

Annual Report 2010

Year Ended March 31, 2010



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.

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Forward-Looking Statements

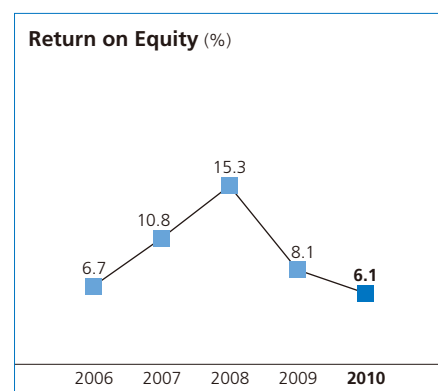
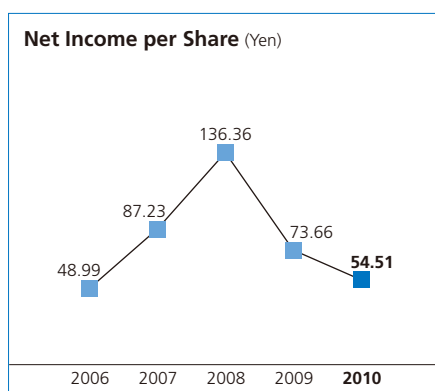
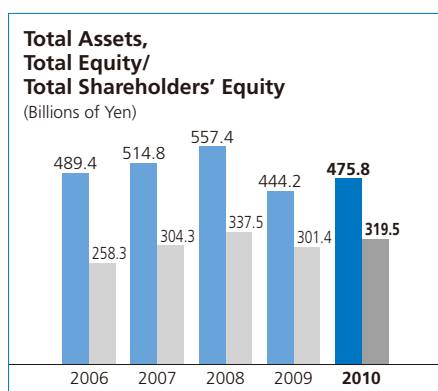
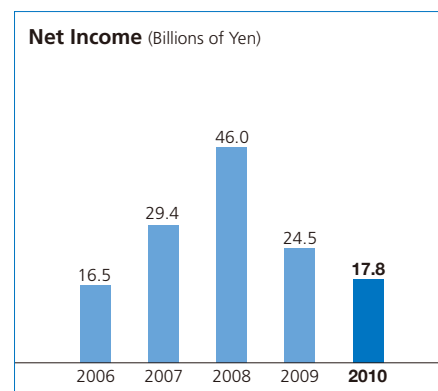
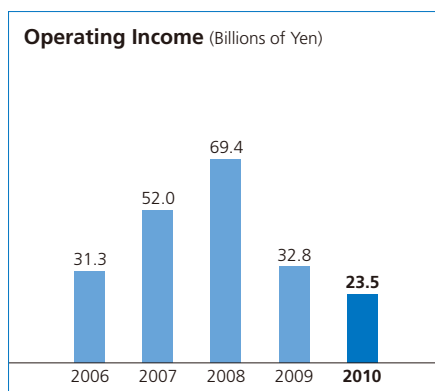
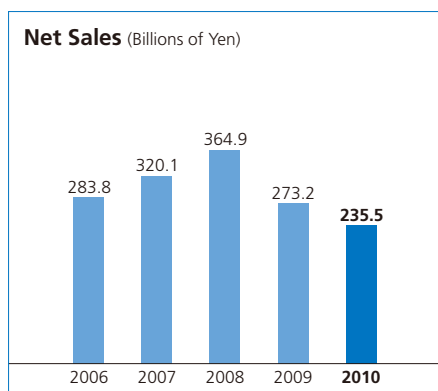
This annual report contains forward-looking statements about the future plans, strategies, beliefs and performance of NGK and subsidiaries. These forward-looking statements are not historical facts. They are expectations, estimates, forecasts and projections based on information currently available to 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

	Thousands of		Millions of Yen				
	Millions of Yen	U.S. Dollars	2010	2009	2008	2007	2006
Net Sales	¥235,489	\$2,532,140	¥273,211	¥364,888	¥320,120	¥283,753	
Operating Income	23,452	252,173	32,809	69,377	52,017	31,275	
Net Income	17,808	191,484	24,468	45,951	29,413	16,523	
Total Assets	475,847	5,116,634	444,203	557,390	514,806	489,441	
Total Equity/Total Shareholders' Equity	319,472	3,435,184	301,424	337,514	304,346	258,292	
Depreciation	18,933	203,581	26,238	26,260	23,780	19,018	
Capital Expenditures	20,891	224,634	30,353	21,383	25,956	41,238	
Research and Development Expenses	10,699	115,045	12,864	13,215	12,151	11,279	
	Yen	U.S. Dollars	Yen				
Net Income per Share	¥54.51	\$0.59	¥73.66	¥136.36	¥87.23	¥48.99	
			%				
Return on Equity	6.1%		8.1%	15.3%	10.8%	6.7%	
Number of Employees	11,176		11,205	11,551	10,696	10,342	

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥93=\$1, the exchange rate prevailing at March 31, 2010.



■ Total Assets
■ Total Equity/Total Shareholders' Equity



Left: Masaharu Shibata
Right: Shun Matsushita

Business Performance in Fiscal 2009

In fiscal 2009, ended March 31, 2010, the Japanese economy appeared to emerge from the worst of the recession, as benefits from economic stimulus measures worldwide, coupled with an end to inventory cutbacks, led to increased production and export volumes. The economy remains plagued, however, by lingering production overcapacity and severe conditions surrounding employment and personal incomes.

In this climate, the NGK Group saw increased year-on-year sales in the Power Business, due to higher sales of power transmission and transformer insulators, as well as NAS[®] (sodium sulfur) batteries used for power storage. However, the Ceramic Products Business experienced sharply lower sales for automotive products, specifically honeycomb ceramics for automobile catalytic converters and silicon carbide diesel particulate filters (SiC-DPFs), reflecting lackluster auto sales volume. The same was true for the Electronics Business, where in addition to a drop in sales of beryllium copper products and ceramics for semiconductor manufacturing equipment, sales were lower for noise filters and other products used in information and communications infrastructure and industrial equipment.

As a result, consolidated net sales decreased 13.8% year on year to ¥235,489 million.

Consolidated operating income declined 28.5% to ¥23,452 million, and ordinary income fell 21.1% to ¥24,850 million. Net income, meanwhile, decreased 27.2% to ¥17,808 million and ROE for the year was 6.1%. In addition to lower sales in the Ceramic Products Business and Electronics Business, earnings were negatively affected by the yen's appreciation versus the previous year. These factors effectively offset higher earnings from the Power Business.

Enhancing Corporate Value and Realizing Growth

The drive begun last year to mount a full recovery in earnings power by meeting the challenge of structural innovation, as well as realizing growth, remain the key issues confronting the NGK Group.

While factors fueling instability still persist for the global economy, including possible financial volatility in Europe, momentum is building worldwide for initiatives that seek to address environmental preservation on a global level.

Viewing this trend as a business opportunity, the NGK Group is striving to develop the structure necessary to boost production in Japan and overseas in a timely manner. By offering products that enhance environmental performance, NGK will realize a full recovery in earnings power, and more securely align itself along a track for growth.

Global demand for honeycomb ceramics for automobile catalytic converters and diesel particulate filters will grow in step with market expansion in newly emerging economies and tighter auto exhaust gas regulations, and NGK is aiming to meet this demand. In fields covered by the Power Business, NGK will assertively capture surging demand for insulators in China, while focusing actively on developing demand for new NAS[®] battery system applications.

Going forward, the NGK Group is dedicated to promoting structural innovation as part of steps to develop a resilient, low-cost structure. Furthermore, the Group remains committed to the ongoing creation of new businesses and products, as well as the promotion of human resource development and environmental management.

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 growth.

We ask for your continued guidance and support of the NGK Group and its operations.

June 2010



Masaharu Shibata
Chairman



Shun Matsushita
President and Chief Executive Officer

Fiscal 2009 Business Overview

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.

In fiscal 2009, consolidated segment sales rose 5.3% to ¥87,307 million.

In addition to lower demand for power distribution equipment in Japan due to the recession, segment exports were eroded by the yen's appreciation. These declines were negated by increased demand both in the Chinese market and for NAS[®] battery systems for electric power storage overseas, culminating in sales growth.

Consolidated operating income increased 5.2% from the previous fiscal year to ¥7,974 million, as increased sales offset the posting of expenses associated with an accidental fire involving NAS[®] battery systems and the effects of the yen's appreciation.

Ceramic 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.

Consolidated segment sales were ¥101,693 million, down 22.3% from the previous fiscal year.

Sales of mainstay ceramic honeycomb substrates for automotive catalytic converters for gasoline vehicles and diesel-related products, particularly SiC-DPFs, fell sharply on weak sales volumes for automobiles caused by the global economic recession triggered by the U.S. financial crisis. Sales of industrial heating systems and industrial process apparatus were also lower year on year, due to a drop in the level of capital investments made by clients.

Consolidated operating income declined 40.6% to ¥13,176 million, reflecting significantly lower sales and the impact of a strong yen.

Electronics Business Group

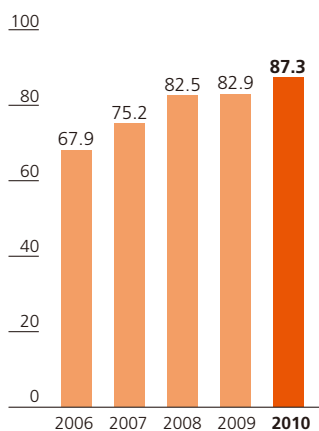
This business segment is composed of three operations: specialty metals, which deals in beryllium copper; high-performance ceramics for providing ceramic products for semiconductor manufacturing equipment; and electronic components, a business engaged in developing components by applying functional ceramics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

Consolidated segment sales were ¥46,908 million, down 21.3% from the previous fiscal year.

Sales were lower year on year for beryllium copper products and ceramic products for semiconductor manufacturing equipment, due respectively to lower demand caused by weak market conditions and decisions by semiconductor manufacturers to curtail capital investments. Demand for functional components for color printers, meanwhile, was largely flat year on year, while sales from consolidated subsidiary Soshin Electric Co., Ltd. declined overall, the result of weakness in the communications equipment and industrial equipment markets.

Consolidated operating income decreased 24.5% year on year to ¥2,289 million, primarily due to lower sales and the yen's appreciation.

Net Sales (Billions of Yen)



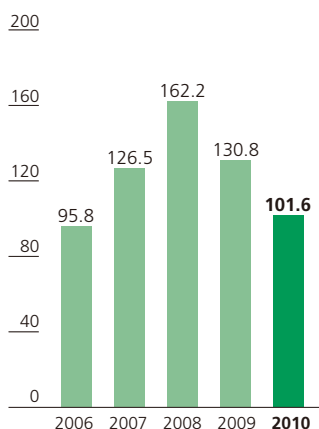
R&D Activities

In this segment we are working to further expand the worldwide market for NAS[®] (sodium sulfur) batteries for electrical power storage.

Our efforts are focused on the development of applications for battery systems to be installed in conjunction with power generation from new energy sources, such as wind and solar power, and for use in smart grids. In the power distribution business, the main thrust of R&D activities at our consolidated subsidiary ENERGY SUPPORT Co., Ltd. is toward lowering costs, chiefly for switches and cut-out switches, and enhancing product functions. ENERGY SUPPORT is also active in promoting joint research and development with electric power companies.

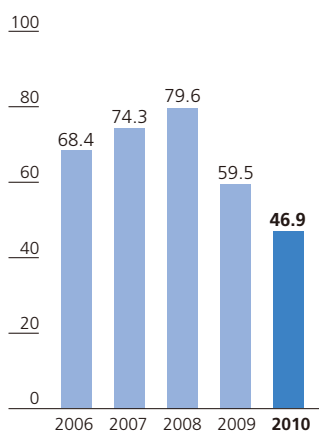
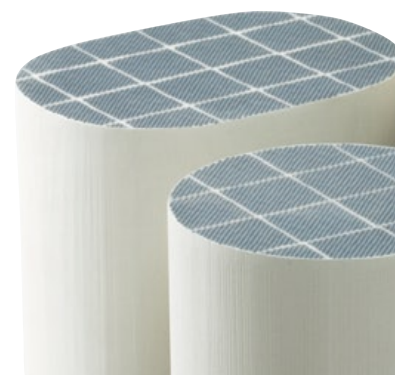
Solid oxide fuel cells were a major R&D theme for this segment during fiscal 2009.

R&D expenses in this segment totaled ¥1,655 million.



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 organic electro luminescence, solar cell, and flat-panel display (FPD) sectors. In fiscal 2009 one major R&D theme for the Ceramic Products Business Group was the incorporation of porous ceramics technology into ceramic separation membranes.

R&D expenses in this segment totaled ¥3,678 million.



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; and beryllium copper strip products for electronic parts such as connectors and relays for automobiles, industrial equipment and digital appliances. We are also working in the areas of ceramic arc tubes for use in metal halide lamps, which are seeing growing demand as an energy saving measure, and technology for mass producing low cost arc tubes. Soshin Electric Co., Ltd., a consolidated subsidiary, also conducts R&D centered on areas such as multi-layered dielectric filters and large-capacity, industrial-use capacitors.

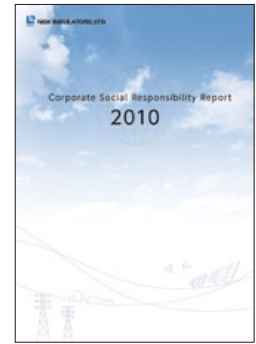
R&D expenses in this segment totaled ¥2,699 million.



Corporate Social Responsibility

Our Approach to CSR

NGK leverages proprietary technology to deliver products worldwide that are essential to social infrastructure and that contribute to the environment. To contribute to society in a manner that embodies our corporate philosophy, we are committed to offering products and services that help create a better social environment and bring new value to society. We believe that fulfilling our social responsibility as a company in every respect is essential to meeting the public's expectations and earning its trust, as we work together with our customers, employees and business partners to preserve the natural environment.



Corporate Social Responsibility Report

Corporate Governance

Basic Approach and Status 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. These components comprise NGK's basic approach to corporate governance.

To put this approach into practice, NGK has chosen a governance structure anchored by a Board of Corporate Auditors. In addition to the General Meeting of Shareholders, the Board of Directors and the Board of Corporate Auditors, corporate governance at NGK includes an Executive Committee and several other committees established to assist the president in management decision-making. By deliberating and reviewing important matters, these bodies help to enhance governance efficacy.

Considering the importance of swift and optimal decision-making and execution for responding promptly to changes in the operating environment, 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.

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.

Summary of Income Statements

Net sales for the NGK Group decreased 13.8% year on year to ¥235,489 million. The Group saw increased year-on-year sales in the Power Business, due to higher sales of power transmission and transformer insulators, as well as NAS® (sodium sulfur) batteries used for power storage. However, the Ceramic Products Business experienced sharply lower sales for automotive products, specifically honeycomb ceramics for automobile catalytic converters and silicon carbide diesel particulate filters (SiC-DPFs), reflecting lackluster auto sales volume. Similarly in the Electronics Business, a drop in sales of beryllium copper products and ceramics for semiconductor manufacturing equipment was exacerbated by lower sales for noise filters and other products used in information and communications infrastructure and industrial equipment.

With respect to earnings, operating income declined 28.5% to ¥23,452 million, ordinary income fell 21.1% to ¥24,850 million, and net income decreased 27.2% to ¥17,808 million. ROE for the year was 6.1%. Along with lower net sales due to declines in the Ceramic Products Business and Electronics Business, earnings were negatively affected by the yen's appreciation versus the previous year. These factors effectively offset higher earnings from the Power Business.

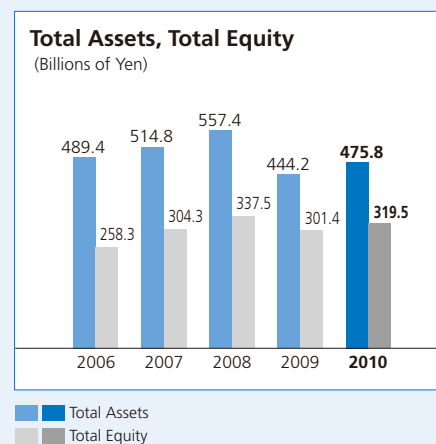
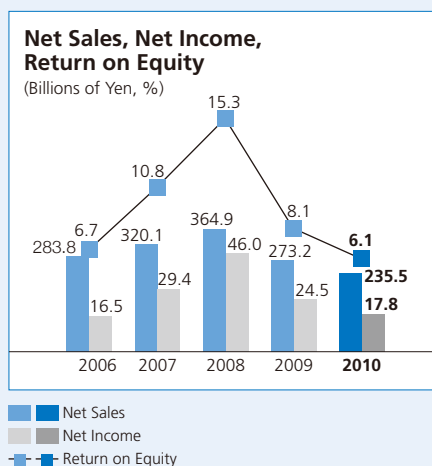
Financial Position

As of March 31, 2010, total assets were ¥475,847 million, an increase of ¥31,644 million, or 7.1%, from the previous fiscal year-end. The equity ratio was 63.5%, while net assets per share rose ¥58.56 from the previous fiscal year to ¥925.71.

Current assets increased by 13.2% year on year to ¥254,267 million. In addition to an increase in notes and accounts receivable accompanying the concentration of sales in the fourth quarter, current assets rose mainly atop an increase in time deposits and marketable securities due to the issuance of bonds and long-term debt secured from financial institutions. Fixed assets edged up 0.9% from the previous fiscal year to ¥221,579 million due to an increase in intangible fixed assets, as well as growth in investments and other assets owing to market valuation of shares held.

Current liabilities decreased 26.9% year on year to ¥62,241 million. Among other factors, this outcome reflected the repayment of borrowings and a decrease in accounts payable. Long-term liabilities increased 63.4% to ¥94,133 million, primarily due to the issuance of bonds and an increase in long-term debt.

Total equity stood at ¥319,472 million, or 6.0% higher than the previous fiscal year-end, reflecting factors such as an increase in foreign currency translation adjustments and unrealized gain on available-for-sale securities.



Cash Flows

There was a net decrease of ¥23,143 million in total cash and cash equivalents from the previous fiscal year-end to ¥53,364 million. This reflected ¥44,375 million in net cash provided by operating activities, ¥71,166 million in net cash used in investing activities, and ¥1,683 million in net cash provided by financing activities.

Cash Flow From Operating Activities

Net cash from operating activities was ¥44,375 million, ¥11,703 million more than the previous fiscal year. This was primarily attributable to lower inventories and higher income before income taxes and minority interests compared to the previous fiscal year. Although accounts receivable for NAS[®] batteries and other products increased, this was more than offset by factors such as reductions in inventories of ceramic honeycomb substrates for automotive catalytic converters, as well as income before income taxes and minority interests, and depreciation and amortization recorded for the year.

Cash Flow From Investing Activities

Net cash used in investing activities was ¥71,166 million, ¥49,613 million more than a year earlier. Cash was primarily used for capital expenditures in diesel-related products and in transformer insulators in China, coupled with a rise in time deposits. The rise in net cash used was mainly attributable to the increase in time deposits and purchases of marketable securities.

Cash Flow From Financing Activities

Net cash provided by financing activities was ¥1,683 million, ¥37,804 million more than the previous fiscal year. This increase was mainly attributable to cash inflows from the issuance of corporate bonds and proceeds from borrowings, which offset outlays for payment of cash dividends and repayment of borrowings.

Capital Expenditures

Capital expenditures for the NGK Group totaled ¥20,891 million.

Power Business

Capital expenditures in this segment totaled ¥10,596 million, mainly related to production facilities for NAS[®] batteries.

Ceramic Products Business

Capital expenditures in this segment totaled ¥5,059 million, and were concentrated on production facilities related to ceramic honeycomb substrates for automotive catalytic converters and NO_x sensors.

Electronics Business

Capital expenditures in the electronics business totaled ¥1,499 million, mainly for production facilities related to electronic components.

Head Office

Capital expenditures at the Head Office were ¥3,735 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 corporate 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 Group's business performance and financial condition.

New Products

The NGK Group works to create new products to secure its growth prospects. Looking ahead, the Group will make focused investments in new products that should become pillars of growth. NGK is therefore making significant capital expenditures in stages, for example, in production plants for diesel particulate filters, since demand for these products is expected rise due to stricter emissions standards for diesel vehicles. The NGK Group is anticipating significant growth in these new products going forward. However, in the event that these capital expenditures are not made on schedule, this may adversely impact on the NGK Group's medium-term growth prospects.

Changes in the Business Environment

Demand for the products that the NGK Group manufactures and sells is strongly influenced by changes in the economic climate in and outside of Japan. Such changes may adversely impact on the Group's business performance and financial condition.

Product Quality

Guided by its Corporate Quality Policy, the NGK Group conducts quality-related activities in a committed drive to ensure consistently high quality. These efforts notwithstanding, the Group cannot completely eliminate the possibility of quality-related issues from every product that it sells or manufactures. The occurrence of such problems could therefore have a substantial and adverse impact on Group business performance.

Consolidated Balance Sheets

NGK Insulators, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
Assets			
Current Assets:			
Cash and cash equivalents	¥ 53,365	¥ 76,508	\$ 573,817
Time deposits	37,544	452	403,699
Marketable securities (Note 4)	21,223	5,127	228,204
Notes and accounts receivable:			
Trade notes and accounts	60,703	44,943	652,720
Non-consolidated subsidiaries and associated companies	1,928	1,300	20,731
Other	3,297	7,056	35,452
Allowance for doubtful accounts	(139)	(188)	(1,495)
	65,789	53,111	707,408
Inventories (Note 5)	65,377	78,575	702,978
Deferred tax assets (Note 10)	8,496	9,647	91,355
Prepaid expenses and other current assets	2,474	1,191	26,603
Total current assets	254,268	224,611	2,734,064
Property, Plant and Equipment:			
Buildings and structures	111,672	104,816	1,200,774
Machinery and equipment	245,405	235,789	2,638,763
	357,077	340,605	3,839,537
Accumulated depreciation	(251,664)	(234,801)	(2,706,065)
	105,413	105,804	1,133,472
Land	21,426	18,930	230,387
Construction in progress	12,146	12,841	130,602
Net property, plant and equipment	138,985	137,575	1,494,461
Investments and Other Assets:			
Investment securities (Note 4)	35,068	31,415	377,075
Investments in and loans to non-consolidated subsidiaries and associated companies	16,390	15,618	176,237
Intangible assets	2,023	1,840	21,753
Prepaid pension cost (Note 7)	20,961	24,316	225,387
Deferred tax assets (Note 10)	5,448	5,670	58,581
Other assets	2,704	3,158	29,076
Total investments and other assets	82,594	82,017	888,109
Total	¥ 475,847	¥ 444,203	\$ 5,116,634

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
Liabilities and Equity			
Current Liabilities:			
Short-term borrowings (Note 6)	¥ 1,368	¥ 2,462	\$ 14,710
Current portion of long-term debt (Note 6)	4,000	29,391	43,011
Notes and accounts payable:			
Trade notes and accounts	22,909	26,341	246,333
Non-consolidated subsidiaries and associated companies	2,807	2,994	30,183
Other	7,535	9,322	81,022
	<u>33,251</u>	<u>38,657</u>	<u>357,538</u>
Accrued expenses	9,534	9,525	102,516
Provision for restructuring costs	210	531	2,258
Income taxes payable	4,538	590	48,796
Other current liabilities (Note 10)	9,341	4,000	100,439
Total current liabilities	<u>62,242</u>	<u>85,156</u>	<u>669,268</u>
Long-Term Liabilities:			
Long-term debt (Note 6)	64,132	28,000	689,591
Liability for retirement benefits (Note 7)	16,818	17,753	180,839
Deferred tax liabilities (Note 10)	8,876	8,078	95,441
Other long-term liabilities	4,307	3,792	46,311
Total long-term liabilities	<u>94,133</u>	<u>57,623</u>	<u>1,012,182</u>
Contingent Liabilities (Note 15)			
Equity (Note 8):			
Common stock:			
Authorized—735,030 thousand shares			
Issued—337,560 thousand shares at March 31, 2010 and 2009	69,849	69,849	751,065
Capital surplus	85,140	85,136	915,484
Stock acquisition rights (Note 9)	643	519	6,914
Retained earnings	180,077	168,361	1,936,312
Unrealized gain on available-for-sale securities	6,226	2,508	66,946
Deferred loss on derivatives under hedge accounting	81	(109)	871
Foreign currency translation adjustments	(24,732)	(28,414)	(265,935)
Treasury stock—at cost: 10,971,790 shares and 10,808,134 shares at March 31, 2010 and 2009, respectively	(14,315)	(13,987)	(153,925)
Total	<u>302,969</u>	<u>283,863</u>	<u>3,257,732</u>
Minority interests	16,503	17,561	177,452
Total equity	<u>319,472</u>	<u>301,424</u>	<u>3,435,184</u>
Total	<u>¥475,847</u>	<u>¥444,203</u>	<u>\$5,116,634</u>

Consolidated Statements of Income

NGK Insulators, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
Net Sales	¥235,489	¥273,211	\$2,532,140
Cost of Sales (Note 11)	168,717	192,523	1,814,161
Gross profit	66,772	80,688	717,979
Selling, General and Administrative Expenses (Note 11)	43,320	47,879	465,806
Operating income	23,452	32,809	252,173
Other Income (Expenses):			
Interest and dividend income	1,774	3,666	19,075
Interest expense	(1,317)	(2,669)	(14,161)
Loss on sales of and disposals of property, plant and equipment—net	(1,548)	(1,395)	(16,645)
Equity in earnings of unconsolidated subsidiaries and associated companies	1,509	1,128	16,226
Loss on business liquidation	—	(7,913)	—
Loss on impairment of long-lived assets	(169)	(952)	(1,817)
Depreciation expense on idle facilities	(725)	(36)	(7,796)
Loss on sales of investment securities	(319)	(429)	(3,430)
Reversal of loss on business liquidation	571	—	6,140
Provision for loss on liquidation of subsidiaries and affiliates	(902)	—	(9,699)
Gain on reversal of provision for restructuring cost	204	379	2,194
Other—net	476	(3,590)	5,117
Other expenses—net	(446)	(11,811)	(4,796)
Income Before Income Taxes and Minority Interests	23,006	20,998	247,377
Income Taxes (Note 10):			
Current	6,038	6,983	64,925
Deferred	(40)	(9,603)	(430)
Total income taxes	5,998	(2,620)	64,495
Minority Interests in Net Income	(800)	(850)	(8,602)
Net Income	¥ 17,808	¥ 24,468	\$ 191,484
Per Share of Common Stock (Notes 2.u. and 16):			
Basic net income	¥54.51	¥73.66	\$0.586
Diluted net income	54.44	73.57	0.585
Cash dividends applicable to the year	16.00	22.00	0.172

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

NGK Insulators, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2010 and 2009

	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 Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
Balance at April 1, 2008	336,812	¥69,849	¥85,136	¥459	¥150,400	¥ 12,535	¥ (4)	¥ 277	¥ (598)	¥318,054	¥19,460	¥337,514
Adjustment of retained earnings due to an adoption of PITF No. 18	—	—	—	—	2,341	—	—	—	—	2,341	—	2,341
Adjustment of retained earnings for subsidiaries excluded from consolidation	—	—	—	—	(256)	—	—	—	—	(256)	—	(256)
Net income	—	—	—	—	24,468	—	—	—	—	24,468	—	24,468
Cash dividends, ¥22 per share	—	—	—	—	(7,355)	—	—	—	—	(7,355)	—	(7,355)
Net provision of liability for retirement benefits of foreign subsidiaries	—	—	—	—	(1,161)	—	—	—	—	(1,161)	—	(1,161)
Purchase of treasury stock	(10,324)	—	—	—	—	—	—	—	(13,733)	(13,733)	—	(13,733)
Disposal of treasury stock	264	—	(76)	—	—	—	—	—	344	268	—	268
Transfer of loss on disposal of treasury stock	—	—	76	—	(76)	—	—	—	—	—	—	—
Net changes in the year	—	—	—	60	—	(10,027)	(105)	(28,691)	—	(38,763)	(1,899)	(40,662)
Balance at March 31, 2009	326,752	69,849	85,136	519	168,361	2,508	(109)	(28,414)	(13,987)	283,863	17,561	301,424
Net income	—	—	—	—	17,808	—	—	—	—	17,808	—	17,808
Cash dividends, ¥16 per share	—	—	—	—	(6,208)	—	—	—	—	(6,208)	—	(6,208)
Net provision of liability for retirement benefits of foreign subsidiaries	—	—	—	—	116	—	—	—	—	116	—	116
Purchase of treasury stock	(174)	—	—	—	—	—	—	—	(341)	(341)	—	(341)
Disposal of treasury stock	10	—	4	—	—	—	—	—	13	17	—	17
Transfer of loss on disposal of treasury stock	—	—	—	—	—	—	—	—	—	—	—	—
Net changes other than shareholders' equity	—	—	—	124	—	3,718	190	3,682	—	7,714	(1,058)	6,656
Balance at March 31, 2010	326,588	¥69,849	¥85,140	¥643	¥180,077	¥ 6,226	¥ 81	¥(24,732)	¥(14,315)	¥302,969	¥16,503	¥319,472

	Thousands of U.S. Dollars (Note 1)											
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity	
Balance at March 31, 2009	\$751,065	\$915,441	\$5,581	\$1,810,333	\$26,968	\$(1,172)	\$(305,527)	\$(150,398)	\$3,052,291	\$188,828	\$3,241,119	
Net income	—	—	—	191,484	—	—	—	—	191,484	—	191,484	
Cash dividends, \$0.172 per share	—	—	—	(66,753)	—	—	—	—	(66,753)	—	(66,753)	
Net provision of liability for retirement benefits of foreign subsidiaries	—	—	—	1,248	—	—	—	—	1,248	—	1,248	
Purchase of treasury stock	—	—	—	—	—	—	—	(3,667)	(3,667)	—	(3,667)	
Disposal of treasury stock	—	43	—	—	—	—	—	140	183	—	183	
Transfer of loss on disposal of treasury stock	—	—	—	—	—	—	—	—	—	—	—	
Net changes other than shareholders' equity	—	—	1,333	—	39,978	2,043	39,592	—	82,946	(11,376)	71,570	
Balance at March 31, 2010	\$751,065	\$915,484	\$6,914	\$1,936,312	\$66,946	\$ 871	\$(265,935)	\$(153,925)	\$3,257,732	\$177,452	\$3,435,184	

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

NGK Insulators, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
Operating Activities:			
Income before income taxes and minority interests	¥ 23,006	¥ 20,998	\$ 247,377
Adjustments for:			
Income taxes—paid	(527)	(23,018)	(5,667)
Depreciation and amortization	18,933	26,238	203,581
Loss on sales and disposals of property, plant and equipment—net	1,548	1,395	16,645
Write-down and disposal of inventories	—	3,530	—
Loss on business liquidation	—	7,913	—
Equity in earnings of unconsolidated subsidiaries and associated companies	(1,509)	(1,128)	(16,226)
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable—trade	(15,482)	12,407	(166,473)
Decrease (increase) in inventories	15,511	(21,346)	166,785
Decrease (increase) in prepaid pension cost	3,355	(3)	36,075
(Decrease) increase in notes and accounts payable—trade	(4,432)	6,095	(47,656)
Increase (decrease) in other current liabilities	2,662	(4,145)	28,624
Decrease in liability for retirement benefits	(807)	(560)	(8,677)
Other—net	2,117	4,296	22,763
Total adjustments	21,369	11,674	229,774
Net cash provided by operating activities	44,375	32,672	477,151
Investing Activities:			
Purchases of marketable securities	(22,654)	(10,038)	(243,591)
Proceeds from sales of marketable securities	10,909	16,935	117,301
Purchases of investment securities	(4,306)	(1,968)	(46,301)
Proceeds from sales and redemption of investment securities	1,852	1,436	19,914
Purchases of property, plant and equipment	(19,710)	(29,325)	(211,935)
Purchases of intangible assets	(813)	(666)	(8,742)
(Decrease) increase in time deposits	(36,412)	2,766	(391,527)
Other—net	(32)	(948)	(344)
Net cash used in investing activities	(71,166)	(21,553)	(765,225)
Financing Activities:			
Increase (decrease) in short-term borrowings—net	(1,561)	3,297	(16,785)
Proceeds from long-term debt	20,093	—	216,054
Repayment of long-term borrowings	(30,086)	(8,497)	(323,505)
Proceeds from issuing of corporate bond	19,933	—	214,333
Redemption of corporate bond	—	(10,000)	—
Acquisition of treasury stock	—	(13,733)	—
Cash dividends	(6,208)	(7,355)	(66,753)
Other—net	(488)	164	(5,247)
Net cash provided by (used in) financing activities	1,683	(36,124)	18,097
Foreign Currency Translation Adjustments on Cash and Cash Equivalents	1,965	(14,073)	21,129
Net Decrease in Cash and Cash Equivalents	(23,143)	(39,078)	(248,848)
Cash and Cash Equivalents of Subsidiaries			
Excluded From Consolidation, Beginning of Year	—	(4,210)	—
Cash and Cash Equivalents, Beginning of Year	76,508	119,796	822,667
Cash and Cash Equivalents, End of Year	¥ 53,365	¥ 76,508	\$ 573,819

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

NGK Insulators, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2010 and 2009

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 Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), 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

2. Summary of Significant Accounting Policies

a. Consolidation — The consolidated financial statements as of March 31, 2010 include the accounts of the Company and its 54 significant (56 in 2009) 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 2009) non-consolidated subsidiaries and one (one in 2009) 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 acquisition were amortized by the straight-line method over five years. At March 31, 2010 and 2009, ¥222 million (\$2,387 thousand) and ¥14 million were included in long-term liabilities, respectively.

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. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements — In May 2006, the Accounting Standards Board of Japan (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.” PITF No. 18 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 presentation 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 of America tentatively may be used for the consolidation process, (3) however, the

addition, certain reclassifications have been made in the 2009 financial statements to conform to the classifications used in 2010.

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 ¥93 to \$1, the approximate rate of exchange at March 31, 2010. 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.

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) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; 5) recording the prior years’ effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained. PITF No. 18 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. The Company applied this accounting standard effective April 1, 2008. The effect of this change was to decrease operating income by ¥170 million, income before income taxes and minority interests by ¥217 million and net income by ¥1,270 million. In addition, the Company adjusted the beginning balance of retained earnings at April 1, 2008 as if this accounting standard had been retrospectively applied.

c. Business Combinations — In October 2003, the Business Accounting Council (the “BAC”) issued a Statement of Opinion, “Accounting for Business Combinations,” and in December 2005, the ASBJ issued ASBJ Statement No. 7, “Accounting Standard for Business Divestitures,” and ASBJ Guidance No. 10, “Guidance for Accounting Standard for Business Combinations and Business Divestitures.” The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

d. 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.

e. Inventories — Prior to April 1, 2008, inventories were stated mainly at cost, determined principally by the average method. In July 2006, the ASBJ issued ASBJ Statement No. 9, “Accounting Standard for Measurement of Inventories.” 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. The standard was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Group applied this new accounting standard for measurement of inventories effective April 1, 2008. The effect of this change was to decrease operating income and income before income taxes and minority interests by ¥2,721 million for the year ended March 31, 2009.

Costs of construction in progress are stated at cost, determined by the individual identification method.

f. 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 as 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.

g. 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.

Effective April 1, 2008, the Company and domestic consolidated subsidiaries shortened the useful lives of certain machinery after reviewing the expected useful lives following a change in statutory useful life of machinery under the revised corporate tax law.

The effect of this treatment was to decrease operating income and income before income taxes and minority interests by ¥1,041 million for the year ended March 31, 2009.

The range of useful lives is principally from 15 to 50 years for buildings and structures and from 3 to 12 years for machinery and equipment.

h. Long-lived Assets — The Group reviews its long-lived assets for impairment whenever events or changes in circumstances 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 the 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.

i. Intangible Assets — Depreciation is computed by the straight-line method based on the estimated useful lives of the asset. The useful life of software is five years.

j. 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.

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

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

m. Provision for Restructuring Costs — The Company estimates costs arising from the restructuring of an insulators production site and records a provision as necessary.

n. Leases — In March 2007, the ASBJ issued ASBJ Statement No. 13, “Accounting Standard for Lease Transactions,” which revised the previous accounting standard for lease transactions issued in June 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 previous accounting standard, finance leases that deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain “as if capitalized” information was disclosed in the note to the lessee’s financial statements. The revised accounting standard requires that all finance lease transactions be capitalized to recognize lease assets and lease

obligations in the balance sheet. In addition, the accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions.

The Group applied the revised accounting standard effective April 1, 2008. In addition, the Group continues to account for leases which existed at the transition date and did not transfer ownership of the leased property to the lessee as operating lease transactions. There was no effect of this change.

All other leases are accounted for as operating leases.

o. Construction Contracts — In December 2007, the ASBJ issued ASBJ Statement No. 15, "Accounting Standard for Construction Contracts," and ASBJ Guidance No. 18, "Guidance on Accounting Standard for Construction Contracts." Under the previous Japanese GAAP, either the completed-contract method or the percentage-of-completion method was permitted to account for construction contracts. Under this new 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 should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a 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. The Company applied the new accounting standard effective April 1, 2009. There was no significant effect by this change.

p. 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.

On September 19, 2008, the Board of Directors of the Company approved that foreign consolidated subsidiaries which act as share holding companies would retain their earnings to reinvest rather than distribute as cash dividends. Also, on March 19, 2009, the Board of Directors of the Company approved those subsidiaries would not distribute the beginning balance of their retained earnings as cash dividends. The effect of this treatment was to decrease deferred tax liabilities on undistributed earnings of those subsidiaries and to increase net income by ¥10,003 million for the year ended March 31, 2009.

In addition, the Group reviewed the accrual of deferred tax liabilities on undistributed earnings of other foreign consolidated subsidiaries under the revised corporate tax law. The effect of this treatment was to increase net income by ¥558 million for the year ended March 31, 2009.

q. 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.

r. 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" as a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rates.

s. 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 the contracts whose construction periods are scheduled to last more than one year and the outcome of a construction contract can be estimated reliably.

t. Derivatives and Hedging Activities — The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, currency swaps and interest rate swaps and interest rate caps are utilized by the Group to reduce foreign currency exchange and interest rate risks.

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 re-measured at market value but the differential paid or received under the swap agreements are recognized and included in interest expenses or income.

u. 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.

v. New Accounting Pronouncements

Business Combinations — On December 26, 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, “Accounting Standard for Business Combinations.” Major accounting changes under the revised accounting standard are as follows:

- (1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as uniting-of-interests. The revised standard requires to account for such business combination by the purchase method and the pooling of interests method of accounting is no longer allowed.
- (2) The current accounting standard accounts for the research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development (IPR&D) acquired in a business combination is capitalized as an intangible asset.
- (3) The current accounting standard accounts for a bargain purchase gain (negative goodwill) to be systematically amortized within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

This standard is applicable to business combinations undertaken on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Asset Retirement Obligations — On March 31, 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No. 18, “Accounting Standard for Asset Retirement Obligations,” and ASBJ Guidance No. 21, “Guidance on Accounting Standard for Asset Retirement Obligations.” Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as

an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

Accounting Changes and Error Corrections — In December 2009, ASBJ issued ASBJ, Statement No. 24, “Accounting Standard for Accounting Changes and Error Corrections.” and ASBJ Guidance No. 24, “Guidance on Accounting Standard for Accounting Changes and Error Corrections.” Accounting treatments under this standard and guidance are as follows:

(1) Changes in Accounting Policies

When a new accounting policy is applied with a revision of accounting standards, a new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2) Changes in Presentations

When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior Period Errors

When an error in prior period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

Segment Information Disclosures — In March 2008, the ASBJ revised ASBJ Statement No. 17, “Accounting Standard for Segment Information Disclosures,” and issued ASBJ Guidance No. 20, “Guidance on Accounting Standard for Segment Information Disclosures.” Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

3. Business Combination

On April 1, 2008, NGK Water Environment Systems, Ltd., a previous consolidated subsidiary of the Company, merged with Fuji Electric

Water Environmental Systems Co., Ltd., a previous consolidated subsidiary of Fuji Electric Holdings Co., Ltd. (“FHC”) in accordance

with a resolution of the Board of Directors of the Company made on November 26, 2007. Under the merger contract, the surviving company was defined as NGK Water Environment Systems, Ltd. The surviving company was renamed as Metawater Co., Ltd. ("Metawater") on April 1, 2008.

The merger was a unification of independent entities, and legally defined as a formation of a jointly-controlled entity. Consideration for the merger was common stock with voting rights, resulting in the Company and Fuji Electric Systems Co., Ltd. ("FES," a subsidiary of

FHC) holding 50% of the total number of shares issued of Metawater. The Company, FES and FHC concluded a basic agreement stipulating that they would jointly control Metawater, and there is no fact that other control relationships exists. Judging from above, the merger was deemed as a formation of a jointly-controlled entity as described in "Accounting for Business Combinations," and the pooling of interests method was applied. Metawater is treated as an associated company for consolidation purpose and accounted for by the equity method.

4. Marketable and Investment Securities

Marketable and investment securities at March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Current:			
Investment trusts and other	¥16,127	¥ 2,357	\$173,408
Debt securities	5,096	2,770	54,796
Total	¥21,223	¥ 5,127	\$228,204
Non-current:			
Equity securities and other	¥30,766	¥25,336	\$330,817
Debt securities	4,302	6,079	46,258
Total	¥35,068	¥31,415	\$377,075

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2010 and 2009 were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2010				
Securities classified as:				
Available-for-sale:				
Equity securities	¥17,928	¥11,655	¥971	¥28,612
Debt securities	100	0	—	100
Investment trusts and other	15,142	205	141	15,206
Held-to-maturity:				
Debt securities	9,299	5	136	9,168
Investment trusts and other	921	—	—	921

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2009				
Securities classified as:				
Available-for-sale:				
Equity securities and other	¥17,960	¥7,036	¥1,840	¥23,156
Debt securities	200	—	1	199
Investment trusts and other	3,086	2	731	2,357
Held-to-maturity:				
Debt securities	7,170	—	495	6,675

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2010				
Securities classified as:				
Available-for-sale:				
Equity securities	\$192,774	\$125,323	\$10,441	\$307,656
Debt securities	1,075	0	—	1,075
Investment trusts and other	162,817	2,204	1,516	163,505
Held-to-maturity:				
Debt securities	99,989	54	1,462	98,581
Investment trusts and other	9,903	—	—	9,903

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2010 and 2009 were as follows:

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Available-for-sale:			
Equity securities and other	¥2,153	¥2,180	\$23,151
Held-to-maturity	—	1,480	—
Total	¥2,153	¥3,660	\$23,151

Proceeds from sales of available-for-sale securities for the years ended March 31, 2010 and 2009 were ¥1,919 million (\$20,634 thousand) and ¥4,997 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis,

were ¥141 million (\$1,516 thousand) and ¥319 million (\$3,430 thousand), respectively, for the year ended March 31, 2010 and ¥354 million and ¥425 million, respectively, for the year ended March 31, 2009.

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, 2010 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	¥13,100	¥ 5,921	\$140,860	\$ 63,667
Due after one year through five years	—	4,300	—	46,237
Total	¥13,100	¥10,221	\$140,860	\$109,904

5. Inventories

Inventories at March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2010	2009	2010	
Finished products	¥22,008	¥31,243	\$236,645	
Semi-finished products	9,008	9,188	96,860	
Work-in-process	6,957	6,472	74,806	
Raw materials	11,498	13,374	123,634	
Supplies	15,790	14,621	169,785	
Cost of contracts in progress	116	3,677	1,248	
Total	¥65,377	¥78,575	\$702,978	

6. Short-term Borrowings and Long-term Debt

Short-term borrowings at March 31, 2010 and 2009 consisted mainly of notes to banks. The weighted average interest rates on short-term borrowings as of March 31, 2010 and 2009 were 1.4% and 2.1%, respectively.

Long-term debt at March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2010	2009	2010	
Borrowings from banks and other financial institutions due serially to 2015 with weighted average interest rates of 1.4% (2010) and 1.7% (2009)	¥48,132	¥ 57,391	\$517,548	
Unsecured 0.734% yen bonds due December 4, 2014	20,000	—	215,054	
Total	68,132	57,391	732,602	
Less: portion due within one year	(4,000)	(29,391)	(43,011)	
Long-term debt, less current portion	¥64,132	¥ 28,000	\$689,591	

Annual maturities of long-term debt at March 31, 2010, were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2011	¥ 4,000	\$ 43,011
2012	10,132	108,946
2013	8,000	86,021
2014	0	0
2015	20,000	215,054
2016 and thereafter	26,000	279,570
Total	¥68,132	\$732,602

7. 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 retirement benefits at March 31, 2010 and 2009 for directors and corporate auditors is ¥80 million (\$860 thousand) and ¥76 million, respectively.

The liability for employees' retirement benefits, except for the directors and corporate auditors described above, at March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Projected benefit obligation	¥ 78,309	¥ 78,792	\$ 842,032
Fair value of plan assets	(71,295)	(68,847)	(766,612)
Unrecognized prior service benefit	3,213	3,699	34,548
Unrecognized actuarial loss	(17,319)	(23,078)	(186,226)
Other	—	—	—
Net asset	(7,092)	(9,434)	(76,258)
Prepaid pension cost	20,961	24,316	225,387
Other post-retirement obligation	2,869	2,795	30,849
Amount recognized as liability	¥ 16,738	¥ 17,677	\$ 179,978

The components of net periodic benefit costs for the years ended March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Service cost	¥ 2,381	¥ 2,541	\$ 25,602
Interest cost	1,744	1,742	18,742
Expected return on plan assets	(1,395)	(1,838)	(15,000)
Amortization of prior service benefit	(525)	(483)	(5,645)
Recognized actuarial gain	3,405	1,328	36,613
Other	8	230	86
Net periodic benefit costs	¥ 5,618	¥ 3,520	\$ 60,398

Assumptions used for the years ended March 31, 2010 and 2009 were set forth as follows:

	2010	2009
Discount rate	Primarily 2.0%	Primarily 2.0%
Expected rate of return on plan assets	Primarily 1.7%	Primarily 1.6%
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, 2009 and 2008 (available information as of March 31, 2010 and 2009), to which contributions were recorded as net periodic retirement benefit costs, was as follows:

	Millions of Yen	
	2009	2008
Fair value of plan assets	¥ 235,665	¥ 299,284
Pension benefit obligation recorded by pension fund	(328,394)	(327,525)
Difference	¥ (92,729)	¥ (28,241)
The Groups' contribution percentage for multi-employer pension plan		1.6%

Notes: 1. The difference mainly resulted from prior service cost of ¥20,109 million.
2. Prior service cost is amortized over 20 years.

8. Equity

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, 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 meeting 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 of 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 qualifies for this provision. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Companies Act 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 aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act 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 Companies Act 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 a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act 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.

9. Stock Options

The stock option schemes as of March 31, 2010 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
2008 Stock Option Scheme	11 directors 9 officers	Common shares 57,000 shares	August 13, 2008	¥1 (\$0.01)	From August 14, 2008 To June 30, 2038
2009 Stock Option Scheme	12 directors 10 officers	Common shares 62,000 shares	August 17, 2009	¥1 (\$0.01)	From August 18, 2009 To June 30, 2039

The stock option activity is as follows:

	Shares					
	2005 Stock Option	2006 Stock Option (2-1)	2006 Stock Option (2-2)	2007 Stock Option	2008 Stock Option	2009 Stock Option
For the year ended March 31, 2009						
Non-vested						
March 31, 2008—Outstanding	—	—	—	—	—	—
Granted	—	—	—	—	57,000	—
Canceled	—	—	—	—	—	—
Vested	—	—	—	—	(57,000)	—
March 31, 2009—Outstanding	—	—	—	—	—	—
Vested						
March 31, 2008—Outstanding	165,000	113,000	41,000	62,000	—	—
Vested	—	—	—	—	57,000	—
Exercised	(20,000)	(10,000)	(4,000)	—	—	—
Canceled	—	—	—	—	—	—
March 31, 2009—Outstanding	145,000	103,000	37,000	62,000	57,000	—

	Shares					
	2005 Stock Option	2006 Stock Option (2-1)	2006 Stock Option (2-2)	2007 Stock Option	2008 Stock Option	2009 Stock Option
For the year ended March 31, 2010						
Non-vested						
March 31, 2009—Outstanding	—	—	—	—	—	—
Granted	—	—	—	—	—	62,000
Canceled	—	—	—	—	—	—
Vested	—	—	—	—	—	(62,000)
March 31, 2010—Outstanding	—	—	—	—	—	—
Vested						
March 31, 2009—Outstanding	145,000	103,000	37,000	62,000	57,000	—
Vested	—	—	—	—	—	62,000
Exercised	—	(3,000)	—	—	—	—
Canceled	—	—	—	—	—	—
March 31, 2010—Outstanding	145,000	100,000	37,000	62,000	57,000	62,000
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1
	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)
Average stock price at exercise	N/A	¥2,065 (\$22.2)	N/A	N/A	N/A	N/A
Fair value price at grant date	N/A	¥1,506 (\$16.2)	¥1,506 (\$16.2)	¥3,658 (\$39.3)	¥1,434 (\$15.4)	¥2,072 (\$22.3)

The assumptions used to measure fair value of 2009 Stock Option

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	50.33%
Estimated remaining outstanding period:	Four and a half years
Estimated dividend:	¥16 per share
Risk free interest rate:	0.70%

10. 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 41% for the years ended March 31, 2010 and 2009.

The tax effects of significant temporary differences and tax loss carry-forwards which resulted in deferred tax assets and liabilities at March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Deferred Tax Assets:			
Inventories	¥ 4,085	¥ 5,231	\$ 43,925
Allowance for bad debt	168	205	1,806
Accounts payable and accrued expenses	2,681	2,890	28,828
Accrued enterprise tax	380	12	4,086
Property, plant and equipment	4,266	4,491	45,871
Pension and severance costs	6,963	4,592	74,871
Tax loss carry-forward	1,948	1,577	20,962
Investment securities	89	120	957
Reserve for bonus payment	554	432	5,957
Tax deduction of a foreign subsidiary	6,277	6,875	67,495
Other	2,683	1,757	28,839
Total	30,094	28,182	323,597
Less: valuation allowance	(8,533)	(9,251)	(91,753)
Offset with deferred tax liabilities	(7,617)	(3,614)	(81,903)
Net deferred tax assets	¥13,944	¥15,317	\$149,941
Deferred Tax Liabilities:			
Unrealized gain on available-for-sale securities	¥ 4,329	¥ 2,124	\$ 46,558
Gain on securities contributed to employees' retirement benefit trust	—	5,275	—
Deferred gains on sales of property	1,139	1,202	12,247
Undistributed earnings of foreign subsidiaries	1,512	1,125	16,258
Prepaid pension cost	8,496	—	91,355
Other	1,082	1,966	11,634
Total	16,558	11,692	178,052
Offset with deferred tax assets	(7,617)	(3,614)	(81,903)
Net deferred tax liabilities	¥ 8,941	¥ 8,078	\$ 96,149

Reconciliations between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the year ended March 31, 2010 and 2009 were as follows:

	2010	2009
Normal effective statutory tax rate	40.5%	40.7%
Expenses not deductible for income tax purposes	1.6	3.4
Tax deduction such as R&D expenses	(2.2)	(2.9)
Revenues excluded from income tax such as Dividend received	(1.8)	—
Other tax deductions	—	(3.4)
Increase (Decrease) in valuation allowances	(2.5)	10.9
Undistributed earnings of foreign subsidiaries	1.8	(49.5)
Lower income tax rates applicable to income in certain foreign countries	(8.5)	(8.9)
Equity in earnings of unconsolidated subsidiaries and associated companies	(2.8)	(2.2)
Other—net	0.1	(0.6)
Actual effective tax rate	26.1%	(12.5)%

11. Research and Development Costs

Research and development costs were ¥10,699 million (\$115,045 thousand) and ¥12,864 million for the years ended March 31, 2010 and 2009, respectively, which included consigned research costs of

¥903 million (\$9,710 thousand) and ¥975 million for the years ended March 31, 2010 and 2009, respectively.

12. Leases

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

Total lease payments under finance leases for the years ended March 31, 2010 and 2009 were ¥27 million (\$290 thousand) and ¥38 million, respectively.

Pro forma information of leased property whose lease inception was before March 31, 2008

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. However, ASBJ Statement No. 13 permits leases without

ownership transfer of the leased property to the lessee whose lease inception was before March 31, 2008 to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the financial statements. The Company applied the ASBJ Statement No. 13 effective April 1, 2008 and accounted for such leases as operating lease transactions. Pro forma information of leased property whose lease inception was before March 31, 2008 such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, interest expense and other information of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis was as follows:

	Millions of Yen			
	Machinery	Tools	Other	Total
Acquisition cost	¥27	¥80	¥6	¥114
Accumulated depreciation	22	60	6	88
Net leased property	¥ 6	¥20	¥0	¥ 26

March 31, 2009	Millions of Yen			
	Machinery	Tools	Other	Total
Acquisition cost	¥67	¥121	¥17	¥205
Accumulated depreciation	43	75	15	133
Net leased property	¥24	¥ 46	¥ 2	¥ 72

March 31, 2010	Thousands of U.S. Dollars			
	Machinery	Tools	Other	Total
Acquisition cost	\$301	\$860	\$65	\$1,226
Accumulated depreciation	236	645	65	946
Net leased property	\$ 65	\$215	\$ 0	\$ 280

Depreciation expense for the leased property on an as if capitalized basis, which is not reflected in the accompanying consolidated statements of income for the years ended March 31, 2010 and 2009, computed by the straight-line method, was ¥27 million (\$290 thousand) and ¥38 million, respectively.

Obligations under finance leases at March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Due within one year	¥20	¥36	\$215
Due after one year	6	36	65
Total	¥26	¥72	\$280

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

The minimum rental commitments under non-cancellable operating leases at March 31, 2010 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	Due within one year	¥ 248
Due after one year	911	9,796
Total	¥1,159	\$12,462

13. Financial Instruments and Related Disclosures

On March 10, 2008, the ASBJ revised ASBJ Statement No. 10, "Accounting Standard for Financial Instruments," and issued ASBJ Guidance No. 19, "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." This accounting standard and the guidance are applicable to financial instruments and related

disclosures at the end of the fiscal years ending on or after March 31, 2010 with early adoption permitted from the beginning of the fiscal years ending before March 31, 2010. The Group applied the revised accounting standard and the new guidance effective March 31, 2010.

(1) Group policy for financial instruments

The group finances funds by borrowings from banks or other financial institutions, and issuance of corporate bonds. Temporary excess funds are invested mainly in low-risk financial assets. Our policy for using derivatives is not for speculation, but for hedging the risks from operating receivables and payables.

(2) Nature and extent of risks arising from financial instruments, and risk management for financial instruments

The credit risks from receivables such as trade notes and trade accounts are managed by each business unit according to the characteristics of the customers. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, a certain percentage of the position, net of payables in foreign currencies, is hedged by using forward foreign currency contracts.

Marketable and investment securities, which consist mainly of held-to-maturity bonds and the capital stocks of customers or suppliers, are exposed to market risk, however, the risk is insignificant with respect to the bonds. To manage the risk, the market price and the financial position of the issuers are reviewed constantly. Moreover, with respect to those other than held-to maturity, the portfolio is constantly reviewed considering market circumstances and relationships with the issuers.

Payment terms of almost all of trade payables, including notes and accounts are less than four months.

(a) Fair value of financial instruments

The borrowings from the financial institutions and debenture bonds are principally raised for capital investment, and their maximum maturities do not exceed nine years and nine months after the balance sheet date. All of those long-term debts are fixed rates. However, a part of such fixed rates are exchanged with floating rates by using derivatives of interest-rate swaps, and are exposed to the market risks of rising interest rates.

Derivatives consist of forward currency contracts and currency swaps, which are for hedging currency risks from the trade receivables and payables denominated in foreign currency, and interest rate swaps and interest rate cap contracts, which are for reducing cash out flow from interest payments of long-term borrowings. The company's management believes that the credit risks from those transactions are very little because the transactions are entered into only with high credit rating financial institutions. Derivative transactions are strictly managed complying with internal policies for approval and reporting. With regards to the more detail about hedge accounting, including hedging instruments, hedged items, hedge policies and hedge effectiveness, please see note 2.t.

(3) Supplemental remarks on fair values of financial instruments

The contract or notional amounts of derivatives which are shown in Note 14 do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

March 31, 2010

	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 53,365	¥ 53,365	—
Time deposits	37,544	37,544	—
Notes and accounts receivable	65,789	65,788	¥ (1)
Marketable and Investment securities	54,138	54,008	(130)
Notes and accounts payable	(33,251)	(33,251)	—
Short-term borrowings	(1,368)	(1,368)	—
Current portion of long-term debt	(4,000)	(4,000)	—
Income taxes payable	(4,538)	(4,538)	—
Long-term debt	(64,132)	(63,649)	(483)
Derivatives	494	494	—

March 31, 2010

	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	\$ 573,817	\$ 573,817	—
Time deposits	403,699	403,699	—
Notes and accounts receivable	707,408	707,398	\$ (10)
Marketable and Investment securities	582,129	580,731	(1,398)
Notes and accounts payable	(357,538)	(357,538)	—
Short-term borrowings	(14,710)	(14,710)	—
Current portion of long-term debt	(43,011)	(43,011)	—
Income taxes payable	(48,796)	(48,796)	—
Long-term debt	(689,591)	(684,398)	(5,193)
Derivatives	5,317	5,317	—

Cash and cash equivalents and Time deposits

The carrying values of cash and cash equivalents and time deposits approximate fair value because of their short maturities.

Notes and accounts receivables

The fair values of receivables and payables are measured at the amount to be received or paid at maturity discounted at the Group's assumed corporate discount rate.

Marketable and investment securities

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. The information of the fair value for the marketable and investment securities by classification is included in Note 4.

Notes and accounts payables, Short-term borrowings, Current portion of long-term debt and Income taxes payable

The carrying values of these financial instruments approximate fair value because of their short maturities.

Long-term debt

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate.

Derivatives

The information of the fair value for derivatives is included in Note 14.

(b) Financial instruments whose fair value cannot be reliably determined

	Carrying amount	
	Millions of Yen	Thousands of U.S. Dollars
March 31, 2010		
Investments in equity instruments that do not have a quoted market price in an active market		
Stock of affiliated companies	¥16,390	\$176,237
Other	2,153	23,151

(4) Maturity analysis for financial assets and securities with contractual maturities

	Millions of Yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
March 31, 2010				
Cash and cash equivalents	¥53,365	—	—	—
Time deposits	37,544	—	—	—
Notes and accounts receivables	62,180	¥ 354	—	—
Marketable and Investment securities				
Held-to-maturity securities				
Debt securities	5,000	4,300	—	—
Others	4,421	—	—	—
Available-for-sale securities with contractual maturities				
Debt securities	100	—	—	—
Others	19,800	—	—	—
	Thousands of U.S. Dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
March 31, 2010				
Cash and cash equivalents	\$573,817	—	—	—
Time deposits	403,699	—	—	—
Notes and accounts receivables	668,602	\$ 3,806	—	—
Marketable and Investment securities				
Held-to-maturity securities				
Debt securities	53,763	46,237	—	—
Others	47,538	—	—	—
Available-for-sale securities with contractual maturities				
Debt securities	1,075	—	—	—
Others	212,903	—	—	—

Please see Note 6 for annual maturities of long-term debt and Note 15 for obligations under finance leases.

14. Derivatives

The Group enters into derivative financial instruments (“derivatives”), including foreign exchange forward contracts, currency swaps, interest rate swap contracts and interest rate cap contracts. The foreign exchange forward contracts and currency swaps are entered into in order 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 loans from financial institutions. 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.

Derivative transactions to which hedge accounting is not applied at March 31, 2010

	Millions of Yen			
	Contract Amount	Contract Amount Due After One Year	Fair Value	Unrealized Gain/Loss
At March 31, 2010				
Foreign currency forward contracts:				
Selling U.S.\$	¥10,823	—	¥10,571	¥(252)
Selling Euro	4,394	—	4,541	147
Currency Swap Contracts:				
Japanese yen receipt	1,994	—	472	472
U.S.\$ (hedging currency) payment				
Total	¥17,211	—	¥15,584	¥ 367
March 31, 2010				
Thousands of U.S. Dollars				
	Contract Amount	Contract Amount Due After One Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:				
Selling U.S.\$	\$116,376	—	\$113,666	\$(2,709)
Selling Euro	47,247	—	48,828	1,581
Currency Swap Contracts:				
Japanese yen receipt	21,441	—	5,075	5,075
U.S.\$ (hedging currency) payment				
Total	\$185,064	—	\$167,569	\$ 3,947

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

Derivative transactions to which hedge accounting is applied at March 31, 2010

	Hedged Item	Millions of Yen		
		Contract Amount	Contract Amount Due After One Year	Fair Value
At March 31, 2010				
Foreign currency forward contracts:				
Selling U.S.\$	Receivables	¥40	—	—
Foreign currency forward contracts:				
Buying Chinese Yuan	Payable	152	¥30	¥(28)
Total		¥192	¥30	¥(28)

		Thousands of U.S. Dollars		
		Contract Amount	Contract Amount Due After One Year	Fair Value
At March 31, 2010	Hedged Item			
Foreign currency forward contracts:				
Selling U.S.\$	Receivables	\$ 430	—	—
Foreign currency forward contracts:				
Buying Chinese Yuan	Payable	1,634	\$323	\$(301)
Total		<u>\$2,064</u>	<u>\$323</u>	<u>\$(301)</u>

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

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

		Millions of Yen		
		Contract Amount	Contract Amount Due After One Year	Fair Value
At March 31, 2010	Hedged Item			
Interest rate swaps:				
(fixed rate payment, floating rate receipt)	Long-term debt	¥13,000	¥12,000	¥155
Interest rate swaps:				
(fixed rate payment, floating rate receipt)	Long-term debt	14,000	14,000	—
Total		<u>¥27,000</u>	<u>¥26,000</u>	<u>¥155</u>

		Thousands of U.S. Dollars		
		Contract Amount	Contract Amount Due After One Year	Fair Value
At March 31, 2010	Hedged Item			
Interest rate swaps:				
(fixed rate payment, floating rate receipt)	Long-term debt	\$139,785	\$129,032	\$1,666
Interest rate swaps:				
(fixed rate payment, floating rate receipt)	Long-term debt	150,538	150,538	—
Total		<u>\$290,323</u>	<u>\$279,570</u>	<u>\$1,666</u>

The above interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not premeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps in Note 13 is included in that of hedged items (i.e. long-term debt).

		Millions of Yen		
		Contract or Notional Amount	Fair Value	Net Unrealized Gain/(Loss)
March 31, 2009				
Forward Exchange Contracts:				
Selling U.S. Dollar		¥15,535	¥15,767	¥(232)
Selling Euro		5,525	5,570	(45)
Buying U.S. Dollar		586	574	(12)
Buying Euro		257	259	2
Currency Swap Contracts:				
Japanese yen receipt, U.S. Dollar (hedging currency) payment		1,994	345	345
Interest Rate Swaps:				
Fixed rate receipt, floating rate payment		24,000	(143)	(143)
Floating rate receipt, fixed rate payment		2,000	(19)	(19)

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.

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.

15. Contingent Liabilities

At March 31, 2010, the Group had contingent liabilities as follows:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees for bank borrowings of employees	¥127	\$1,366
Guarantees for bank borrowings of a closely-related company	312	3,355

16. Net Income Per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2010 and 2009 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
		Weighted average shares		EPS
For the year ended March 31, 2010:				
Basic EPS				
Net income available to common shareholders	¥17,808	326,691	¥54.51	\$0.59
Effect of Dilutive Securities				
Stock options	—	440		
Diluted EPS				
Net income for computation	¥17,808	327,131	¥54.44	\$0.59
For the year ended March 31, 2009:				
Basic EPS				
Net income available to common shareholders	¥24,468	332,173	¥73.66	
Effect of Dilutive Securities				
Stock options	—	399		
Diluted EPS				
Net income for computation	¥24,468	332,572	¥73.57	

17. 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, 2010 and 2009 were as follows:

a. Operations by Line of Business

	Millions of Yen				Eliminations/ Corporate	Consolidated
	Power	Ceramics	Electronics	Total		
2010						
Sales to customers	¥ 87,251	¥101,330	¥46,908	¥235,489	—	¥235,489
Intersegment sales	56	363	—	419	¥ (419)	—
Total sales	87,307	101,693	46,908	235,908	(419)	235,489
Operating expenses	79,333	88,517	44,619	212,469	(432)	212,037
Operating income	¥ 7,974	¥ 13,176	¥ 2,289	¥ 23,439	¥ 13	¥ 23,452
Total assets	¥108,471	¥158,937	¥65,912	¥333,320	¥142,527	¥475,847
Depreciation	4,851	10,145	3,937	18,933	—	18,933
Impairment loss	—	—	169	169	—	169
Capital expenditures	10,597	5,059	1,500	17,156	3,735	20,891

	Millions of Yen					
2009	Power	Ceramics	Electronics	Total	Eliminations/ Corporate	Consolidated
Sales to customers	¥82,906	¥130,710	¥59,595	¥273,211	—	¥273,211
Intersegment sales	34	92	—	126	¥ (126)	—
Total sales	82,940	130,802	59,595	273,337	(126)	273,211
Operating expenses	75,359	108,634	56,564	240,557	(155)	240,402
Operating income	¥ 7,581	¥ 22,168	¥ 3,031	¥ 32,780	¥ 29	¥ 32,809
Total assets	¥92,672	¥167,177	¥64,433	¥324,282	¥119,921	¥444,203
Depreciation	4,968	16,828	4,442	26,238	—	26,238
Impairment loss	—	—	952	952	—	952
Capital expenditures	5,617	19,387	3,574	28,578	1,775	30,353

	Thousands of U.S. Dollars					
2010	Power	Ceramics	Electronics	Total	Eliminations/ Corporate	Consolidated
Sales to customers	\$ 938,183	\$1,089,570	\$504,387	\$2,532,140	—	\$2,532,140
Intersegment sales	602	3,903	—	4,505	\$ (4,505)	—
Total sales	938,785	1,093,473	504,387	2,536,645	(4,505)	2,532,140
Operating expenses	853,043	951,796	479,774	2,284,613	(4,645)	2,279,967
Operating income	\$ 85,742	\$ 141,677	\$ 24,613	\$ 252,032	\$ 140	\$ 252,173
Total assets	\$1,166,355	\$1,709,000	\$708,731	\$3,584,086	\$1,532,548	\$5,116,634
Depreciation	52,161	109,086	42,333	203,580	—	203,580
Impairment loss	—	—	1,817	1,817	—	1,817
Capital expenditures	113,946	54,398	16,129	184,473	40,161	224,634

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, refractory products and radioactive waste treatment systems
Electronics	Beryllium-copper-wrought products, molds and ceramic components for electronics and semiconductor manufacturing equipment

As for machine equipment owned by a subsidiary in Europe, its useful life was changed. The effect of this treatment was to increase operating income of Ceramics by ¥2,290 million (\$23,978 thousand) for the year ended March 31, 2010.

b. Operations by Geographical Segments

	Millions of Yen							
2010	Japan	North America	Europe	Asia	Other	Total	Eliminations/ Corporate	Consolidated
Sales to customers	¥150,471	¥28,433	¥35,736	¥12,434	¥8,415	¥235,489	—	¥235,489
Interarea transfers	32,460	4,189	1,102	9,576	108	47,435	¥(47,435)	—
Total sales	182,931	32,622	36,838	22,010	8,523	282,924	(47,435)	235,489
Operating expenses	171,135	32,401	28,234	21,530	8,181	261,481	(49,444)	212,037
Operating income	¥ 11,796	¥ 221	¥ 8,604	¥ 480	¥ 342	¥ 21,443	¥ 2,009	¥ 23,452
Total assets	¥270,302	¥34,611	¥64,592	¥49,245	¥9,329	¥428,079	¥ 47,768	¥475,847

	Millions of Yen							
2009	Japan	North America	Europe	Asia	Other	Total	Eliminations/ Corporate	Consolidated
Sales to customers	¥162,407	¥34,763	¥54,256	¥ 9,269	¥12,516	¥273,211	—	¥273,211
Interarea transfers	34,508	11,119	1,552	12,202	44	59,426	¥(59,426)	—
Total sales	196,915	45,882	55,808	21,471	12,561	332,637	(59,426)	273,211
Operating expenses	181,680	42,646	46,338	20,754	10,731	302,149	(61,747)	240,402
Operating income	¥ 15,235	¥ 3,236	¥ 9,470	¥ 717	¥ 1,830	¥ 30,488	¥ 2,321	¥ 32,809
Total assets	¥264,208	¥34,088	¥64,478	¥43,501	¥ 6,357	¥412,632	¥ 31,571	¥444,203

Thousands of U.S. Dollars

2010	Japan	North America	Europe	Asia	Other	Total	Eliminations/ Corporate	Consolidated
Sales to customers	\$1,617,968	\$305,731	\$384,258	\$133,699	\$ 90,484	\$2,532,140	—	\$2,532,140
Interarea transfers	349,032	45,043	11,849	102,968	1,161	510,053	\$(510,053)	—
Total sales	1,967,000	350,774	396,107	236,667	91,645	3,042,193	(510,053)	2,532,140
Operating expenses	1,840,161	348,398	303,591	231,505	87,968	2,811,623	(531,656)	2,279,967
Operating income	\$ 126,839	\$ 2,376	\$ 92,516	\$ 5,162	\$ 3,677	\$ 230,570	\$ 21,603	\$ 252,173
Total assets	\$2,906,473	\$372,161	\$694,538	\$529,516	\$100,312	\$4,603,000	\$ 513,634	\$5,116,634

As for machine equipment owned by a subsidiary in Europe, its useful life was changed. The effect of treatment was to increase operating income of Europe by ¥2,290 million (\$23,978 thousand) for the year ended March 31, 2010. Although Asia was included in Other in the past, the company disclosed Asia separately from Other due to an increase of significance of Asia.

c. Sales to Foreign Customers

2010	Millions of Yen				
	North America	Europe	Asia	Other	Total
Overseas sales	¥29,371	¥32,035	¥38,670	¥22,011	¥122,087
Net sales					235,489
Ratio of overseas sales to net sales	12.5%	13.6%	16.4%	9.3%	51.8%

2009	Millions of Yen				
	North America	Europe	Asia	Other	Total
Overseas sales	¥36,527	¥49,700	¥28,029	¥29,016	¥143,272
Net sales					273,211
Ratio of overseas sales to net sales	13.4%	18.2%	10.3%	10.6%	52.4%

2010	Thousands of U.S. Dollars				
	North America	Europe	Asia	Other	Total
Overseas sales	\$315,817	\$344,462	\$415,806	\$236,677	\$1,312,762
Net sales					2,532,140

18. Subsequent Events

The following appropriation of retained earnings at March 31, 2010 was approved at the Company's shareholders meeting held on June 29, 2010:

Appropriation of retained earnings

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥8(\$0.09) per share	¥2,612	\$28,097

Deloitte.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of NGK INSULATORS, LTD. (the "Company") and consolidated subsidiaries (together, the "Group") as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NGK INSULATORS, LTD. and consolidated subsidiaries as of March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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

June 29, 2010

Deloitte Touche Tohmatsu LLC

Member of
Deloitte Touche Tohmatsu

Subsidiaries and Affiliated Companies

(As of March 31, 2010)

JAPAN

	Company's Direct and Indirect Ownership (%)	Principal Products and Services
■ Energy Support Co., Ltd.	49.4	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 Mettex Corporation	100	Beryllium copper wrought products
■ NGK Fine Molds, Ltd.	94.7	Molds
■ NGK Ceramic Device Co., Ltd.	100	Ceramic electronic components
■ NGK Okhotsk, Ltd.	100	Ceramic electronic components
■ Soshin Electric Co., Ltd.	40.7	Electronic components and devices
■ Soshin Device Co., Ltd.	100	Electronic components and devices
■ Rishin Electronics Co., Ltd.	100	Electronic components and devices
■ METAWATER Co., Ltd.	50	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

■ Consolidated companies

■ Affiliated companies accounted for by the equity method

Global Network

(As of March 31, 2010)

ASIA PACIFIC



NGK Insulators Tangshan Co., Ltd.



NGK Insulators Suzhou Co., Ltd.



PT. NGK Ceramics Indonesia



NGK Stanger Pty. Ltd.



NGK Ceramics South Africa (Pty) Ltd.



SIAM NGK Technocera Co., Ltd.



NGK Ceramics Suzhou Co., Ltd.



NGK Technocera Suzhou Co., Ltd.

NGK Insulators Shanghai Co., Ltd.

NGK Automotive Ceramics Korea Co., Ltd.

AFRICA

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.	95	Automotive ceramics
■ NGK Automotive Ceramics Mexico, S.de R.L.de C.V.	100	Worker dispatching
■ NGK Metals Corporation	100	Beryllium copper products
■ NGK Electronics USA, Inc.	100	Ceramic products
■ FM Industries, Inc.	100	Modules for semiconductor production equipment
■ Soshin Electronics of America Inc.	100	Electronic components and devices

EUROPE AND AFRICA

	Company's Direct and Indirect Ownership (%)	Principal Products and Services
■ NGK 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
■ Soshin Electronics Europe GmbH	100	Electronic components and devices

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.	86	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.	97	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
■ Taiwan Soshin Electric Co., Ltd.	100	Electronic components and devices

NORTH AMERICA



Locke Insulators, Inc.



NGK-Locke Polymer Insulators, Inc.



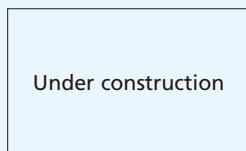
NGK Ceramics USA, Inc.



NGK Metals Corporation



FM Industries, Inc.



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.

EUROPE



NGK Ceramics Europe S.A.



NGK Berylco France



NGK Ceramics Polska Sp. z o.o.

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

Corporate Data

(As of March 31, 2010)

NGK INSULATORS, LTD.

2-56 Suda-cho Mizuho, Nagoya, 467-8530, Japan

Tel: +81-52-872-7171

Fax: +81-52-872-7690

URL: <http://www.ngk.co.jp/english/>

Paid-in Capital

69,849 million yen

Common Stock

337,560 thousand shares

Number of Shareholders

29,854

Stock Exchange Listings

Tokyo, Nagoya, Osaka and Sapporo

Auditors

Deloitte Touche Tohmatsu LLC

(The Japanese member firm of Deloitte Touche Tohmatsu)

Organization

(As of April 1, 2010)

Power Business Group

- Sales Div.
- Electrical Insulator Div.
- NAS Battery Div.
- Quality Assurance Dept.

Ceramic 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.
- New Metals Div.
- Electronic Components Div.
- Quality Assurance Dept.

Head Office

- Auditing Dept.
- Environmental Management Dept.
- Quality 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
- Advanced Materials Development Center
- Materials Research Laboratory
- Future Technology Management Center

Corporate Manufacturing Engineering

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

Board of Directors, Corporate Auditors and Corporate Officers

(As of June 29, 2010)

Directors and Corporate Officers



Masaharu Shibata*
Chairman



Shun Matsushita*
President and
Chief Executive Officer



Taro Kato*
Executive Vice President



Eiji Hamamoto*
Executive Vice President



Tsurayuki Okamoto*
Executive Vice President

*Representative Directors



Takeyuki Mizuno
Director and
Senior Vice President



Hiroshi Fujito
Director and
Senior Vice President



Mitsuo Ibuki
Director and
Senior Vice President



Toshiyuki Hamanaka
Director and
Senior Vice President



Susumu Sakabe
Director and
Vice President



Hideaki Saito
Director and
Vice President



Ryohei Iwasaki
Director and
Vice President



Hirotsugu Ogawa
External Director



Yukihisa Takeuchi
Senior Vice President



Takafumi Hoichi
Senior Vice President



Hiroaki Sakai
Vice President



Taku Oshima
Vice President



Yasushi Ozawa
Vice President



Haruo Fukui
Vice President



Nobuo Takahashi
Vice President



Yukiyasu Oguchi
Vice President



Hiroshi Kanie
Vice President



Koji Yokoi
Vice President



Shuhei Ishikawa
Vice President

Corporate Auditors



Mitsuru Koketsu
Standing Corporate Auditor



Hiroshi Wada
Standing Corporate Auditor



Yasuyuki Hirai
External Corporate Auditor



Setsuo Tanaka
External Corporate Auditor



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