



ANNUAL REPORT 2009

Year Ended March 31, 2009



NGK INSULATORS, LTD.

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.

ON THE COVER

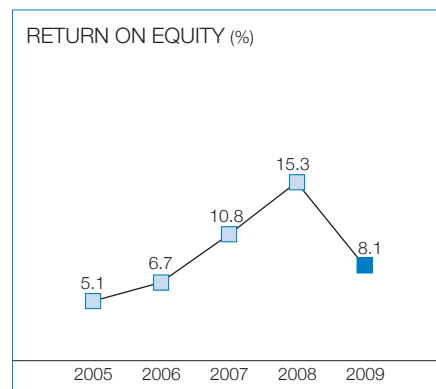
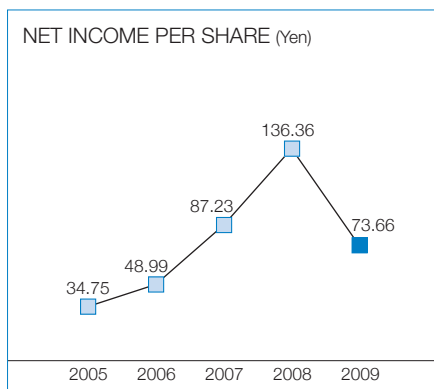
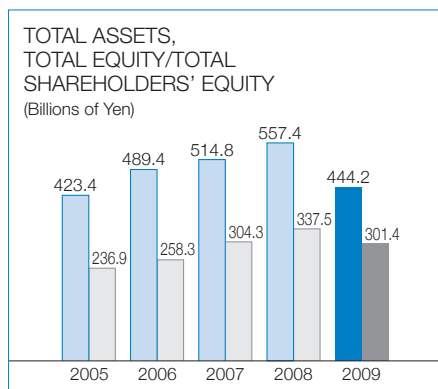
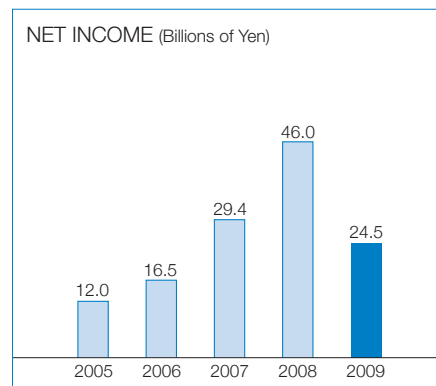
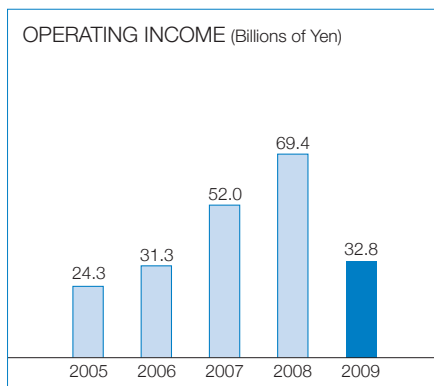
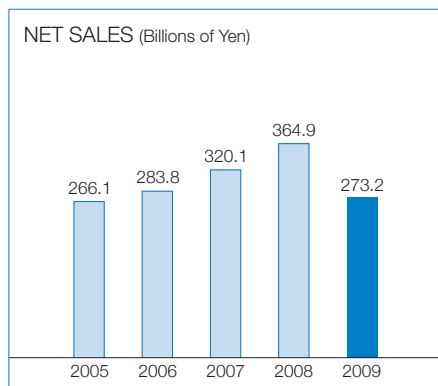
NGK's NAS[®] (sodium-sulphur) batteries for electricity storage help to overcome the problem of fluctuation in power generation inherent when generating power from natural energy sources such as sunlight and wind, which are seeing increasing uptake in recent years. The photo on the cover shows a NAS battery with a rated output of 34,000kW in use at the Japan Wind Development Co., Ltd.'s Futamata Wind Farm in Rokkasho, Aomori Prefecture, Japan.

FINANCIAL HIGHLIGHTS

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

	Millions of Yen	Thousands of U.S. Dollars			Millions of Yen		
	2009		2008	2007	2006	2005	2004
Net Sales	¥273,211	\$2,787,867	¥364,888	¥320,120	¥283,753	¥266,128	¥251,317
Operating Income	32,809	334,786	69,377	52,017	31,275	24,277	18,974
Net Income	24,468	249,673	45,951	29,413	16,523	12,013	8,443
Total Assets	444,203	4,532,683	557,390	514,806	489,441	423,414	415,502
Total Equity/Total Shareholders' Equity	301,424	3,075,756	337,514	304,346	258,292	236,899	238,167
Depreciation	26,238	267,735	26,260	23,780	19,018	17,162	17,091
Capital Expenditures	30,353	309,724	21,383	25,956	41,238	31,171	16,566
Research and Development Expenses	12,864	131,267	13,215	12,151	11,279	12,181	14,093
	Yen	U.S. Dollars			Yen		
Net Income per Share	¥73.66	\$0.75	¥136.36	¥87.23	¥48.99	¥34.75	¥24.42
Return on Equity	8.1%		15.3%	10.8%	6.7%	5.1%	3.7%
Number of Employees	11,205		11,551	10,696	10,342	9,329	8,693

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥98=\$1, the exchange rate prevailing at March 30, 2009.



■ Total Assets
■ Total Equity/Total Shareholders' Equity

DECLINE IN CONSOLIDATED NET SALES AND EARNINGS

In fiscal 2008, ended March 31, 2009, the Japanese economy faced adverse conditions, impacted by the global economic slowdown that rapidly emerged from the second half of the year. Among other issues, the economic situation triggered far greater than expected industry adjustments, causing corporate earnings and capacity utilization rates to fall sharply, particularly around exports, and declines in consumer spending due to a worsening employment outlook.

In this climate, the NGK Group saw increased year-on-year sales in the Power Business Group, due to higher sales of NAS[®] (sodium sulfur) batteries used for large-scale power storage. However, the Ceramics Products Business Group saw sharply lower demand for automotive products, specifically honeycomb ceramics for automobile catalytic converters and silicon carbide diesel particulate filters (SiC-DPFs), reflecting weak auto sales. The same was true for the Electronics Business Group where in addition to a significant drop in demand for ceramics for semiconductor manufacturing equipment, sales were lower for connector materials, filters and other products used in digital home appliance, information and communications infrastructure, and IT terminal applications. As a result, consolidated net sales decreased 25.1% year on year to ¥273,211 million.

Consolidated operating income declined 52.7% to ¥32,809 million, and ordinary income fell 54.6% to ¥31,488 million. Net income, meanwhile, decreased 46.8% to ¥24,468 million and ROE for the year was 8.1%. In addition to lower sales and higher costs due to decreased operation levels, earnings were negatively impacted by the yen's appreciation versus the previous year. These factors caused substantially lower earnings from the Ceramics Products Business Group and Electronics Business Group, as well as lower earnings from the Power Business Group.

In response to rapid and dramatic changes in the automotive-related market during the year, we scrapped certain SiC-DPF production facilities and booked extraordinary losses from business restructuring, including business liquidation. Effects from these actions, however, were canceled out at the net income stage, primarily due to lower tax rates relating to the retained profits of overseas subsidiaries.

In the Engineering Business Group, sales and operating income from NGK Water Environment Systems, Ltd. were excluded from consolidation. In April 2008, this formerly wholly owned subsidiary became an equity-method affiliate after merging with Fuji Electric Water Environmental Systems Co., Ltd. NGK holds a 50% stake in METAWATER Co., Ltd., the joint venture company formed from this merger.

RECOVERING EARNINGS POWER AND REALIZING GROWTH

Key issues confronting the NGK Group this year are mounting a recovery in earnings power by meeting the challenge of structural innovation that answers the drastic changes in the business environment and minimizes any deterioration in business performance, and realizes growth.

The Japanese economy is in uncharted territory due to the decline in exports, deterioration in corporate earnings, the country's employment environment and weak consumer spending triggered by the global economic recession. These conditions make predicting the timing of recovery, including in overseas markets, exceptionally difficult. In this challenging operating environment, the Group views growing consciousness of environmental preservation as an opportunity to spark a rebound in performance and pursue growth by offering products that contribute to environmental solutions.

Masaharu Shibata



Shun Matsushita

Similarly, viewing current conditions as a chance for structural innovation, we intend to build a resilient cost structure by reviewing development, cost reduction, and operational processes in a bid to realize sweeping cost savings. In parallel, the Group will move systematically to establish a flexible supply framework for automotive-related products that comply with tighter automotive exhaust gas restrictions, unveil measures that target the electric power market in rapidly growing China, and encourage the uptake of NAS[®] battery systems in new energy sectors and establish a mass-production framework for these products. Furthermore, we will work to expand applications and achieve higher performance for existing products. At the same time, we intend to enhance inputs to R&D and devote all available resources to seeking out and commercializing new products that will spearhead performance, all the while continuing to train the people responsible for the Company's future.

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 mount a recovery in its earnings power.

June 2009

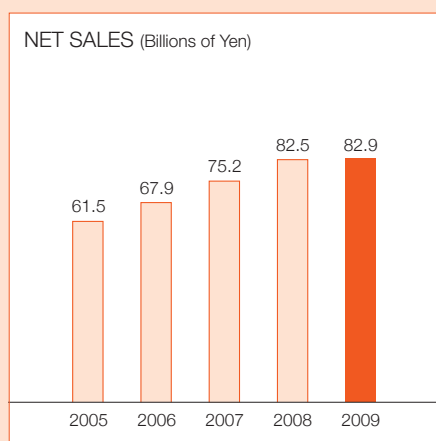
Masaharu Shibata
Masaharu Shibata
Chairman

Shun Matsushita
Shun Matsushita
President and Chief Executive Officer

POWER BUSINESS GROUP

This business segment covers the production and sale of insulators and devices for power companies and manufacturers of heavy electrical equipment in Japan and overseas.

The business also produces NAS[®] batteries that are used for large-scale power storage.

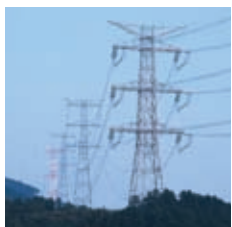


FISCAL 2008 BUSINESS OVERVIEW

In fiscal 2008, consolidated segment sales edged up 0.5% to ¥82,940 million. Sales grew slightly year on year on increased demand in the power transmission insulator sector in Japan, and the power transmission and transformer insulator sector in overseas markets, particularly in China. This was complemented by increased demand for NAS[®] battery systems for large-scale power storage in the wind power generation sector, and for electricity load balancing applications, in Japan and overseas. Sales growth was partially offset by the effects of the yen's appreciation.

Consolidated operating income declined 13.1% from the previous fiscal year to ¥7,581 million, primarily as a result of the yen's appreciation.

INSULATOR BUSINESS



We manufacture a variety of electrical insulators for mega-capacity power transmission, which have to withstand harsh operating

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

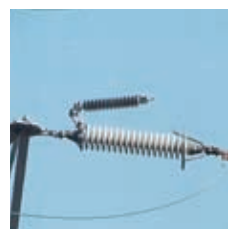
NAS[®] BATTERY BUSINESS



Demand for electric power peaks at certain seasons of year and times of day. By storing power at times of low demand and

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

ELECTRICAL EQUIPMENT BUSINESS



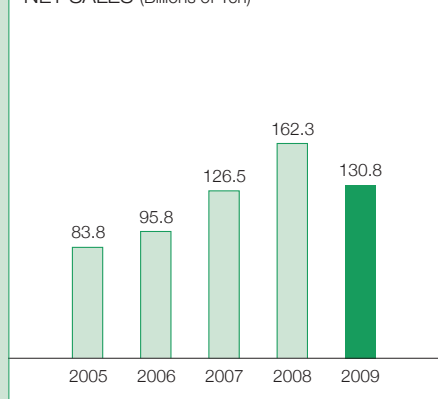
NGK supplies electrical equipment such as line arresters, current limiting arcing horns (CLAH), and switching devices for power

distribution. These products, which are based on our abundant experience in the field of electrical equipment, contribute to improving the quality of the power supply, and are required more than ever in our highly networked information society.

CERAMICS PRODUCTS BUSINESS GROUP

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

NET SALES (Billions of Yen)



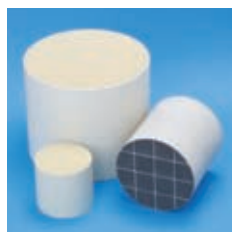
FISCAL 2008 BUSINESS OVERVIEW

Consolidated segment sales were ¥130,802 million, down 19.4% 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 process apparatus were largely flat year on year, while sales of industrial heating systems, namely those used in the manufacture of plasma display panels (PDPs), were lower due to a drop in the level of capital investments made by clients.

Consolidated operating income declined 49.4% to ¥22,168 million, reflecting significantly lower sales and the impact of a strong yen.

AUTOMOTIVE & INDUSTRIAL CERAMICS BUSINESS



NGK's line of honeycomb ceramics, HONEYCERAM®, is an indispensable part of the automobile catalytic converter. It has been

adopted by automakers throughout the world and is manufactured at production sites in Japan, Europe, the United States, Indonesia, South Africa and China. NGK also supplies numerous other products that contribute to energy saving and environmental conservation. These include diesel particulate filters (DPFs) that remove particulate matter in exhaust gas from diesel engines and exhaust gas sensors which utilize ceramics technology.

INDUSTRIAL PROCESS BUSINESS



Membrane engineering technology, derived from ceramic and organic membrane filters, is utilized in a variety of applications, includ-

ing equipment for manufacturing mineral water, water for pharmaceuticals and in-home-use "C1" water purifiers.

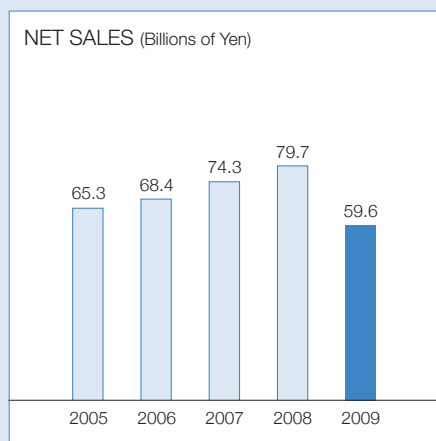
This technology is highly rated in a number of fields, among them beverage and food processing, pharmaceuticals and electronics.

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

In addition, NGK provides corrosion-resistant pumps and valves, glass-lined apparatus, high-temperature dust collectors and equipment for combustible low-level radioactive waste treatment where absolute reliability is essential, thus covering a wide range of industries.

ELECTRONICS BUSINESS GROUP

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



FISCAL 2008 BUSINESS OVERVIEW

Consolidated segment sales were ¥59,595 million, down 25.2% from the previous fiscal year.

Sales were lower year on year for beryllium copper products, ceramic products for semiconductor manufacturing equipment, and functional components for color printers, due respectively to lower demand caused by the economic recession, decisions by semiconductor manufacturers to curtail capital investments, and a downturn in consumer spending. Sales from consolidated subsidiary Soshin Electric Co., Ltd. fell sharply overall, the result of weakness and growing competition in the communications equipment and industrial equipment markets.

Consolidated operating income decreased 77.5% year on year to ¥3,031 million, primarily due to lower sales and the yen's appreciation.

ELECTRONIC COMPONENTS BUSINESS



Leading-edge ceramic technology is greatly expanding the potential for electronic components. By applying piezoelectric ceram-

ics technology, NGK has succeeded in developing ceramic micro-actuators for printer heads. HICERAM®, translucent alumina ceramics, are used for the arc tubes of high-voltage sodium lamps and ceramic metal halide lamps.

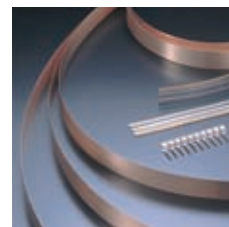
HIGH-PERFORMANCE CERAMICS BUSINESS



Fine ceramics are advanced materials that have a number of attractive characteristics. For example, they outperform metals and plastics in

terms of toughness, lightness, heat resistance and corrosion resistance. NGK has developed various applications for industry by drawing the maximum benefit from these attractive properties. The electrostatic chuck and heater show stable performance even under high temperatures and corrosive conditions.

SPECIALTY METALS BUSINESS



Beryllium copper has unique properties, such as high spring performance and conductivity. It is used as a conductive spring material in

components such as micromotors, relays and connectors and IC sockets for mobile phones and personal computers, meeting demands for miniaturization and high reliability. Because of its high durability and corrosion resistance, it is also used in repeater housings of undersea optical fiber communication cables as well as in non-sparking safety tools.

NGK has used its original precision casting mold technology using beryllium-copper alloys in developing molds composed of iron and aluminum. These are used in a variety of fields, including metal molds for forming plastic automobile interiors and tires.

FUNDAMENTAL APPROACH TO R&D

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

MAJOR R&D THEMES AND ACHIEVEMENTS BY BUSINESS SEGMENT

POWER BUSINESS

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. 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 2008.

CERAMICS PRODUCTS BUSINESS

R&D in this segment is focused on three main themes: improving diesel particulate filter (DPF) production techniques and performance; enhancing production techniques for ceramic honeycomb substrates used in catalytic converters for diesel and other automobiles; and creating better continuous atmospheric kilns for the organic electro luminescence, solar cell, and flat-panel display (FPD) sectors. In fiscal 2008 one major R&D theme for the Ceramics Products Business Group was the incorporation of porous ceramics technology into ceramic separation membranes.

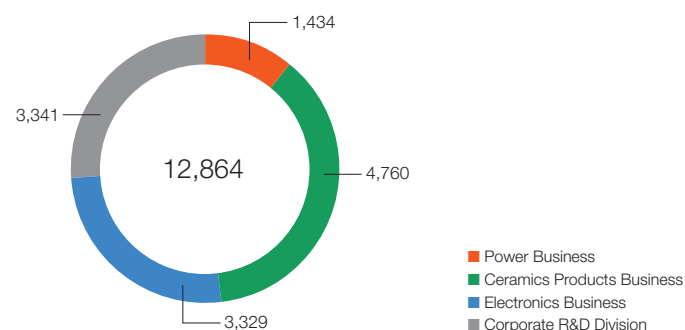
ELECTRONICS BUSINESS

Research in this segment is focused on: boosting the density and performance of the micro-ceramics actuators used in inkjet printers, based on core technology of high-performance piezoelectric ceramic components and modules for raising the performance of semiconductor production equipment; heat sinks for automobile engine control equipment; and, beryllium copper strip products for electronic parts such as automotive relays and connectors for mobile phones. 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, to develop a low cost arc tube and technology for mass producing it. Soshin Electric Co., Ltd., a consolidated subsidiary, also conducts R&D centered on leveraging the advantages of the materials developed by NGK for use in multi-layered dielectric filters for mobile communication devices. The development of applied components for the ubiquitous networks field was a major R&D theme for the Electronics Business Group in fiscal 2008.

CORPORATE R&D DIVISION

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

R&D EXPENSES (Millions of Yen)



BASIC APPROACH AND STATUS OF INITIATIVES

To ensure appropriate operations and transparent management, NGK has set its sights on establishing and maintaining an organization capable of swiftly responding to changes in the business environment, and a fair and open management system that emphasizes the interests of shareholders. Considering the importance of swift and optimal decision-making and execution, NGK introduced a corporate officer system, thus separating the management's decision-making and supervision functions from business execution functions, and clearly defining the responsibilities of both.

STATUS OF CORPORATE GOVERNANCE SYSTEM

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

BOARD OF DIRECTORS

NGK's Board of Directors is responsible for deliberations and decisions on matters stipulated by the Companies Act and on other issues of vital concern to management, in addition to supervising the directors in the performance of their duties. The board's membership consisted of 13 directors (including 2 external directors) as of March 31, 2009. NGK reinforced the supervisory functions of the board with respect to business execution by appointing external directors following the 141st Annual General Meeting of Shareholders.

BOARD OF CORPORATE AUDITORS

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

EXECUTIVE COMMITTEE

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

INTERNAL CONTROL SYSTEMS

The Board of Directors and the executive bodies overseen by the president are responsible for establishing and operating NGK's internal control system. The Auditing Department, a specialist internal audit body, is responsible for monitoring the status of business execution at each operating division. Moreover, NGK has established the Internal Controls Committee to manage its reporting system for internal controls pursuant to Japan's Financial Instruments and Exchange Law. The NGK Group Guidelines for Corporate Behavior were formulated as a policy that embodies the Group's corporate and management philosophies and as a guide for the actions we take. These guidelines specify the Group's fundamental stance with respect to business activities and corporate behavior to ensure that it is a Company that remains beneficial to society even in the pursuit of its economic goals. The CSR Committee, meanwhile, is responsible for a range of activities that include formulating the NGK Group Guidelines for Corporate Behavior, ensuring that compliance with laws, regulations and corporate ethics is fully entrenched throughout the Group, and developing responses to incidents and accidents that it believes could significantly impact the Company. The committee's actions are designed to maintain and improve the level of the Group's internal control system.

RISK MANAGEMENT SYSTEM

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

GROUP ENVIRONMENTAL COMMITTEE

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

CENTRAL DISASTER PREVENTION AND CONTROL HEADQUARTERS

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

SECURITY EXPORT CONTROL COMMITTEE

Guided by the fundamental policy of ensuring trade in compliance with Japan's Foreign Exchange and Foreign Trade Act and Customs Law, which was formulated from the perspective of maintaining international security, this committee, which reports directly to the president, deliberates on items necessary to assure appropriate and smooth execution of duties relating to security export control and designated export control.

STATUS OF AUDITS BY CORPORATE AUDITORS (AUDIT COMMITTEE) AND INTERNAL AUDITS

Corporate auditors and the Board of Corporate Auditors are responsible for conducting audits as described in the section on the Status of Corporate Governance System. The Auditing Department (with a staff of 11 for operational audits), conducts internal audits of the operations of all units and departments and serves in an advisory capacity by providing information on management issues that are decided by the president. In addition, the Environmental Management Department (21 members), and the Integrated Administration Department (9 members responsible for quality assurance) conduct audits in their respective areas of responsibility. Although audits by corporate auditors, the independent auditor and internal audits are all conducted independently, the auditors on the Board of Corporate Auditors, the independent auditor and the Auditing Department periodically exchange information on audit policies, audit plans and audit results in order to enhance audit effectiveness and efficiency.

RELATIONSHIPS BETWEEN NGK AND EXTERNAL CORPORATE AUDITORS

No special personal, capital, business or other relationships exist between NGK and its two external directors and two external corporate auditors.

REMUNERATION FOR DIRECTORS AND CORPORATE AUDITORS, AND FEES PAID FOR AUDITS

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

REMUNERATION FOR DIRECTORS

Total annual remuneration for directors: ¥662 million (including ¥24 million for external directors).

Total annual remuneration for corporate auditors: ¥79 million (including ¥20 million for external corporate auditors).

Note: The above remuneration includes ¥77 million in new share subscription rights issued in the form of stock options to directors (excluding external directors), as well as an estimated amount in bonuses for directors (excluding external directors).

CORPORATE PHILOSOPHY

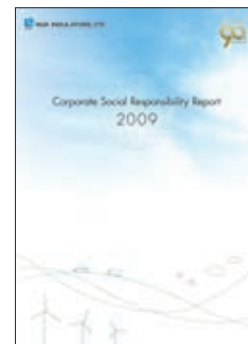
NGK products and technologies must create new value and contribute to the quality of life.

OUR APPROACH TO CSR

NGK leverages proprietary technology to deliver products worldwide that are essential to social infrastructure and environmental performance. While we are committed to offering products and services that help create a better social environment and bring new value to society, we also recognize at the same time that NGK's activities are underpinned by society's expectations and trust. We believe that fulfilling our social responsibility as a company in every respect, including social and environmental preservation aspects, is essential to meeting those expectations and earning that trust.

To ensure that this approach is shared throughout the Group, NGK formulated the NGK Group Guidelines for Corporate Behavior in April 2003. The Group also strives to create a company capable of garnering greater levels of trust from stakeholders through its daily corporate activities.

Through these actions, the NGK Group seeks to contribute to society's sustainable development and to safeguard the natural environment.



Environmental & Social Responsibility Report 2009

CSR BASICS

A company's first corporate social responsibility is to reliably supply society with the products and services it needs, and to generate an appropriate degree of profit. The centerpiece of NGK's corporate philosophy—the creation of new value—is a prerequisite for sustaining sound corporate activities of this kind, and is the fundamental basis of CSR at NGK. Similarly, ensuring full compliance and taking adequate steps to preserve the natural environment are prerequisites to conducting all business activities.

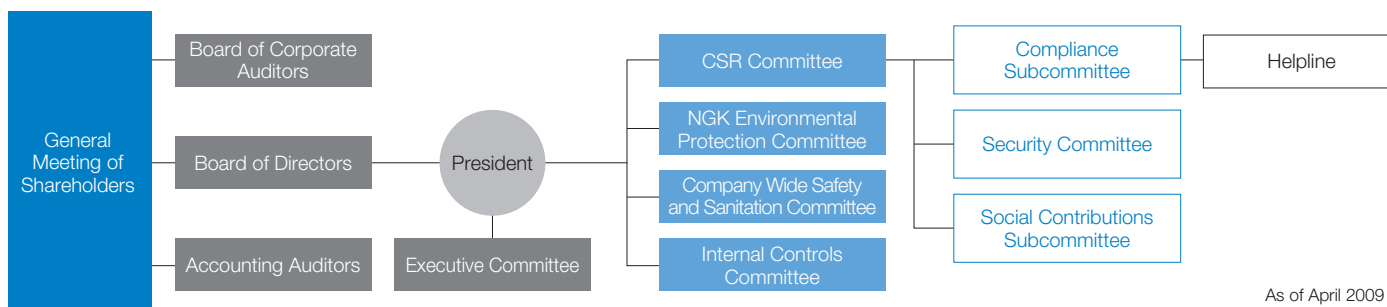
Accordingly, the following three points make up the "CSR Basics" at NGK.

PRIORITIES IN PROMOTING CSR

- Provision of products that contribute to a better social environment
- Protection of the natural environment
- Disclosure of corporate data
- Thorough compliance and risk management
- Respect for human rights, maintenance of comfortable working environments
- Fair, free and transparent business transactions
- Promotion of social contribution activities
- Communication with stakeholders

CSR PROMOTION FRAMEWORK

NGK has established the CSR Committee, NGK Environmental Protection Committee, Company Wide Safety and Sanitation Committee, and the Internal Controls Committee to promote Group CSR activities.



As of April 2009

SUMMARY OF INCOME STATEMENTS

Net sales for the NGK Group declined 25.1% year on year to ¥273,211 million. The Power Business saw higher sales of NAS® (sodium sulfur) batteries used for large-scale power storage. However, the Ceramics Products Business Group saw sharply lower demand for automotive products, specifically honeycomb ceramics for automobile catalytic converters and silicon carbide diesel particulate filters (SiC-DPFs), reflecting the impact of weak sales volumes for automobiles. Similarly, in the Electronics Business, in addition to a significant drop in demand for ceramics for semiconductor manufacturing equipment, sales were lower for connector materials, filters and other products used in digital home appliance, information and communications infrastructure, and IT terminal applications.

With respect to earnings, operating income declined a substantial 52.7% to ¥32,809 million, while net income decreased 46.8% to ¥24,468 million. ROE for the year was 8.1%. In addition to lower sales and higher costs due to decreased operation levels, earnings were negatively impacted by the yen's appreciation versus the previous year, leading to significantly lower earnings from the Ceramics Products and Electronics Business Groups, as well as decreased earnings from the Power Business Group. Moreover, in response to rapid and dramatic changes in the automotive market during the year, we scrapped certain SiC-DPF production facilities and booked extraordinary losses from business restructuring. Effects from these actions, however, were canceled out at the net income stage, mainly by the effects of a lower tax burden with respect to retained earnings overseas.

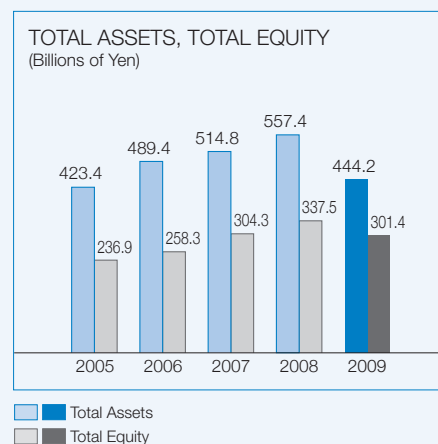
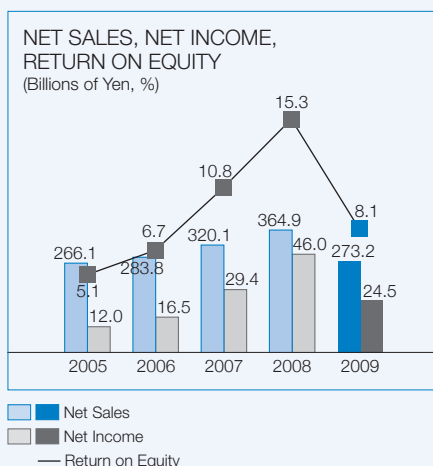
FINANCIAL POSITION

As of March 31, 2009, total assets were ¥444,203 million, a decrease of ¥113,187 million, or 20.3%, from the previous fiscal year-end. The equity ratio was 63.8%, while net assets per share fell ¥75.79 from the previous fiscal year to ¥867.15.

Current assets decreased by 28.2% year on year to ¥224,611 million. In addition to a decrease in notes and accounts receivable accompanying lower net sales, current assets declined mainly from a decrease in time deposits and marketable securities due to lower free cash flow. Property, plant and equipment declined 12.5% from the previous fiscal year to ¥137,575 million due to a sharp decline in the appraised value of assets denominated in foreign currencies caused by the yen's appreciation, while investments and other assets declined 5.9% to ¥82,017 million due to a fall in the market value of investment securities.

Current liabilities decreased 25.0% year on year to ¥85,156 million. This outcome reflected a decrease in income taxes payable and accounts payable, as well as the redemption of corporate bonds. Long-term liabilities fell 45.8% to ¥57,623 million, primarily due to the transfer of borrowings to current liabilities, and the reversal of deferred tax liabilities associated with retained earnings overseas accompanying tax system revisions.

Total equity stood at ¥301,424 million, or 10.7% lower than the previous fiscal year-end, reflecting factors such as the purchase of treasury stock and a decrease in foreign currency translation adjustments due to the yen's appreciation, which outweighed an increase in retained earnings.



CASH FLOWS

There was a net decrease of ¥43,288 million in total cash and cash equivalents from the previous fiscal year-end to ¥76,508 million. This reflected ¥32,672 million in net cash provided by operating activities, ¥21,553 million in net cash used in investing activities, and ¥36,124 million in net cash used in financing activities.

CASH FLOW FROM OPERATING ACTIVITIES

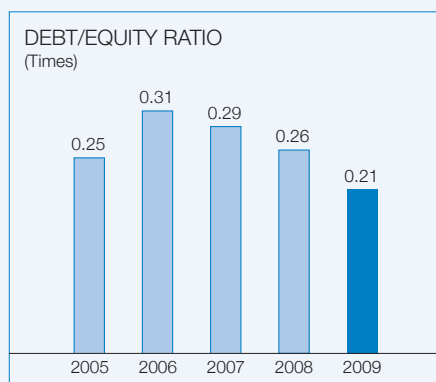
Net cash from operating activities was ¥32,672 million, ¥33,987 million less than the previous fiscal year. This was primarily attributable to lower income before income taxes and minority interests compared to the previous fiscal year, coupled with higher inventories of ceramic honeycomb substrates for automotive catalytic converters and other products. These factors were partially offset by depreciation and amortization recorded for the year.

CASH FLOW FROM INVESTING ACTIVITIES

Net cash used in investing activities was ¥21,553 million, ¥4,868 million more than a year earlier. Cash was primarily used for capital expenditures in diesel-related products in China and Mexico, and capital expenditures for investment in transformer insulators in China. The rise in net cash used was mainly attributable to an increase in capital expenditures in diesel-related products.

CASH FLOW FROM FINANCING ACTIVITIES

Net cash used in financing activities was ¥36,124 million, ¥26,007 million more than the previous fiscal year. This increase was mainly attributable to outlays for payment of cash dividends, repayment of borrowings, redemption of corporate bonds, and purchase of treasury stock. The latter three factors were largely responsible for the increase in cash used relative to the previous fiscal year.



CAPITAL EXPENDITURES

Capital expenditures for the NGK Group totaled ¥30,353 million. A breakdown of expenditures by segment is as follows.

POWER BUSINESS

Capital expenditures in this segment totaled ¥5,617 million, mainly related to production facilities for bushings.

CERAMICS PRODUCTS BUSINESS

Capital expenditures in this segment totaled ¥19,387 million, and were concentrated on production facilities related to diesel particulate filters (DPFs) and ceramic honeycomb substrates for automotive catalytic converters.

ELECTRONICS BUSINESS

Capital expenditures in the electronics business totaled ¥3,574 million, mainly for production facilities related to ceramic products for use in semiconductor manufacturing equipment.

HEAD OFFICE

Capital expenditures at the Head Office were ¥1,775 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 repayment of borrowings. 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 DPFs and NAS[®] batteries in stages. 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.

CONSOLIDATED BALANCE SHEETS

NGK Insulators, Ltd. and Consolidated Subsidiaries
March 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	¥ 76,508	¥ 119,796	\$ 780,694
Time deposits	452	2,458	4,612
Marketable securities (Note 4)	5,127	10,517	52,316
Notes and accounts receivable:			
Trade notes and accounts	44,943	81,847	458,602
Non-consolidated subsidiaries and associated companies	1,300	295	13,265
Other	7,056	4,789	72,000
Allowance for doubtful accounts	(188)	(189)	(1,918)
	53,111	86,742	541,949
Inventories (Note 5)	78,575	77,237	801,786
Deferred tax assets (Note 10)	9,647	9,469	98,439
Prepaid expenses and other current assets	1,191	6,754	12,153
Total current assets	224,611	312,973	2,291,949
PROPERTY, PLANT AND EQUIPMENT:			
Buildings and structures	104,816	109,600	1,069,551
Machinery and equipment	235,789	264,427	2,406,010
	340,605	374,027	3,475,561
Accumulated depreciation	(234,801)	(241,137)	(2,395,929)
	105,804	132,890	1,079,632
Land	18,930	18,715	193,163
Construction in progress	12,841	5,646	131,031
Net property, plant and equipment	137,575	157,251	1,403,826
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	31,415	49,861	320,561
Investments in and loans to non-consolidated subsidiaries and associated companies	15,618	596	159,367
Intangible assets	1,840	3,115	18,776
Prepaid pension cost (Note 7)	24,316	24,940	248,122
Deferred tax assets (Note 10)	5,670	3,585	57,857
Other assets	3,158	5,069	32,225
Total investments and other assets	82,017	87,166	836,908
TOTAL	¥ 444,203	¥ 557,390	\$ 4,532,683

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings (Note 6)	¥ 2,462	¥ 1,534	\$ 25,122
Current portion of long-term debt (Note 6)	29,391	23,328	299,908
Notes and accounts payable:			
Trade notes and accounts	26,341	37,293	268,786
Non-consolidated subsidiaries and associated companies	2,994	3,098	30,551
Other	9,322	12,146	95,122
	38,657	52,537	394,459
Accrued expenses	9,525	13,694	97,194
Provision for restructuring costs	531	1,126	5,418
Income taxes payable	590	15,744	6,020
Other current liabilities	4,000	5,629	40,816
Total current liabilities	85,156	113,592	868,937
LONG-TERM LIABILITIES:			
Long-term debt (Note 6)	28,000	61,027	285,714
Liability for retirement benefits (Note 7)	17,753	19,152	181,153
Deferred tax liabilities (Note 10)	8,078	22,641	82,429
Other long-term liabilities	3,792	3,464	38,694
Total long-term liabilities	57,623	106,284	587,990
CONTINGENT LIABILITIES (Note 14)			
EQUITY (Note 8):			
Common stock:			
Authorized—735,030 thousand shares			
Issued—337,560 thousand shares at March 31, 2009 and 2008	69,849	69,849	712,745
Capital surplus	85,136	85,136	868,735
Stock acquisition rights (Note 9)	519	459	5,296
Retained earnings	168,361	150,400	1,717,969
Unrealized gain on available-for-sale securities	2,508	12,535	25,592
Deferred loss on derivatives under hedge accounting	(109)	(4)	(1,112)
Foreign currency translation adjustments	(28,414)	277	(289,939)
Treasury stock—at cost: 10,808,134 shares and 748,140 shares			
at March 31, 2009 and 2008, respectively	(13,987)	(598)	(142,724)
Total	283,863	318,054	2,896,562
Minority interests	17,561	19,460	179,194
Total equity	301,424	337,514	3,075,756
TOTAL	¥444,203	¥557,390	\$4,532,683

CONSOLIDATED STATEMENTS OF INCOME

NGK Insulators, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
NET SALES	¥273,211	¥364,888	\$2,787,867
COST OF SALES (Note 11)	192,523	241,746	1,964,520
Gross profit	80,688	123,142	823,347
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	47,879	53,765	488,561
Operating income	32,809	69,377	334,786
OTHER INCOME (EXPENSES):			
Interest and dividend income	3,666	3,761	37,408
Interest expense	(2,669)	(2,774)	(27,235)
Loss on sales and disposals of property, plant and equipment—net	(1,395)	(655)	(14,235)
Gain on sales of investment in associated companies	—	10,050	—
Foreign exchange loss	(3,444)	(2,539)	(35,143)
(Loss) gain on evaluation of derivative	(251)	1,400	(2,561)
Equity in earnings of unconsolidated subsidiaries and associated companies	1,128	59	11,510
Loss on business liquidation	(7,913)	(362)	(80,745)
Loss on impairment of long-lived assets	(952)	—	(9,714)
Other—net	19	(161)	194
Other (expenses) income—net	(11,811)	8,779	(120,521)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	20,998	78,156	214,265
INCOME TAXES (Note 10):			
Current	6,983	26,265	71,255
Deferred	(9,603)	5,099	(97,990)
Total income taxes	(2,620)	31,364	(26,735)
MINORITY INTERESTS IN NET INCOME	(850)	841	(8,673)
NET INCOME	¥ 24,468	¥ 45,951	\$ 249,673
PER SHARE OF COMMON STOCK (Notes 2.u. and 15):			
Basic net income	¥73.66	¥136.36	\$0.752
Diluted net income	73.57	136.22	0.751
Cash dividends applicable to the year	22.00	22.00	0.224

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

NGK Insulators, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2009 and 2008

	Thousands	Millions of Yen										
	Outstanding Number of Common Stock	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Unrealized Gain on Available- for-sale Securities	Deferred loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE AT APRIL 1, 2007	337,097	¥69,849	¥85,152	¥232	¥126,387	¥ 20,960	¥(411)	¥ (1,966)	¥(15,202)	¥285,001	¥19,345	¥304,346
Net income	—	—	—	—	45,951	—	—	—	—	45,951	—	45,951
Cash dividends, ¥20 per share . . .	—	—	—	—	(6,741)	—	—	—	—	(6,741)	—	(6,741)
Net reversal of liability for retirement benefits of foreign subsidiaries . . .	—	—	—	—	25	—	—	—	—	25	—	25
Purchase of treasury stock	(310)	—	—	—	(51)	—	—	—	(612)	(663)	—	(663)
Disposal of treasury stock	25	—	9	—	—	—	—	—	20	29	—	29
Retirement of treasury stock	—	—	(15,196)	—	—	—	—	—	15,196	—	—	—
Transfer of loss on disposal of treasury stock	—	—	15,171	—	(15,171)	—	—	—	—	—	—	—
Net changes in the year	—	—	—	227	—	(8,425)	407	2,243	—	(5,548)	115	(5,433)
BALANCE AT MARCH 31, 2008. . . .	336,812	69,849	85,136	459	150,400	12,535	(4)	277	(598)	318,054	19,460	337,514
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	¥301,422

	Thousands of U.S. Dollars (Note 1)											
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Unrealized Gain on Available- for-sale Securities	Deferred loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity	
BALANCE AT MARCH 31, 2008	\$712,745	\$868,735	\$4,684	\$1,534,694	\$ 127,908	\$ (41)	\$ 2,827	\$ (6,102)	\$3,245,450	\$198,571	\$3,444,021	
Adjustment of retained earnings due to an adoption of PITF No. 18	—	—	—	23,888	—	—	—	—	23,888	—	23,888	
Adjustment of retained earnings for subsidiaries excluded from consolidation	—	—	—	(2,612)	—	—	—	—	(2,612)	—	(2,612)	
Net income	—	—	—	249,673	—	—	—	—	249,673	—	249,673	
Cash dividends, \$0.224 per share	—	—	—	(75,051)	—	—	—	—	(75,051)	—	(75,051)	
Net provision of liability for retirement benefits of foreign subsidiaries	—	—	—	(11,847)	—	—	—	—	(11,847)	—	(11,847)	
Purchase of treasury stock	—	—	—	—	—	—	—	(140,132)	(140,132)	—	(140,132)	
Disposal of treasury stock	—	(776)	—	—	—	—	—	3,510	2,734	—	2,734	
Transfer of loss on disposal of treasury stock	—	776	—	(776)	—	—	—	—	—	—	—	
Net changes in the year	—	—	612	—	\$(102,316)	(1,071)	(292,766)	—	(395,541)	(19,377)	(414,918)	
BALANCE AT MARCH 31, 2009	\$712,745	\$868,735	\$5,296	\$1,717,969	\$ 25,592	\$(1,112)	\$(289,939)	\$(142,724)	\$2,896,562	\$179,194	\$3,075,756	

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NGK Insulators, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 20,998	¥ 78,156	\$ 214,265
Adjustments for:			
Income taxes—paid	(23,018)	(21,572)	(234,878)
Depreciation and amortization	26,238	26,260	267,735
Loss on impairment of long-lived assets	952	—	9,714
Loss on sales and disposals of property, plant and equipment—net	1,395	655	14,235
Write-down and disposal of inventories	3,530	182	36,020
Gain on sales of stocks of associated companies	—	(10,050)	—
Loss on business liquidation	7,913	362	80,745
Equity in earnings of unconsolidated subsidiaries and associated companies	(1,128)	(59)	(11,510)
Changes in assets and liabilities:			
Decrease in notes and accounts receivable - trade	12,407	3,369	126,602
Increase in inventories	(21,346)	(7,077)	(217,816)
Increase in prepaid pension cost	(3)	(3,617)	(31)
Increase in notes and accounts payable—trade	6,095	401	62,194
(Decrease) increase in other current liabilities	(4,145)	2,195	(42,296)
Decrease in liability for retirement benefits	(560)	(227)	(5,714)
Other—net	3,344	(2,319)	34,123
Total adjustments	11,674	(11,497)	119,123
Net cash provided by operating activities	32,672	66,659	333,388
INVESTING ACTIVITIES:			
Purchases of marketable securities	(10,038)	(11,270)	(102,429)
Proceeds from sales of marketable securities	16,935	5,602	172,806
Purchases of investment securities	(1,968)	(6,724)	(20,081)
Proceeds from sales and redemption of investment securities	1,436	1,073	14,653
Proceeds from sales of stock of an associated company	—	11,300	—
Purchases of property, plant and equipment	(29,325)	(20,289)	(299,235)
Proceeds from sales of property, plant and equipment	255	705	2,602
Purchases of intangible assets	(666)	(738)	(6,796)
Decrease in time deposits	2,766	3,392	28,224
Other—net	(948)	264	(9,673)
Net cash used in investing activities	(21,553)	(16,685)	(219,929)
FINANCING ACTIVITIES:			
Increase (decrease) in short-term borrowings—net	3,297	(2,253)	33,643
Repayment of long-term borrowings	(8,497)	—	(86,704)
Redemption of corporate bonds	(10,000)	—	(102,041)
Acquisition of treasury stock	(13,733)	(570)	(140,133)
Cash dividends	(7,355)	(6,741)	(75,051)
Other—net	164	(553)	1,674
Net cash used in financing activities	(36,124)	(10,117)	(368,612)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(14,073)	1,654	(143,602)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(39,078)	41,511	(398,755)
CASH AND CASH EQUIVALENTS OF SUBSIDIARIES			
EXCLUDED FROM CONSOLIDATION, BEGINNING OF YEAR	(4,210)	—	(42,959)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	119,796	78,285	1,222,408
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 76,508	¥119,796	\$ 780,694

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NGK Insulators, Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2009 and 2008

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 addition,

certain reclassifications have been made in the 2008 financial statements to conform to the classifications used in 2009.

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 ¥98 to \$1, the approximate rate of exchange at March 31, 2009. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. CONSOLIDATION — The consolidated financial statements as of March 31, 2009 include the accounts of the Company and its 56 significant (56 in 2008) 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 2008) non-consolidated subsidiaries and one (none in 2008) 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, 2009 and 2008, ¥14 million (\$143 thousand) was included in long-term liabilities, and ¥130 million was included in intangible assets, 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 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 accounting for property, plant, and equipment and investment properties and incorporation of the cost model 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 (\$1,735 thousand), income before income taxes and minority interests by ¥217 million (\$2,214 thousand) and net income by ¥1,270 million (\$12,959 thousand). 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 COMBINATION — 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 (\$27,765 thousand) 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 (\$10,622 thousand) 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 circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of 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 restructuring of an insulators production site and records a provision.

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 do 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. BONUSES TO DIRECTORS AND CORPORATE AUDITORS —

Bonuses to directors and corporate auditors are accrued at the year-end to which such bonuses are attributable.

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 (\$102,071 thousand) for the year ended March 31, 2009.

In addition, the Group reviewed 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 (\$5,694 thousand) 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” in 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 all contracts whose construction periods are scheduled to last more than one year. Revenue recognized by the percentage-of-completion method for the years ended March 31, 2009 and 2008, were ¥1,297 million (\$13,235 thousand), and ¥14,575 million, respectively.

T. DERIVATIVES AND HEDGING ACTIVITIES — The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign forward exchange contracts, currency swaps, 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 acquiree 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.

UNIFICATION OF ACCOUNTING POLICIES APPLIED TO FOREIGN ASSOCIATED COMPANIES FOR THE EQUITY METHOD — The current accounting standard requires unification of accounting policies within the consolidation group. However, the current guidance allows use of the equity method for the financial statements of a foreign associated company which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions without unification of accounting policies.

On December 26, 2008, the ASBJ issued ASBJ Statement No. 16 (Revised 2008), “Revised Accounting Standard for Equity Method of Accounting for Investments.” The new standard requires adjustments to conform to the associate’s accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate’s financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted 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 of capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the

cost model accounting; 5) recording of the prior years’ effects of changes in accounting policies in the income statement where retrospective adjustments to the financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained.

This standard is applicable to the equity method of accounting for investments effective 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 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 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.

CONSTRUCTION CONTRACTS — Under the current Japanese GAAP, either the completed-contract method or the percentage-of-completion method is permitted to account for construction contracts. In December 27, 2007, the ASBJ issued a new accounting standard 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 total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for loss on construction contracts. This standard is applicable to construction contracts and software development

contracts and effective for fiscal years beginning on or after April 1, 2009 with early adoption permitted for fiscal years beginning on or

before March 31, 2009 but after December 27, 2007.

3. 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 unification of independent entities, and legally defined as formation of jointly-controlled entity. Consideration of the

merger was common stock with voting right, resulting the Company and Fuji Electric Systems Co., Ltd. ("FES," a subsidiary of FHC) hold 50 % of total number of shares issued of Metawater. The Company, FES and FHC concluded basic agreement stipulating that they would jointly control Metawater, and there is no fact that other control relationship exists. Judging from above, the merger was deemed as formation of jointly-controlled entity 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 from the current fiscal year.

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities at March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Current:			
Investment trusts and other	¥ 2,357	¥ 6,517	\$ 24,051
Debt securities	2,770	4,000	28,265
Total	¥ 5,127	¥10,517	\$ 52,316
Non-current:			
Equity securities and other	¥25,336	¥43,491	\$258,530
Debt securities	6,079	6,370	62,031
Total	¥31,415	¥49,861	\$320,561

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2009 and 2008 were as follows:

		Millions of Yen		
		Cost	Unrealized Gains	Unrealized Losses
March 31, 2009				Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥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
		Millions of Yen		
		Cost	Unrealized Gains	Unrealized Losses
March 31, 2008				Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities and other	¥23,361	¥22,261	¥1,076	¥44,546
Debt securities	200	—	—	200
Held-to-maturity:				
Debt securities	10,170	—	32	10,138

March 31, 2009

Securities classified as:

Available-for-sale:

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	\$183,265	\$71,796	\$18,775	\$236,286
Debt securities	2,041	—	10	2,031
Investment trusts and other	31,490	20	7,459	24,051

Held-to-maturity:

Debt securities	73,163	—	5,051	68,112
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Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2009 and 2008 were as follows:

	Carrying amount		
	Millions of Yen	Thousands of U.S. Dollars	
	2009	2008	2009
Available-for-sale:			
Equity securities and other	¥2,180	¥3,313	\$22,245
Held-to-maturity	1,480	2,149	15,102
Total	¥3,660	¥5,462	\$37,347

Proceeds from sales of available-for-sale securities for the years ended March 31, 2009 and 2008 were ¥4,997 million (\$50,990 thousand) and ¥2,218 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis,

were ¥354 million (\$3,612 thousand) and ¥425 million (\$4,337 thousand), respectively for the year ended March 31, 2009 and ¥29 million and ¥68 million, respectively, for the year ended March 31, 2008.

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, 2009 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	¥100	¥2,670	\$1,021	\$27,245
Due after one year through five years	99	5,980	1,010	61,020
Total	¥199	¥8,650	\$2,031	\$88,265

5. INVENTORIES

Inventories at March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Finished products	¥31,243	¥22,147	\$318,806
Semi-finished products	9,188	9,141	93,755
Work-in-process	6,472	13,012	66,041
Raw materials	13,374	15,007	136,469
Supplies	14,621	12,236	149,194
Cost of contracts in progress	3,677	5,694	37,521
Total	¥78,575	¥77,237	\$801,786

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2009 and 2008 consisted mainly of notes to banks. The weighted average interest rates on short-term borrowings as of March 31, 2009 and 2008 were 2.1% and 2.7%, respectively.

Long-term debt at March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Borrowings from banks and other financial institutions due serially to 2015 with weighted average interest rates of 1.7% (2009) and 1.6% (2008)	¥ 57,391	¥ 74,355	\$ 585,622
Unsecured 2.675% yen bonds due April 21, 2008	—	10,000	—
Total	57,391	84,355	585,622
Less: portion due within one year	(29,391)	(23,328)	(299,908)
Long-term debt, less current portion.	¥ 28,000	¥ 61,027	\$ 285,714

Annual maturities of long-term debt at March 31, 2009, were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2010.	¥29,391	\$299,908
2011.	4,000	40,816
2012.	10,000	102,041
2013.	8,000	81,633
2014	—	—
2015 and thereafter	6,000	61,224
Total	¥57,391	\$585,622

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, 2009 and 2008 for directors and corporate auditors was ¥76 million (\$776 thousand) and ¥214 million, respectively.

The liability for employees' retirement benefits, except for the directors and corporate auditors described above, at March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Projected benefit obligation	¥ 78,792	¥ 83,180	\$ 804,000
Fair value of plan assets	(68,847)	(90,039)	(702,520)
Unrecognized prior service benefit	3,699	3,988	37,745
Unrecognized actuarial loss	(23,078)	(6,319)	(235,490)
Other	—	(228)	—
Net asset	(9,434)	(9,418)	(96,265)
Prepaid pension cost	24,316	24,940	248,122
Other postretirement obligation	2,795	3,416	28,520
Amount recognized as liability	¥ 17,677	¥ 18,938	\$ 180,377

The components of net periodic benefit costs for the years ended March 31, 2009 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Service cost	¥ 2,541	¥ 2,908	\$ 25,929
Interest cost	1,742	2,071	17,775
Expected return on plan assets	(1,838)	(2,109)	(18,755)
Amortization of prior service benefit	(483)	(409)	(4,929)
Recognized actuarial (loss) gain	1,328	(291)	13,551
Other	230	(9)	2,347
Net periodic benefit costs	¥ 3,520	¥ 2,161	\$ 35,918

Assumptions used for the years ended March 31, 2009 and 2008 were set forth as follows:

	2009	2008
Discount rate	Primarily 2.0%	Primarily 2.0%
Expected rate of return on plan assets	Primarily 1.6%	Primarily 1.5%
Amortization period of prior service cost/benefit	Primarily ten years	Primarily ten years
Recognition period of actuarial gain/loss.	Primarily ten years	Primarily ten years

Funded status of the multi-employer pension plan at March 31, 2008 and 2007 (available information as of March 31, 2009 and 2008), to which contributions were recorded as net periodic retirement benefit costs, was as follows:

	Millions of Yen	
	2008	2007
Fair value of plan assets	¥ 299,284	¥ 343,788
Pension benefit obligation recorded by pension fund	(327,525)	(315,981)
Difference	¥ (28,241)	¥ 27,807
The Groups' contribution percentage for multi-employer pension plan	1.4%	

Notes: 1. The difference mainly resulted from a prior service cost of ¥21,928 million.
2. The prior service cost is amortized over 20 years.

8. EQUITY

Since May 1, 2006, Japanese companies have been 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 which meet certain criteria such as (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all 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 of 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 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, 2009 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

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
For the year ended March 31, 2008					
Non-vested					
March 31, 2007—Outstanding	—	—	—	—	—
Granted	—	—	—	62,000	—
Canceled	—	—	—	—	—
Vested	—	—	—	(62,000)	—
March 31, 2008—Outstanding	—	—	—	—	—
Vested					
March 31, 2007—Outstanding	180,000	113,000	41,000	—	—
Vested	—	—	—	62,000	—
Exercised	(15,000)	—	—	—	—
Canceled	—	—	—	—	—
March 31, 2008—Outstanding	165,000	113,000	41,000	62,000	—

For the year ended March 31, 2009

Non-vested

	2005 Stock Option	2006 Stock Option (2-1)	2006 Stock Option (2-2)	2007 Stock Option	2008 Stock Option
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
Exercise price	¥1	¥1	¥1	¥1	¥1
	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)
Average stock price at exercise.	¥1,315	¥1,162	¥2,035	N/A	N/A
	(\$13.4)	(\$11.9)	(\$20.8)		
Fair value price at grant date.	N/A	¥1,506	¥1,506	¥3,658	¥1,434
		(\$15.4)	(\$15.4)	(\$37.3)	(\$14.6)

The assumptions used to measure fair value of 2008 Stock Option

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	42.29%
Estimated remaining outstanding period:	Four and a half years
Estimated dividend:	¥22 per share
Risk free interest rate:	1.05%

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 40.7% for the years ended March 31, 2009 and 2008.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2009 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Deferred Tax Assets:			
Pension and severance costs	¥ 4,592	¥ 4,844	\$ 46,857
Tax loss carryforward	1,577	1,083	16,092
Accounts payable and accrued expenses	2,890	3,686	29,490
Enterprise tax	12	1,166	122
Inventories	5,231	2,618	53,377
Property, plant and equipment	4,491	3,076	45,827
Tax deduction of a foreign subsidiary.	6,875	—	70,153
Other	2,514	3,645	25,653
Total	28,182	20,118	287,571
Less: valuation allowance	(9,251)	(2,371)	(94,397)
Offset with deferred tax liabilities	(3,614)	(4,693)	(36,878)
Net deferred tax assets	¥15,317	¥13,054	\$156,296

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Deferred Tax Liabilities:			
Unrealized gain on available-for-sale securities	¥ 2,124	¥ 8,931	\$ 21,674
Gain on securities contributed to employees' retirement benefit trust	5,275	5,434	53,827
Deferred gains on sales of property	1,202	1,322	12,265
Undistributed earnings of foreign subsidiaries	1,125	9,485	11,480
Other	1,966	2,162	20,061
Total	11,692	27,334	119,307
Offset with deferred tax assets	(3,614)	(4,693)	(36,878)
Net deferred tax liabilities	¥ 8,078	¥22,641	\$ 82,429

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

	2009
Normal effective statutory tax rate	40.7%
Expenses not deductible for income tax purposes	3.4
Tax deduction such as R&D expenses	(2.9)
Other tax deductions	(3.4)
Increase in valuation allowances	10.9
Undistributed earnings of foreign subsidiaries	(49.5)
Lower income tax rates applicable to income in certain foreign countries	(8.9)
Equity in earnings of unconsolidated subsidiaries and associated companies	(2.2)
Other—net	(0.6)
Actual effective tax rate	(12.5)%

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the year ended March 31, 2008 was not disclosed because the difference was not material.

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs were ¥12,864 million (\$131,265 thousand) and ¥13,215 million for the years ended March 31, 2009 and 2008, respectively, which included consigned research costs of

¥975 million (\$9,949 thousand) and ¥1,049 million for the years ended March 31, 2009 and 2008, respectively.

12. LEASES

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

Total lease payments under finance leases for the years ended March 31, 2009 and 2008 were ¥38 million (\$388 thousand) and ¥80 million, respectively.

The Group continues to account for finance leases which existed at

March 31, 2008 and do not transfer ownership of the leased property to the lessee as operating lease transactions. Pro forma information of these leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense and interest expense on an "as if capitalized" basis at March 31, 2009 and 2008 is as follows:

	Millions of Yen			
	Machinery	Tools	Other	Total
March 31, 2009				
Acquisition cost	¥67	¥121	¥17	¥205
Accumulated depreciation	43	75	15	133
Net leased property	¥24	¥ 46	¥ 2	¥ 72
	Millions of Yen			
	Machinery	Tools	Other	Total
March 31, 2008				
Acquisition cost	¥161	¥237	¥25	¥423
Accumulated depreciation	96	148	14	258
Net leased property	¥ 65	¥ 89	¥11	¥165

March 31, 2009

	Thousands of U.S. Dollars			
	Machinery	Tools	Other	Total
Acquisition cost	\$684	\$1,234	\$173	\$2,091
Accumulated depreciation	439	765	153	1,357
Net leased property	\$245	\$ 469	\$ 20	\$ 734

Depreciation expense for the leased property "as if capitalized" basis, which is not reflected in the accompanying consolidated statements of income for the years ended March 31, 2009 and 2008, computed by the straight-line method, was ¥38 million (\$388 thousand) and ¥80 million, respectively.

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

	Thousands of U.S. Dollars	
	Millions of Yen	2009
	2008	2009
Due within one year	¥36	\$367
Due after one year	36	367
Total	¥72	\$734

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

The minimum rental commitments under noncancellable operating leases at March 31, 2009 were as follows:

	Thousands of U.S. Dollars	
	Millions of Yen	2009
	2008	2009
Due within one year	¥ 250	\$ 2,551
Due after one year	974	9,939
Total	¥1,224	\$12,490

13. DERIVATIVES

The Group enters into derivative financial instruments ("derivatives"), including foreign exchange forward contracts, currency swap, interest rate swap contracts and interest rate cap contracts. The foreign exchange forward contracts and currency swaps are entered into to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The interest rate swap contracts and interest rate cap contracts are entered into as a means of managing the interest rate risk for 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.

The Group had the following derivative contracts outstanding at March 31, 2009 and 2008:

	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)

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

March 31, 2009	Thousands of U.S. Dollars		
	Contract or Notional Amount	Fair Value	Net Unrealized Gain/(Loss)
Forward Exchange Contracts:			
Selling U.S. Dollar	\$158,521	\$160,888	\$(2,367)
Selling Euro	56,378	56,837	(459)
Buying U.S. Dollar	5,980	5,857	(123)
Buying Euro	2,622	2,643	21
Currency Swap Contracts:			
Japanese yen receipt U. S. Dollar (hedging currency) payment	20,347	3,520	3,520
Interest Rate Swaps:			
Fixed rate receipt, floating rate payment	244,898	(1,459)	(1,459)
Floating rate receipt, fixed rate payment	20,408	(194)	(194)

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

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

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

14. CONTINGENT LIABILITIES

At March 31, 2009, the Group had contingent liabilities as follows:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees for factoring of an associated company's trade payables	¥9,504	\$96,980
Guarantees for bank borrowings of employees	159	1,622
Guarantees for bank borrowings of a closely-related company	329	3,357
Contingent liabilities for notes endorsed with recourse	21	214

15. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2009 and 2008 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net income	Weighted average shares	EPS	
For the year ended March 31, 2009:				
Basic EP				
Net income available to common shareholders	¥24,468	332,173	¥ 73.66	\$0.75
Effect of Dilutive Securities				
Stock options	—	399		
Diluted EPS				
Net income for computation	¥24,468	332,572	¥ 73.57	\$0.75
For the year ended March 31, 2008:				
Basic EPS				
Net income available to common shareholders	¥45,951	336,981	¥136.36	
Effect of Dilutive Securities				
Stock options	—	360		
Diluted EPS				
Net income for computation	¥45,951	337,341	¥136.22	

16. 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, 2009 and 2008 is as follows:

A. OPERATIONS BY LINE OF BUSINESS

	Millions of Yen					
	Power	Ceramics	Electronics	Total	Eliminations/ Corporate	Consolidated
2009						
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

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

2009

Thousands of U.S. Dollars						
	Power	Ceramics	Electronics	Total	Eliminations/ Corporate	Consolidated
Sales to customers	\$845,980	\$1,333,775	\$608,112	\$2,787,867	—	\$2,787,867
Intersegment sales	347	939	—	1,286	\$ (1,286)	—
Total sales	846,327	1,334,714	608,112	2,789,153	(1,286)	2,787,867
Operating expenses	768,969	1,108,510	577,184	2,454,663	(1,582)	2,453,081
Operating income	\$ 77,358	\$ 226,204	\$ 30,928	\$ 334,490	\$ 296	\$ 334,786
Total assets	\$945,633	\$1,705,888	\$657,479	\$3,309,000	\$1,223,683	\$4,532,683
Depreciation	50,694	171,715	45,326	267,735	—	267,735
Impairment loss	—	—	9,714	9,714	—	9,714
Capital expenditures	57,316	197,827	36,469	291,612	18,112	309,724

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

Engineering is excluded from above Line of Business as of 2009, due to the deconsolidation of NGK Water Environment System (see Note 3), which comprised the majority of Engineering.

Certain products such as radioactive waste products, which were formerly included in Engineering, have been added in Ceramics as of 2009. This change increased sales and operating income of Ceramics by ¥4,025 million (\$41,071 thousand) and ¥797 million (\$8,133 thousand), respectively, for the year ended March 31, 2009.

As discussed in Note 2.e., effective April 1, 2008, the Company applied ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories." The effect of this change was to decrease operating income of Power, Ceramics and Electronics by ¥262 million (\$2,673 thousand) by ¥1,056 million (\$10,776 thousand), and ¥1,403 million (\$14,316 thousand), respectively, for the year ended March 31, 2009.

As discussed in Note 2.b., effective April 1, 2008, the Company applied PITF No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The effect of this change was to increase operating income of Power by ¥60 million (\$612 thousand), and to decrease operating income of Ceramics and Electronics by ¥217 million (\$2,214 thousand) and ¥13 million (\$133 thousand), respectively, for the year ended March 31, 2009.

As discussed in Note 2.g., effective April 2008, the useful lives for machinery were changed. The effect of this treatment was to decrease operating income of Power, Ceramics and Electronics by ¥292 million (\$2,979 thousand), ¥599 million (\$6,112 thousand), and ¥150 million (\$1,531 thousand), respectively, for the year ended March 31, 2009.

B. OPERATIONS BY GEOGRAPHICAL SEGMENTS

Millions of Yen							
2009	Japan	North America	Europe	Other	Total	Eliminations/ Corporate	Consolidated
Sales to customers	¥162,407	¥34,763	¥54,256	¥21,785	¥273,211	—	¥273,211
Interarea transfers	34,508	11,119	1,552	12,247	59,426	¥(59,426)	—
Total sales	196,915	45,882	55,808	34,032	332,637	(59,426)	273,211
Operating expenses	181,680	42,646	46,338	31,485	302,149	(61,747)	240,402
Operating income	¥ 15,235	¥ 3,236	¥ 9,470	¥ 2,547	¥ 30,488	¥ 2,321	¥ 32,809
Total assets	¥264,208	¥34,088	¥64,478	¥49,858	¥412,632	¥ 31,571	¥444,203

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

Thousands of U.S. Dollars

2009	Japan	North America	Europe	Other	Total	Eliminations/ Corporate	Consolidated
Sales to customers	\$1,657,214	\$354,724	\$553,633	\$222,296	\$2,787,867	—	\$2,787,867
Interarea transfers	352,122	113,459	15,837	124,969	606,387	\$(606,387)	—
Total sales	2,009,336	468,183	569,470	347,265	3,394,254	(606,387)	2,787,867
Operating expenses	1,853,878	435,163	472,837	321,275	3,083,153	(630,072)	2,453,081
Operating income	\$ 155,458	\$ 33,020	\$ 96,633	\$ 25,990	\$ 311,101	\$ 23,685	\$ 334,786
Total assets	\$2,696,000	\$347,836	\$657,939	\$508,755	\$4,210,530	\$ 322,153	\$4,532,683

As discussed in Note 2.e., effective April 1, 2008, the Company applied ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories." The effect of this change was to decrease operating income of Japan by ¥2,721 million (\$27,765 thousand) for the year ended March 31, 2009.

As discussed in Note 2.b., effective April 1, 2008, the Company applied PITF No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The effect of this change was to decrease operating income of North America and Europe by ¥13 million (\$133 thousand) and ¥196 million (\$2,000 thousand), respectively, and to increase operating income of Other by ¥39 million (\$398 thousand) for the year ended March 31, 2009.

As discussed in Note 2.g., effective April 2008, the useful lives for machinery were changed. The effect of this treatment was to decrease operating income of Japan by ¥1,041 million (\$10,622 thousand) for the year ended March 31, 2009.

C. SALES TO FOREIGN CUSTOMERS

Millions of Yen

2009	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%

Millions of Yen

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

Thousands of U.S. Dollars

2009	North America	Europe	Asia	Other	Total
Overseas sales	\$372,724	\$507,143	\$286,010	\$296,082	\$1,461,959
Net sales					2,787,867

17. SUBSEQUENT EVENTS

The following appropriation of retained earnings at March 31, 2009 was approved at the Company's shareholders meeting held on June 26, 2009:

APPROPRIATION OF RETAINED EARNINGS

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥11 (\$0.11) per share	¥3,594	\$36,676

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, 2009 and 2008, 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, 2009 and 2008, 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.

Deloitte Touche Tohmatsu

June 26, 2009

Member of
Deloitte Touche Tohmatsu

SUBSIDIARIES AND AFFILIATED COMPANIES

(As of March 31, 2009)

JAPAN

	Company's Direct and Indirect Ownership (%)	Principal Products and Services
■ Energy Support Co., Ltd.	47.0	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 Optoceramics Co., Ltd.	100	Ceramic electronic components
■ NGK Printer Ceramics Co., Ltd.	100	Ceramic electronic components
■ NGK Okhotsk, Ltd.	100	Ceramic electronic components
■ Soshin Electric Co., Ltd.	40.7	Electronic components and devices
■ M-Elec Company	100	Electronic components and devices
■ Koshin Electronics Co., Ltd.	100	Electronic components and devices
■ Rishin Electronics Co., Ltd.	99	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

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

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

GLOBAL NETWORK

(As of March 31, 2009)

ASIA



NGK Insulators Tangshan Co., Ltd.



NGK Insulators Suzhou Co., Ltd.



NGK Ceramics Suzhou Co., Ltd.



NGK Technocera Suzhou Co., Ltd.



SIAM NGK Technocera Co., Ltd.



PT. WIKA-NGK Insulators



PT. NGK Ceramics Indonesia

NGK Insulators Shanghai Co., Ltd.
NGK Automotive Ceramics Korea Co., Ltd.

NORTH AMERICA



Locke Insulators, Inc.



NGK-Locke Polymer Insulators, Inc.



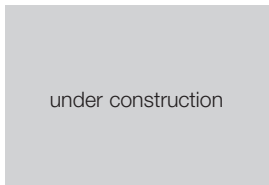
NGK Ceramics USA, Inc.



NGK Metals Corporation



FM Industries, Inc.



under construction

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

NGK-Locke, Inc.
NGK Automotive Ceramics USA, Inc.
NGK Electronics USA, Inc.
NGK Insulators of Canada, Ltd.

EUROPE



NGK Ceramics Europe S.A.



NGK Ceramics Polska Sp. z o.o.



NGK Berylco France

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

AUSTRALIA



NGK Stanger Pty. Ltd.

AFRICA



NGK Ceramics South Africa (Pty) Ltd.

CORPORATE DATA

(As of March 31, 2009)

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

27,410

STOCK EXCHANGE LISTINGS

Tokyo, Nagoya, Osaka and Sapporo

AUDITORS

Deloitte Touche Tohmatsu

(The Japanese member firm of Deloitte Touche Tohmatsu)

ORGANIZATION

(As of April 1, 2009)

POWER BUSINESS GROUP

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

CERAMICS PRODUCTS BUSINESS GROUP

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

ELECTRONICS BUSINESS GROUP

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

HEAD OFFICE

- Auditing Dept.
- Environmental Management Dept.
- Corporate Strategy Office
- Secretarial Office
- Public Relations Office
- Human Resources Office
- CSR Office
- Finance & Accounting Dept.
- Legal Affairs & Intellectual Property Dept.
- General Affairs Dept.
- Purchasing Dept.

CORPORATE R&D

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

CORPORATE MANUFACTURING ENGINEERING

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

BOARD OF DIRECTORS, CORPORATE AUDITORS AND CORPORATE OFFICERS

(As of June 26, 2009)

DIRECTORS AND CORPORATE OFFICERS



Masaharu Shibata*
Chairman



Shun Matsushita*
President and
Chief Executive Officer



Taro Kato*
Executive Vice President



Eiji Hamamoto*
Executive Vice President



Hiroshi Wada*
Executive Vice President

*Representative Directors



Tsurayuki Okamoto
Director and
Senior Vice President



Eiichi Tsuruta
Director and
Senior Vice President



Takeyuki Mizuno
Director and
Senior Vice President



Hiroshi Fujito
Director and
Senior Vice President



Mitsuo Ibuki
Director and
Senior Vice President



Hideaki Saito
Director and
Vice President



Ryohei Iwasaki
Director and
Vice President



Uichiro Niwa
External Director



Hirotsugu Ogawa
External Director



Yukihisa Takeuchi
Senior Vice President



Takafumi Hocht
Vice President



Toshiyuki Hamanaka
Vice President



Hiroaki Sakai
Vice President



Taku Oshima
Vice President



Susumu Sakabe
Vice President



Yasushi Ozawa
Vice President



Haruo Fukui
Vice President



Nobuo Takahashi
Vice President



Yukiyasu Oguchi
Vice President

CORPORATE AUDITORS



Mitsuru Koketsu
Standing Corporate Auditor



Akira Nakashima
Standing Corporate Auditor



Yasuyuki Hirai
External Corporate Auditor



Setsuo Tanaka
External Corporate Auditor



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