2008
Annual Report
Year Ended March 31, 2008

NGK INSULATORS, LTD.

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.

Contents

Forward-looking statements

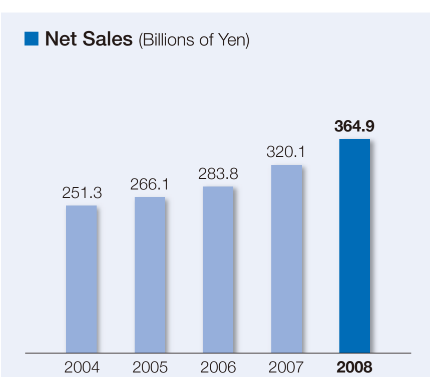
This annual report contains forward-looking statements about the future plans, strategies, beliefs and performance of NGK and subsidiaries. These forward-looking statements are not historical facts. They are expectations, estimates, forecasts and projections based on information currently available to the Company and are subject to a number of risks, uncertainties and assumptions, which, without limitation, include economic trends, competition in markets where the Company is active, personal consumption, market demand, the tax system and other legislation. As such, actual results may differ materially from those projected.

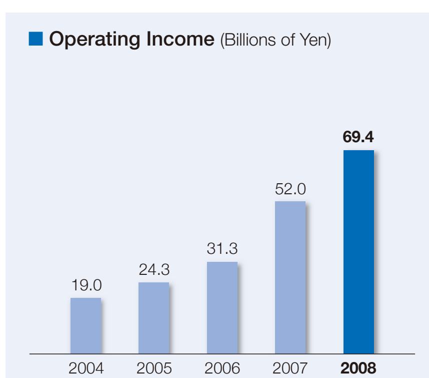
Financial Highlights

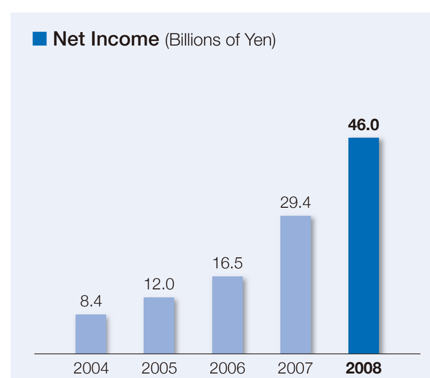
NGK Insulators, Ltd. and Consolidated Subsidiaries
Years Ended March 31

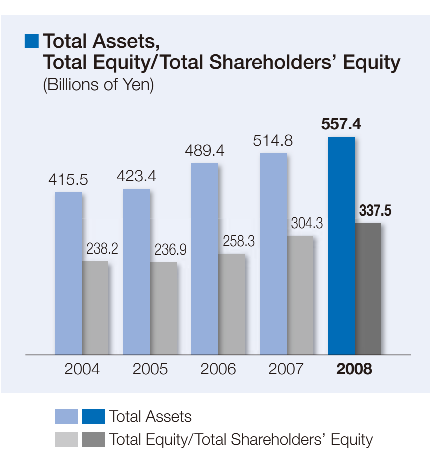
	Millions of Yen	Thousands of U.S. Dollars	Millions of Yen				
	2008		2007	2006	2005	2004	2003
Net Sales	**¥364,888**	**$3,648,880**	¥320,120	¥283,753	¥266,128	¥251,317	¥301,751
Operating Income	**69,377**	**693,770**	52,017	31,275	24,277	18,974	15,703
Net Income	**45,951**	**459,510**	29,413	16,523	12,013	8,443	9,179
Total Assets	**557,390**	**5,573,900**	514,806	489,441	423,414	415,502	442,763
Total Equity/Total Shareholders' Equity	**337,514**	**3,375,140**	304,346	258,292	236,899	238,167	221,602
Depreciation	**26,260**	**262,600**	23,780	19,018	17,162	17,091	20,426
Capital Expenditures	**21,383**	**213,830**	25,956	41,238	31,171	16,566	24,045
Research and Development Expenses	**13,215**	**132,150**	12,151	11,279	12,181	14,093	14,055
	Yen	U.S. Dollars	Yen				
Net Income per Share	**¥136.36**	**$1.36**	¥87.23	¥48.99	¥34.75	¥24.42	¥25.78
	%						
Return on Equity	**15.3%**		10.8%	6.7%	5.1%	3.7%	4.1%
Number of Employees	**11,551**		10,696	10,342	9,329	8,693	11,071

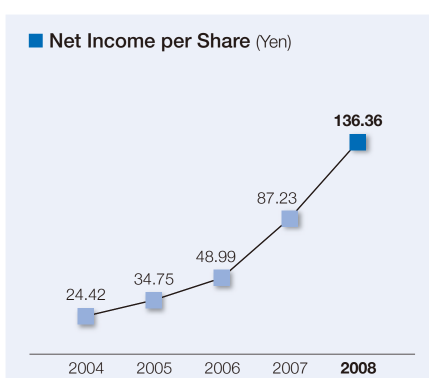
Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥100=$1, the exchange rate prevailing at March 30, 2008.

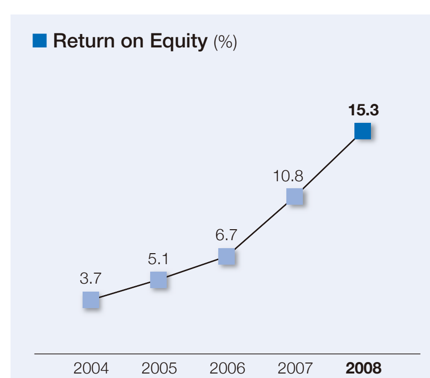


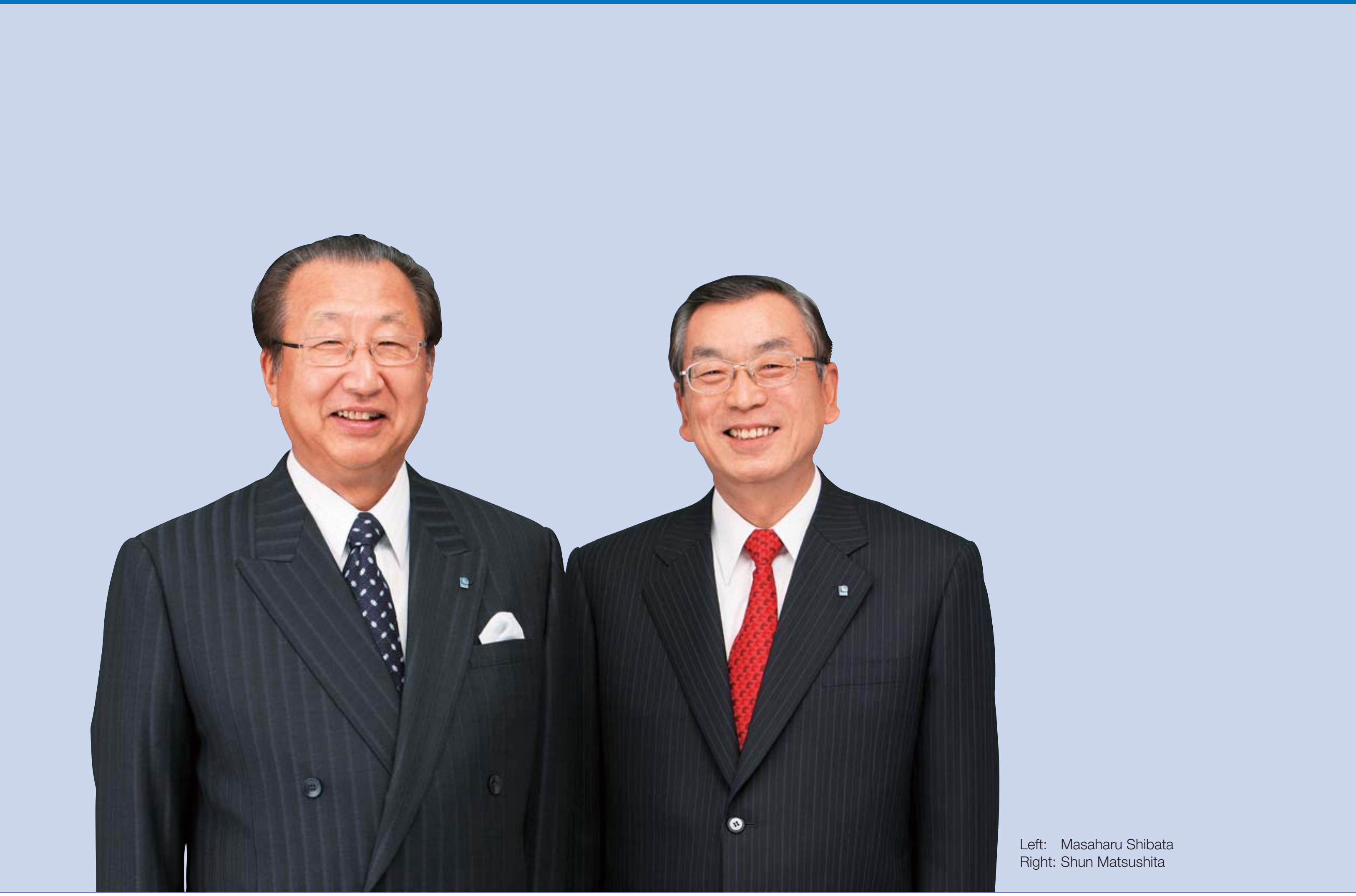












Left: Masaharu Shibata
Right: Shun Matsushita

Another Year of Record Sales and Earnings

In fiscal 2007, the year ended March 31, 2008, while the Japanese economy continued to post modest gains, signs of an impending slowdown grew more pronounced as a drop in housing investment, higher prices for energy and raw materials, and other negative factors bore down on the economy.

In this climate, the NGK Group saw 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 other diesel-related products. The same was true for the Power Business Group, due to higher sales of NAS® (sodium sulfur) batteries used for large-scale power storage. In the Electronics Business Group, too, sales rose thanks to a rebound in sales of functional components for color printers. However, sales declined in the Engineering Business Group, dragged down by lower sales of environmental treatment facilities.

Overall, consolidated net sales rose 14.0% year on year to ¥364,888 million.

Operating income rose 33.4% to ¥69,377 million, and ordinary income rose 37.8% to ¥69,324 million. Net income, meanwhile, climbed 56.2% to ¥45,951 million. The Ceramics Products Business Group posted much higher earnings due to sales growth and enhanced productivity, as well as a relatively weak yen. The Power Business, Electronics Business, and Engineering Business groups all saw earnings rise, too.

The Group's performance during the full fiscal year resulted in a fourth consecutive term of year-on-year growth in sales, which reached a record high. In addition, operating and ordinary income grew for the fifth year running, and net income increased by double digits for a fourth consecutive period. Earnings reached a record high for the third straight year.

Targeting High Earnings and Growth

The key task facing NGK is maintaining these high levels of earnings and growth. Our business environment, moreover, is likely to become more severe, with fears of a possible U.S. economic recession looming against a backdrop of soaring energy and raw material prices, and a weak dollar and strong yen. On the other hand, the NGK Group, with operations centered on distinctive ceramics technologies, has a commanding presence in the "Triple E" business domains of Energy, Ecology and Electronics. The Company is thus well positioned to take advantage of the business opportunities emerging from growing awareness regarding environmental conservation. Providing products that contribute to environmental initiatives will enable NGK to achieve further growth going forward. In order to meet the surge in demand for diesel-related products that comply with tighter automotive exhaust restrictions, we are steadily mobilizing and upgrading each of the Company's business sites, including a newly established base in Mexico, and are extending and expanding our global production system. Steps will also be taken to broaden possible applications and achieve higher performance for NGK's existing products, a move that will include encouraging the uptake of NAS® battery systems in new energy fields. Paralleling these actions, we plan to give R&D the full attention it deserves in a concerted push to find new product lineups that will evolve into future performance leaders.

Along with continued efforts to strengthen capabilities at Group manufacturing sites by enhancing manufacturing skills and providing training tailored to different employee grades, we will strive to maintain and bolster a structure capable of generating high earnings through production technology innovations that yield extensive cost savings.

These initiatives should raise corporate value as we promote shareholder-oriented management that emphasizes capital efficiency across the Group. The entire Group stands united in taking the bold steps required to realize truly sustainable growth. Your ongoing and steadfast support and guidance will be vital to the success of our efforts.

June 2008

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.

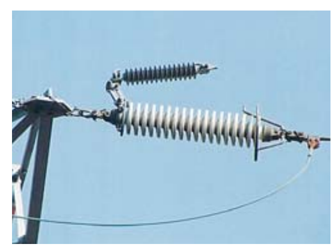
Insulator Business

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 at certain seasons of year and times 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. Power storage systems can also be utilized for emergency power supply. Using fine ceramics, NGK has developed an NAS® (sodium sulfur) battery system that is capable of 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



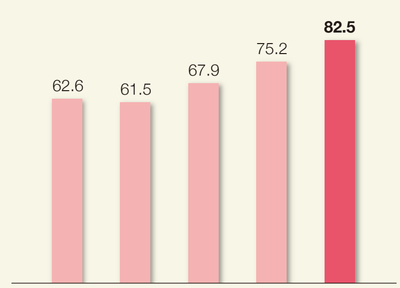
NGK supplies electrical equipment such as line arresters, current limiting arcing horns (CLAH), and switching devices for power distribution. These products, which are based on our abundant experience in the field of electrical equipment contribute to improving the quality of the power supply, and are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

Fiscal 2007 Business Overview

In fiscal 2007, consolidated segment sales climbed 9.7% to ¥82,533 million.

Sales grew year on year as demand increased in the power transmission and transformer insulator sector in overseas markets, particularly in China and the Middle East. This was complemented by higher sales of NAS® battery systems for large-scale power storage in Japan as NGK capitalized on demand from wind power generation projects. Consolidated operating income rose 36.1% from the previous fiscal year to ¥8,725 million, reflecting improved profitability from insulators and NAS® battery systems, which ended the year in the black.

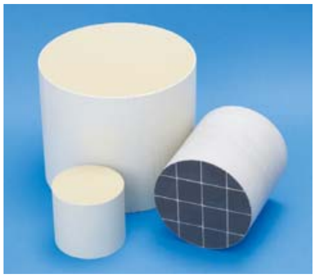
■ **Net Sales** (Billions of Yen)



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 products which are highly resistant to heat- and chemical-corrosion; and industrial heating systems and refractories, built on NGK's sophisticated firing technologies.

Automotive & Industrial Ceramics Business



NGK's 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 at production sites in Japan, 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 exhaust gas sensors which utilize ceramics technology.

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, water 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 and drying technology cultivated in ceramics manufacturing over the years, NGK is developing high-value-added heating systems and refractories for manufacturing energy and electronics materials that require great accuracy.

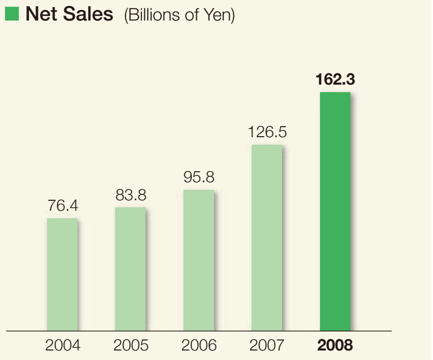
In addition, NGK provides corrosion-resistant pumps and valves, glass-lined apparatus, and high-temperature dust collectors, thus covering a wide range of industries.

Fiscal 2007 Business Overview

Consolidated segment sales were ¥162,263 million, up 28.2% from the previous fiscal year.

Sales rose on sharply higher demand for diesel-related products, particularly SiC-DPFs, against the backdrop of tighter exhaust emission regulations for diesel vehicles. Sales of mainstay ceramic honeycomb substrates for automotive catalytic converters for gasoline vehicles also remained firm. Sales of industrial process apparatus improved year on year, with sales of industrial heating systems, namely those used in the manufacture of plasma display panels (PDPs), rising on the back of capital investments made by clients.

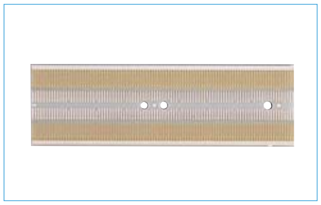
Consolidated operating income rose 41.2% to ¥43,815 million, buoyed by sales growth, improved productivity, and the benefits of a relatively weak yen.



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

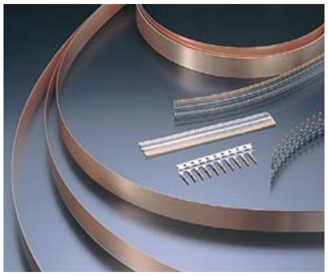


Leading-edge ceramic technology is greatly expanding the potential for electronic components. By applying piezoelectric ceramics technology, NGK has succeeded in developing ceramic micro-actuators for printer heads. HICERAM®, translucent alumina ceramics, are used for the arc tubes of high-voltage sodium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

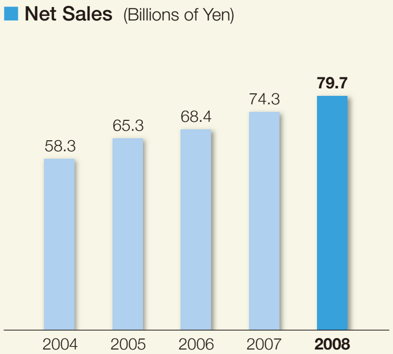
In producing tire molds, NGK utilizes precision molding technology that shortens lead times for supplying the multiple molds required. For plastic molds, 3-D CAD/CAM design systems are used for supplying door molds to the United States and countries throughout Asia. For NGK, the goal is always customer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

Fiscal 2007 Business Overview

Consolidated segment sales were ¥79,661 million, up 7.1% from the previous fiscal year.

Sales of beryllium copper products rose slightly due to increased demand, most notably from China, as did ceramic products for semiconductor manufacturing equipment, due to strong first-half sales. Sales of components for color printers also improved, primarily reflecting increased sales volumes as customers revised sales policies. Sales from consolidated subsidiary Soshin Electric Co., Ltd. were flat overall, as growth in noise-control systems for industrial equipment was largely offset by a decline in sales of semiconductor packaging products.

Consolidated operating income increased 3.2% year on year to ¥13,500 million, primarily due to growth in sales and efforts to reduce costs.

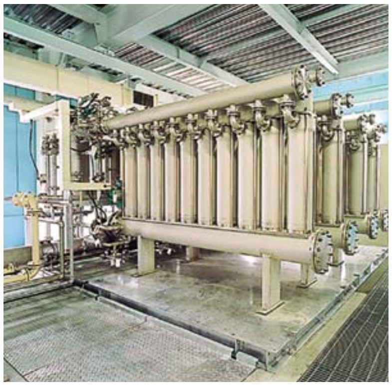


Engineering Business Group

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 a low-level radioactive waste treatment system 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.

Solutions Business

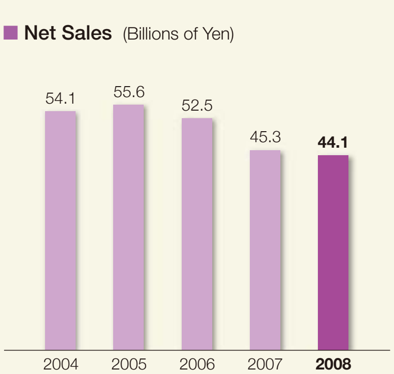
NGK has developed innovative recycle and reuse technologies for municipal solid waste. These technologies include solid waste carbonization plants, fluidized-bed gasification and melting systems, materials recovery facilities and leachate treatment facilities for landfills. NGK also contributes to society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

Fiscal 2007 Business Overview

Consolidated segment sales were ¥44,057 million, down 2.7% from the previous fiscal year.

Environmental systems faced a persistently 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. In contrast, sales of low-level radioactive waste treatment systems increased year on year owing to new orders.

Consolidated operating income was ¥3,209 million, up ¥1,755 million from the previous fiscal year. This outcome reflected decreased expenses in the environmental systems business due to a corporate separation enacted in April 2007 to achieve more flexible management of these operations. Higher earnings were also generated on increased sales of low-level radioactive waste treatment systems.



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 R&D forward 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 production of NAS® batteries (sodium sulfur 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 power systems for new energy sources, particularly those for wind power, 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 compose 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 2007.

Ceramics Products Business

R&D in this segment is focused on three main themes: improving diesel particulate filter (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 and flat-panel display (FPD) sector. In fiscal 2007, one major R&D theme for the Ceramics Products Business Group was the incorporation of porous ceramics technology into ceramic separation membranes.

Electronics Business

Research in this segment is focused on: boosting the density and performance of the micro-ceramics 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, beryllium copper strip products for electronic parts such as automotive relays and 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. The development of applied components for the ubiquitous networks field was a major R&D theme for the Electronics Business Group in fiscal 2007.

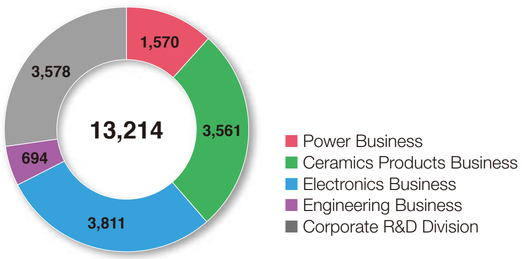
Engineering Business

This segment is working on the development of a water recycling system and a desalination pretreatment process, with the aim of pursuing additional growth in water treatment-related markets. Elsewhere, NGK is pursuing the development of processes for carbonizing, gasifying and removing nitrogen oxides from wastewater sludge as part of measures to combat global warming. In parallel, the Company is conducting a variety of other research initiatives aimed at effective wastewater utilization, including the recovery of phosphorous from sewage sludge, to promote the reuse of waste products as resources.

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 ceramics technologies required for medium- to long-term business applications, as well as the creation of new product categories. The Corporate R&D Division comprises the New Product Development Center, Materials Research Laboratory and the Next-Generation Technology Strategy Office.

■ **R&D Expenses** (Millions of Yen)



Environmental & Social Responsibility Report 2008

NGK and the Environment

At NGK, our Environmental Philosophy is 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."

Consolidated Environmental Management System

As worldwide concern over environmental problems increases, companies are under increased pressure to conduct sustainable business activities that are mindful of the global environment and support coexistence with the communities in which they operate. Moreover, as is clear from examples such as the increased demand for ceramics to purify automotive exhaust in the United States and Europe, as well as burgeoning demand for electricity in China and other newly emerging economies, the business fields that NGK is involved in overseas are set to expand further going forward. In this context, NGK must promote a stance with respect to environmental management that befits its role as a global corporation. To this end, in April 2008, we established a new Environmental Management Headquarters to coordinate environmental management across the NGK Group. In parallel, we are taking steps to strengthen and further enhance our environmental management system at the Group level to offer products and technologies produced with less energy, fewer resources, and with a smaller impact on the environment.

In terms of the environmental impact of our business activities, one of our top priorities is to reduce the amounts of carbon dioxide generated when kiln-sintering the Group's core ceramic products. With this in mind, we are promoting the development and adoption of innovative processes that have a lesser impact on the environment.

The environmentally beneficial products and technologies that NGK produces from its proprietary ceramics technologies are also helping to reduce environmental impact. We are forging ahead with technology development that targets core products such as diesel particulate filters (DPFs) for purifying diesel engine exhaust, and NAS® batteries, which enable greater utilization of natural energy sources such as solar and wind. At the same time, we are accelerating technology development for nano-ceramic separation membranes, which will allow NGK to contribute significantly to energy conservation efforts at chemical plants and other facilities.

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 comprises the following bodies:

Board of Directors

NGK's Board of Directors is responsible for deliberations and decisions on matters stipulated by the Companies Act 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 14 directors (including 2 external directors) as of March 31, 2008.

NGK reinforced the supervisory functions of the board with respect to business execution by appointing external directors following the 141st Annual General Meeting of Shareholders.

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 external to 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 comprises 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 Companies Act and its enforcement regulations, the Board of Directors approved resolutions on May 11, 2006 and April 30, 2008 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 executive bodies overseen by the president are responsible for establishing and operating NGK's internal control system. The Auditing Department, a specialist internal audit body, is responsible for monitoring the status of business execution at each operating division. Moreover, NGK has established the Internal Controls Committee to manage its reporting system for internal controls pursuant to Japan's Financial Instruments and Exchange Law.

The NGK Group Guidelines for Corporate Behavior were formulated as a policy that embodies the Group's corporate and management philosophies and as a guide for the actions we take. These guidelines specify the Group's fundamental stance with respect to business activities and corporate behavior to ensure that it is a Company that remains beneficial to society even in the pursuit of its economic goals.

The CSR Committee, meanwhile, is responsible for a range of activities that include formulating the NGK Group Guidelines for Corporate Behavior, ensuring that compliance with laws, regulations and corporate ethics is fully entrenched throughout the Group, and developing responses to incidents and accidents that it believes could significantly impact the Company. The committee's actions are designed to maintain and improve the level of the Group's internal control system.

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.

NGK Environmental Protection Committee

This internal body is responsible for formulating the Company's Core Policy on the Environment, as well as planning, proposing and deliberating matters vital to realizing policy goals.

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.

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 Act, 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.

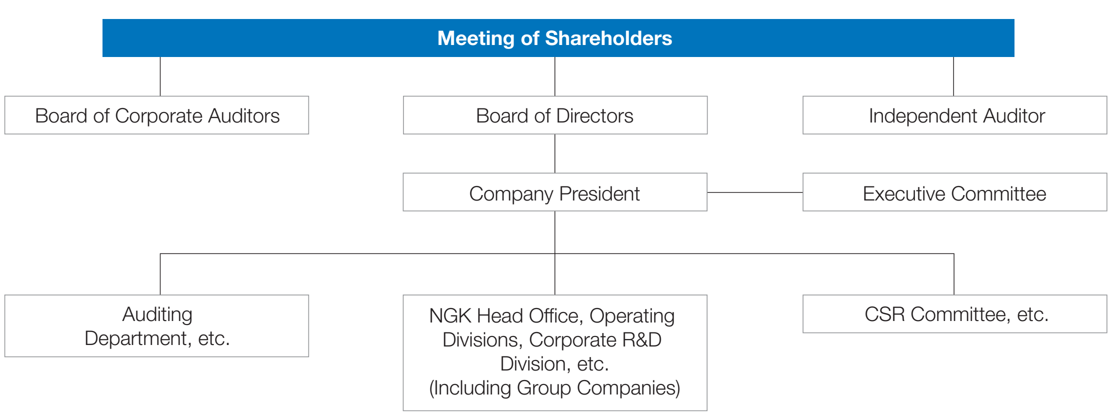
Status of Audits by Corporate Auditors (Audit Committee) and Internal Audits

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 eight 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 (28 members) conduct audits in their respective areas of responsibility.

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.

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



Relationships Between NGK and External Corporate Auditors

No special personal, capital, business or other relationships exist between NGK and its two external 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 external 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:

¥792 million (including ¥18 million for external directors)

Total annual remuneration for corporate auditors:

¥77 million (including ¥20 million for external corporate auditors)

Note: The above remuneration includes ¥156 million (¥155 million for directors, ¥1 million for corporate auditors) in new share subscription rights issued in the form of stock options to directors (excluding external directors) and corporate auditors (excluding external corporate auditors), as well as an estimated amount in bonuses for directors (excluding external directors).

Fees paid for audits, etc.

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

¥32 million

Fees for other services:

¥46 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 external directors and external corporate auditors, details of which are outlined below.

After signing the agreement, in accordance with Article 423-1 of the Companies Act, liability for external directors and external 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 Companies Act. After concluding the agreement, external directors and external corporate auditors will continue to use their independent position to perform their duties in an objective manner.

Summary of Income Statements

Net sales for the NGK Group rose for a fourth consecutive year, increasing 14.0% to ¥364,888 million. In addition to substantial growth in silicon carbide diesel particulate filters (SiC-DPFs) and other diesel-related products in the Ceramics Products Business, net sales increased on higher sales of NAS® (sodium sulfur) batteries in the Power Business and a recovery in sales of functional components for color printers in the Electronics Business. However, sales declined in the Engineering Business due to lower sales of environmental treatment systems.

Operating income increased 33.4% to ¥69,377 million, with NGK recording a fifth 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, Electronics, and Engineering Businesses.

Income before income taxes and minority interests was also higher, climbing 52.3% year on year to ¥78,156 million.

As a result of the foregoing, net income increased 56.2% to ¥45,951 million, ending at a record high for the third straight fiscal year. ROE for the year was 15.3%.

Financial Position

As of March 31, 2008, total assets were ¥557,390 million, an increase of ¥42,583 million, or 8.3%, from the previous fiscal year-end. The equity ratio was 57.0%, while net assets per share rose ¥98.17 over the previous fiscal year to ¥942.94.

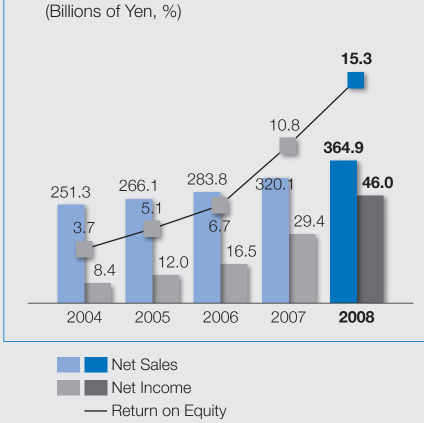
Current assets were higher compared to the previous fiscal year, up 18.6% to ¥312,973 million. In addition to increased inventories, current assets rose mainly atop an increase in marketable securities due to higher free cash flow.

Investments and other assets declined 4.5% year on year to ¥87,166 million, reflecting a decrease in investment securities due to a decline in the market value of shareholdings.

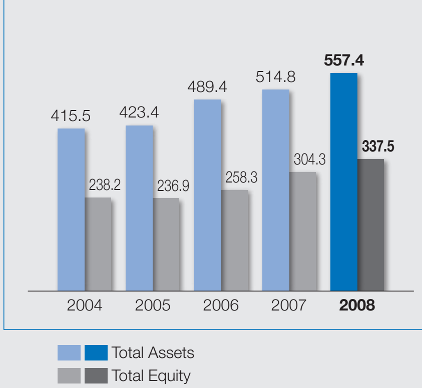
Current liabilities increased 34.1% year on year to ¥113,592 million. Among other factors, this rise was due to an increase in income taxes payable, coupled with the decision to transfer the current portion of long-term debt and redemption of corporate bonds to short-term, rather than long-term, liabilities. Long-term liabilities fell 15.5% to ¥106,284 million.

Total equity stood at ¥337,514 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 ¥41,510 million in total cash and cash equivalents from the previous fiscal year-end to ¥119,796 million. This reflected ¥66,659 million in net cash provided by operating activities, ¥16,685 million in net cash used in investing activities, and ¥10,117 million in net cash used in financing activities.

Cash Flow from Operating Activities

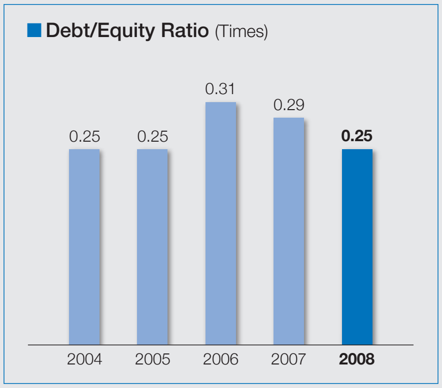
Net cash from operating activities was ¥66,659 million, ¥28,358 million more than the previous fiscal year. This was primarily attributable to an increase in income before income taxes and minority interests, as well as depreciation and amortization, which offset higher inventories of ceramic honeycomb substrates for automotive catalytic converters and other products.

Cash Flow from Investing Activities

Net cash used in investing activities was ¥16,685 million, ¥4,593 million less than a year earlier. Cash was primarily used for capital expenditures to establish a production plant for transformer insulators in China and for investment in diesel-related products. The decline in net cash used was mainly attributable to a decrease in capital expenditures in diesel-related products.

Cash Flow from Financing Activities

Net cash used in financing activities was ¥10,117 million, ¥11,009 million less than the previous fiscal year. This increase was mainly attributable to outlays for the payment of cash dividends and repayment of long-term borrowings, compared to inflows of ¥893 million provided mainly by borrowings in the previous fiscal year.



Capital Expenditures

Capital expenditures for the NGK Group totaled ¥21,383 million. A breakdown of expenditures by segment is as follows.

Power Business

Capital expenditures in this segment totaled ¥5,697 million, mainly related to production facilities for insulators for transformers.

Ceramics Products Business

Capital expenditures in this segment totaled ¥8,764 million, and were concentrated on production facilities related to ceramic honeycomb substrates for automotive catalytic converters and diesel particulate filters (DPFs).

Electronics Business

Capital expenditures in the electronics business totaled ¥3,675 million, mainly for production facilities related to ceramic products for use in semiconductor manufacturing equipment.

Engineering Business

Capital expenditures totaled ¥1,240 million, mainly for investment in R&D facilities.

Head Office

Capital expenditures at the Head Office were ¥2,007 million, principally for upgrading facilities.

Business Risks

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. The Group 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 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 Company'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

(Merger between NGK Water Environment Systems, Ltd. and Fuji Electric Water Environmental Systems Co., Ltd.)

At a meeting held on November 26, 2007, the Board of Directors of NGK signed a merger agreement with Fuji Electric Water Environmental Systems Co., Ltd., a consolidated subsidiary of Fuji Electric Holdings Co., Ltd. Based on this agreement, NGK Water Environment Systems, a consolidated subsidiary of NGK, and Fuji Electric Water Environmental Systems merged on April 1, 2008.

Consolidated Balance Sheets

NGK Insulators, Ltd. and Consolidated Subsidiaries
March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	**2008**
Assets			
Current Assets:			
Cash and cash equivalents	**¥119,796**	¥ 78,285	**$1,197,960**
Time deposits	**2,458**	5,882	**24,580**
Marketable securities (Note 3)	**10,517**	7,688	**105,170**
Notes and accounts receivable:			
Trade notes and accounts	**81,847**	84,237	**818,470**
Non-consolidated subsidiaries and associated companies	**295**	813	**2,950**
Other	**4,789**	3,905	**47,890**
Allowance for doubtful accounts	**(189)**	(238)	**(1,890)**
	86,742	88,717	**867,420**
Inventories (Note 4)	**77,237**	70,140	**772,370**
Deferred tax assets (Note 9)	**9,469**	8,441	**94,690**
Prepaid expenses and other current assets	**6,754**	4,678	**67,540**
Total current assets	**312,973**	263,831	**3,129,730**
Property, Plant and Equipment:			
Buildings and structures	**109,600**	103,763	**1,096,000**
Machinery and equipment	**264,427**	245,106	**2,644,270**
	374,027	348,869	**3,740,270**
Accumulated depreciation	**(241,137)**	(222,642)	**(2,411,370)**
	132,890	126,227	**1,328,900**
Land	**18,715**	18,743	**187,150**
Construction in progress	**5,646**	14,664	**56,460**
Net property, plant and equipment	**157,251**	159,634	**1,572,510**
Investments and Other Assets:			
Investment securities (Note 3)	**49,861**	56,709	**498,610**
Investments in and loans to non-consolidated subsidiaries and associated companies	**596**	2,064	**5,960**
Intangible assets	**3,115**	3,659	**31,150**
Prepaid pension cost (Note 6)	**24,940**	21,334	**249,400**
Deferred tax assets (Note 9)	**3,585**	2,668	**35,850**
Other assets	**5,069**	4,907	**50,690**
Total investments and other assets	**87,166**	91,341	**871,660**
Total	**¥557,390**	¥514,806	**$5,573,900**

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	**2008**
Liabilities and Equity			
Current Liabilities:			
Short-term borrowings (Note 5)	**¥ 1,534**	¥ 5,475	**$ 15,340**
Current portion of long-term debt (Note 5)	**23,328**	196	**233,280**
Notes and accounts payable:			
Trade notes and accounts	**37,293**	36,807	**372,930**
Non-consolidated subsidiaries and associated companies	**3,098**	1,091	**30,980**
Other	**12,146**	8,909	**121,460**
	52,537	46,807	**525,370**
Accrued expenses	**13,694**	14,384	**136,940**
Provision for restructuring costs	**1,126**	1,401	**11,260**
Income taxes payable	**15,744**	10,727	**157,440**
Other current liabilities	**5,629**	5,746	**56,290**
Total current liabilities	**113,592**	84,736	**1,135,920**
Long-term Liabilities:			
Long-term debt (Note 5)	**61,027**	81,936	**610,270**
Liability for retirement benefits (Note 6)	**19,152**	19,520	**191,520**
Deferred tax liabilities (Note 9)	**22,641**	21,017	**226,410**
Other long-term liabilities	**3,464**	3,251	**34,640**
Total long-term liabilities	**106,284**	125,724	**1,062,840**
Minority Interests	**—**	—	**—**
Contingent Liabilities (Note 13)			
Equity (Note 7):			
Common stock:			
Authorized—735,030 thousand shares			
Issued—337,560 thousand shares and 356,560 thousand shares at March 31, 2008 and 2007, respectively	**69,849**	69,849	**698,490**
Capital surplus	**85,136**	85,152	**851,360**
Stock acquisition rights (Note 8)	**459**	232	**4,590**
Retained earnings	**150,400**	126,387	**1,504,000**
Unrealized gain on available-for-sale securities	**12,535**	20,960	**125,350**
Deferred loss on derivatives under hedge accounting	**(4)**	(411)	**(40)**
Foreign currency translation adjustments	**277**	(1,966)	**2,770**
Treasury stock—at cost: 748,140 shares and 19,463,075 shares at March 31, 2008 and 2007, respectively	**(598)**	(15,202)	**(5,980)**
Total	**318,054**	285,001	**3,180,540**
Minority interests	**19,460**	19,345	**194,600**
Total equity	**337,514**	304,346	**3,375,140**
Total	**¥557,390**	¥514,806	**$5,573,900**

Consolidated Statements of Income

NGK Insulators, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	**2008**
Net Sales	**¥364,888**	¥320,120	**$3,648,880**
Cost of Sales (Note 10)	**241,746**	217,499	**2,417,460**
Gross profit	**123,142**	102,621	**1,231,420**
Selling, General and Administrative Expenses (Note 10)	**53,765**	50,604	**537,650**
Operating income	**69,377**	52,017	**693,770**
Other Income (Expenses):			
Interest and dividend income	**3,761**	2,253	**37,610**
Interest expense	**(2,774)**	(1,887)	**(27,740)**
(Loss) gain on sales and disposals of property, plant and equipment—net	**(655)**	79	**(6,550)**
Gain on sales of investment in associated companies	**10,050**	677	**100,500**
Foreign exchange (loss) gain	**(2,539)**	31	**(25,390)**
Gain on evaluation of derivative	**1,400**	150	**14,000**
Equity in gain (loss) of unconsolidated subsidiaries and associated companies	**59**	(1,814)	**590**
Other—net	**(523)**	(186)	**(5,230)**
Other income (expenses)—net	**8,779**	(697)	**87,790**
Income Before Income Taxes and Minority Interests	**78,156**	51,320	**781,560**
Income Taxes (Note 9):			
Current	**26,265**	18,194	**262,650**
Deferred	**5,099**	2,587	**50,990**
Total income taxes	**31,364**	20,781	**313,640**
Minority Interests in Net Income	**841**	1,126	**8,410**
Net Income	**¥ 45,951**	¥ 29,413	**$ 459,510**

	Yen		U.S. Dollars
Per Share of Common Stock (Notes 2.t. and 14):			
Basic net income	**¥136.36**	¥87.23	**$1.364**
Diluted net income	**136.22**	87.16	**1.362**
Cash dividends applicable to the year	**22.00**	16.00	**0.220**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

NGK Insulators, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2008 and 2007

	Thousands	Millions of Yen										
	Outstanding Number 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, 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**
Net income	**—**	**—**	**—**	**—**	**45,951**	**—**	**—**	**—**	**—**	**45,951**	**—**	**45,951**
Cash dividends, ¥20 per share	**—**	**—**	**—**	**—**	**(6,741)**	**—**	**—**	**—**	**—**	**(6,741)**	**—**	**(6,741)**
Net reversal of liability for retirement benefits of foreign subsidiaries	**—**	**—**	**—**	**—**	**25**	**—**	**—**	**—**	**—**	**25**	**—**	**25**
Purchase of treasury stock	**(310)**	**—**	**—**	**—**	**(51)**	**—**	**—**	**—**	**(612)**	**(663)**	**—**	**(663)**
Disposal of treasury stock	**25**	**—**	**9**	**—**	**—**	**—**	**—**	**—**	**20**	**29**	**—**	**29**
Retirement of treasury stock	**—**	**—**	**(15,196)**	**—**	**—**	**—**	**—**	**—**	**15,196**	**—**	**—**	**—**
Transfer of loss on disposal of treasury stock	**—**	**—**	**15,171**	**—**	**(15,171)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Net changes in the year	**—**	**—**	**—**	**227**	**—**	**(8,425)**	**407**	**2,243**	**—**	**(5,548)**	**115**	**(5,433)**
Balance at March 31, 2008	**336,812**	**¥69,849**	**¥85,136**	**¥459**	**¥150,400**	**¥12,535**	**¥ (4)**	**¥ 277**	**¥ (598)**	**¥318,054**	**¥19,460**	**¥337,514**

	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, 2007	**$698,490**	**$851,520**	**$2,320**	**$1,263,870**	**$209,600**	**$(4,110)**	**$(19,660)**	**$(152,020)**	**$2,850,010**	**$193,450**	**$3,043,460**
Net income	**—**	**—**	**—**	**459,510**	**—**	**—**	**—**	**—**	**459,510**	**—**	**459,510**
Cash dividends, $0.20 per share	**—**	**—**	**—**	**(67,410)**	**—**	**—**	**—**	**—**	**(67,410)**	**—**	**(67,410)**
Net reversal of liability for retirement benefits of foreign subsidiaries	**—**	**—**	**—**	**250**	**—**	**—**	**—**	**—**	**250**	**—**	**250**
Purchase of treasury stock	**—**	**—**	**—**	**(510)**	**—**	**—**	**—**	**(6,120)**	**(6,630)**	**—**	**(6,630)**
Disposal of treasury stock	**—**	**90**	**—**	**—**	**—**	**—**	**—**	**200**	**290**	**—**	**290**
Retirement of treasury stock	**—**	**(151,960)**	**—**	**—**	**—**	**—**	**—**	**151,960**	**—**	**—**	**—**
Transfer of loss on disposal of treasury stock	**—**	**151,710**	**—**	**(151,710)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Net changes in the year	**—**	**—**	**2,270**	**—**	**(84,250)**	**4,070**	**22,430**	**—**	**(55,480)**	**1,150**	**(54,330)**
Balance at March 31, 2008	**$698,490**	**$851,360**	**$4,590**	**$1,504,000**	**$125,350**	**$ (40)**	**$ 2,770**	**$ (5,980)**	**$3,180,540**	**$194,600**	**$3,375,140**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

NGK Insulators, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	**2008**
Operating Activities:			
Income before income taxes and minority interests	**¥ 78,156**	¥51,320	**$ 781,560**
Adjustments for:			
Income taxes—paid	**(21,572)**	(17,017)	**(215,720)**
Depreciation and amortization	**26,260**	23,780	**262,600**
Loss (gain) on sales and disposals of property, plant and equipment—net	**655**	(79)	**6,550**
Write-down of inventories	**182**	337	**1,820**
Gain on sales of stocks of associated companies	**(10,050)**	(677)	**(100,500)**
Reversal of restructuring costs	**(345)**	(1,273)	**(3,450)**
Equity in (gain) loss of unconsolidated subsidiaries and associated companies	**(59)**	1,814	**(590)**
Changes in assets and liabilities:			
Decrease (increase) in notes and accounts receivable—trade	**3,369**	(3,778)	**33,690**
Increase in inventories	**(7,077)**	(4,125)	**(70,770)**
Increase in prepaid pension cost	**(3,617)**	(3,698)	**(36,170)**
Increase (decrease) in notes and accounts payable—trade	**401**	(6,563)	**4,010**
Increase (decrease) in other current liabilities	**2,195**	(8,347)	**21,950**
Decrease in liability for retirement benefits	**(227)**	(2,010)	**(2,270)**
Other—net	**(1,612)**	8,616	**(16,120)**
Total adjustments	**(11,497)**	(13,020)	**(114,970)**
Net cash provided by operating activities	**66,659**	38,300	**666,590**
Investing Activities:			
Purchases of marketable securities	**(11,270)**	(4,341)	**(112,700)**
Proceeds from sales and redemption of marketable securities	**5,602**	5,549	**56,020**
Purchases of investment securities	**(6,724)**	(1,581)	**(67,240)**
Proceeds from sales and redemption of investment securities	**1,073**	4,651	**10,730**
Proceeds from sales of stock of an associated company	**11,300**	1,750	**113,000**
Purchases of property, plant and equipment	**(20,289)**	(23,545)	**(202,890)**
Proceeds from sales of property, plant and equipment	**705**	2,653	**7,050**
Purchases of intangible assets	**(738)**	(646)	**(7,380)**
Collections of loans receivable	**—**	83	**0**
Decrease (increase) of time deposits	**3,392**	(5,821)	**33,920**
Other—net	**264**	(31)	**2,640**
Net cash used in investing activities	**(16,685)**	(21,279)	**(166,850)**
Financing Activities:			
Decrease in short-term borrowings—net	**(2,253)**	(382)	**(22,530)**
Proceeds from long-term borrowings	**—**	6,354	**0**
Repayment of long-term borrowings	**—**	(504)	**0**
Acquisition of treasury stock	**(570)**	(291)	**(5,700)**
Cash dividends	**(6,741)**	(4,719)	**(67,410)**
Other—net	**(553)**	436	**(5,530)**
Net cash (used in) provided by financing activities	**(10,117)**	894	**(101,170)**
Foreign Currency Translation Adjustments on Cash and Cash Equivalents	**1,654**	1,278	**16,540**
Net Increase in Cash and Cash Equivalents	**41,511**	19,193	**415,110**
Cash and Cash Equivalents, Beginning of Year	**78,285**	59,092	**782,850**
Cash and Cash Equivalents, End of Year	**¥119,796**	¥78,285	**$1,197,960**

See notes to consolidated financial statements.

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law (formerly, 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.

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 2007 financial statements to conform to the classifications used in 2008.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which NGK INSULATORS, LTD. (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 ¥100 to $1, the approximate rate of exchange at March 31, 2008. 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, 2008 include the accounts of the Company and its 56 significant (54 in 2007) 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 (two in 2007) non-consolidated subsidiaries and no (none in 2007) associated company are accounted for by the equity method.

Investments in remaining non-consolidated subsidiaries and associated companies 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, 2008 and 2007, ¥130 million ($1,300 thousand) and ¥16 million, respectively, were included in intangible asset except for the goodwill in the United States. At March 31, 2008 and 2007, the differences 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 were ¥551 million ($5,510 thousand) and ¥499 million and was included in intangible assets respectively. In accordance with accounting principles generally accepted in the United States, these goodwill amounts are not amortized. The Group reviews goodwill for impairment annually or whenever events or changes in circumstance indicate the carrying amount of goodwill may not be recoverable. The impairment loss would be measured as the amount by which the carrying amount of goodwill 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, certificates of deposits 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 mainly at cost, determined principally by the average method. Certain consolidated subsidiaries determine cost by the retail method at March 31, 2007. Costs of construction in progress are stated at cost, determined by the individual identification 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. Property, plant and equipment acquired by the Company and domestic subsidiaries on and after April 1, 2007 are depreciated by the declining-balance method in accordance with the revised corporate tax law, which is effective for fiscal years beginning on and after April 1, 2007.

The effect of this treatment was to decrease income before income taxes and minority interests for the year ended March 31, 2008 by ¥262 million ($2,620 thousand).

Property, plant and equipment held by the Company and domestic subsidiaries had been depreciated up to 95% of acquisition cost with 5% of residual value carried until previous fiscal years. However, such 5% portion of property, plant and equipment is systematically amortized over 5 years starting in the following year in which the carrying value of property, plant and equipment reaches 5% of the acquisition cost in accordance with the revised corporate tax law.

The effect of this treatment was to decrease income before income taxes and minority interests for the year ended March 31, 2008 by ¥616 million ($6,160 thousand).

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 — 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, 2008 and 2007 include goodwill recognized in the United States, amounting to ¥551 million ($5,506 thousand) and ¥499 million respectively. This goodwill is not amortized but reviewed for impairment. 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.

i. Stock Options — On December 27, 2005, the Accounting Standards Board of Japan (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.

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 or assets, as the case may be, 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 was effective for fiscal years ending on or after May 1, 2006. The balances of such items as of March 31, 2006 were reclassified as separate components of equity as of April 1, 2006 in the consolidated statement of changes in equity.

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 insulators production site and recognizes as a provision.

m. 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. All other leases are accounted for as operating leases.

n. Bonuses to Directors and Corporate Auditors — Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.

o. 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.

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, 2008 and 2007, were ¥14,575 million ($145,750 thousand), and ¥17,971 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. The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expenses or income.

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. 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.

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 shall be capitalized recognizing lease assets and lease obligations in the balance sheet.

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 its foreign subsidiaries which have been 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 standard 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.

Construction Contracts — Under the current Japanese GAAP, either the completed-contract method or the percentage-of-completion method is permitted to account for construction contracts. On December 27, 2007, the ASBJ published a new accounting standard for construction contracts. Under this accounting standard, the construction revenue and construction costs should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method shall be applied. When it is probable that total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for loss on construction contracts. This standard is applicable to construction contracts and software development contracts and effective for fiscal years beginning on or after April 1, 2009 with early adoption permitted for fiscal years beginning on or before March 31, 2009 but after December 27, 2007.

3. Marketable and Investment Securities

Marketable and investment securities at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Current:			
Investment trusts and other	**¥ 6,517**	¥ 6,287	**$ 65,170**
Debt securities	**4,000**	1,401	**40,000**
Total	**¥10,517**	¥ 7,688	**$105,170**
Non-current:			
Equity securities and other	**¥43,491**	¥54,838	**$434,910**
Debt securities	**6,370**	1,871	**63,700**
Total	**¥49,861**	¥56,709	**$498,610**

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2008 and 2007 were as follows:

	Millions of Yen			
March 31, 2008	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities and other	**¥23,361**	**¥22,261**	**¥1,076**	**¥44,546**
Debt securities	**200**	**—**	**—**	**200**
Held-to-maturity:				
Debt securities	**10,170**	**—**	**32**	**10,138**

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

March 31, 2008	Thousands of U.S. Dollars Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities and other	$233,610	$222,610	$10,760	$445,460
Debt securities	2,000	—	—	2,000
Held-to-maturity:				
Debt securities	101,700	—	320	101,380

Available-for-sale securities and held-to-maturity whose fair value is not readily determinable as of March 31, 2008 and 2007 were as follows:

	Carrying amount: Millions of Yen 2008	Millions of Yen 2007	Thousands of U.S. Dollars 2008
Available-for-sale:			
Equity securities and other	¥3,313	¥3,489	$33,130
Held-to-maturity	2,149	2,670	21,490
Total	¥5,462	¥6,159	$54,620

Proceeds from sales of available-for-sale securities for the years ended March 31, 2008 and 2007 were ¥2,218 million ($22,180 thousand) and ¥2,506 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥29 million ($290 thousand) and ¥68 million ($680 thousand), respectively for the year ended March 31, 2008 and ¥391 million and ¥128 million, respectively for the year ended March 31, 2007.

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, 2008 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	¥ —	¥ 4,000	$ —	$ 40,000
Due after one year through five years	200	8,319	2,000	83,190
Total	¥200	¥12,319	$2,000	$123,190

Investment securities of ¥186 million ($1,860 thousand) were pledged as collateral for associated company's bank loans of ¥1,986 million ($19,860 thousand) at March 31, 2008.

4. Inventories

Inventories at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen 2008	Millions of Yen 2007	Thousands of U.S. Dollars 2008
Finished products	¥22,147	¥23,886	$221,470
Semi-finished products	9,141	11,220	91,410
Work-in-process	13,012	7,484	130,120
Raw materials	15,007	15,498	150,070
Supplies	12,236	6,984	122,360
Cost of contracts in progress	5,694	5,068	56,940
Total	¥77,237	¥70,140	$772,370

5. Short-term Borrowings and Long-term Debt

Short-term borrowings at March 31, 2008 and 2007 consisted mainly of notes to banks. The weighted average interest rates on short-term borrowings as of March 31, 2008 and 2007 were 2.7% and 2.9%, respectively.

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Borrowings from banks and other financial institutions due serially to 2015 with weighted average interest rates of 1.6 % (2008) and 1.7% (2007)	**¥74,355**	¥72,132	**$743,550**
Unsecured 2.675% yen bonds due April 21, 2008	**10,000**	10,000	**100,000**
Total	**84,355**	82,132	**843,550**
Less: portion due within one year	**(23,328)**	(196)	**(233,280)**
Long-term debt, less current portion	**¥61,027**	¥81,936	**$610,270**

Annual maturities of long-term debt at March 31, 2008, were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2009	¥23,328	$233,280
2010	6,602	66,020
2011	25,000	250,000
2012	4,000	40,000
2013	10,000	100,000
2014 and thereafter	15,425	154,250
Total	¥84,355	$843,550

6. Liability for Retirement Benefits

The Company and certain 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. Certain domestic subsidiaries contribute to a multi-employer pension plan.

The liability for employees' retirement benefits at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Projected benefit obligation	**¥83,180**	¥ 85,567	**$ 831,800**
Fair value of plan assets	**(90,039)**	(104,256)	**(900,390)**
Unrecognized prior service benefit	**3,988**	3,342	**39,880**
Unrecognized actuarial (loss) gain	**(6,319)**	10,581	**(63,190)**
Other	**(228)**	(357)	**(2,280)**
Net asset	**(9,418)**	(5,123)	**(94,180)**
Prepaid pension cost	**24,940**	21,334	**249,400**
Other postretirement obligation	**3,416**	3,102	**34,160**
Amount recognized as liability	**¥18,938**	¥ 19,313	**$(189,380)**

The components of net periodic benefit costs for the years ended March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Service cost	**¥2,908**	¥2,696	**$29,080**
Interest cost	**2,071**	2,125	**20,710**
Expected return on plan assets	**(2,109)**	(1,947)	**(21,090)**
Amortization of prior service benefit	**(409)**	(405)	**(4,090)**
Recognized actuarial gain	**(291)**	(264)	**(2,910)**
Other	**(9)**	28	**(90)**
Net periodic benefit costs	**¥2,161**	¥2,233	**$21,610**

Assumptions used for the years ended March 31, 2008 and 2007 were set forth as follows:

	2008	2007
Discount rate	**Primarily 2.0%**	Primarily 2.0%
Expected rate of return on plan assets	**Primarily 1.5%**	Primarily 1.5%
Amortization period of prior service cost/benefit	**Primarily ten years**	Primarily ten years
Recognition period of actuarial gain/loss	**Primarily ten years**	Primarily ten years

Funded status of the multi-employer pension plan at March 31, 2007 (available information as of March 31, 2008), to which contributions were recorded as net periodic retirement benefit costs, was as follows:

	Millions of Yen
	2007
Fair value of plan assets	¥343,788
Pension benefit obligation recorded by pension fund	(315,981)
Difference	¥ 27,807

The Groups' contribution percentage for multi-employer pension plan 1.3%

Notes 1. The difference mainly resulted from prior service cost of ¥24,629 million.
2. Prior service cost is amortized over 20 years.

The liability for retirement benefits in the accompanying consolidated balance sheets also include retirement benefits for directors and corporate auditors of ¥214 million ($2,140 thousand) and ¥207 million at March 31, 2008 and 2007, respectively.

The retirement benefits for directors and corporate auditors are paid upon the approval of the shareholders.

7. Equity

Since May 1, 2006, Japanese companies have been subject to the Corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan. The significant provision in the Corporate Law that affects financial and accounting matters is 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 Company can do so. 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 equity 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 schemes as of March 31, 2008 are as follows:

Stock Option Schemes	Persons Originally Granted	Number of Options Originally granted	Date of Grant	Exercise Price	Exercise Period
2005 Stock Option scheme	12 directors 2 full-time corporate auditors 10 officers	Common shares 180,000 shares	August 5, 2005	¥1 ($0.01)	From August 5, 2005 To June 30, 2035
2006 Stock Option Scheme (2-1)	12 directors 2 full-time corporate auditors	Common shares 113,000 shares	August 11, 2006	¥1 ($0.01)	From August 12, 2006 To June 30, 2036
2006 Stock Option Scheme (2-2)	10 officers	Common shares 41,000 shares	August 11, 2006	¥1 ($0.01)	From August 12, 2006 To June 30, 2036
2007 Stock Option Scheme	12 directors 10 officers	Common shares 62,000 shares	August 30, 2007	¥1 ($0.01)	From August 31, 2007 To June 30, 2037

The stock option activity is as follows:

	2005 Stock Option	2006 Stock Option (2-1)	2006 Stock Option (2-2)	2007 Stock Option
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	—
For the year ended March 31, 2008				
Non-vested (shares)				
March 31, 2007—Outstanding	—	—	—	—
Granted	—	—	—	62,000
Canceled	—	—	—	—
Vested	—	—	—	(62,000)
March 31, 2008—Outstanding	—	—	—	—
Vested (shares)				
March 31, 2007—Outstanding	180,000	113,000	41,000	—
Vested	—	—	—	62,000
Exercised	(15,000)	—	—	—
Canceled	—	—	—	—
March 31, 2008—Outstanding	165,000	113,000	41,000	62,000
Exercise price	¥ 1 ($0.01)	¥ 1 ($0.01)	¥ 1 ($0.01)	¥ 1 ($0.01)
Average stock price at exercise	¥ 3,440 ($34.4)	N/A	N/A	N/A
Fair value price at grant date	N/A	¥ 1,506 ($15.06)	¥ 1,506 ($15.06)	¥ 3,658 ($36.58)

The assumptions used to measure fair value of 2007 Stock Options

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	35.38%
Estimated remaining outstanding period:	Four and a half years
Estimated dividend:	¥16 per share
Risk free interest rate:	1.12%

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, 2008 and 2007.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Deferred Tax Assets:			
Pension and severance costs	**¥ 4,844**	¥ 6,251	**$ 48,440**
Tax loss carryforward	**1,083**	2,118	**10,830**
Accounts payable and accrued expenses	**3,686**	3,759	**36,860**
Enterprise tax	**1,166**	795	**11,660**
Inventories	**2,618**	2,427	**26,180**
Property, plant and equipment	**3,076**	2,427	**30,760**
Other	**3,645**	3,761	**36,450**
Total	**20,118**	21,538	**201,180**
Less: valuation allowance	**(2,371)**	(4,798)	**(23,710)**
Offset with deferred tax liabilities	**(4,693)**	(5,631)	**(46,930)**
Net deferred tax assets	**¥13,054**	¥11,109	**$130,540**
Deferred Tax Liabilities:			
Unrealized gain on available-for-sale securities	**¥ 8,931**	¥14,294	**$ 89,310**
Gain on securities contributed to employees' retirement benefit trust	**5,434**	5,329	**54,340**
Deferred gains on sales of property	**1,322**	1,411	**13,220**
Undistributed earnings of foreign subsidiaries	**9,485**	3,280	**94,850**
Other	**2,162**	2,345	**21,620**
Total	**27,334**	26,659	**273,340**
Offset with deferred tax assets	**(4,693)**	(5,631)	**(46,930)**
Net deferred tax liabilities	**¥22,641**	¥21,028	**$226,410**

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, 2008 and 2007 was not disclosed because the difference was not material.

10. Research and Development Costs

Research and development costs were ¥13,215 million ($132,150 thousand) and ¥12,151 million for the years ended March 31, 2008 and 2007, respectively, which included consigned research costs of ¥1,049 million ($10,490 thousand) and ¥1,579 million for the years ended March 31, 2008 and 2007, respectively.

11. Leases

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

Total lease payments under finance leases for the years ended March 31, 2008 and 2007 were ¥80 million ($800 thousand) and ¥86 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, 2008 and 2007 is as follows:

	Millions of Yen			
March 31, 2008	Machinery	Tools	Other	Total
Acquisition cost	**¥161**	**¥237**	**¥25**	**¥423**
Accumulated depreciation	**96**	**148**	**14**	**258**
Net leased property	**¥ 65**	**¥ 89**	**¥11**	**¥165**

	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

	Thousands of U.S. Dollars			
March 31, 2008	Machinery	Tools	Other	Total
Acquisition cost	**$1,610**	**$2,370**	**$250**	**$4,230**
Accumulated depreciation	**960**	**1,480**	**140**	**2,580**
Net leased property	**$ 650**	**$ 890**	**$110**	**$1,650**

Depreciation expense for the leased property as if capitalized basis, which is not reflected in the accompanying consolidated statements of income for the years ended March 31, 2008 and 2007, computed by the straight-line method, was ¥80 million ($800 thousand) and ¥86 million, respectively.

Obligations under finance leases at March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Due within one year	**¥ 66**	¥ 74	**$ 660**
Due after one year	**99**	104	**990**
Total	**¥165**	¥178	**$1,650**

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

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 swaps 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 of all derivative transactions.

The Group had the following derivative contracts outstanding at March 31, 2008 and 2007:

	Millions of Yen		
March 31, 2008	Contract or Notional Amount	Fair Value	Net Unrealized Gain/(Loss)
Forward Exchange Contracts:			
Selling U.S. Dollar	¥14,613	¥13,640	¥973
Selling Euro	9,951	9,858	93
Buying U.S. Dollar	694	698	4
Buying Euro	310	313	3
Currency Swap Contracts:			
Japanese yen receipt U. S. Dollar (hedging currency) payment	1,994	283	283
Interest Rate Swaps:			
Fixed rate receipt, floating rate payment	28,000	21	21
Floating rate receipt, fixed rate payment	2,000	(29)	(29)
Interest Rate Caps:			
Purchase contracts	3,000		
	<82>	(3)	(85)

	Millions of Yen		
March 31, 2007	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:			
Japanese yen receipt U. S. Dollar (hedging currency) 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)

	Thousands of U.S. Dollars		
March 31, 2008	Contract or Notional Amount	Fair Value	Net Unrealized Gain/(Loss)
Forward Exchange Contracts:			
Selling U.S. Dollar	$146,130	$136,400	$9,730
Selling Euro	99,510	98,580	930
Buying U.S. Dollar	6,940	6,980	40
Buying Euro	3,100	3,130	30
Currency Swap Contracts:			
Japanese yen receipt U. S. Dollar (hedging currency) payment	19,940	2,830	2,830
Interest Rate Swaps:			
Fixed rate receipt, floating rate payment	280,000	210	210
Floating rate receipt, fixed rate payment	20,000	(290)	(290)
Interest Rate Caps:			
Purchase contracts	30,000		
	<820>	(30)	(850)

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 that 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, 2008, the Group had contingent liabilities for guarantees of bank borrowings of employees and associated companies, in the amount of ¥212 million ($2,120 thousand), and ¥347 million ($3,470 thousand), respectively.

14. Net Income per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2008 and 2007 is as follows:

	Millions of Yen	Thousands of shares	Yen	Dollars
	Net income	Weighted average shares	EPS	
For the year ended March 31, 2008:				
Basic EPS				
Net income available to common shareholders	**¥45,951**	**336,981**	**¥136.36**	**$1.364**
Effect of Dilutive Securities				
Stock options	**—**	**360**		
Diluted EPS				
Net income for computation	**¥45,951**	**337,341**	**¥136.22**	**$1.362**
For the year ended March 31, 2007:				
Basic EPS				
Net income available to common shareholders	¥29,413	337,186	¥87.23	
Effect of Dilutive Securities				
Stock options	—	278		
Diluted EPS				
Net income for computation	¥29,413	337,464	¥87.16	

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, 2008 and 2007 is as follows:

a. Operations by Line of Business

	Millions of Yen						
2008	Power	Ceramics	Electronics	Engineering	Total	Eliminations/ Corporate	Consolidated
Sales to customers	**¥81,299**	**¥162,029**	**¥77,503**	**¥44,057**	**¥364,888**	**—**	**¥364,888**
Intersegment sales	**1,234**	**234**	**2,158**	**—**	**3,626**	**¥ (3,626)**	**—**
Total sales	**82,533**	**162,263**	**79,661**	**44,057**	**368,514**	**(3,626)**	**364,888**
Operating expenses	**73,808**	**118,448**	**66,161**	**40,848**	**299,265**	**(3,754)**	**295,511**
Operating income	**¥ 8,725**	**¥ 43,815**	**¥13,500**	**¥ 3,209**	**¥ 69,249**	**¥ 128**	**¥ 69,377**
Total assets	**¥95,091**	**¥203,145**	**¥77,750**	**¥33,126**	**¥409,112**	**¥148,278**	**¥557,390**
Depreciation	**4,425**	**17,141**	**4,262**	**438**	**26,266**	**(6)**	**26,260**
Capital expenditures	**5,697**	**8,764**	**3,675**	**1,240**	**19,376**	**2,007**	**21,383**

2007	Power	Ceramics	Electronics	Engineering	Total	Eliminations/ Corporate	Consolidated
	Millions of Yen						
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

2008	Power	Ceramics	Electronics	Engineering	Total	Eliminations/ Corporate	Consolidated
	Thousands of U.S. Dollars						
Sales to customers	**$812,990**	**$1,620,290**	**$775,030**	**$440,570**	**$3,648,880**	**—**	**$3,648,880**
Intersegment sales	**12,340**	**2,340**	**21,580**	**—**	**36,260**	**$ (36,260)**	**—**
Total sales	**825,330**	**1,622,630**	**796,610**	**440,570**	**3,685,140**	**(36,260)**	**3,648,880**
Operating expenses	**738,080**	**1,184,480**	**661,610**	**408,480**	**2,992,650**	**(37,540)**	**2,955,110**
Operating income	**$ 87,250**	**$ 438,150**	**$135,000**	**$ 32,090**	**$ 692,490**	**$ 1,280**	**$ 693,770**
Total assets	**$950,910**	**$2,031,450**	**$777,500**	**$331,260**	**$4,091,120**	**$1,482,780**	**$5,573,900**
Depreciation	**44,250**	**171,410**	**42,620**	**4,380**	**262,660**	**(60)**	**262,600**
Capital expenditures	**56,970**	**87,640**	**36,750**	**12,400**	**193,760**	**20,070**	**213,830**

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 refractory products
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

(*) Noise-control systems, which were sold in April 2007, were not included in the Segment Information for the year ended March 31, 2008.

As discussed in Note 2 (e), effective April 1, 2007, the Company and domestic subsidiaries changed its depreciation method for property, plant and equipment acquired on and after April 1, 2007 in accordance with the revised corporate tax law. The effect of this change was to decrease operating income of Power by ¥61 million ($610 thousand), operating income of Ceramics by ¥121 million ($1,210 thousand), operating income of Electronics by ¥69 million ($690 thousand) and operating income of Engineering by ¥11 million ($110 thousand), respectively, for the year ended March 31, 2008. In addition, the Company and domestic subsidiaries changed its depreciation method for 5% portion of property, plant and equipment. The effect of this treatment was to decrease operating income of Power by ¥140 million ($1,400 thousand), operating income of Ceramics by ¥301 million ($3,010 thousand), operating income of Electronics by ¥171 million ($1,710 thousand) and operating income of Engineering by ¥3 million ($30 thousand), respectively, for the year ended March 31, 2008.

b. Operations by Geographical Segments

2008	Japan	North America	Europe	Other	Total	Eliminations/ Corporate	Consolidated
	Millions of Yen						
Sales to customers	**¥233,823**	**¥51,239**	**¥55,730**	**¥24,096**	**¥364,888**	**—**	**¥364,888**
Interarea transfers	**48,274**	**10,529**	**4,037**	**15,516**	**78,356**	**¥(78,356)**	**—**
Total sales	**282,097**	**61,768**	**59,767**	**39,612**	**443,244**	**(78,356)**	**364,888**
Operating expenses	**239,346**	**54,341**	**46,496**	**33,902**	**374,085**	**(78,574)**	**295,511**
Operating income	**¥ 42,751**	**¥ 7,427**	**¥13,271**	**¥ 5,710**	**¥ 69,159**	**¥ 218**	**¥ 69,377**
Total assets	**¥297,623**	**¥41,060**	**¥91,809**	**¥52,471**	**¥482,963**	**¥ 74,427**	**¥557,390**

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

2008	Japan	North America	Europe	Other	Total	Eliminations/ Corporate	Consolidated
	Thousands of U.S. Dollars						
Sales to customers	**$2,338,230**	**$512,390**	**$557,300**	**$240,960**	**$3,648,880**	**—**	**$3,648,880**
Interarea transfers	**482,740**	**105,290**	**40,370**	**155,160**	**783,560**	**$(783,560)**	**—**
Total sales	**2,820,970**	**617,680**	**597,670**	**396,120**	**4,432,440**	**(783,560)**	**3,648,880**
Operating expenses	**2,393,460**	**543,410**	**464,960**	**339,020**	**3,740,850**	**(785,740)**	**2,955,110**
Operating income	**$ 427,510**	**$ 74,270**	**$132,710**	**$ 57,100**	**$ 691,590**	**$ 2,180**	**$ 693,770**
Total assets	**$2,976,230**	**$410,600**	**$918,090**	**$524,710**	**$4,829,630**	**$ 744,270**	**$5,573,900**

As discussed in Note 2 (e), effective April 1, 2007, the Company and domestic subsidiaries changed its depreciation method for property, plant and equipment acquired on and after April 1, 2007 in accordance with the revised corporate tax law. The effect of this change was to decrease operating income of Japan by ¥262 million ($2,620 thousand) for the year ended March 31, 2008. In addition, the Company and domestic subsidiaries and domestic subsidiaries changed its depreciation method for 5% portion of property, plant and equipment. The effect of this treatment was to decrease operating income of Japan by ¥616 million ($6,160 thousand) for the year ended March 31, 2008.

c. Sales to Foreign Customers

2008	North America	Europe	Asia	Other	Total
	Millions of Yen				
Overseas sales	**¥52,327**	**¥52,730**	**¥35,450**	**¥39,321**	**¥179,828**
Net sales					**364,888**
Ratio of overseas sales to net sales	**14.3%**	**14.5%**	**9.7%**	**10.8%**	**49.3%**

2007	North America	Europe	Asia	Other	Total
	Millions of Yen				
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%

2008	North America	Europe	Asia	Other	Total
	Thousands of U.S. Dollars				
Overseas sales	**$523,270**	**$527,300**	**$354,500**	**$393,210**	**$1,798,280**
Net sales					**3,648,880**

16. Subsequent Events

The following appropriation of retained earnings at March 31, 2008 was approved at the Company's shareholders meeting held on June 27, 2008:

a. Appropriations of retained earnings

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥11 ($0.11) per share	¥3,705	$ 37,050

b. Merger information

On April 1, 2008, NGK Water Environment Systems, Ltd., which was one of the Company's consolidated subsidiaries, included in Engineering segment, merged with Fuji Electric Water Environmental Systems Co., Ltd., which was a consolidated subsidiary of Fuji Electric Holdings Co., Ltd. based on the merger agreement with the approval of our board of directors meeting on November 26, 2007. Metawater Co., Ltd., a new company resulted from the merger, is to be accounted for by the equity method from the fiscal year beginning on April 1, 2008 based on Accounting Standard for Business Combinations issued by the ASBJ.

The result of operations of NGK Water Environment Systems, Ltd. and its subsidiary was included in the consolidated statement of income for the year ended March 31, 2008 as ¥40,097 million ($400,970 thousand) of sales and ¥2,512 million ($25,120 thousand) of operating income.

Organization

(As of April 1, 2008)

Power Business Group

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

Ceramics Products Business Group

- Worldwide Sales and Marketing Div.
- Engineering Div.
- Manufacturing Div.
  - Sensor Dept.
  - Ceramic Membrane Manufacturing Dept.
- Industrial Process Div.
  - Quality Assurance Dept.

Electronics Business Group

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

Head Office

Auditing Dept.

Environmental Management Dept.

- Corporate Strategy Office
- Secretarial Office
- Public Relations Office
- Human Resources Office

- 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

- Technology Planning & Administration Dept.
- Manufacturing Engineering Dept.
- Information Technology Dept.
- Construction & Maintenance Dept.

Board of Directors, Corporate Auditors and Corporate Officers

(As of June 28, 2008)

Directors and Corporate Officers


Masaharu Shibata*
Chairman


Shun Matsushita*
President and
Chief Executive Officer


Taro Kato*
Executive Vice President


Eiji Hamamoto*
Executive Vice President


Hiroshi Wada*
Executive Vice President

*Representative Directors


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


Eiichi Tsuruta
Director and
Senior Vice President


Mitsuo Ibuki
Director and Vice President


Uichiro Niwa
External Director


Hirotsugu Ogawa
External Director


Yukihisa Takeuchi
Senior 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


Hideaki Saito
Vice President


Ryohei Iwasaki
Vice President

Corporate Auditors


Mitsuru Koketsu
Standing Corporate Auditor


Akira Nakashima
Standing Corporate Auditor

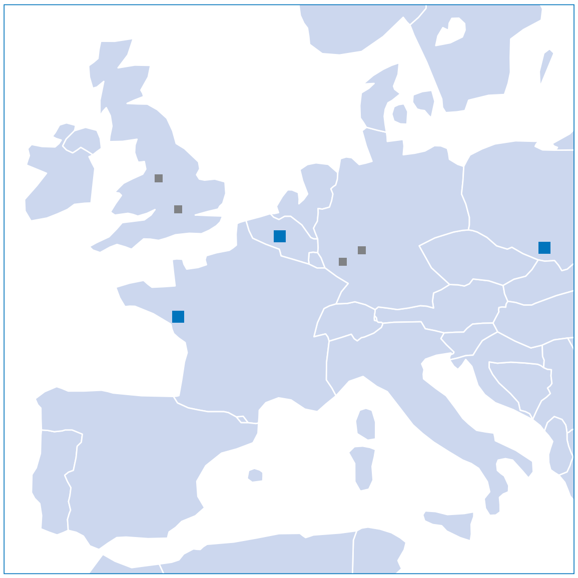

Yasuyuki Hirai
External Corporate Auditor


Setsuo Tanaka
External Corporate Auditor

Global Network

(As of March 31, 2008)

Europe



■ NGK Ceramics Europe S.A.

■ NGK Ceramics Polska Sp. z o.o.

■ NGK Berylco France

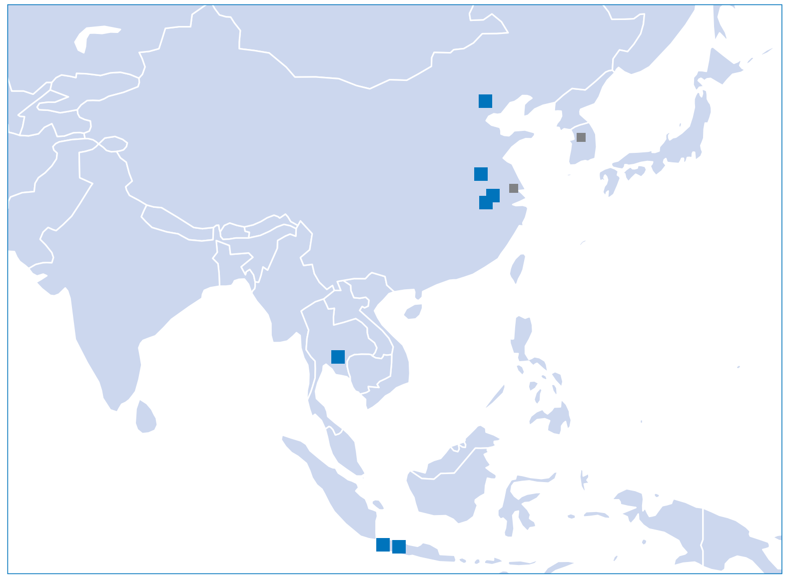
NGK Insulators UK Ltd.

NGK Berylco U.K. Ltd.

NGK Europe GmbH

NGK Deutsche Berylco GmbH

Asia



■ NGK Insulators Tangshan Co., Ltd.

■ NGK Insulators Suzhou Co., Ltd.

■ NGK Ceramics Suzhou Co., Ltd.

■ NGK Technocera Suzhou Co., Ltd.

■ SIAM NGK Technocera Co., Ltd.

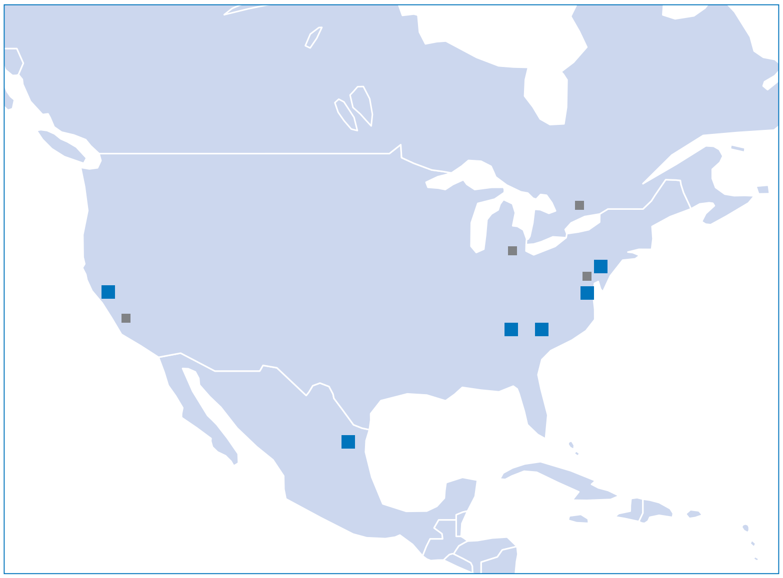
■ PT. WIKA-NGK Insulators

■ PT. NGK Ceramics Indonesia

NGK Insulators Shanghai Co., Ltd.

NGK Automotive Ceramics Korea Co., Ltd.

North America



■ Locke Insulators, Inc.

■ NGK-Locke Polymer Insulators, Inc.

■ NGK Ceramics USA, Inc.

■ NGK Metals Corporation

■ FM Industries, Inc.

under construction

■ NGK Ceramics Mexico,
S. de R.L. de C.V.
(under construction)

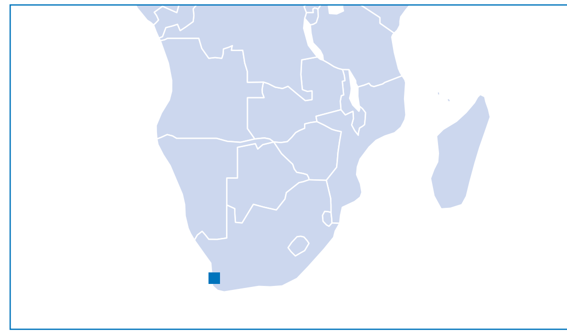
NGK-Locke, Inc.

NGK Automotive Ceramics USA, Inc.

NGK Electronics USA, Inc.

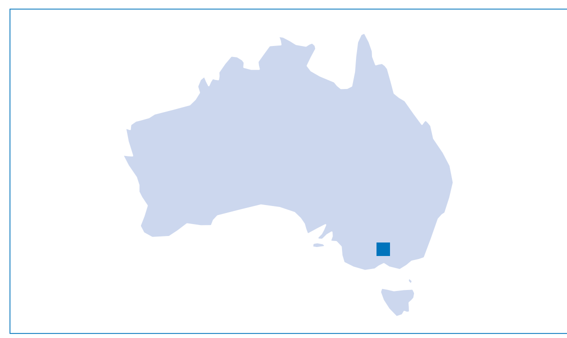
NGK Insulators of Canada, Ltd.

Africa



■ NGK Ceramics South Africa (Pty) Ltd.

Australia



■ NGK Stanger Pty. Ltd.

Subsidiaries and Affiliated Companies

(As of March 31, 2008)

Japan

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
■ 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.	99	Electronic components and devices
■ NGK Water Environment Systems, Ltd.	100	Environmental protection systems
□ 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 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

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 Ceramics Mexico, S.de R.L.de C.V.	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

Europe and Africa	Company's Direct and Indirect Ownership (%)	Principal Products and Services
■ NGK Insulators UK Ltd.	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.	100	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

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.	81	Electrical insulators
■ NGK Insulators Suzhou Co., Ltd.	90	Electrical insulators
■ NGK Stanger Pty. Ltd.	100	Power distribution equipment
■ NGK Insulators Shanghai Co., Ltd.	100	Electrical insulators
■ Energy Electric (Shanghai) Corporation	100	Power Distribution Equipment and Components
■ P.T. NGK Ceramics Indonesia	97.9	Automotive ceramics
■ SIAM NGK Technocera Co., Ltd.	100	Refractories
NGK Automotive Ceramics Korea Co., Ltd.	100	Ceramic products
■ 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

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

(As of March 31, 2008)

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Paid-in Capital

69,849 million yen

Common Stock

337,560 thousand shares

Number of Shareholders

23,017

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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