spring material in components such as connectors and IC sockets for mobile phones and personal computers, and micromotors and relays that must be miniaturized and highly reliable. Because of its high durability and corrosion resistance, it is also used in repeater housings of undersea optical fiber communication cables as well as in non-sparking safety tools.

Precision Casting & Molds Business

In producing tire molds, NGK utilizes precision molding technology that shortens lead times for supplying the multiple molds required. For plastic molds, 3-D CAD/CAM design systems are used for supplying door molds to the United States and countries throughout Asia. For NGK, the goal is always customer satisfaction.

Engineering Business Group

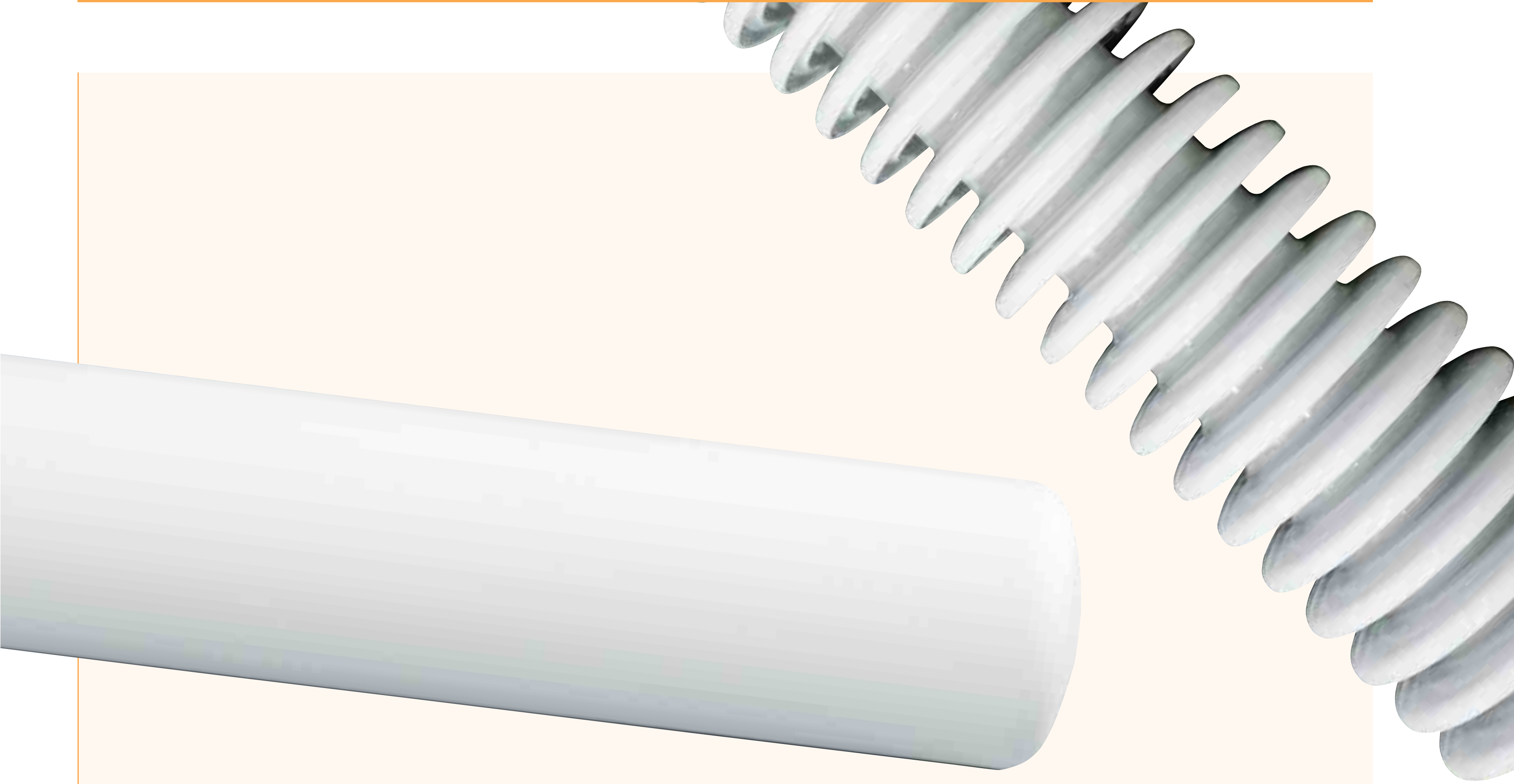
The key activities of the engineering business segment are design, construction and sales of environmental treatment facilities. The business group provides drinking water treatment systems, wastewater treatment systems and domestic waste treatment systems to local municipal entities and government and other public offices. Also, the business group is engaged in the design, construction and sales of low-level radioactive waste treatment systems for electric power companies.

Environmental Systems Business

NGK is building a presence in plant engineering. Particularly in sewage processing, NGK provides wastewater treatment equipment, sludge dewatering equipment, incinerators and other systems vital to the sewage treatment operations that society depends on each day. NGK is contributing to society with technology useful for environmental preservation, such as drinking water treatment systems applying NGK's large ceramic membranes, equipment for combustible low-level radioactive waste treatment—where absolute reliability is essential—and soundproofing equipment.

Solutions Business

NGK has developed innovative recycle and reuse technologies for municipal solid waste. These technologies include solid waste carbonization plants, fluidized-bed gasification and melting systems, materials recovery facilities and leachate treatment facilities for landfills. NGK also contributes to society through an environmental solution business that leverages private finance initiatives.



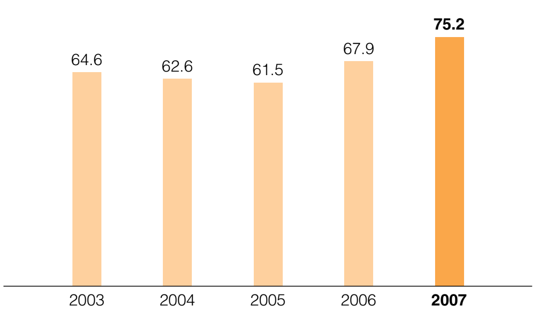
Power Business Group

Fiscal 2006 Business Overview

In fiscal 2006, consolidated segment sales climbed 10.7% to ¥75,214 million.

Sales grew year-on-year as demand increased in the power transmission and transformer insulator sector in overseas markets, particularly in China, North America, and the Middle East. This was complemented by higher sales of NAS® batteries for large-scale power storage as NGK captured demand stemming from wind power generation projects. Consolidated operating income rose ¥4,482 million from the previous fiscal year to ¥6,412 million, reflecting improved profitability from insulators and a reduction in operating losses related to NAS® batteries.

Net Sales (Billions of Yen)

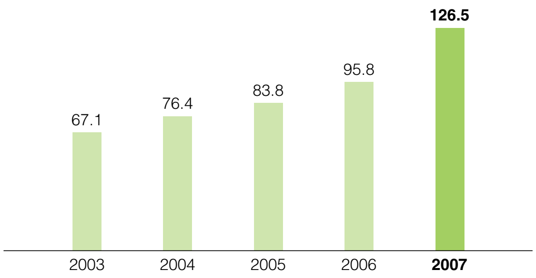


Fiscal 2006 Business Overview

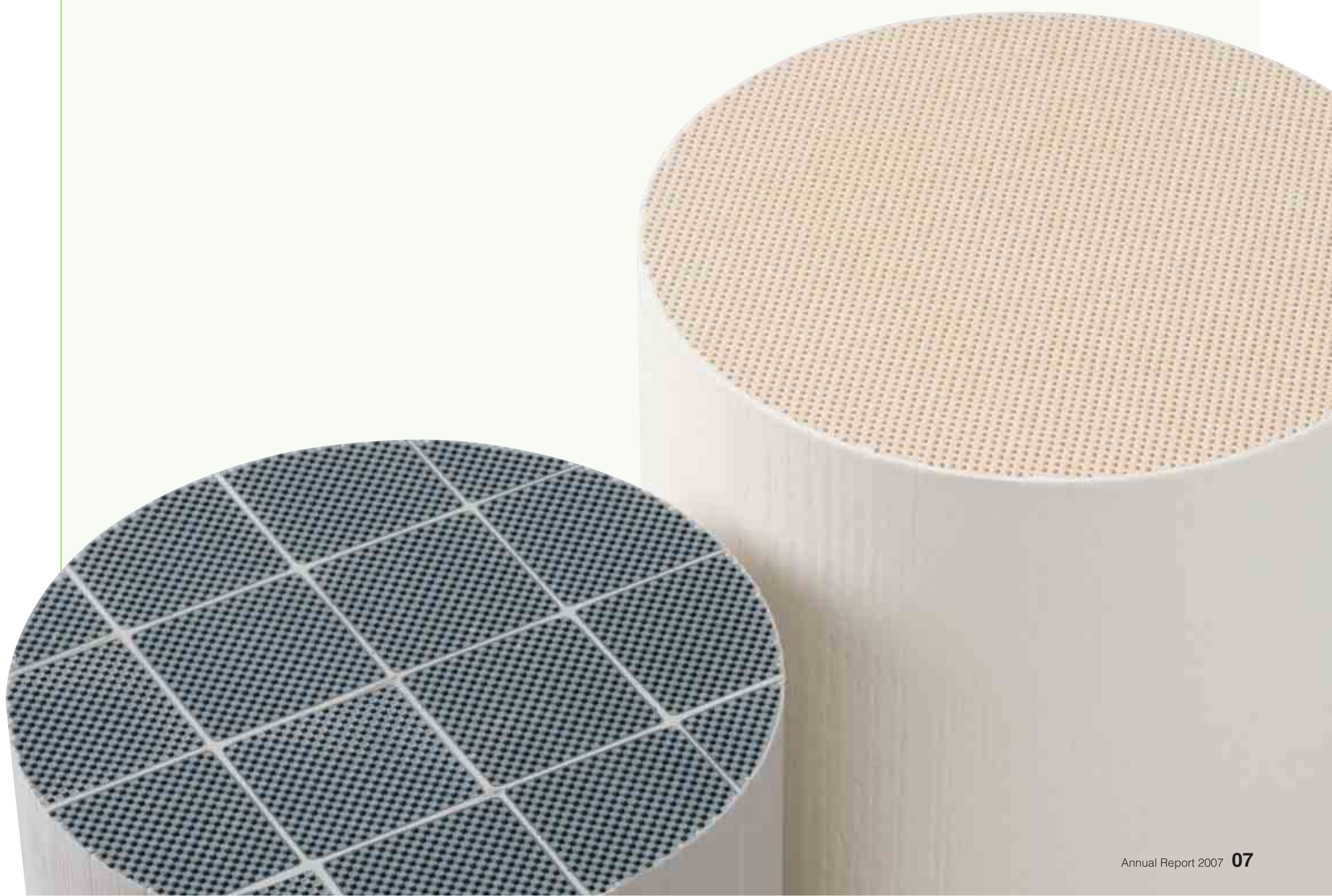
Consolidated segment sales were ¥126,548 million, up 32.1% from the previous fiscal year.

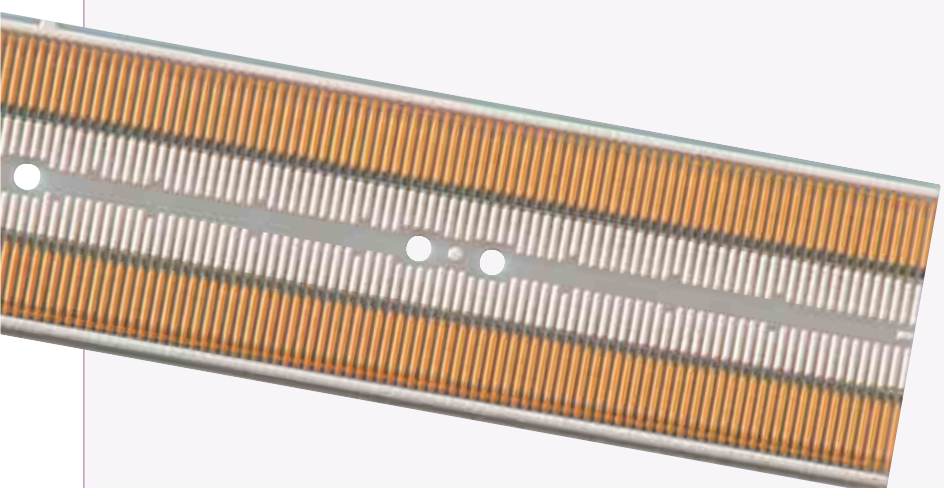
Shipments of mainstay ceramic honeycomb substrates for automotive catalytic converters to Japanese and European automakers remained firm. Sales were also up sharply for diesel-related products, particularly SiC-DPFs, as demand rose against the backdrop of tighter exhaust emission regulations. Sales of industrial process apparatus edged up year-on-year, with sales of industrial heating systems, namely those used in the manufacture of plasma display panels (PDPs), also higher for the year. Consolidated operating income rose 75.2% to ¥31,029 million, buoyed by sales growth, improved productivity, and the benefits of a relatively weak yen.

Net Sales (Billions of Yen)



Ceramics Products Business Group





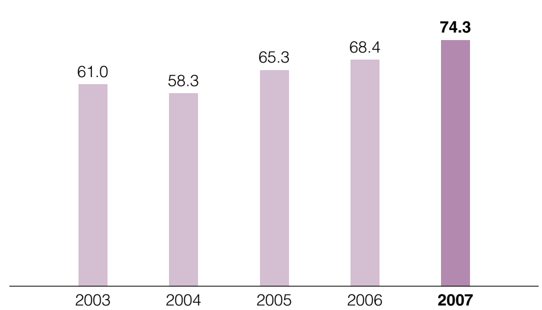
Electronics Business Group

Fiscal 2006 Business Overview

Consolidated segment sales were ¥74,366 million, up 8.7% from the previous fiscal year.

Sales of beryllium copper products increased on the back of robust demand and the benefits of price hikes to keep pace with copper prices. Sales of ceramic products for semiconductor manufacturing equipment, meanwhile, were up sharply year-on-year, tracking increased capital expenditure by semiconductor manufacturers. In contrast, sales of functional components for color printers declined year-on-year, reflecting lower sales volumes as customers revised sales policies. Sales from consolidated subsidiary Soshin Electric Co., Ltd. rose year-on-year, in line with increased demand for multilayered dielectric filters for mobile communication devices. Consolidated operating income climbed 29.0% year-on-year to ¥13,076 million, primarily due to growth in sales and efforts to reduce costs.

Net Sales (Billions of Yen)



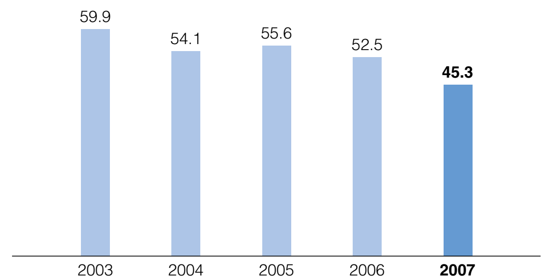
Fiscal 2006 Business Overview

Consolidated segment sales were ¥45,288 million, or 13.8% lower than the previous fiscal year.

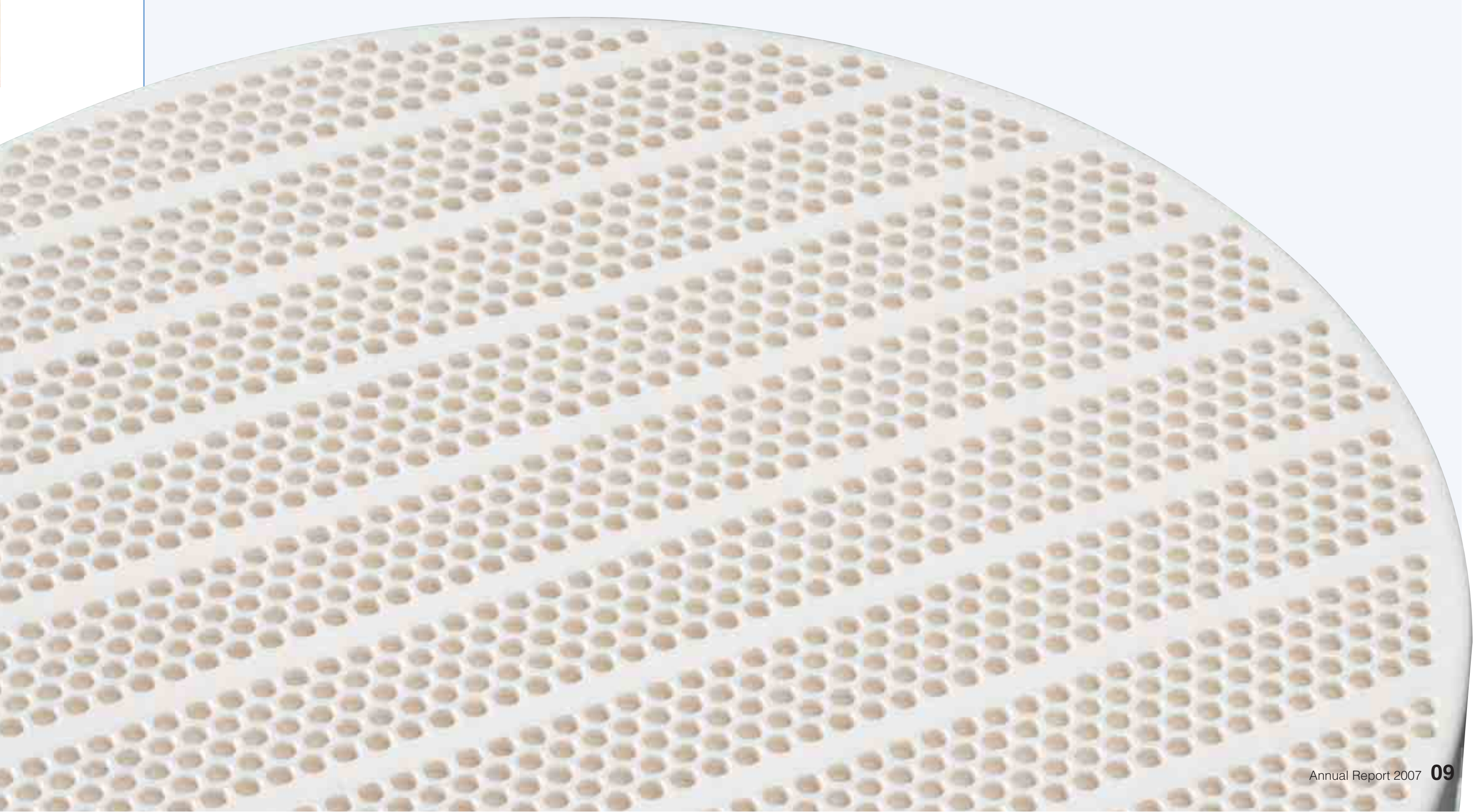
Environmental systems faced a challenging operating environment due to budget cuts for wastewater treatment systems and cash-strapped local governments in Japan. This adverse business climate was the main factor behind lower sales for the year. Similarly, sales of radioactive waste treatment systems and domestic waste treatment systems declined year-on-year.

However, consolidated operating income was ¥1,453 million, virtually unchanged from the previous fiscal year, as cost reductions and other measures largely absorbed the impact of lower revenues due to the decline in sales.

Net Sales (Billions of Yen)



Engineering Business Group



R&D Activities

Fundamental Approach to R&D

The NGK Group views R&D as a key management concern. Underpinned by materials and systems technologies founded on high-performance ceramics, the Group invests proactively in R&D, with the goal of delivering products with higher added value and enhanced performance. The dual structure driving forward R&D consists of NGK's Corporate R&D Division, which is involved in everything from basic to applied research, and R&D conducted by NGK's business groups and subsidiaries nearer the stage of commercialization.

Major R&D Themes and Achievements by Business Segment

Power Business

This segment is involved in the volume production of NAS® batteries for electrical power storage. NGK is also working to further expand the market for these products through initiatives that target higher performance and the development of new applications. Measures include developing wind power systems that incorporate NAS® batteries, as well as batteries tailored to overseas markets. In the power distribution business, lowering costs, chiefly for switches and cut-out switches, and enhancing product functions are the main thrust of R&D activities. The Power Business Group is also active in promoting joint research and development with electric power companies. Solid electrolyte fuel cells were a major R&D theme for this segment during fiscal 2006.

Ceramics Products Business

R&D in this segment is focused on three main themes: improving DPF production techniques and performance; enhancing production techniques for ceramic honeycomb substrates used in catalytic converters for diesel and other automobiles; and creating better continuous atmospheric kilns for the electronics sector. In fiscal 2006, one major R&D theme for the Ceramics Products Business Group was the incorporation of porous ceramic technology into ceramic separation membranes.

Electronics Business

Research in this segment seeks to boost the density and performance of the ceramic micro-actuators used in inkjet printers, based on core technology of high-performance piezoelectric ceramic components and modules for raising the performance of semiconductor production equipment; heat sinks for automobile engine control equipment; and automotive relays, and beryllium copper strip products for connectors for mobile phones. Soshin Electric Co., Ltd., a consolidated subsidiary, also conducts R&D centered on leveraging the advantages of the materials developed by NGK for use in multi-layered dielectric filters for mobile communication devices. High-frequency wireless components for ubiquitous networks were a major R&D theme for the Electronics Business Group in fiscal 2006.

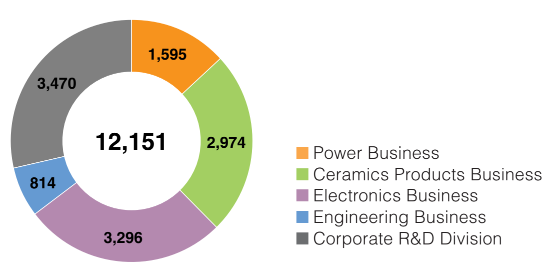
Engineering Business

This segment is working with the Tokyo municipal government on the development of a water recycling system incorporating ceramic membranes, with the aim of utilizing wastewater more effectively. In parallel, NGK is bringing its particular strengths in ceramics to bear in R&D that includes a joint project with the Japan Sewage Works Agency to develop a membrane bio reactor (MBR) system, with a view to meeting demand for the refurbishment and upgrade of existing treatment plants. Other research efforts focus on establishing techniques for the effective utilization of wastewater sludge.

Corporate R&D Division

The Corporate R&D Division at NGK Head Office handles R&D in areas covering the entire Group. The division is charged primarily with developing and nurturing the basic ceramic technologies required for medium-to-long-term business applications, as well as the creation of new product categories. The Corporate R&D Division is comprised of the New Products Development Center, Materials Research Laboratory and the Future Technology Management Center.

R&D Expenses (Millions of Yen)



Environmental & Social Responsibility Report 2007

NGK and the Environment

At NGK, our Environmental Philosophy seeks to contribute to solutions supporting global environmental conservation. We conduct environmental conservation activities as an integral part of business operations in our drive to contribute to the realization of a recycling-based society. In line with our Corporate Philosophy, which states “NGK products and technologies must create new value and contribute to the quality of life,” we seek to develop solutions to environmental challenges through our work in the “Triple-E” business domains of Energy, Ecology and Electronics. Based on environmental action guidelines, we develop and improve environmental management systems, and are introducing an environmental accounting system and working to obtain ISO 14001 certification. We also carry out educational and public relations activities, such as publication of an Environmental & Social Responsibility Report, to raise environmental awareness among employees and the general public.

NGK and Society

Working toward the goal of becoming an excellent company, NGK, as a good corporate citizen, seeks to improve the lives of all people through community relations activities based on a global perspective. We promote practical activities that are characteristic of NGK, founded on the four concepts of “Globalism,” “Community Contributions,” “Employee Participation,” and “Continuity.”

Five-year Environmental Action Plans

First Five-year Environmental Action Plan

We largely achieved the targets of the First Five-year Environmental Action Plan, which concluded in the fiscal year ended March 31, 2006. Our major domestic and overseas subsidiaries obtained ISO 14001 or equivalent certification, and we put into place a Group environmental management system. We positioned the reduction of CO_2 emissions as the most important management issue, since CO_2 is emitted in all of our production processes. We not only succeeded in holding down increases in CO_2 emissions resulting from production increases but also reduced the volume of total CO_2 emissions. We were also successful in reducing to zero emissions of manufacturing by-products.

Second Five-year Environmental Action Plan

The Second Five-year Environmental Action Plan will run from 2006 through to 2010 and build on the achievements of the first plan. We have already started implementing initiatives that will deliver substantial results by the final year of the plan.

The Second Five-year Environmental Action Plan will take us to the second phase of “Green Management.” The plan will further expand the scope of group environmental management and allow us to address environmental issues on a global scale, at both domestic and overseas subsidiaries. The plan also has set even higher goals for environmental protection. In short, the Second Five-year Environmental Action Plan aims at ushering in Green Management to meet the needs of the times.

Basic Approach and Status of Initiatives

To ensure appropriate operations and transparent management, NGK has set its sights on establishing and maintaining an organization capable of swiftly responding to changes in the business environment, and a fair and open management system that emphasizes the interests of shareholders.

Considering the importance of swift and optimal decision-making and execution, NGK introduced a corporate officer system, thus separating the management's decision-making and supervision functions from business execution functions, and clearly defining the responsibilities of both.

Status of Corporate Governance System

NGK has adopted the Corporate Auditor System for corporate governance. This system is comprised of the following bodies:

Board of Directors

NGK's Board of Directors is responsible for deliberations and decisions on matters stipulated by the Corporate Law and on other issues of vital concern to management, in addition to supervising the directors in the performance of their duties. The board's membership consisted of 12 directors as of March 31, 2007.

Subsequently, following approval at the 141st Annual General Meeting of Shareholders, NGK has reinforced the supervisory functions of the board with respect to business execution by appointing two external directors. Consequently, the Board of Directors is comprised of 14 members as of the date of NGK's securities report filing on June 28, 2007.

Board of Corporate Auditors

NGK's corporate auditors are present at meetings of the Board of Directors and are involved in other processes that enable them to supervise the performance of the directors. The Board of Corporate Auditors has four members, two of whom are from outside the Company.

Executive Committee

The Executive Committee deliberates issues related to NGK's operations, serving in an advisory capacity on matters that are decided by the president. The committee is comprised of the president, directors and standing corporate auditors, and the heads of certain corporate divisions and executive officers appointed by the president.

Resolutions by the Board of Directors Regarding Systems for Ensuring the Appropriateness of Business Operations

Pursuant to the Company Law and its enforcement regulations, the Board of Directors approved resolutions on May 11, 2006 to develop systems to ensure directors perform their duties in compliance with applicable laws and the Articles of Incorporation, and systems deemed necessary to ensure the appropriateness of other NGK business operations.

- Systems to ensure directors perform duties in compliance with all relevant laws and the Articles of Incorporation
- Systems for the storage and management of information pertaining to directors' performance of duties
- Regulations and other systems related to management of risk of loss
- Systems to ensure directors perform their duties efficiently
- Systems to ensure that employees carry out their duties in compliance with applicable laws and the Articles of Incorporation
- Systems to ensure that the corporate group composed of NGK and its subsidiaries engages in appropriate business activities
- Items applicable to employees who may be called upon to assist the corporate auditors in their audit duties
- Items regarding the independence of the aforementioned personnel with respect to the Board of Directors
- Systems for directors and employees to submit reports to the corporate auditors, and for the reporting of other matters to the corporate auditors
- Systems to ensure the efficacy of other audits performed by the corporate auditors

Internal Control Systems

The Board of Directors and the business execution bodies overseen by the president are responsible for establishing and operating NGK's internal control system. The system consists of the Auditing Department, a specialist internal audit body for operations of the company, and specialist committees under the CSR Committee that construct, maintain and upgrade NGK's internal control systems.

CSR Committee

The CSR Committee serves in an advisory capacity to the president, deliberating on issues of vital concern to management, including those related to compliance with laws, regulations, business ethics, accidents and incidents. Subcommittees responsible for the development of compliance, security, internal control systems, and corporate citizenship are set up under the CSR Committee. The Compliance Committee, whose members include an external consulting attorney, operates the Helpline to ensure compliance with applicable laws, regulations, and business ethics. The Helpline enables employees and others involved in implementing the NGK Group Guidelines for Corporate Behavior and carrying out NGK's operations to receive advice on and to report compliance issues. The main purpose of the Helpline is to restrict, prevent and resolve quickly any behavior that may run counter to the guidelines. As expected in an era of consolidated management, Group companies also come under the auspices of the CSR Committee.

Risk Management System

In addition to the CSR Committee, NGK has committees to manage the range of risks associated with its business activities. These committees work to raise awareness, implement training programs and mitigate the impact of risks on NGK's operations.

Central Disaster Prevention and Control Headquarters

The Central Disaster Prevention and Control Headquarters responds to earthquakes, gale-force winds, floods, fires, explosions and other disasters, and serves in an advisory capacity by deliberating and reporting on matters that are decided by the president or the committee chairperson. The headquarters also works to prepare for the materialization of such incidents and respond to them in the event that they do occur.

Security Export Control Committee

Guided by the fundamental policy of ensuring trade in compliance with Japan's Foreign Exchange and Foreign Trade Control Law, which was formulated from the perspective of maintaining international security, this committee, which reports directly to the president, deliberates on matters related to assuring appropriate and smooth export activities.

Group Environmental Committee

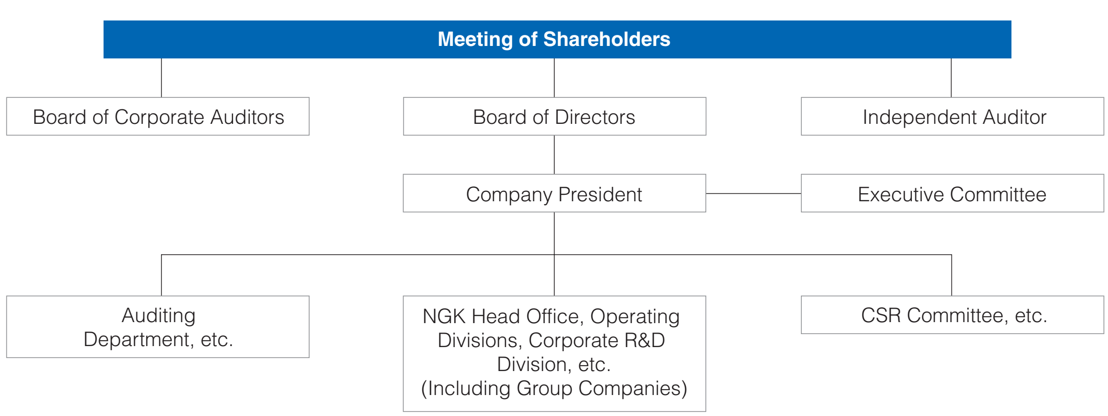
Responsible for promoting environmentally responsible corporate activities, the Group Environmental Committee formulates basic environmental policies, and conducts the planning, proposal and deliberation of items deemed necessary for achieving policy goals.

Status of Audits by Corporate Auditors (Audit Committee) and Internal Audits

Corporate auditors and the Board of Corporate Auditors are responsible for conducting audits as described in the section on the Status of Corporate Governance System.

The Auditing Department (with a staff of six for operational audits), conducts internal audits of the operations of all units and departments and serves in an advisory capacity by providing information on management issues that are decided by the president. In addition, the Environmental Department and the Quality Assurance Department conduct audits in their respective areas of responsibility.

■ NGK's Business Structure and Framework for Management Supervision and Internal Control



Although audits by corporate auditors, the independent auditor and internal audits are all conducted independently, the parties involved periodically exchange information on audit policies, audit plans and audit results in order to enhance audit effectiveness and efficiency.

Relationships Between NGK and Outside Corporate Auditors

No special personal, capital, business or other relationships exist between NGK and its two outside corporate auditors. It should be noted that NGK has a business relationship involving the lease of office equipment from Diamond Lease Co., Ltd., a firm at which outside corporate auditor Yasuyuki Hirai served as Chairman of the Board. These transactions, however, are deemed to be ordinary and proper in nature.

(Note) Diamond Lease Co., Ltd. merged with UFJ Central Leasing Co., Ltd. on April 1, 2007 to become Mitsubishi UFJ Lease & Finance Company Limited. The same day, Mr. Hirai resigned as Chairman of the Board of Diamond Lease to serve as Advisor for Mitsubishi UFJ Lease & Finance.

Remuneration for Directors and Corporate Auditors, and Fees Paid for Audits

Remuneration paid to directors and fees paid for audits, etc. are as follows:

Remuneration for directors

Total annual remuneration for directors:

¥675 million (including ¥ — million for external directors)

Total annual remuneration for corporate auditors:

¥75 million (including ¥20 million for outside corporate auditors)

(Note) The above remuneration includes ¥123 million (¥116 million for directors, ¥7 million for corporate auditors) in new share subscription rights issued in the form of stock options to directors and corporate auditors (excluding outside corporate auditors), as well as ¥115 million in bonuses for directors approved by the 141st Annual General Meeting of Shareholders.

Fees paid for audits, etc.

Fees paid for legally prescribed audits pursuant to Article 2-1 of the Certified Public Accountant Law (Law No. 103 of 1948):

¥27 million

Fees for other services:

¥37 million

Details and Overview of Liability Limitation Agreements

NGK has signed liability limitation agreements with external directors and corporate auditors to enable these officers to perform their respective duties to the fullest degree. This decision is in accordance with changes to the Articles of Incorporation approved at the 140th Annual General Meeting of Shareholders held on June 29, 2006.

Pursuant to the relevant articles, NGK has concluded limitation agreements with all outside corporate auditors, details of which are outlined below.

After signing the agreement, in accordance with Article 423-1 of the Company Law, liability for outside corporate auditors performing their duties in good faith, and assuming no substantial negligence on their part, is limited to the minimum amount of compensation for damages stipulated by Article 425-1 of the Company Law. After concluding the agreement, outside corporate auditors will continue to use their independent position to perform their duties in an objective manner.

(Note) The same liability limitation agreement has been signed by outside directors and outside corporate auditors newly appointed at the Annual General Meeting of Shareholders held on June 28, 2007.

Financial Review

Summary of Income Statements

Net sales for the NGK Group rose for a third consecutive year, increasing 12.8% to ¥320,120 million. In addition to substantial growth in SiC-DPFs in the Ceramics Products Business, net sales increased on higher year-on-year sales of insulators for power transmission and substations, and NAS® batteries in the Power Business, and increased sales of ceramic products for semiconductor manufacturing equipment and beryllium copper-strip products in the Electronics Business. Sales in the Engineering Business, however, declined year-on-year on lower sales of environmental systems.

Operating income increased 66.3% to ¥52,017 million, with NGK recording a fourth consecutive year of double-digit growth. This increase primarily reflected higher net sales and improved productivity, both of which benefited from a weaker yen. Along with sharply higher earnings from the Ceramics Products Business, income was buoyed by improved earnings from the Power and Electronics Businesses.

In other expenses (income), NGK reported other expenses of ¥697 million, mainly from equity in loss of unconsolidated subsidiaries and associated companies of ¥1,814 million. This loss was mainly attributable to the write-down of assets held by Tajimi Country Club Co., Ltd., which the Company added as an equity-method affiliate during the fiscal year under review. NGK took this step in order to achieve a sounder consolidated financial position. Income before income taxes and minority interests climbed 56.7% year-on-year to ¥51,320 million.

As a result of the foregoing, net income increased 78.0% to ¥29,413 million, ending at a record high for the second straight fiscal year. ROE for the year was 10.8%.

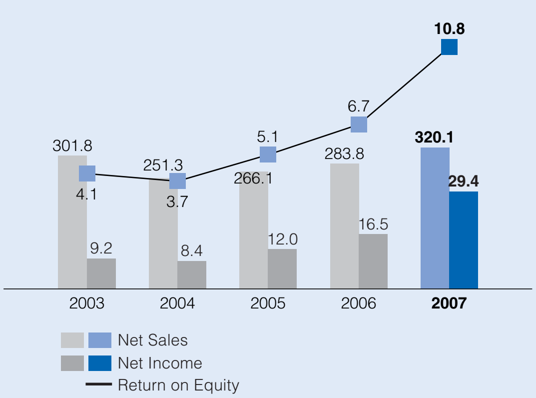
Financial Position

As of March 31, 2007, total assets were ¥514,806 million, an increase of ¥25,365 million, or 5.2%, from the previous fiscal year-end. The equity ratio was 55.3%, while net assets per share rose ¥78.61 year-on-year to ¥844.77.

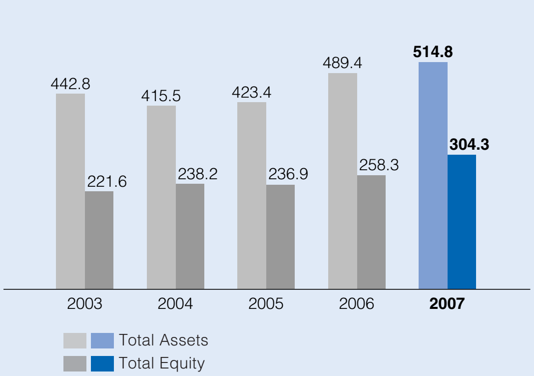
Current assets were higher compared to the previous fiscal year, up 9.8% to ¥263,831 million. While marketable securities declined, accounts receivable and inventories rose due to increased sales of diesel-related products. Cash and cash equivalents were also higher, reflecting an increase in free cash flow. Property, plant and equipment increased 2.4% year-on-year to ¥159,634 million, mainly due to higher capital expenditures for diesel-related products centered on overseas subsidiaries. Investments and other assets, however, declined 2.1% to ¥91,341 million, most notably from a decrease in investment securities.

Current liabilities decreased year-on-year, falling 13.9% to ¥84,736 million. Among other factors, this decline was due to a decrease in notes and accounts payable and other payables, which was largely attributable to the absence of high capital expenditure levels recorded in the previous fiscal year. In contrast, long-term liabilities rose 9.5% to ¥125,724 million, pushed higher by an increase in loans at overseas consolidated subsidiaries. Total equity stood at ¥304,346 million, reflecting an increase in retained earnings.

Net Sales, Net Income, Return on Equity (Billions of Yen, %)



Total Assets, Total Equity (Billions of Yen)



Cash Flows

There was a net increase of ¥19,193 million in total cash and cash equivalents from the previous fiscal year-end to ¥78,285 million. This reflected ¥38,300 million in net cash provided by operating activities, ¥21,279 million in net cash used in investing activities, and ¥894 million in net cash provided by financing activities.

Cash Flow from Operating Activities

Net cash from operating activities was ¥38,300 million, ¥1,495 million more than the previous fiscal year. This was primarily attributable to an increase in income before income taxes and minority interests, as well as depreciation and amortization, which offset higher accounts receivable and inventories accompanying increased sales of diesel-related products.

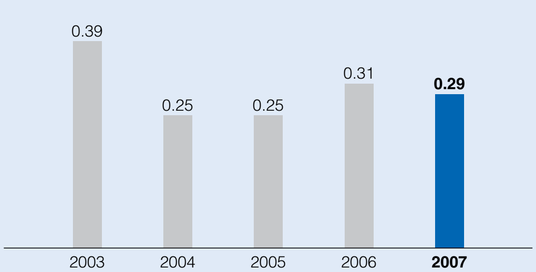
Cash Flow from Investing Activities

Net cash used in investing activities was ¥21,279 million, ¥16,394 million less than a year earlier. Cash was primarily used in capital expenditures to meet increased demand for diesel-related products. The decline in net cash used was mainly attributable to a decrease in capital expenditures in diesel-related products compared to the high levels reported in the previous fiscal year.

Cash Flow from Financing Activities

Net cash provided by financing activities was ¥894 million, ¥13,803 million less than the previous fiscal year. This decline was largely due to a year-on-year decrease in proceeds from borrowings. Cash was mainly provided by an increase in borrowings accompanying capital expenditures centered on overseas Group companies, offsetting outlays for the payment of cash dividends and other uses.

Debt/Equity Ratio (Times)



Capital Expenditures

Capital expenditures for the NGK Group totaled ¥25,956 million. A breakdown of expenditures by segment is as follows.

Power Business

Capital expenditures in this segment totaled ¥2,961 million, mainly related to production facilities for insulators for transformers.

Ceramics Products Business

Capital expenditures in this segment totaled ¥16,675 million, and were concentrated on production facilities related to ceramic honeycomb substrates for automotive catalytic converters and diesel particulate filters.

Electronics Business

Capital expenditures in the electronics business totaled ¥2,633 million, mainly for facilities related to multi-layered ceramic products at Soshin Electric Co., Ltd.

Engineering Business

Capital expenditures totaled ¥463 million, mainly for R&D facilities.

Head Office

Capital expenditures at the Head Office were ¥3,221 million, principally for upgrading facilities.

Business Risks

The following are risks judged by the Company to have the potential to affect the NGK Group's business performance, share prices or financial position.

Production Bases

The NGK Group's main production bases are located in Aichi Prefecture in Japan, and overseas in North America, Europe, Asia and other regions. NGK operates a global production system for its core products, such as ceramic honeycomb substrates for automotive catalytic converters and electrical insulators, from the perspective of manufacturing close to demand centers and achieving optimal production. This ensures that risk is dispersed among manufacturing sites. However, irrespective of whether a production base is in Japan or overseas, if facilities at a major production base are seriously damaged by a natural disaster such as an earthquake or fire, production may stop for a considerable period of time, thereby adversely affecting the NGK Group's business performance and financial condition. Overseas operations, in particular, carry such potential risks as adverse changes in the host country's laws, regulations or taxes, adverse changes in the economic environment such as fluctuations in exchange rates, difficulty in securing, educating and training personnel, inadequate infrastructure and societal problems such as terrorism and war. The unforeseen occurrence of any of these events could adversely affect the NGK Group's business performance and financial condition.

Exchange Rates, Interest Rates and Materials Prices

The NGK Group produces and sells products worldwide. Consequently, the Group hedges the risk of short-term changes in the exchange rates of major currencies, particularly the U.S. dollar, euro and yen, with forward foreign exchange contracts and other financial instruments. However, appreciation of the yen could cause a decline in net sales and earnings.

The NGK Group plans to continue making the necessary capital investments to expand its businesses and improve productivity. The Group's funding needs include these capital expenditures and the redemption of bonds. In the event of interest rate rises, future fund procurement costs may increase, which could adversely impact on the NGK Group's business performance and financial condition.

Recent rises in raw materials prices have led to higher manufacturing costs at NGK Group businesses. To minimize this factor, the Group raises sales prices, cuts costs, improves productivity and reduces business expenses. The NGK Group endeavors to absorb rises in purchasing prices, but excessive rises in the prices for raw materials may adversely impact on the NGK Group's business performance and financial condition.

New Products

The NGK Group works to create new products to secure its growth prospects. Looking ahead, the Group will make focused investments in new products that should become pillars of growth. One such product series is DPFs, for which demand is forecast to rise due to the worldwide trend toward stricter regulation of exhaust emissions from diesel car engines. NGK is making significant capital expenditures in DPFs in stages, including the construction of a new plant. The NGK Group expects demand for these new products to grow substantially in the future, but in the event that capital expenditures are not made on schedule, this may adversely impact on the NGK Group's medium-term growth prospects.

Major Business Contracts

(1) At a meeting held on December 11, 2006, the Board of Directors of NGK decided to spin off and transfer part of the Company's water environment business to wholly owned subsidiary NGK-E Solution, Ltd. (company name changed to NGK Water Environment Systems, Ltd. on April 1, 2007). NGK concluded a contract for the absorbed subdivision with NGK-E Solution on February 13, 2007.

(2) Following separate board of director meetings of Fuji Electric Holdings Co., Ltd. and NGK held February 22, 2007, the two companies signed a basic agreement for mutual cooperation toward the eventual consolidation of sales and engineering operations in the water environment field. This agreement applies to the treatment of water, sewage, and reclaimed water, as well as seawater desalination, conducted by both firms and their respective subsidiaries.

1. Consolidation Schedule

Approval of the basic agreement by the respective board meetings: February 22, 2007

Execution of the basic agreement: February 22, 2007

Planned consolidation date: April 2008

Note that the consolidation date is subject to change upon mutual consultation.

2. Consolidation Method

The specific consolidation method has yet to be determined, but will be decided through discussions among Fuji Electric Holdings, operating company Fuji Electric Systems Co., Ltd., and NGK, from the perspective of business and financial strategies. Fuji Electric Systems and NGK will each hold a 50% stake in the company formed through this business consolidation, which will not become a subsidiary of either company.

Consolidated Balance Sheets

NGK Insulators, Ltd. and Consolidated Subsidiaries
March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Assets			
Current Assets:			
Cash and cash equivalents	¥ 78,285	¥ 59,092	$ 663,432
Time deposits	5,882	1,411	49,847
Marketable securities (Note 3)	7,688	8,595	65,153
Notes and accounts receivable:			
Trade notes and accounts	84,237	80,173	713,873
Non-consolidated subsidiaries and associated companies	813	348	6,890
Other	3,905	5,022	33,093
Allowance for doubtful accounts	(238)	(336)	(2,017)
	88,717	85,207	751,839
Inventories (Note 4)	70,140	65,574	594,407
Deferred tax assets (Note 9)	8,441	7,411	71,534
Prepaid expenses and other current assets	4,678	13,023	39,644
Total current assets	263,831	240,313	2,235,856
Property, Plant and Equipment:			
Buildings and structures	103,763	99,533	879,347
Machinery and equipment	245,106	229,810	2,077,170
	348,869	329,343	2,956,517
Accumulated depreciation	(222,642)	(208,385)	(1,886,796)
	126,227	120,958	1,069,721
Land	18,743	20,184	158,839
Construction in progress	14,664	14,701	124,271
Net property, plant and equipment	159,634	155,843	1,352,831
Investments and Other Assets:			
Investment securities (Note 3)	56,709	61,715	480,585
Investments in and loans to non-consolidated subsidiaries and associated companies	2,064	3,641	17,491
Intangible assets	3,659	5,416	31,008
Prepaid pension cost (Note 6)	21,334	17,635	180,797
Deferred tax assets (Note 9)	2,668	2,236	22,610
Other assets	4,907	2,642	41,585
Total investments and other assets	91,341	93,285	774,076
Total	¥ 514,806	¥ 489,441	$ 4,362,763

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Liabilities and Equity			
Current Liabilities:			
Short-term borrowings (Note 5)	¥ 5,475	¥ 5,753	$ 46,398
Current portion of long-term debt (Note 5)	196	504	1,661
Notes and accounts payable:			
Trade notes and accounts	36,807	41,440	311,923
Non-consolidated subsidiaries and associated companies	1,091	1,308	9,246
Other	8,909	15,879	75,500
	46,807	58,627	396,669
Accrued expenses	14,384	12,766	121,898
Provision for restructuring costs	1,401	2,606	11,873
Income taxes payable	10,727	9,425	90,907
Other current liabilities (Note 9)	5,746	8,733	48,695
Total current liabilities	84,736	98,414	718,101
Long-term Liabilities:			
Long-term debt (Note 5)	81,936	74,006	694,373
Liability for retirement benefits (Note 6)	19,520	18,450	165,424
Deferred tax liabilities (Note 9)	21,017	17,819	178,110
Other long-term liabilities	3,251	4,551	27,551
Total long-term liabilities	125,724	114,826	1,065,458
Minority Interests	—	17,909	—
Contingent Liabilities (Note 13)			
Equity (Note 7):			
Common stock:			
Authorized—735,030 thousand shares Issued—356,560 thousand shares	69,849	69,849	591,941
Capital surplus	85,152	85,144	721,627
Stock acquisition rights (Note 8)	232	—	1,966
Retained earnings	126,387	101,552	1,071,076
Unrealized gain on available-for-sale securities	20,960	22,338	177,627
Deferred loss on derivatives under hedge accounting	(411)	—	(3,483)
Foreign currency translation adjustments	(1,966)	(5,703)	(16,661)
Treasury stock—at cost: 19,463,075 shares and 19,309,993 shares at March 31, 2007 and 2006, respectively	(15,202)	(14,888)	(128,830)
Total	285,001	258,292	2,415,263
Minority interests	19,345	—	163,941
Total equity	304,346	258,292	2,579,204
Total	¥514,806	¥489,441	$4,362,763

Consolidated Statements of Income

NGK Insulators, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	**2007**
Net Sales	**¥320,120**	¥283,753	**$2,712,881**
Cost of Sales (Note 10)	**217,499**	202,768	**1,843,212**
Gross profit	**102,621**	80,985	**869,669**
Selling, General and Administrative Expenses (Note 10)	**50,604**	49,710	**428,847**
Operating income	**52,017**	31,275	**440,822**
Other (Expenses) Income:			
Interest and dividend income	**2,253**	1,550	**19,093**
Interest expense	**(1,887)**	(1,071)	**(15,991)**
Loss on sales and disposals of property, plant and equipment—net	**79**	(834)	**669**
Gain on sales of investment securities	**390**	3,419	**3,305**
Gain on return of pension trust	**—**	3,027	**—**
Restructuring costs including provision	**—**	(3,723)	**—**
Impairment loss on long-lived assets	**(145)**	(107)	**(1,229)**
Equity in loss of unconsolidated subsidiaries and associated companies	**(1,814)**	(691)	**(15,373)**
Other—net	**427**	(109)	**3,619**
Other (expenses) income—net	**(697)**	1,461	**(5,907)**
Income Before Income Taxes and Minority Interests	**51,320**	32,736	**434,915**
Income Taxes (Note 9):			
Current	**18,194**	14,975	**154,186**
Deferred	**2,587**	573	**21,924**
Total income taxes	**20,781**	15,548	**176,110**
Minority Interests in Net Income	**1,126**	665	**9,542**
Net Income	**¥ 29,413**	¥ 16,523	**$ 249,263**

	Yen		U.S. Dollars
Per Share of Common Stock (Notes 2.t. and 14):			
Basic net income	**¥87.23**	¥48.99	**$0.739**
Diluted net income	**87.16**	48.98	**0.739**
Cash dividends applicable to the year	**16.00**	13.00	**0.136**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

NGK Insulators, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2007 and 2006

	Thousands	Millions of Yen										
	Outstanding Shares of Common Stock	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Deferred Loss on Derivatives Under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
Balance at April 1, 2005	337,416	¥69,849	¥85,142	—	¥ 89,762	¥16,139	—	¥(9,315)	¥(14,678)	¥236,899	—	¥236,899
Net income	—	—	—	—	16,523	—	—	—	—	16,523	—	16,523
Cash dividends, ¥12 per share	—	—	—	—	(4,050)	—	—	—	—	(4,050)	—	(4,050)
Bonuses to directors and corporate auditors	—	—	—	—	(86)	—	—	—	—	(86)	—	(86)
Net decrease due to minimum pension liability adjustments of consolidated subsidiaries	—	—	—	—	(597)	—	—	—	—	(597)	—	(597)
Net change in unrealized gain on available-for-sale securities	—	—	—	—	—	6,199	—	—	—	6,199	—	6,199
Net change in foreign currency translation adjustments	—	—	—	—	—	—	—	3,612	—	3,612	—	3,612
Net change in treasury stock	(166)	—	—	—	—	—	—	—	(210)	(210)	—	(210)
Gain on sales of treasury stock—net	—	—	2	—	—	—	—	—	—	2	—	2
Balance at March 31, 2006	**337,250**	**69,849**	**85,144**	**—**	**101,552**	**22,338**	**—**	**(5,703)**	**(14,888)**	**258,292**	**—**	**258,292**
Reclassified balance as of March 31, 2006 (Note 2.j.)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**¥17,909**	**17,909**
Net income	**—**	**—**	**—**	**—**	**29,413**	**—**	**—**	**—**	**—**	**29,413**	**—**	**29,413**
Cash dividends, ¥14 per share	**—**	**—**	**—**	**—**	**(4,719)**	**—**	**—**	**—**	**—**	**(4,719)**	**—**	**(4,719)**
Bonuses to directors and corporate auditors	**—**	**—**	**—**	**—**	**(5)**	**—**	**—**	**—**	**—**	**(5)**	**—**	**(5)**
Net reversal of liability for retirement benefits of foreign subsidiaries	**—**	**—**	**—**	**—**	**250**	**—**	**—**	**—**	**—**	**250**	**—**	**250**
Decrease due to application of the equity method to a company	**—**	**—**	**—**	**—**	**(104)**	**—**	**—**	**—**	**—**	**(104)**	**—**	**(104)**
Purchase of treasury stock	**(164)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(291)**	**(291)**	**—**	**(291)**
Disposal of treasury stock	**11**	**—**	**8**	**—**	**—**	**—**	**—**	**—**	**8**	**16**	**—**	**16**
Increase of treasury stock due to changes in equity of an associated company	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(31)**	**(31)**	**—**	**(31)**
Net changes in the year	**—**	**—**	**—**	**¥232**	**—**	**(1,378)**	**¥(411)**	**3,737**	**—**	**2,180**	**1,436**	**3,616**
Balance at March 31, 2007	**337,097**	**¥69,849**	**¥85,152**	**¥232**	**¥126,387**	**¥20,960**	**¥(411)**	**¥(1,966)**	**¥(15,202)**	**¥285,001**	**¥19,345**	**¥304,346**

	Thousands of U.S. Dollars (Note 1)										
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Deferred Loss on Derivatives Under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
Balance at March 31, 2006	**$591,941**	**$721,559**	**—**	**$ 860,610**	**$189,305**	**—**	**$(48,330)**	**$(126,169)**	**$2,188,916**	**—**	**$2,188,916**
Reclassified balance as of March 31, 2006 (Note 2.j.)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**$151,771**	**151,771**
Net income	**—**	**—**	**—**	**249,263**	**—**	**—**	**—**	**—**	**249,263**	**—**	**249,263**
Cash dividends, $0.12 per share	**—**	**—**	**—**	**(39,992)**	**—**	**—**	**—**	**—**	**(39,992)**	**—**	**(39,992)**
Bonuses to directors and corporate auditors	**—**	**—**	**—**	**(42)**	**—**	**—**	**—**	**—**	**(42)**	**—**	**(42)**
Net reversal of liability for retirement benefits of foreign subsidiaries	**—**	**—**	**—**	**2,118**	**—**	**—**	**—**	**—**	**2,118**	**—**	**2,118**
Decrease due to application of the equity method to a company	**—**	**—**	**—**	**(881)**	**—**	**—**	**—**	**—**	**(881)**	**—**	**(881)**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(2,466)**	**(2,466)**	**—**	**(2,466)**
Disposal of treasury stock	**—**	**68**	**—**	**—**	**—**	**—**	**—**	**68**	**136**	**—**	**136**
Increase of treasury stock due to changes in equity of an associated company	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(263)**	**(263)**	**—**	**(263)**
Net changes in the year	**—**	**—**	**$1,966**	**—**	**(11,678)**	**$(3,483)**	**31,669**	**—**	**18,474**	**12,170**	**30,644**
Balance at March 31, 2007	**$591,941**	**$721,627**	**$1,966**	**$1,071,076**	**$177,627**	**$(3,483)**	**$(16,661)**	**$(128,830)**	**$2,415,263**	**$163,941**	**$2,579,204**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

NGK Insulators, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Operating Activities:			
Income before income taxes and minority interests	¥ 51,320	¥ 32,736	$ 434,915
Adjustments for:			
Income taxes—paid	(17,017)	(10,934)	(144,212)
Depreciation and amortization	23,780	19,018	201,525
Gain on sales of investment securities	(390)	(3,419)	(3,305)
(Gain) loss on sales and disposals of property, plant and equipment—net	(79)	834	(669)
Impairment loss on long-lived assets	145	107	1,229
Write-down of inventories	337	1,027	2,856
Loss on sales of stocks of an associated company	(677)	—	(5,737)
(Reversal of) provision for restructuring costs	(1,273)	3,723	(10,788)
Gain on return of pension trust	—	(3,027)	—
Proceeds from return of pension trust	—	6,740	—
Equity in loss of unconsolidated subsidiaries and associated companies	1,814	691	15,373
Changes in assets and liabilities:			
Increase in notes and accounts receivable—trade	(3,778)	(3,273)	(32,017)
Increase in inventories	(4,125)	(5,272)	(34,958)
Increase in prepaid pension cost	(3,698)	(1,649)	(31,339)
Decrease in notes and accounts payable—trade	(6,563)	(1,593)	(55,619)
(Decrease) increase in other current liabilities	(8,347)	10,699	(70,737)
(Decrease) increase in liability for retirement benefits	(2,010)	207	(17,034)
Other—net	8,861	(9,810)	75,093
Total adjustments	(13,020)	4,069	(110,339)
Net cash provided by operating activities	38,300	36,805	324,576
Investing Activities:			
Purchases of marketable securities	(4,341)	(7,630)	(36,788)
Proceeds from sales and redemption of marketable securities	5,549	3,983	47,025
Purchases of investment securities	(1,581)	(1,284)	(13,398)
Proceeds from sales and redemption of investment securities	4,651	5,890	39,415
Proceeds from sales of stock of an associated company	1,750	—	14,831
Purchases of property, plant and equipment	(23,545)	(39,663)	(199,534)
Proceeds from sales of property, plant and equipment	2,653	193	22,483
Purchases of intangible assets	(646)	(619)	(5,475)
Collections of loans receivable	83	2,014	703
Other—net	(5,852)	(557)	(49,593)
Net cash used in investing activities	(21,279)	(37,673)	(180,331)
Financing Activities:			
(Decrease) increase in short-term borrowings—net	(382)	2,427	(3,237)
Proceeds from long-term borrowings	6,354	29,697	53,847
Repayment of long-term borrowings	(504)	(3,038)	(4,271)
Redemption of bonds	—	(10,000)	—
Acquisition of treasury stock	(291)	(240)	(2,466)
Cash dividends	(4,719)	(4,050)	(39,992)
Other	436	(99)	3,695
Net cash provided by financing activities	894	14,697	7,576
Foreign Currency Translation Adjustments on Cash and Cash Equivalents	1,278	60	10,831
Net Increase in Cash and Cash Equivalents	19,193	13,889	162,652
Cash and Cash Equivalents, Beginning of Year	59,092	45,203	500,780
Cash and Cash Equivalents, End of Year	¥ 78,285	¥ 59,092	$ 663,432
Non-cash Investing and Financing Activities:			
Assets and liabilities increased due to change of consolidation scope by additional acquisition of shares of a newly consolidated subsidiary			
Assets	—	¥ 660	—
Liabilities	—	(561)	—
Goodwill	—	(6)	—
Equity previously owned by the Group before new consolidation	—	(47)	—
Minority interest	—	(7)	—
Acquisition cost of a subsidiary	—	(39)	—
Cash and cash equivalents of a newly consolidated subsidiary, beginning of the year	—	37	—
Disbursement for a newly consolidated subsidiary included in "Other-net"	—	¥ (2)	—

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

NGK Insulators, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2007 and 2006

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from accounts and records maintained by NGK INSULATORS, LTD. (the "Company"), and its domestic and foreign consolidated subsidiaries (together, the "Group") in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

On December 27, 2005, the Accounting Standards Board of Japan (the "ASBJ") published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006. The consolidated statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under generally accepted accounting principles in Japan and has been renamed "the consolidated statement of changes in equity" in the current fiscal year.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2006 financial statements to conform to the classifications used in 2007.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥118 to $1, the approximate rate of exchange at March 30, 2007. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

a. Consolidation — The consolidated financial statements as of March 31, 2007 include the accounts of the Company and its 54 significant (52 in 2006) subsidiaries (together, the "Group"). Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in two (one in 2006) non-consolidated subsidiaries and no (one in 2006) associated company are accounted for by the equity method.

Investments in remaining non-consolidated subsidiaries and associated company are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The differences between the cost and the fair value of the net assets of the acquired subsidiaries at the date of the acquisition were amortized by the straight-line method over five years. At March 31, 2007 and 2006, ¥16 million ($136 thousand) and ¥72 million, respectively, were included in intangible assets. The difference between the cost and the fair value of the net assets of the acquired subsidiaries at the date of the acquisition in the United States amounted to ¥499 million ($4,229 thousand) and was included in intangible assets at March 31, 2007. In accordance with accounting principles generally accepted in the United States, these goodwill amounts are not amortized. The Group reviews the difference for impairment annually or whenever events or changes in circumstance indicate the carrying amount of the difference may not be recoverable. The impairment loss would be measured as the amount by which the carrying amount of the difference exceeds its recoverable amount.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

The fiscal years of the subsidiaries are not necessarily the same as the Company's. Accounts of those subsidiaries, which have different fiscal periods, have been adjusted for significant transactions to reflect properly their financial positions at March 31 of each year and the results of operations for the years then ended.

b. Cash Equivalents — Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, commercial papers and investment trusts that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

c. Inventories — Inventories are stated at cost, determined principally by the average method. Certain consolidated subsidiaries determine cost by the retail method.

d. Marketable and Investment Securities — Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

i) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings,

ii) held-to-maturity debt securities, which management has the positive intent and ability to hold to maturity are reported at amortized cost, and

iii) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. Property, Plant and Equipment — Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed mainly by the declining-balance method except for buildings, whose depreciation is computed by the straight-line method, at rates based on the estimated useful lives of the assets. Certain consolidated subsidiaries utilize the straight-line method. The range of useful lives is principally from 15 to 50 years for buildings and structures and from 4 to 12 years for machinery and equipment.

f. Long-lived Assets — In August 2002, the Business Accounting Council issued a Statement of Opinion, *Accounting for Impairment of Fixed Assets*, and in October 2003 the ASBJ issued ASBJ Guidance No. 6, *Guidance for Accounting Standard for Impairment of Fixed Assets*. These pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004. The Group adopted the accounting standard for impairment of fixed assets as of April 1, 2004. The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

g. Intangible Assets — Depreciation is computed by the straight-line method based on the estimated useful lives of the asset. In addition, intangible assets at March 31, 2007 include goodwill recognized in the United States, amounting to ¥499 million ($4,229 thousand). The useful life of software is 5 years.

h. Liability for Retirement Benefits — The liability for retirement benefits is accounted for based on the projected benefit obligations and plan assets at the balance sheet date.

Previously some of consolidated subsidiaries in the United States reflected unrecognized actuarial loss/gain and unrecognized prior service cost in the consolidated financial statement only when certain conditions were fulfilled. In September 2006, the FASB (Financial Accounting Standards Board) issued FAS No. 158, "Employers' Accounting for Defined Benefits Pension and Other Postretirement Plans, and amendment of FASB Statements No. 87, 88, 106, and 132 (R)" ("FAS 158"). FAS 158 requires the recognition of the funded status of a defined benefit pension or postretirement plan in the consolidated balance sheets. The effect of adopting this standard was to decrease total long-term liabilities by ¥99 million ($839 thousand) and retained earnings by ¥527 million ($4,466 thousand) at March 31, 2007. In addition, according to the adoption mentioned above, the long-term postretirement obligation other than pension plan, which was previously included in other long-term liabilities, is included in the liability for retirement benefit because its accounting method similar to that of the defined retirement benefit plan. The effect was to increase liability for retirement benefit by ¥3,102 million ($26,288 thousand) and to decrease other long-term liabilities by the same amount at March 31, 2007.

i. Stock Options — On December 27, 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006. This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

The Company applied the new accounting standard for stock options to those granted on and after May 1, 2006. The effect of adoption of this accounting standard for the year ended March 31, 2007 was to decrease income before income taxes and minority interests by ¥168 million ($1,424 thousand).

j. Presentation of Equity — On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006. The consolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

k. Research and Development Costs — Research and development costs are charged to income as incurred.

l. Provision for Restructuring Costs — The Company estimates costs arising from restructuring of insulator production sites and recognizes them as a provision.

m. Leases — All leases for the Company and domestic subsidiaries are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

n. Income Taxes — The provision for current income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

o. Appropriations of Retained Earnings — Appropriations of retained earnings at each year end are reflected in the consolidated financial statements for the following year upon shareholders' approval.

p. Foreign Currency Transactions — All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

q. Foreign Currency Financial Statements — The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical exchange rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rates.

r. Revenue Recognition — Generally, revenue is recognized when goods are delivered to customers or construction contracts are completed. However, the Company applies the percentage-of-completion method to all contracts whose construction periods are scheduled to last more than one year. Revenue recognized by the percentage-of completion method for the years ended March 31, 2007 and 2006, were ¥17,971 million ($152,297 thousand), and ¥21,830 million, respectively.

s. Derivatives and Hedging Activities — The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the statement of income and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions. The foreign exchange forward contracts are employed to hedge foreign exchange exposures. Foreign currency receivables and payables are translated at the contracted rates if the forward contracts qualify for hedge accounting.

t. Per Share Information — Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full exercise of the outstanding stock options with an applicable adjustment.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

u. New Accounting Pronouncements

Measurement of Inventories — Under generally accepted accounting principles in Japan ("Japanese GAAP"), inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories", which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting — On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions", which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements — Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements". The new task force prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

(1) Amortization of goodwill
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

3. Marketable and Investment Securities

Marketable and investment securities at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Current:			
Investment trusts and other	**¥ 6,287**	¥ 6,595	**$ 53,280**
Debt securities	**1,401**	2,000	**11,873**
Total	**¥ 7,688**	¥ 8,595	**$ 65,153**
Non-current:			
Equity securities	**¥54,838**	¥60,322	**$464,729**
Debt securities	**1,871**	1,393	**15,856**
Total	**¥56,709**	¥61,715	**$480,585**

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2007 and 2006 were as follows:

	Millions of Yen			
March 31, 2007	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥23,686**	**¥34,424**	**¥474**	**¥57,636**
Debt securities	**600**	**2**	**—**	**602**

	Millions of Yen			
March 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥23,570	¥36,849	¥550	¥59,869
Debt securities	600	4	1	603

	Thousands of U.S. Dollars			
March 31, 2007	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**$200,729**	**$291,729**	**$4,017**	**$488,441**
Debt securities	**5,085**	**17**	**—**	**5,102**

Available-for-sale securities and held-to-maturity whose fair value is not readily determinable as of March 31, 2007 and 2006 were as follows:

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Available-for-sale:			
Equity securities	**¥3,489**	¥7,048	**$29,568**
Held-to-maturity	**2,670**	2,790	**22,627**
Total	**¥6,159**	¥9,838	**$52,195**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2007 and 2006 were ¥2,506 million ($21,237 thousand) and ¥5,879 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥391 million ($3,314 thousand) and ¥128 million ($1,085 thousand), respectively for the year ended March 31, 2007 and ¥3,419 million and ¥55 million, respectively for the year ended March 31, 2006.

The carrying values of debt securities and investment trusts and other by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Available-for-Sale	Held-to-Maturity	Available-for-Sale	Held-to-Maturity
Due in one year or less	**¥1,401**	**¥1,000**	**$11,873**	**$ 8,475**
Due after one year through five years	**201**	**1,670**	**1,703**	**14,153**
Total	**¥1,602**	**¥2,670**	**$13,576**	**$22,628**

Investment securities of ¥156 million ($1,322 thousand) were pledged as collateral for associated company's bank loans of ¥1,990 million ($16,864 thousand) at March 31, 2007.

4. Inventories

Inventories at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Finished products	**¥23,886**	¥20,443	**$202,424**
Semi-finished products	**11,220**	10,096	**95,085**
Work-in-process	**7,484**	7,026	**63,424**
Raw materials	**15,498**	13,490	**131,339**
Supplies	**6,984**	11,139	**59,186**
Cost of contracts in progress	**5,068**	3,380	**42,949**
Total	**¥70,140**	¥65,574	**$594,407**

5. Short-term Borrowings and Long-term Debt

Short-term borrowings at March 31, 2007 and 2006 consisted mainly of notes to banks. The weighted average interest rates on short-term borrowings as of March 31, 2007 and 2006 were 2.9% and 1.3%, respectively.

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Borrowings from banks and other financial institutions due serially to 2015 with weighted average interest rates of 1.7% (2007) and 0.9% (2006)	**¥72,132**	¥64,510	**$611,288**
Unsecured 2.675% yen bonds due April 21, 2008	**10,000**	10,000	**84,746**
Total	**82,132**	74,510	**696,034**
Less: portion due within one year	**(196)**	(504)	**(1,661)**
Long-term debt, less current portion	**¥81,936**	¥74,006	**$694,373**

Annual maturities of long-term debt at March 31, 2007, were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 196	$ 1,661
2009	10,000	84,746
2010	76	644
2011	43,860	371,695
2012	4,000	33,898
2013 and thereafter	24,000	203,390
Total	¥82,132	$696,034

6. Liability for Retirement Benefits

The Company and certain of its consolidated subsidiaries have retirement benefit plans for employees, directors and corporate auditors. The Company and certain domestic subsidiaries have unfunded retirement plans, contributory pension plans and/or non-contributory pension plans. Certain U.S. subsidiaries have defined benefit plans or defined contribution plans.

The liability for employees' retirement benefits at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Projected benefit obligation	**¥ 85,567**	¥ 87,652	**$ 725,144**
Fair value of plan assets	**(104,256)**	(104,619)	**(883,525)**
Unrecognized prior service benefit	**3,342**	3,764	**28,322**
Unrecognized actuarial gain	**10,581**	13,800	**89,669**
Other	**(357)**	—	**(3,025)**
Net (asset) liability	**(5,123)**	597	**(43,415)**
Prepaid pension cost	**21,334**	17,635	**180,797**
Other postretirement obligation reclassified	**3,102**	—	**26,288**
Amount recognized as liability	**¥ 19,313**	¥ 18,232	**$ 163,670**

The components of net periodic benefit costs for the years ended March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Service cost	**¥ 2,696**	¥ 2,684	**$ 22,847**
Interest cost	**2,125**	1,951	**18,008**
Expected return on plan assets	**(1,947)**	(2,098)	**(16,500)**
Amortization of prior service benefit	**(405)**	(219)	**(3,432)**
Recognized actuarial loss	**(264)**	1,672	**(2,237)**
Additional severance payment	**28**	9	**237**
Net periodic benefit costs	**¥ 2,233**	¥ 3,999	**$ 18,923**

Assumptions used for the years ended March 31, 2007 and 2006 were set forth as follows:

	2007	2006
Discount rate	**Primarily 2.0%**	Primarily 2.0%
Expected rate of return on plan assets	**Primarily 1.5%**	Primarily 2.1%
Amortization period of prior service cost / benefit	**Primarily ten years**	Ten years
Recognition period of actuarial gain / loss	**Primarily ten years**	Ten years

The liability for retirement benefits in the accompanying consolidated balance sheets also include retirement benefits for directors and corporate auditors of ¥207 million ($1,754 thousand) and ¥218 million at March 31, 2007 and 2006, respectively. The retirement benefits for directors and corporate auditors are paid upon the approval of the shareholders.

7. Equity

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan (the "Code") with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends
Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases / decreases and transfer of common stock, reserve and surplus
The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights
The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity. The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

8. Stock Options

The stock option outstanding as of March 31, 2007 is as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2005 Stock Option	12 directors 2 full-time corporate auditors 10 officers	Common shares 180,000 shares	August 5, 2005	¥1 ($0.008)	From August 5, 2005 To June 30, 2035
2006 Stock Option (2-1)	12 directors 2 full-time corporate auditors	Common shares 113,000 shares	August 11, 2006	¥1 ($0.008)	From August 12, 2006 To June 30, 2036
2006 Stock Option (2-2)	10 officers	Common shares 41,000 shares	August 11, 2006	¥1 ($0.008)	From August 12, 2006 To June 30, 2036

The stock option activity is as follows:

	2005 Stock Option	2006 Stock Option (2-1)	2006 Stock Option (2-2)
For the year ended March 31, 2007			
Non-vested (shares)			
March 31, 2006—Outstanding	—	—	—
Granted	—	113,000	41,000
Canceled	—	—	—
Vested	—	(113,000)	(41,000)
March 31, 2007—Outstanding	—	—	—
Vested (shares)			
March 31, 2006—Outstanding	180,000	—	—
Vested	—	113,000	41,000
Exercised	—	—	—
Canceled	—	—	—
March 31, 2007—Outstanding	180,000	113,000	41,000
Exercise price	¥ 1	¥ 1	¥ 1
	($0.008)	($0.008)	($0.008)
Average stock price at exercise	—	—	—
Fair value price at grant date	N/A	¥ 1,506	¥ 1,506

9. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 40.7% for the years ended March 31, 2007 and 2006.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Deferred Tax Assets:			
Pension and severance costs	**¥ 6,251**	¥ 5,840	**$ 52,974**
Tax loss carryforward	**2,118**	3,160	**17,949**
Accounts payable and accrued expenses	**3,759**	4,554	**31,856**
Enterprise tax	**795**	—	**6,737**
Inventories	**2,427**	2,685	**20,568**
Property, plant and equipment	**2,427**	510	**20,568**
Other	**3,761**	4,834	**31,873**
Total	**21,538**	21,583	**182,525**
Less: valuation allowance	**(4,798)**	(5,725)	**(40,661)**
Offset with deferred tax liabilities	**(5,631)**	(6,211)	**(47,720)**
Net deferred tax assets	**¥11,109**	¥ 9,647	**$ 94,144**
Deferred Tax Liabilities:			
Unrealized gain on available-for-sale securities	**¥14,294**	¥15,766	**$121,135**
Gain on securities contributed to employees' retirement benefit trust	**5,329**	5,018	**45,161**
Deferred gains on sales of property	**1,411**	1,531	**11,958**
Undistributed earnings of foreign subsidiaries	**3,280**	1,365	**27,797**
Other	**2,345**	363	**19,873**
Total	**26,659**	24,043	**225,924**
Offset with deferred tax assets	**(5,631)**	(6,211)	**(47,720)**
Net deferred tax liabilities	**¥21,028**	¥17,832	**$178,204**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2007 was not disclosed because the difference was not material.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the year ended March 31, 2006 was as follows:

	2006
Normal effective statutory tax rate	40.70%
Expenses not deductible for income tax purposes	1.24
Income not taxable for income tax purposes	(0.48)
Special tax credit	(2.23)
Increase in valuation allowance	8.18
Other	0.09
Actual effective tax rate	47.50%

10. Research and Development Costs

Research and development costs were ¥12,151 million ($102,975 thousand) and ¥11,279 million for the years ended March 31, 2007 and 2006, respectively, which included contracted research costs of ¥1,579 million ($13,381 thousand) and ¥1,694 million for the years ended March 31, 2007 and 2006, respectively.

11. Leases

(As Lessee)

The Company and certain subsidiaries lease mainly machinery and equipment as lessee.

Total lease payments under finance leases for the years ended March 31, 2007 and 2006 were ¥86 million ($729 thousand) and ¥134 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense and interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis at March 31, 2007 and 2006 is as follows:

	Millions of Yen			
March 31, 2007	Machinery	Tools	Other	Total
Acquisition cost	**¥81**	**¥273**	**¥8**	**¥362**
Accumulated depreciation	**53**	**129**	**2**	**184**
Net leased property	**¥28**	**¥144**	**¥6**	**¥178**

	Millions of Yen			
March 31, 2006	Machinery	Tools	Other	Total
Acquisition cost	¥271	¥311	¥20	¥602
Accumulated depreciation	192	173	7	372
Net leased property	¥ 79	¥138	¥13	¥230

	Thousands of U.S. Dollars			
March 31, 2007	Machinery	Tools	Other	Total
Acquisition cost	**$686**	**$2,314**	**$68**	**$3,068**
Accumulated depreciation	**449**	**1,093**	**17**	**1,559**
Net leased property	**$237**	**$1,221**	**$51**	**$1,509**

Obligations under finance leases at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Due within one year	**¥ 74**	¥110	**$ 627**
Due after one year	**104**	120	**882**
Total	**¥178**	¥230	**$1,509**

The amounts of acquisition costs and obligations under finance leases include the imputed interest expense portion.

Depreciation expense, which is not reflected in the accompanying consolidated statements of income for the years ended March 31, 2007 and 2006, computed by the straight-line method, was ¥86 million ($729 thousand) and ¥134 million, respectively.

12. Derivatives

The Group enters into derivative financial instruments ("derivatives"), including foreign exchange forward contracts, currency swap, interest rate swap contracts and interest rate cap contracts. The foreign exchange forward contracts and currency swap are entered into to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The interest rate swap contracts and interest rate cap contracts are entered into as a means of managing the interest rate risk for unsecured 2.675% yen bonds due 2008 and certain bank borrowings. Interest rate cap contracts are entered into to hedge the interest rate risk associated with interest rate swap contracts due to interest rate exposures. The Group does not hold or issue derivatives for trading or speculative purposes.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which require approval and reporting for all derivative transactions.

The Group had the following derivative contracts outstanding at March 31, 2007 and 2006:

March 31, 2007	Millions of Yen		
	Contract or Notional Amount	Fair Value	Net Unrealized Gain (Loss)
Forward Exchange Contracts:			
Selling U.S. Dollar	**¥15,064**	**¥15,048**	**¥ 16**
Selling Euro	**7,767**	**7,845**	**(78)**
Currency Swap Contracts:			
U.S. Dollar (hedging currency) receipt Japanese yen payment	**1,994**	**(36)**	**(36)**
Interest Rate Swaps:			
Fixed rate receipt, floating rate payment	**30,000**	**(662)**	**(662)**
Floating rate receipt, fixed rate payment	**2,000**	**(34)**	**(34)**
Interest Rate Caps:			
Purchase contracts	**3,000**		
	<76>	**(17)**	**(93)**

March 31, 2006	Millions of Yen		
	Contract or Notional Amount	Fair Value	Net Unrealized Gain (Loss)
Forward Exchange Contracts:			
Selling U.S. Dollar	¥10,690	¥10,766	¥ (76)
Selling Euro	8,838	8,974	(136)
Currency Swap Contracts:			
U.S. Dollar (hedging currency) receipt Japanese yen payment	1,994	(44)	(44)
Interest Rate Swaps:			
Fixed rate receipt, floating rate payment	30,000	(1,470)	(1,470)
Floating rate receipt, fixed rate payment	2,000	(26)	(26)
Interest Rate Caps:			
Purchase contracts	3,000		
	<53>	(13)	(66)

March 31, 2007	Thousands of U.S. Dollars		
	Contract or Notional Amount	Fair Value	Net Unrealized Gain (Loss)
Forward Exchange Contracts:			
Selling U.S. Dollar	**$127,661**	**$127,525**	**$ 136**
Selling Euro	**65,822**	**66,483**	**(661)**
Currency Swap Contracts:			
U.S. Dollar (hedging currency) receipt Japanese yen payment	**16,898**	**(305)**	**(305)**
Interest Rate Swaps:			
Fixed rate receipt, floating rate payment	**254,237**	**(5,610)**	**(5,610)**
Floating rate receipt, fixed rate payment	**16,949**	**(288)**	**(288)**
Interest Rate Caps:			
Purchase contracts	**25,424**		
	<644>	**(144)**	**(788)**

Forward exchange contracted amounts, which are assigned to associated assets or liabilities and are reflected on the consolidated balance sheets at year-end, are not subject to the disclosure of fair value information.

Cap premiums are presented in brackets (< >), under the contracted amounts.

The contract or notional amounts of derivatives which are shown in the above tables do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

13. Contingent Liabilities

At March 31, 2007, the Group had contingent liabilities for notes sold to banks with recourse in the aggregate amount of ¥859 million ($7,280 thousand), and guarantees of bank borrowings of employees, in the amount of ¥264 million ($2,237 thousand).

14. Net Income per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2007 and 2006 is as follows:

	Millions of Yen	Thousands of Shares	Yen	Dollars
	Net Income	Weighted Average Shares	EPS	
For the year ended March 31, 2007:				
Basic EPS				
Net income available to common shareholders	**¥29,413**	**337,186**	**¥87.23**	**$0.739**
Effect of Dilutive Securities				
Stock options	**—**	**278**		
Diluted EPS				
Net income for computation	**¥29,413**	**337,464**	**¥87.16**	**$0.739**
For the year ended March 31, 2006:				
Basic EPS				
Net income available to common shareholders	¥16,518	337,194	¥48.99	
Effect of Dilutive Securities				
Stock options	—	117		
Diluted EPS				
Net income for computation	¥16,518	337,311	¥48.98	

15. Segment Information

Information about operations by line of business, operations by geographic segments and sales to foreign customers of the Group for the years ended March 31, 2007 and 2006 is as follows:

a. Operations by Line of Business

	Millions of Yen						
2007	Power	Ceramics	Electronics	Engineering	Total	Eliminations/ Corporate	Consolidated
Sales to customers	**¥75,080**	**¥126,429**	**¥73,323**	**¥45,288**	**¥320,120**	**—**	**¥320,120**
Intersegment sales	**134**	**119**	**1,043**	**—**	**1,296**	**¥ (1,296)**	**—**
Total sales	**75,214**	**126,548**	**74,366**	**45,288**	**321,416**	**(1,296)**	**320,120**
Operating expenses	**68,802**	**95,519**	**61,290**	**43,835**	**269,446**	**(1,343)**	**268,103**
Operating income	**¥ 6,412**	**¥ 31,029**	**¥13,076**	**¥ 1,453**	**¥ 51,970**	**¥ 47**	**¥ 52,017**
Total assets	**¥74,935**	**¥183,609**	**¥78,281**	**¥34,654**	**¥371,479**	**¥143,327**	**¥514,806**
Depreciation	**4,224**	**14,573**	**4,233**	**774**	**23,804**	**(24)**	**23,780**
Impairment loss	**5**	**140**	**—**	**—**	**145**	**—**	**145**
Capital expenditures	**2,961**	**16,676**	**2,634**	**463**	**22,734**	**3,222**	**25,956**

	Millions of Yen						
2006	Power	Ceramics	Electronics	Engineering	Total	Eliminations/ Corporate	Consolidated
Sales to customers	¥67,808	¥ 95,724	¥67,708	¥52,513	¥283,753	—	¥283,753
Intersegment sales	116	91	710	—	917	¥ (917)	—
Total sales	67,924	95,815	68,418	52,513	284,670	(917)	283,753
Operating expenses	65,994	78,100	58,281	51,065	253,440	(962)	252,478
Operating income	¥ 1,930	¥ 17,715	¥10,137	¥ 1,448	¥ 31,230	¥ 45	¥ 31,275
Total assets	¥77,227	¥158,101	¥80,757	¥44,160	¥360,245	¥129,196	¥489,441
Depreciation	4,523	9,536	4,146	837	19,042	(24)	19,018
Impairment loss	—	—	1	—	1	106	107
Capital expenditures	2,732	31,292	4,546	239	38,809	2,429	41,238

2007	Power	Ceramics	Electronics	Engineering	Total	Eliminations/ Corporate	Consolidated
	Thousands of U.S. Dollars						
Sales to customers	**$636,271**	**$1,071,432**	**$621,381**	**$383,797**	**$2,712,881**	**—**	**$2,712,881**
Intersegment sales	**1,135**	**1,008**	**8,840**	**—**	**10,983**	**$ (10,983)**	**—**
Total sales	**637,406**	**1,072,440**	**630,221**	**383,797**	**2,723,864**	**(10,983)**	**2,712,881**
Operating expenses	**583,068**	**809,483**	**519,406**	**371,483**	**2,283,440**	**(11,381)**	**2,272,059**
Operating income	**$ 54,338**	**$ 262,957**	**$110,815**	**$ 12,314**	**$ 440,424**	**$ 398**	**$ 440,822**
Total assets	**$635,042**	**$1,556,009**	**$663,398**	**$293,678**	**$3,148,127**	**$1,214,636**	**$4,362,763**
Depreciation	**35,796**	**123,500**	**35,873**	**6,559**	**201,728**	**(203)**	**201,525**
Impairment loss	**43**	**1,186**	**—**	**—**	**1,229**	**—**	**1,229**
Capital expenditures	**25,093**	**141,322**	**22,322**	**3,924**	**192,661**	**27,305**	**219,966**

Notes:

Industry segment	Main products
Power	Insulators, hardware for insulator assemblies, current limiting arching horn, bushing shells, fuse cut-outs, APM, line arrester and NAS (sodium sulfur) -batteries
Ceramics	Automotive ceramics for exhaust gas purification, corrosion-resistant ceramic apparatuses for chemical industries, gas analyzer, industrial heating systems and refractories
Electronics	Beryllium-copper-wrought products, molds and ceramic components for electronics and semiconductor manufacturing equipment
Engineering	Clear water / sewage treatment systems, water purification systems, melting furnace, noise-control systems and solid waste / radioactive waste treatment systems

As discussed in Note 2.i., the Group adopted the new accounting standard for stock options from April 1, 2006. The effect of this adoption was to increase operating expense for the Power segment, the Ceramics segment, the Electronics segment and the Engineering segment for the year ended March 31, 2007 by ¥40 million ($339 thousand), ¥58 million ($492 thousand), ¥44 million ($373 thousand) and ¥26 million ($220 thousand), respectively.

b. Operations by Geographical Segments

2007	Japan	North America	Europe	Other	Total	Eliminations/ Corporate	Consolidated
	Millions of Yen						
Sales to customers	**¥213,609**	**¥48,764**	**¥39,065**	**¥18,682**	**¥320,120**	**—**	**¥320,120**
Interarea transfers	**40,318**	**7,031**	**4,578**	**11,100**	**63,027**	**¥(63,027)**	**—**
Total sales	**253,927**	**55,795**	**43,643**	**29,782**	**383,147**	**(63,027)**	**320,120**
Operating expenses	**218,903**	**49,905**	**36,846**	**26,578**	**332,232**	**(64,129)**	**268,103**
Operating income	**¥ 35,024**	**¥ 5,890**	**¥ 6,797**	**¥ 3,204**	**¥ 50,915**	**¥ 1,102**	**¥ 52,017**
Total assets	**¥292,888**	**¥40,243**	**¥74,105**	**¥43,688**	**¥450,924**	**¥ 63,882**	**¥514,806**

2006	Japan	North America	Europe	Other	Total	Eliminations/ Corporate	Consolidated
	Millions of Yen						
Sales to customers	¥202,394	¥39,147	¥28,670	¥13,542	¥283,753	—	¥283,753
Interarea transfers	31,618	5,388	1,047	5,965	44,018	¥(44,018)	—
Total sales	234,012	44,535	29,717	19,507	327,771	(44,018)	283,753
Operating expenses	210,574	41,352	28,185	18,571	298,682	(46,204)	252,478
Operating income	¥ 23,438	¥ 3,183	¥ 1,532	¥ 936	¥ 29,089	¥ 2,186	¥ 31,275
Total assets	¥301,760	¥34,556	¥58,434	¥35,242	¥429,992	¥ 59,449	¥489,441

2007	Thousands of U.S. Dollars						
	Japan	North America	Europe	Other	Total	Eliminations/ Corporate	Consolidated
Sales to customers	**$1,810,246**	**$413,254**	**$331,059**	**$158,322**	**$2,712,881**	**—**	**$2,712,881**
Interarea transfers	**341,678**	**59,585**	**38,796**	**94,068**	**534,127**	**$(534,127)**	**—**
Total sales	**2,151,924**	**472,839**	**369,855**	**252,390**	**3,247,008**	**(534,127)**	**2,712,881**
Operating expenses	**1,855,110**	**422,924**	**312,254**	**225,237**	**2,815,525**	**(543,466)**	**2,272,059**
Operating income	**$ 296,814**	**$ 49,915**	**$ 57,601**	**$ 27,153**	**$ 431,483**	**$ 9,339**	**$ 440,822**
Total assets	**$2,482,102**	**$341,042**	**$628,009**	**$370,237**	**$3,821,390**	**$ 541,373**	**$4,362,763**

Note: As discussed in Note 2.i., the Group adopted the new accounting standard for stock options from April 1, 2006. The effect of this adoption was to increase operating expense for the Japan segment for the year ended March 31, 2007 by ¥168 million ($1,424 thousand).

c. Sales to Foreign Customers

2007	Millions of Yen				
	North America	Europe	Asia	Other	Total
Overseas sales	**¥48,464**	**¥38,910**	**¥32,390**	**¥26,463**	**¥146,227**
Net sales					**320,120**
Ratio of overseas sales to net sales	**15.1%**	**12.2%**	**10.1%**	**8.3%**	**45.7%**

2006	Millions of Yen				
	North America	Europe	Asia	Other	Total
Overseas sales	¥37,571	¥26,501	¥26,431	¥19,477	¥109,980
Net sales					283,753
Ratio of overseas sales to net sales	13.2%	9.3%	9.3%	6.9%	38.8%

2007	Thousands of U.S. Dollars				
	North America	Europe	Asia	Other	Total
Overseas sales	**$410,712**	**$329,746**	**$274,492**	**$224,263**	**$1,239,213**
Net sales					**2,712,881**

16. Subsequent Events

On June 28, 2007, at a meeting of the shareholders of the Company, the following items were approved.

a. Appropriations of retained earnings

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥9 ($0.08) per share	¥3,034	$25,712

b. Stock option plan

The plan provides for issuing stock options to directors by the resolution of the Board of Directors every fiscal year within one year after general shareholders meetings. Each option entitles the holders to purchase 1,000 shares of the Company's common stock at ¥1 per share. The maximum number of shares to be issued upon exercise of the options would be 50,000 shares per year. The number of shares to be issued will be adjusted for subsequent transactions such as a stock split or stock consolidation, based on certain formulas, as defined. The exercisable period will be determined by the Board of Directors within 30 years starting the next day when stock option is granted. The options are exercisable until the earlier of the end of the 5-year period, starting the date when one year has passed after the option holder's retirement, or the end of exercise period determined by the Board of Directors. There are also certain restrictions with respect to the exercise of these stock option rights.

Deloitte.

Deloitte Touche Tohmatsu
Nagoya Daiya Building 3-goukan
13-5, Meieki 3-chome,
Nakamura-ku, Nagoya,
Aichi 450-8530, Japan

Tel: +81 (52) 565 5511
Fax: +81 (52) 569 1394
www.deloitte.com/jp

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of NGK INSULATORS, LTD.:

We have audited the accompanying consolidated balance sheets of NGK INSULATORS, LTD. (the "Company") and consolidated subsidiaries (together, the "Group") as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NGK INSULATORS, LTD. and consolidated subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2.i. to the consolidated financial statements, the Company applied the new accounting standard for stock options to those granted on and after May 1, 2006.

As discussed in Note 2.j. to the consolidated financial statements, the Company applied the new accounting standard for the presentation of equity.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 28, 2007

Member of
Deloitte Touche Tohmatsu

Organization

(As of April 1, 2007)

Chairman
President

Power Business Group

- Electrical Insulator Div.
- Distribution Dept.
- NAS Battery Div.
- Quality Assurance Dept.
- High Voltage Laboratory

Ceramics Products Business Group

- Automotive & Industrial Ceramics Div.
- New Diesel Filter Div.
- Industrial Process Div.
- Quality Assurance Dept.

Electronics Business Group

- High Performance Ceramics Div.
- Specialty Metals Div.
- Electronic Components Div.

Head Office

- Corporate Strategy Office
- Human Resources Office
- Secretarial Office
- Auditing Dept.
- Public Relations Office

Administration

- CSR Office
- Finance & Accounting Dept.
- Legal Affairs & Intellectual Property Dept.
- General Affairs Dept.
- Purchasing Dept.

Corporate R&D

- New Products Development Center
- Materials Research Laboratory
- Future Technology Management Center

Corporate Manufacturing Engineering

- Manufacturing Engineering Dept.
- Information Technology Dept.
- Construction & Maintenance Dept.
- Environmental & Quality Management Dept.

Board of Directors, Corporate Auditors and Corporate Officers

(As of June 28, 2007)

Directors and Corporate Officers

Masaharu Shibata*
Chairman

Shun Matsushita*
President and
Chief Executive Officer

Taro Kato*
Executive Vice President

Eiji Hamamoto*
Director and
Senior Vice President

Hiroshi Wada*
Director and
Senior Vice President

*Representative Directors

Haruo Matsuki
Director and
Senior Vice President

Tsurayuki Okamoto
Director and
Senior Vice President

Tsunezo Inaba
Director and
Senior Vice President

Takeyuki Mizuno
Director and
Senior Vice President

Hiroshi Fujito
Director and
Senior Vice President

Takayuki Mori
Director and Vice President

Mitsuo Ibuki
Director and Vice President

Uichiro Niwa
External Director

Hirotsugu Ogawa
External Director

Yoshinori Imoto
Senior Vice President

Toru Tsuboi
Vice President

Yukihisa Takeuchi
Vice President

Eiichi Tsuruta
Vice President

Takafumi Hochi
Vice President

Toshiyuki Hamanaka
Vice President

Hiroaki Sakai
Vice President

Atoshi Yoshimura
Vice President

Taku Oshima
Vice President

Susumu Sakabe
Vice President

Corporate Auditors

Mitsuru Koketsu
Standing Corporate Auditor

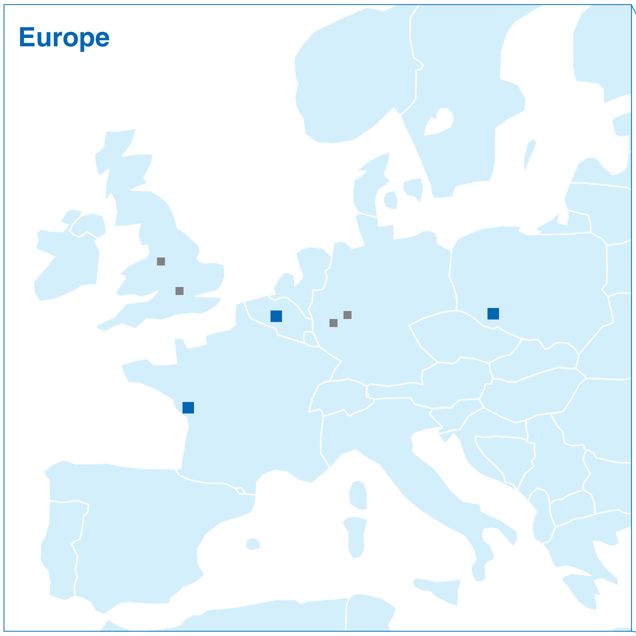
Akira Nakashima
Standing Corporate Auditor

Yasuyuki Hirai
External Corporate Auditor

Setsuo Tanaka
External Corporate Auditor

Global Network
(As of March 31, 2007)


NGK INSULATORS, LTD.

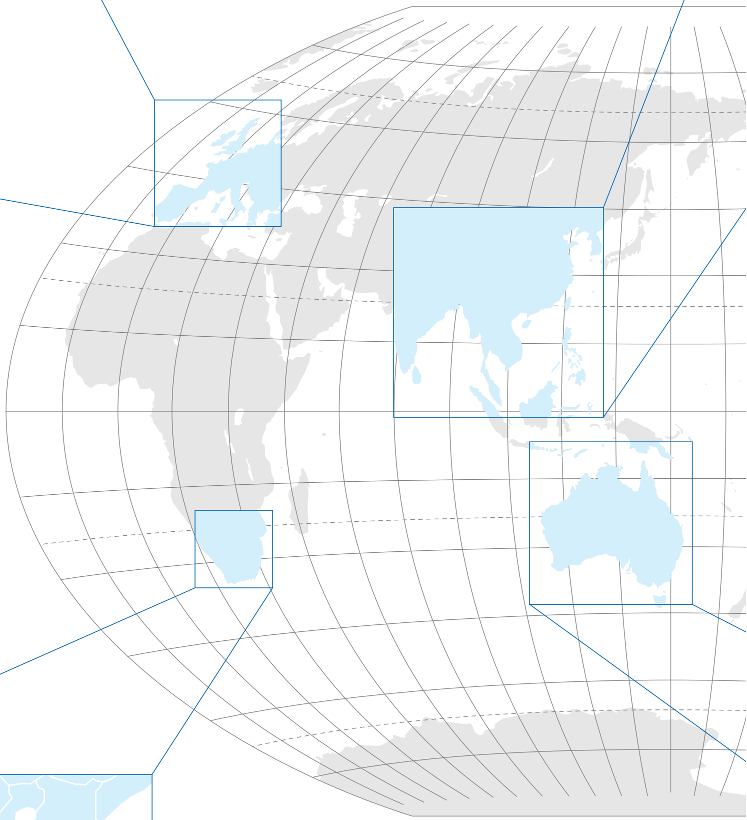



NGK Ceramics Europe S.A.

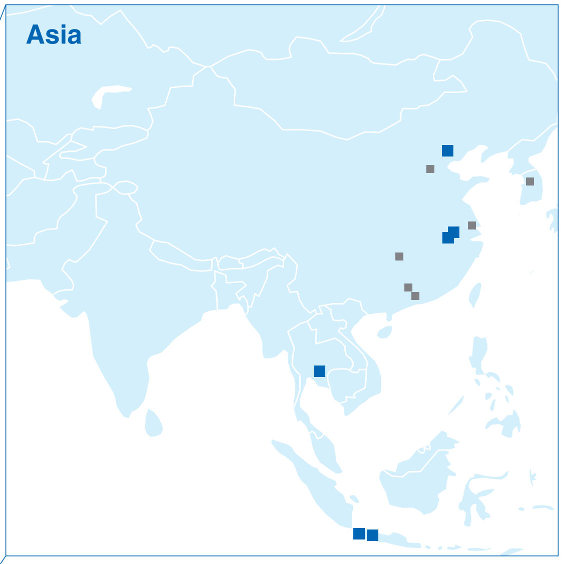

NGK Ceramics Polska Sp. z o.o.


NGK Berylco France

NGK Berylco U.K. Ltd.
NGK Europe GmbH
NGK Deutsche Berylco GmbH




NGK Ceramics South Africa (Pty) Ltd.



NGK Ceramics Suzhou Co., Ltd.

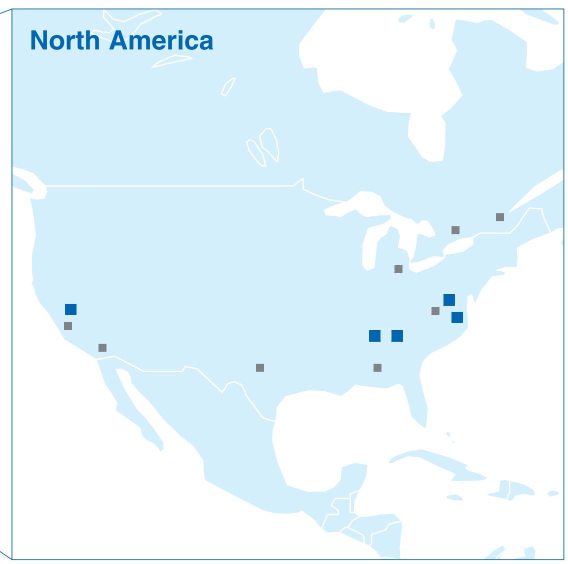
NGK Technocera Suzhou Co., Ltd.

NGK Insulators Tangshan Co., Ltd.

P.T. WIKA-NGK Insulators

P.T. NGK Ceramics Indonesia

SIAM NGK Technocera Co., Ltd.



FM Industries, Inc.

Locke Insulators, Inc.

NGK-Locke Polymer Insulators, Inc.

NGK Stanger Pty. Ltd.

NGK Ceramics USA, Inc.

NGK Metals Corporation

NGK Automotive Ceramics USA, Inc.

NGK Insulators of Canada, Ltd.

NGK-Locke, Inc.

NGK Electronics USA, Inc.

Subsidiaries and Affiliated Companies

(As of March 31, 2007)

Japan

	Company's Direct and Indirect Ownership (%)	Principal Products and Services
■ Energy Support Co., Ltd.	46.2	Power distribution equipment
■ Kansai Energys Co., Ltd.	100	Power distribution equipment and parts
■ Kyusyu Energys Co., Ltd.	100	Power distribution equipment
■ Chubu Energys Co., Ltd.	100	Energy and water conservation products
■ Hokuriku Energys Co., Ltd.	75	Power distribution equipment
■ Tokai Energys Co., Ltd.	100	Power distribution equipment and parts
■ Energys Sangyo Co., Ltd.	90.9	Provision of welfare services to Energy Support Corporation employees
■ Akechi Insulators Co., Ltd.	100	Electrical insulators
Ceramic Sensor Co., Ltd.	50	Automotive oxygen sensors
■ Ikebukuro Horo Kogyo Co., Ltd.	78.9	Glass-lined apparatus
■ NGK Chem-Tech, Ltd.	100	Chemical apparatus and parts
■ NGK Filtech, Ltd.	90	Membrane filter systems
■ NGK Adrec Co., Ltd.	96.8	Refractories
■ NGK Kilntech Corporation	100	Furnaces and far-infrared-ray ceramic heaters
■ Heisei Ceramics Co., Ltd.	60	Refractories
■ NGK-E Solution, Ltd.	100	Environmental protection systems
■ NGK Mettex Corporation	100	Beryllium copper wrought products
■ NGK Fine Molds, Ltd.	94.7	Molds
■ NGK Optoceramics Co., Ltd.	100	Ceramic electronic components
■ NGK Printer Ceramics Co., Ltd.	100	Ceramic electronic components
■ NGK Okhotsk, Ltd.	100	Ceramic electronic components
■ Soshin Electric Co., Ltd.	40.7	Electronic components and devices
■ M-Elec Company	100	Electronic components and devices
■ Koshin Electronics Co., Ltd.	100	Electronic components and devices
■ Risshin Electronics Co., Ltd.	93.3	Electronic components and devices
■ Soritsu Electronics Co., Ltd.	100	Electronic components and devices
■ Tajimi Country Club Co., Ltd.	100	Operation of a golf course
NGK Sports Planning Co., Ltd.	100	Operation of a tennis club and a driving range
NGK Life Co., Ltd.	100	Finance and insurance services
NGK Yu-Service Co., Ltd.	80	Provision of welfare services to NGK employees
NGK Technica, Ltd.	100	Technical consulting
NGK Expert Co., Ltd.	100	Management training and instruction services for Group companies
NGK Building Service, Ltd.	100	Maintenance and security of plants and facilities
NGK Logistics, Ltd.	100	Packing materials
NGK Education Services, Ltd.	100	Education and training services

North America

	Company's Direct and Indirect Ownership (%)	Principal Products and Services
■ NGK North America, Inc.	100	Holding company
■ Locke Insulators, Inc.	100	Electrical insulators
■ NGK-Locke, Inc.	100	Electrical insulators
■ NGK-Locke Polymer Insulators, Inc.	100	Electrical polymer insulators
■ NGK Insulators of Canada, Ltd.	100	Electrical insulators and ceramic products
■ NGK Ceramics USA, Inc.	100	Automotive ceramics
■ NGK Automotive Ceramics USA, Inc.	100	Automotive ceramics
■ NGK Metals Corporation	100	Beryllium copper products
■ NGK Electronics USA, Inc.	100	Ceramic products
■ FM Industries, Inc.	100	Modules for semiconductor production equipment
■ Soshin Electronics of America Inc.	100	Electronic components and devices

Europe and Africa

	Company's Direct and Indirect Ownership (%)	Principal Products and Services
■ NGK Europe S.A.	100	Electrical insulators
■ NGK Ceramics Europe S.A.	100	Automotive ceramics
■ NGK Europe GmbH	100	Ceramic products
■ NGK Ceramics Polska Sp. z o.o.	95	Automotive ceramics
■ NGK Ceramics South Africa (Pty) Ltd.	95	Automotive ceramics
■ NGK Berylco France	100	Beryllium copper products
■ NGK Berylco U.K. Ltd.	100	Beryllium copper products
■ NGK Deutsche Berylco GmbH	100	Beryllium copper products

Asia Pacific

	Company's Direct and Indirect Ownership (%)	Principal Products and Services
■ PT WIKA-NGK Insulators	54.2	Electrical insulators
■ NGK Insulators Tangshan Co., Ltd.	76	Electrical insulators
■ NGK Insulators Suzhou Co., Ltd.	90	Electrical insulators
■ NGK Stanger Pty. Ltd.	100	Power distribution equipment
■ P.T. NGK Ceramics Indonesia	95	Automotive ceramics
■ SIAM NGK Technocera Co., Ltd.	100	Refractories
■ NGK Ceramics Suzhou Co., Ltd.	95	Automotive ceramics
■ NGK Technocera Suzhou Co., Ltd.	95	Kiln furniture & firingkiln for electronic ceramics
■ Soshin Electronics (M) Sdn. Bhd.	100	Electronic components and devices
■ Soshin Electronics (HK) Ltd.	100	Electronic components and devices
Soshin Electronics (Shanghai) Ltd.	100	Electronic components and devices
■ Energy Electric (Shanghai) Corporation	100	Electronic components and devices

■ Consolidated companies ■ Affiliated companies accounted for by the equity method

Corporate Data
(As of March 31, 2007)

NGK INSULATORS, LTD.

2-56 Suda-cho Mizuho, Nagoya, 467-8530, Japan
Tel: +81-52-872-7171
Fax: +81-52-872-7690
URL: http://www.ngk.co.jp/english/

Paid-in Capital

69,849 million yen

Common Stock

356,560 thousand shares

Number of Shareholders

21,142

Stock Exchange Listings

Tokyo, Nagoya, Osaka and Sapporo

Auditors

Deloitte Touche Tohmatsu
(The Japanese member firm of Deloitte Touche Tohmatsu)

NGK

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