Annual Report 2014

Year Ended March 31, 2014

NGK INSULATORS, LTD.

Profile

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

Contents

Forward-Looking Statements
This annual report contains forward-looking statements about the future plans, strategies, beliefs and performance of NGK and its 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.

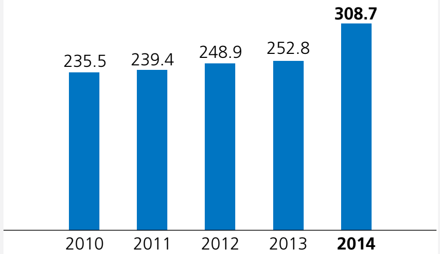
(Top)
NGK's NAS® batteries help to ensure a stable supply of energy to the French island of Réunion, a world heritage site in the Indian Ocean.

(Bottom)
NGK's diesel particulate filters are also used in Europe, where diesel vehicles are in widespread use.

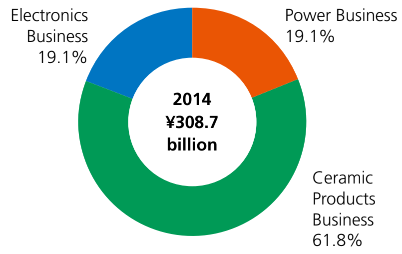
Financial Highlights

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

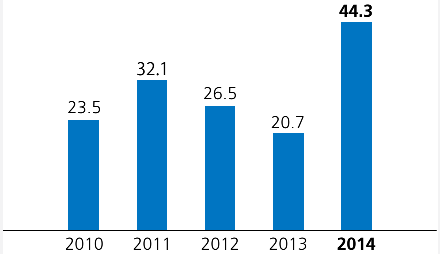
Net Sales
(Billions of Yen)



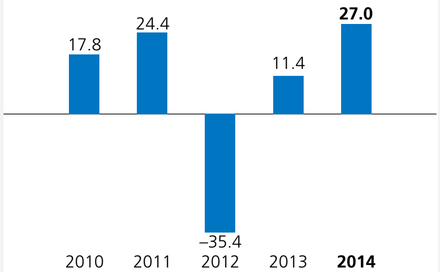
Sales by Business Segment



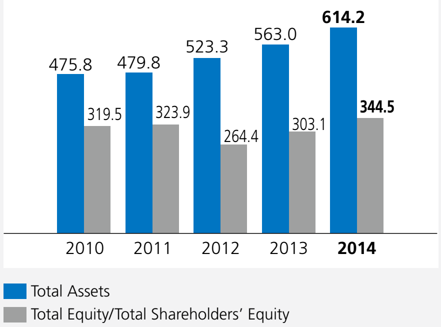
Operating Income
(Billions of Yen)



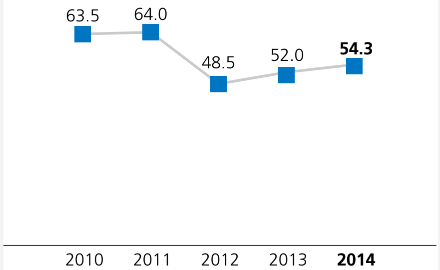
Net Income (Loss)
(Billions of Yen)



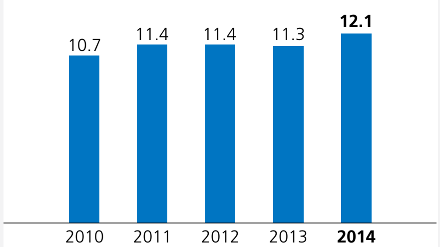
Total Assets, Total Equity/Total Shareholders' Equity
(Billions of Yen)



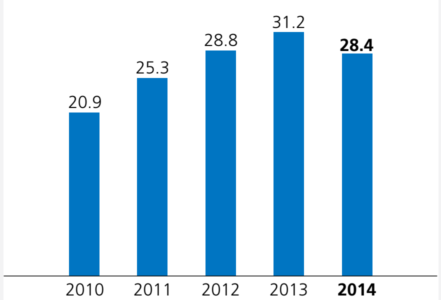
Equity Ratio
(%)



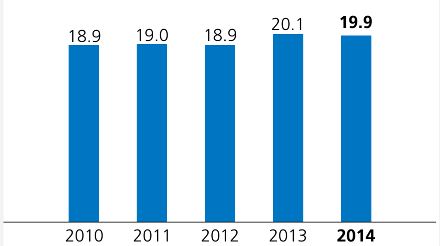
Research and Development Expenses
(Billions of Yen)



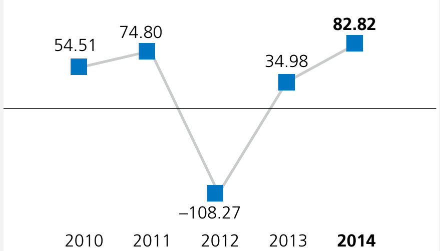
Capital Expenditures
(Billions of Yen)



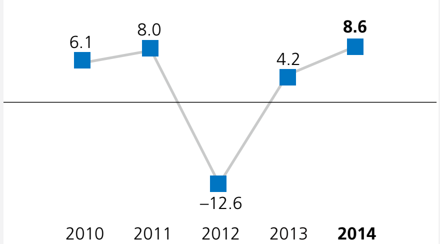
Depreciation and Amortization
(Billions of Yen)



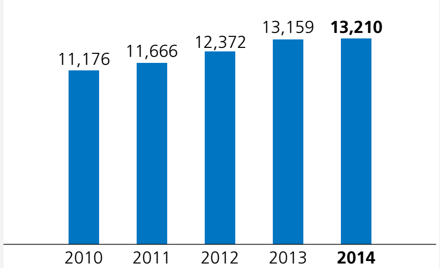
Net Income (Loss) per Share
(Yen)



Return on Equity
(%)



Number of Employees



Business Performance in Fiscal 2013

In fiscal 2013, ended March 31, 2014, the Japanese economy firmed up and maintained its gradual recovery as the yen's appreciation was corrected, while fiscal easing and economic stimulus measures took effect, and the export environment improved. Overseas, growth slowed in some emerging markets but the U.S. economy continued its positive trajectory.

In this climate, the Ceramics Products Business of the NGK Group (NGK, consolidated subsidiaries and equity-method affiliates) saw solid demand for automotive ceramics thanks to brisk auto sales in the U.S. and Chinese markets and new emissions restrictions on trucks in China, among other factors. In the Electronics Business, there was increased demand for ceramics for semiconductor manufacturing equipment as the semiconductor market recovered on growth in mobile products. In the Power Business, sales of insulators were soft due to stagnating domestic demand, but shipments of NAS® batteries resumed, primarily to overseas customers. As a result, consolidated net sales increased 22.1% year on year to ¥308,671 million.

In terms of earnings, consolidated operating income increased by 113.8% year on year to ¥44,252 million and ordinary income rose 108.8% to ¥45,819 million, owing to increased sales of automotive ceramics and ceramics for semiconductor manufacturing equipment, the impact of the yen's depreciation and other factors. As we continue to rebuild the Insulator Business, we booked extraordinary losses including impairment loss on fixed assets and loss on liquidation of subsidiaries and affiliates relating to an insulator manufacturing subsidiary in China; however, due to the improvement in operating income, net income increased 136.8% year on year to ¥27,045 million.

Striving for Sustainable Growth

In the economic outlook, while gentle recovery in developed markets is expected to continue, various factors continue to darken the economic outlook, including concerns related to economic trends in emerging markets and the slump in consumption in Japan following the demand spike leading up to this year's consumption tax increase.

Over the medium- to long-term, competition with local companies in emerging countries is expected to heat up as local markets grow and the countries increase their reputations as manufacturing bases.

Operating in these conditions, the NGK Group will focus on continuing to strengthen already strong lines of business to enhance its competitive strength from a medium- to long-range perspective and creating new products and new businesses based on the 2017 Challenge 30 approach. In doing so we will be guided by five basic policies: 1) seeking innovation in our technologies, 2) emphasizing speed, 3) paying attention to on-site operations, 4) encouraging human resources development, and 5) promoting CSR in which all employees can take part.

1. Further strengthen strong business from a medium- to long-term perspective

To strengthen the profitability of existing business, we will strive in the area of automotive products to steadily build globally efficient production systems to match growing demand. In the area of ceramics products for use in semiconductor manufacturing equipment, we plan to strengthen product competiveness by improving product performance and establishing innovative production methods.

Meanwhile, for insulators and products for industrial machinery, which continue to face challenges, we intend to review the respective roles of domestic and overseas production facilities and streamline and cut costs through business restructuring to convert to a structure capable of producing sustainable profits. For NAS® batteries, we will prioritize stability, and strive to secure profitability by achieving a steady flow of orders and promoting cost reductions in design and manufacturing.

The NGK Group will continue to reform its manufacturing structures and pursue cost competitiveness and technological innovation to compete successfully on the global stage over the medium- to long-term.

2. Creation of new products and business—2017 Challenge 30

In 2017 Challenge 30, we set a target of raising the share of net sales accounted for by new products to 30% by fiscal 2017. We are working to achieve it by creating new products and new businesses. We will steadily establish the bonded wafer business, which has the green light for commercialization, and move to launch new products in areas that leverage our core technologies, including wafer products such as gallium nitride (GaN) and High Ceram® wafers, sub-nano ceramic membranes, and solid oxide fuel cells. We will also redouble efforts to identify new development themes through close cooperation between the business and R&D sections.

Other Group efforts include the establishment of the BCP Division. This organization will promote business continuity planning (BCP) throughout the Group and strive to increase the efficacy of various measures to ensure business continuity during disasters. It objective is to ensure that the Group can fulfill its responsibility to stably supply products to contribute to a better social environment. We are currently subject to an international investigation concerning our competitive situation, to which we are providing full cooperation. In an effort to handle the matter fairly, we have established an independent committee led by an outside Director and an outside Audit & Supervisory Board Member. CSR occupies a central position in Group management, and we aim to promote CSR activities that involve all Group personnel. We are also working to strengthen compliance systems and enhance our working environments to promote awareness of high ethical standards among our employees and reflect this in our everyday actions.

Through these initiatives, the NGK Group will continue to realize sustained growth and increase corporate value. Meanwhile, in management we will continue to focus on capital efficiency and our shareholders. We ask for the continued support and guidance of all our shareholders in our operations going forward.

August 2014

Eiji Hamamoto
Chairman

Taku Oshima
President

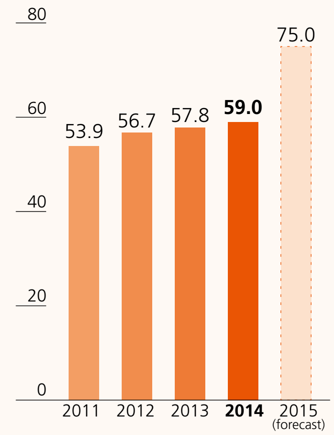
Left: Eiji Hamamoto Right: Taku Oshima

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.

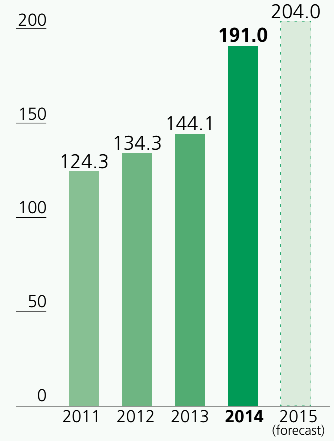
Net Sales (Billions of Yen)



Ceramic Products Business Group

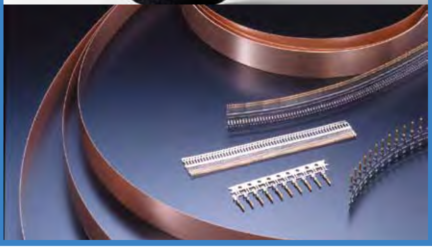
This business segment encompasses three operations: automotive ceramics, where NGK is involved in the production of components essential to automotive exhaust gas purification; industrial process apparatus, in which the Company manufactures products which are highly resistant to heat and chemical corrosion;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

Net Sales (Billions of Yen)

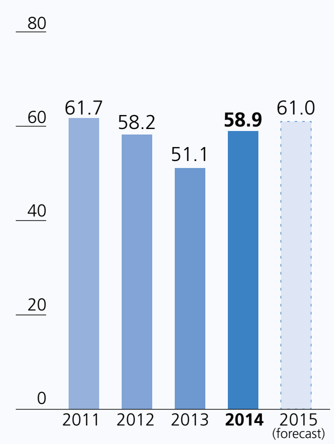


Electronics Business Group

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



Net Sales (Billions of Yen)



Fiscal 2013 Business Overview

Segment sales increased by 2.1% year on year to ¥59,004 million.

Sales of insulators declined year on year, mainly due to delays in some overseas business deals and a continuation of the slump in demand in both the Chinese and domestic markets. NAS® batteries saw sales increase as shipments, mainly to major overseas buyers, resumed after implementing safety countermeasures in response to the fire incident that occurred in September 2011.

In terms of earnings, the operating loss decreased following the resumption of NAS® battery shipments. Overall, the operating loss for the segment was ¥3,900 million (compared to an operating loss of ¥5,729 million in the previous fiscal year).

Fiscal 2013 Business Overview

Segment sales were ¥190,978 million, an increase of 32.5% from the previous fiscal year.

Sales of automotive ceramics increased, especially for ceramic substrates for catalytic conversion (HONEYCERAM® and large-size HONEYCERAM®) and silicon carbide diesel particulate filters (SiC DPFs). The increase was driven by brisk sales of passenger vehicles in the U.S. and Chinese markets, expansion in demand in China with the introduction of exhaust emission regulations, mainly for trucks, and strong demand in Europe for use in high-grade passenger vehicles. Industrial process apparatuses saw sales decline due to a slump in capital expenditure in the main customer sectors of electronics, steelmaking, and chemicals.

Operating income rose 73.2% to ¥44,998 million, mainly due to the significant increase in sales of automotive ceramics.

Fiscal 2013 Business Overview

Segment sales were ¥58,927 million, up 15.3% from the previous fiscal year.

Sales of ceramic products for semiconductor manufacturing equipment increased due to higher demand in line with the expansion of mobile devices, while beryllium copper products also saw sales growth driven by expansion in demand from China and emerging markets. In electronic components, sales fell tracking a continued year-on-year decline in demand for piezoelectric micro-actuators for inkjet printers. Meanwhile, group sales of consolidated subsidiary SOSHIN ELECTRIC CO., LTD. were higher atop firm demand for items used in industrial machinery.

Operating income increased seven-fold over the previous year to ¥3,104 million, mainly due to the contribution from higher sales in ceramic products for semiconductor manufacturing equipment.

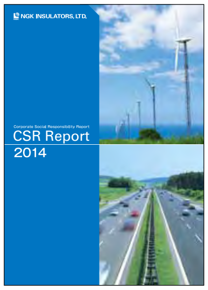
Fiscal 2014 Outlook

In the economic outlook, while gentle recovery in developed markets is expected to continue, various factors continue to darken the economic outlook, including concerns related to economic trends in emerging markets and the slump in consumption in Japan following the demand spike leading up to this year's consumption tax increase.

Under these conditions, the NGK Group expects to see higher demand for automotive products and ceramics for semiconductor manufacturing equipment. In regards to NAS® batteries for storing electricity, we have scheduled major shipments for overseas business deals. Based on these forecasts, we expect to see a year-on-year increase in sales as a whole. On the earnings front, while we will incur upfront expenses for expanding the production capacity for automotive products, we are projecting higher overall earnings on higher sales.

In terms of our consolidated forecasts, we are projecting net sales of ¥340.0 billion, up 10.1% year on year, operating income of ¥48.0 billion, up 8.5%, ordinary income of ¥50.0 billion, up 9.1%, and net income of ¥34.0 billion, up 25.7%. These forecasts are premised on foreign exchange rates of ¥100 to the U.S. dollar and ¥135 to the euro.

Corporate Social Responsibility



Corporate Social Responsibility Report
http://www.ngk.co.jp/english/csr/

CSR from NGK's Perspective

To contribute to society in a manner that embodies our corporate philosophy, the NGK Group is committed to offering products and services that help create a better social environment and bring new value to society.

By putting these activities into practice, we are working together with our customers, employees and business partners to fulfill our social responsibility as a company in every respect, an act essential to meeting the public's expectations and earning their trust.

Refer to the Corporate Social Responsibility Report for more information concerning NGK's CSR activities.

Corporate Governance

Basic Approach to Corporate Governance and Status Initiatives

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

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

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

Internal Control Systems

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

R&D Activities

The NGK Group sees R&D as an important management priority. The Group actively allocates resources to R&D, with the aim of providing high value-added, highly functional new products. R&D activities are based on materials development technology and systemization technology centered on fine ceramics. The Group has a two-part R&D structure consisting of activities at the parent company's R&D divisions, which are engaged in basic to applied R&D, and activities that are closer in nature to product development, which are conducted at business groups and subsidiaries.

The Group's overall R&D expenses in fiscal 2013 were ¥12,060 million. These expenses included costs of ¥822 million related to contract-based research undertaken outside the Group. R&D themes, achievements, and expenses for each business group are as follows.

Power Business

The Power Business Group conducts R&D to reduce the costs of NAS® batteries, in order to meet market needs. In the power distribution business, consolidated subsidiary ENERGY SUPPORT CORPORATION is engaged in R&D related to developing new power distribution equipment products and reducing the cost of products.

R&D expenses in this segment totaled ¥872 million.

Ceramic Products Business

The Ceramic Products Business Group conducts R&D focused on several themes: developing gasoline particulate filter (GPF) products, improving production techniques and performance with respect to diesel particulate filters (DPFs); enhancing production techniques for ceramic honeycomb substrates used in catalytic converters for diesel and other automobiles; developing heating and drying systems for glass substrate and film; and refining waste treatment systems for nuclear power plants.

R&D expenses in this segment totaled ¥3,971 million.

Electronics Business

Research in the Electronics Business Group conducts research on applied devices based on core piezoelectric ceramics technology, ceramic components and modules for addressing the advanced functionality of semiconductor production equipment, and beryllium copper strip products for electronic parts such as connectors and relays for automobiles, industrial equipment and digital appliances.

Furthermore, this segment is making efforts to develop ceramic products for LEDs using translucent alumina ceramics and low-cost mass production technology.

Consolidated subsidiary SOSHIN ELECTRIC CO., LTD. conducts R&D focused on large-capacity capacitors and multi-layered dielectric filters, primarily for the fields of power electronics and information and communications.

R&D expenses in this segment totaled ¥1,832 million.

Corporate R&D

Corporate R&D includes the R&D Headquarters, which is responsible for Company-wide R&D activities. The R&D Headquarters' primary mission is to innovate and nurture basic ceramics technology over the medium- and long-terms and to sow the seeds of new products. Corporate R&D consists of the Wafer Project, the NCM (Nano-Ceramic Membranes) Project, the Functional Materials Development Project, the Advanced Materials Development Center, the Materials Research Laboratory, and the Future Technology Management Center.

In fiscal 2013, Corporate R&D focused on the R&D theme of gallium nitride (GaN) wafers.

R&D expenses in Corporate R&D were ¥5,383 million.

Note: The above amounts do not include consumption tax.

Summary of Income Statements

The NGK Group's Ceramic Products Business saw solid demand for automotive ceramics thanks to brisk auto sales in the U.S. and Chinese markets and new emissions restrictions on trucks in China, among other factors.

In the Electronics Business, demand for ceramics for semiconductor manufacturing equipment increased as the semiconductor market recovered on growth in mobile products.

In the Power Business, sales of insulators were soft due to stagnating domestic demand, but shipments of NAS® batteries for electrical power storage resumed, mainly for customers overseas. As a result, consolidated net sales increased 22.1% year on year to ¥308,671 million.

In terms of earnings, consolidated operating income increased by 113.8% year on year to ¥44,252 million and ordinary income increased by 108.0% to ¥45,819 million, owing to increased sales of automotive ceramics and ceramics for semiconductor manufacturing equipment, the impact of the yen's depreciation and other factors. As we continue to rebuild the Insulator Business, we booked extraordinary losses including impairment loss on fixed assets and loss on liquidation of subsidiaries and affiliates relating to an insulator manufacturing subsidiary in China; however, due to the improvement in operating income, net income increased by 136.8% year on year to ¥27,045 million.

Financial Position

As of March 31, 2014, total assets were ¥614,220 million, an increase of 9.1% from the previous fiscal year-end. Current assets increased by 16.1% from a year earlier to ¥352,590 million, mainly due to increases in marketable securities and accounts receivable. Fixed assets increased by 0.8% from a year earlier to ¥261,630 million.

Current liabilities increased 17.5% from a year earlier to ¥101,420 million, mainly due to an increase in the current portion of long-term debt, although provision for NAS battery safety measures decreased. Long-term liabilities decreased 3.0% to ¥168,347 million, primarily due to a reclassification of corporate bonds whose redemption dates came to be within one year from long-term to current liabilities, despite an increase in long-term debt.

Total equity stood at ¥344,453 million, or 13.7% higher than the previous fiscal year-end, primarily due to an increase in retained earnings due to recording net income, in addition to an increase in foreign currency translation adjustments caused by the weak yen and an increase in unrealized gain on available-for-sale securities.

Consequently, the equity ratio was 54.3%, compared with 52.0% at the previous fiscal year-end, while net assets per share increased by ¥125.06 from the previous fiscal year to ¥1,021.32.

Cash Flows

There was a net increase of ¥16,937 million in cash and cash equivalents from the previous fiscal year-end to ¥119,782 million. This reflected ¥32,648 million in net cash provided by operating activities, ¥21,185 million in net cash used in investing activities, and ¥2,027 million in net cash provided by financing activities.

Cash Flow from Operating Activities

Net cash provided by operating activities was ¥32,648 million. The main components were income before income taxes and minority interests of ¥37,905 million and depreciation and amortization, partly offset by a decrease in provision for NAS battery safety measures and an increase in notes and accounts receivable. Compared to the previous fiscal year-end, net cash provided by operating activities increased by ¥28,968 million due to an increase in income before income taxes and minority interests and a decrease in provision for NAS battery safety measures, despite an increase in cash outlays due to the increase in notes and accounts receivable.

Cash Flow from Investing Activities

Net cash used in investing activities was ¥21,185 million. Cash was mainly used for purchases of marketable securities, an increase in time deposits, and capital expenditures on facilities for automotive-related products, despite proceeds from sales and redemption of investment securities. Compared to the previous fiscal year, net cash used in investing activities increased ¥20,603 million, mainly due to an increase in purchases of marketable securities.

Cash Flow from Financing Activities

Net cash provided by financing activities was ¥2,027 million, mainly reflecting proceeds from long-term debt, despite cash dividends paid. Compared to the previous fiscal year, net cash provided by financing activities decreased by ¥10,421 million mainly due to a decrease in new long-term borrowings.

Capital Expenditures

Capital expenditures for the NGK Group totaled ¥28,435 million.

Capital expenditures in the Power Business group totaled ¥3,038 million, and were mainly related to NAS® battery production facilities.

Capital expenditures in the Ceramic Products Business group totaled ¥20,419 million and were concentrated mainly on production facilities for automotive ceramics products.

Capital expenditures in the Electronics Business group totaled ¥3,904 million, concentrated mainly on production facilities for ceramics products for semiconductor manufacturing equipment.

At the Head Office, capital expenditures were ¥1,074 million, principally for upgrading facilities.

Business Risks

Production Bases

The NGK Group's main production bases are located in Aichi Prefecture and Ishikawa Prefecture in Japan, and overseas in the Americas, 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, 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 i) compliance with the host country's laws, regulations or taxes, ii) adverse changes in the economic environment such as fluctuations in exchange rates, iii) difficulty in securing, educating and training personnel, iv) inadequate infrastructure, and v) societal problems such as terrorism and war. The unforeseen occurrence of any of these events could adversely impact the NGK Group's business performance and financial condition.

Exchange Rates, Interest Rates, and Material 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, which could adversely impact the NGK Group's business performance.

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

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 the Group's business performance and financial condition.

New Products

The NGK Group works to create new products to secure its growth prospects. The Group makes focused investments in new products that should become pillars of growth in the future. At the same time, NGK is making capital expenditures in stages for products for which demand is expected to expand. However, in the event that these capital expenditures are not made on schedule, this may adversely impact 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 the Group's business performance and financial condition.

Product Quality

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

International Investigation related to Competitive Conditions

The NGK Group is currently the subject of an international investigation related to competitive conditions and is giving its full cooperation. The investigation is being conducted by authorities concerned with competition, and depending on the outcome, there may be an adverse impact on the Group's business performance and financial position.

NGK INSULATORS, LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
MARCH 31, 2014

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
CURRENT ASSETS:			
Cash and cash equivalents (Note 13)	¥ 119,782	¥ 102,845	$ 1,162,932
Time deposits (Note 13)	9,092	742	88,272
Marketable securities (Notes 3 and 13)	20,994	17,691	203,825
Notes and accounts receivable:			
Trade notes and accounts (Note 13)	70,296	57,654	682,485
Unconsolidated subsidiaries and associated companies	1,928	1,519	18,719
Other	8,745	9,335	84,903
Allowance for doubtful accounts	(117)	(110)	(1,136)
Total	80,852	68,398	784,971
Inventories (Note 4)	101,353	95,944	984,010
Deferred tax assets (Note 10)	15,157	14,663	147,155
Prepaid expenses and other current assets	5,360	3,284	52,039
Total current assets	352,590	303,567	3,423,204
PROPERTY, PLANT AND EQUIPMENT (Note 5):			
Land	21,493	21,248	208,670
Buildings and structures	134,738	124,746	1,308,136
Machinery and equipment	333,242	293,908	3,235,360
Construction in progress	7,900	20,556	76,699
Total	497,373	460,458	4,828,865
Accumulated depreciation	(321,049)	(296,573)	(3,116,981)
Net property, plant and equipment	176,324	163,885	1,711,884
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 13)	51,767	45,080	502,592
Investments in unconsolidated subsidiaries and associated companies	13,136	21,053	127,534
Intangible assets (Note 5)	4,848	5,391	47,068
Net defined benefit asset (Note 7)	7,491	17,469	72,728
Deferred tax assets (Note 10)	3,518	3,856	34,155
Other assets	4,546	2,729	44,136
Total investments and other assets	85,306	95,578	828,213
TOTAL	¥ 614,220	¥ 563,030	$ 5,963,301

(Continued)

NGK INSULATORS, LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
MARCH 31, 2014

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
CURRENT LIABILITIES:			
Short-term borrowings (Notes 6 and 13)	¥ 3,063	¥ 3,106	$ 29,738
Current portion of long-term debt (Notes 6 and 13)	20,142	-	195,554
Notes and accounts payable:			
Trade notes and accounts (Note 13)	25,541	24,998	247,971
Unconsolidated subsidiaries and associated companies	2,953	2,979	28,670
Other	10,968	13,618	106,485
Total	39,462	41,595	383,126
Accrued expenses	13,768	10,976	133,670
Provision for NAS Battery safety measures	10,891	21,018	105,738
Income taxes payable (Notes 10 and 13)	2,854	1,462	27,708
Other current liabilities (Note 10)	11,240	8,189	109,126
Total current liabilities	101,420	86,346	984,660
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6 and 13)	142,159	150,710	1,380,184
Net defined benefit liability (Note 7)	16,678	16,255	161,922
Provision for product warranties	544	358	5,282
Deferred tax liabilities (Note 10)	5,473	2,758	53,136
Other long-term liabilities	3,493	3,530	33,913
Total long-term liabilities	168,347	173,611	1,634,437
CONTINGENT LIABILITIES (Note 15)			
EQUITY (Note 8):			
Common stock: Authorized - 735,030 thousand shares Issued - 327,560 thousand shares in 2014 and 337,560 thousand shares in 2013	69,849	69,849	678,146
Capital surplus	72,092	85,136	699,922
Stock acquisition rights (Note 9)	779	740	7,563
Retained earnings	187,734	167,220	1,822,660
Treasury stock - at cost: 1,020 thousand shares and 11,011 thousand shares at March 31, 2014 and 2013, respectively	(1,347)	(14,362)	(13,078)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	17,492	7,965	169,825
Deferred gain on derivatives under hedge accounting	18	22	175
Foreign currency translation adjustments	(1,190)	(21,031)	(11,553)
Defined retirement benefit plans	(11,147)	(2,127)	(108,223)
Total	334,280	293,412	3,245,437
Minority interests	10,173	9,661	98,767
Total equity	344,453	303,073	3,344,204
TOTAL	¥614,220	¥563,030	$5,963,301

See notes to consolidated financial statements.

(Concluded)

NGK INSULATORS, LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED MARCH 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	**2013**	**2014**
NET SALES	¥308,671	¥252,789	$2,996,805
COST OF SALES (Note 11)	208,052	178,052	2,019,922
Gross profit	100,619	74,737	976,883
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	56,367	54,041	547,252
Operating income	44,252	20,696	429,631
OTHER INCOME (EXPENSES):			
Interest and dividend income	1,501	1,468	14,573
Interest expense	(2,089)	(1,706)	(20,282)
Loss on sales and disposals of property, plant and equipment - net	(130)	(93)	(1,262)
Equity in earnings of unconsolidated subsidiaries and associated companies	2,157	2,374	20,942
Foreign exchange gain	778	1,610	7,553
Subsidy income	-	738	-
Gain on sales of investment securities - net (Note 3)	505	322	4,903
Loss from write-down of investment securities	-	(3,045)	-
Impairment loss on fixed assets (Note 5)	(5,406)	(2,248)	(52,485)
Provision of reserve for loss on NAS Battery safety measures	(1,940)	(2,800)	(18,835)
Loss on liquidation of a subsidiary	(2,882)	-	(27,980)
Other - net	1,159	386	11,252
Other expenses - net	(6,347)	(2,994)	(61,621)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	37,905	17,702	368,010
INCOME TAXES (Note 10):			
Current			
Current period	8,907	4,148	86,476
Previous periods	(1,404)	-	(13,631)
Deferred	2,937	1,809	28,515
Total income taxes	10,440	5,957	101,360
NET INCOME BEFORE MINORITY INTERESTS	27,465	11,745	266,650
MINORITY INTERESTS IN NET INCOME	420	323	4,077
NET INCOME	¥ 27,045	¥ 11,422	$ 262,573

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.v. and 17):			
Basic net income	¥82.82	¥34.98	$0.804
Diluted net income	82.67	34.92	0.803
Cash dividends applicable to the year	22.00	20.00	0.214

See notes to consolidated financial statements.

NGK INSULATORS, LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED MARCH 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
NET INCOME BEFORE MINORITY INTERESTS	¥27,465	¥11,745	$266,650
OTHER COMPREHENSIVE INCOME (Note 16):			
Unrealized gain on available-for-sale securities	9,544	3,492	92,660
Deferred loss on derivatives under hedge accounting	(4)	(12)	(39)
Foreign currency translation adjustments	20,240	27,203	196,505
Share of other comprehensive income of associates accounted for by using the equity method	2	1	20
Defined retirement benefit plans	560	(90)	5,437
Total other comprehensive income	30,342	30,594	294,583
COMPREHENSIVE INCOME	¥57,807	¥42,339	$561,233
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of parent company	¥56,968	¥41,502	$553,087
Minority interests	839	837	8,146

See notes to consolidated financial statements.

NGK INSULATORS, LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED MARCH 31, 2014

	Thousands					
	Outstanding Number of Common Stock	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock
Balance at April 1, 2012	326,517	¥69,849	¥85,138	¥741	¥158,634	¥(14,413)
Net income	-	-	-	-	11,422	-
Cash dividends, ¥20 per share	-	-	-	-	(6,530)	-
Purchase of treasury stock	(24)	-	-	-	-	(22)
Disposal of treasury stock	56	-	(2)	-	(4)	73
Effect of changes in fiscal year of consolidated subsidiaries	-	-	-	-	3,698	-
Net changes other than shareholders' equity	-	-	-	(1)	-	-
Balance at March 31, 2013	326,549	69,849	85,136	740	167,220	(14,362)
Net income	-	-	-	-	27,045	-
Cash dividends, ¥20 per share	-	-	-	-	(6,531)	-
Purchase of treasury stock	(40)	-	-	-	-	(68)
Disposal of treasury stock	31	-	(1)	-	-	40
Retirement of treasury stock	-	-	(13,043)	-	-	13,043
Net changes other than shareholders' equity	-	-	-	39	-	-
Balance at March 31, 2014	326,540	¥69,849	¥72,092	¥779	¥187,734	¥ (1,347)

	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock
Balance at March 31, 2013	$678,146	$ 826,563	$7,184	$1,623,495	$(139,437)
Net income	-	-	-	262,573	-
Cash dividends, $0.19 per share	-	-	-	(63,408)	-
Purchase of treasury stock	-	-	-	-	(660)
Disposal of treasury stock	-	(10)	-	-	388
Retirement of treasury stock	-	(126,631)	-	-	126,631
Net changes other than shareholders' equity	-	-	379	-	-
Balance at March 31, 2014	$678,146	$ 699,922	$7,563	$1,822,660	$ (13,078)

See notes to consolidated financial statements.

Millions of Yen

Accumulated Other Comprehensive Income						
Unrealized Gain on Available-for-sale Securities	Deferred Gain on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Minority Interests	Total Equity
¥ 4,479	¥ 35	¥(47,727)	¥ (2,036)	¥254,700	¥ 9,682	¥264,382
-	-	-	-	11,422	-	11,422
-	-	-	-	(6,530)	-	(6,530)
-	-	-	-	(22)	-	(22)
-	-	-	-	67	-	67
-	-	-	-	3,698	-	3,698
3,486	(13)	26,696	(91)	30,077	(21)	30,056
7,965	22	(21,031)	(2,127)	293,412	9,661	303,073
-	-	-	-	27,045	-	27,045
-	-	-	-	(6,531)	-	(6,531)
-	-	-	-	(68)	-	(68)
-	-	-	-	39	-	39
-	-	-	-	-	-	-
9,527	(4)	19,841	(9,020)	20,383	512	20,895
¥17,492	¥ 18	¥ (1,190)	¥(11,147)	¥334,280	¥10,173	¥344,453

Thousands of U.S. Dollars (Note 1)

Accumulated Other Comprehensive Income						
Unrealized Gain on Available-for-sale Securities	Deferred Gain on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Minority Interests	Total Equity
$ 77,330	$214	$(204,184)	$ (20,650)	$2,848,661	$93,796	$2,942,457
-	-	-	-	262,573	-	262,573
-	-	-	-	(63,408)	-	(63,408)
-	-	-	-	(660)	-	(660)
-	-	-	-	378	-	378
-	-	-	-	-	-	-
92,495	(39)	192,631	(87,573)	197,893	4,971	202,864
$169,825	$175	$ (11,553)	$(108,223)	$3,245,437	$98,767	$3,344,204

NGK INSULATORS, LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 37,905	¥ 17,702	$ 368,010
Adjustments for:			
Income taxes - paid	(7,218)	(8,067)	(70,078)
Depreciation and amortization	19,894	20,089	193,146
Loss on write-down of investment securities	-	3,045	-
Impairment loss on fixed assets	5,406	2,248	52,485
Loss on liquidation of a subsidiary	2,882	-	27,980
Decrease of provision for NAS Battery safety measures	(10,127)	(21,316)	(98,320)
Equity in earnings of unconsolidated subsidiaries and associated companies	(2,157)	(2,374)	(20,942)
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable - trade	(9,517)	897	(92,398)
Increase in inventories	(1,044)	(5,401)	(10,136)
Increase in asset for net defined benefits asset	(2,071)	(522)	(20,106)
Decrease in notes and accounts payable - trade	(2,053)	(5,949)	(19,932)
Other - net	748	3,328	7,262
Total adjustments	(5,257)	(14,022)	(51,039)
Net cash provided by operating activities	32,648	3,680	316,971
INVESTING ACTIVITIES:			
Purchases of marketable securities	(20,175)	(5,502)	(195,874)
Proceeds from sales and redemption of marketable securities	15,670	9,510	152,136
Proceeds from sales and redemption of investment securities	19,534	13,372	189,650
Purchases of property, plant and equipment	(27,996)	(31,190)	(271,806)
(Increase) decrease in time deposits	(8,239)	14,156	(79,990)
Other - net	21	(928)	204
Net cash used in investing activities	(21,185)	(582)	(205,680)
FINANCING ACTIVITIES:			
Decrease in short-term borrowings - net	(432)	(31)	(4,194)
Proceeds from long-term debt	9,400	27,077	91,262
Repayment of long-term borrowings	-	(8,000)	-
Cash dividends	(6,531)	(6,530)	(63,408)
Other - net	(410)	(68)	(3,980)
Net cash provided by financing activities	2,027	12,448	19,680
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	3,447	2,898	33,466
NET INCREASE IN CASH AND CASH EQUIVALENTS	16,937	18,444	164,437
DECREASE IN CASH AND CASH EQUIVALENTS RESULTING FROM CHANGES IN FISCAL YEAR ENDS OF CONSOLIDATED SUBSIDIARIES	-	(748)	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	102,845	85,149	998,495
CASH AND CASH EQUIVALENTS, END OF YEAR	¥119,782	¥102,845	$1,162,932

See notes to consolidated financial statements.

1. BASIS OF PRESENTATION OF 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 accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the 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 2013 consolidated financial statements to conform to the classifications used in 2014.

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 ¥103 to $1, the approximate rate of exchange at March 31, 2014. 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, 2014, include the accounts of the Company and its 53 significant (54 in 2013) 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 one unconsolidated subsidiary and one associated company are accounted for by the equity method in 2014 and 2013.

Investments in the remaining unconsolidated 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 excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is being amortized over a period of five years.

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 also eliminated. The fiscal years of subsidiaries are not necessarily the same as that of the Company. Accounts of seven foreign consolidated subsidiaries, which have different fiscal years, are provisionally closed at March 31 for the consolidation.

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 that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) exclusion of minority interests from net income, if contained in net income.

c. ***Business Combinations***—In October 2003, the Business Accounting Council 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.

In December 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 revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling-of-interests method of accounting is no longer allowed. (2) The previous accounting standard required research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

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, certificate 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***—Inventories are stated at the lower of cost, determined principally by the average method for finished products, work in process, and raw materials, or net selling value (see Note 4). Write-downs of inventories in the amounts of ¥1,208 million ($11,728 thousand) and ¥765 million for the years ended March 31, 2014 and 2013, respectively, were included in cost of sales. Costs of contracts in progress are stated at cost, determined by the specific identification method.

f. ***Allowance for doubtful accounts***—To provide for the loss from doubtful accounts, allowance for doubtful accounts is made using the historical rate of actual losses for normal receivables and the estimated nonrecoverable amount for specific doubtful receivables after considering the recoverability of each account.

g. ***Marketable and Investment Securities***—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities, for which there is the positive intent and ability to hold to maturity, are reported at amortized cost; and (2) available-for-sale securities, which are not classified as held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable 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.

h. ***Property, Plant, and Equipment***—Property, plant, and equipment are stated at cost. Prior to April 1, 2013, depreciation of property, plant, and equipment of the Company and its consolidated domestic subsidiaries was computed by the declining-balance method on the estimated useful lives of the assets, while the straight-line method is applied to all property, plant and equipment of consolidated foreign subsidiaries.

During the year ended March 31, 2014, the Company and domestic subsidiaries changed their depreciation method for property, plant and equipment from the declining-balance method to the straight-line method. The Group aims to construct global production systems as part of mid- to long-term business plan and the Company and domestic consolidated subsidiaries reviewed the pattern of usage and expected benefits of property, plant and equipment. As a result of the review, the Company deems the change appropriate because the straight-line method will more accurately reflect the pattern of usage and the expected benefits of such assets. The change was applied prospectively from the year ended March 31, 2014, and this change in the depreciation method resulted in a decreased depreciation expense of ¥3,434 million ($33,340 thousand) and increased income before income taxes and minority interests of ¥2,963 million ($28,767 thousand) for the year ended March 31, 2014.

The range of useful lives is principally from 15 to 50 years for buildings and structures and from three to 12 years for machinery and equipment. The useful lives for lease assets are the terms of the respective leases.

i. ***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 is 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.

j. ***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.

k. ***Net defined benefit liability(asset)***— Net defined benefit liability(asset) is accounted for based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses are amortized and charged to expense on a straight-line basis over 10 years within the expected average remaining service period of the employees from the consolidated fiscal year following the year when they occur. Past service costs are amortized and charged to expense on a straight-line basis, mainly over 10 years, within the expected average remaining service period of the employees.

In some consolidated subsidiaries in the United States, the costs of postretirement benefits other than pension plans are allocated to each period based on the estimated service period of employees, and are included in net defined benefit liability because they are similar to retirement benefits.

Certain domestic consolidated subsidiaries apply the simplified method to state the liability based on the amount that would be paid if employees retired at the consolidated balance sheet date.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

(a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (net defined benefit liability) or asset (net defined benefit asset).

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

This accounting standard and the guidance are effective for the end of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Group applied the revised accounting standard and guidance for retirement benefits effective March 31, 2014. As a result, net defined benefit asset of ¥7,491 million ($72,728 thousand) and net defined benefit liability of ¥16,678 million ($161,922 thousand) were recorded as of March 31, 2014, and accumulated other comprehensive income for the year ended March 31, 2014, decreased by ¥9,578 million ($92,990 thousand).

l. ***Stock Options***—In December 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 measure the cost of employee stock options based on the fair value at the date of grant and recognize compensation expenses over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to nonemployees 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.

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

n. ***Provision for Product Warranties Costs***—The Company and some consolidated subsidiaries estimate and accrue the costs of warranty repair for products sold in reserve for future expenses.

o. ***Provision for NAS Battery Safety Measures***—In September 2012, the Company-manufactured NAS® (sodium-sulfur) batteries used for storing electricity caught fire. The Company, in connection with the fire accident, reserved an allowance as "Provision for NAS Battery safety measures" for anticipated future expenses on safety measures necessary to expand NAS battery business, to the extent that such amount can be reasonably estimated.

p. ***Revenue Recognition***—The Group recognizes revenue mainly upon the delivery of products, based on the contract terms and other relevant factors.

q. ***Construction Contracts***—In December 2007, the ASBJ issued ASBJ Statement No. 15, "Accounting Standard for Construction Contracts" and ASBJ Guidance No. 18, "Guidance on Accounting Standard for Construction Contracts." Under this accounting standard, 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 is deemed to be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts.

r. ***Income Taxes***—The provision for current income taxes is computed based on the pretax income included in the consolidated statement 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 income tax rates to the temporary differences.

s. ***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 statement of income to the extent that they are not hedged by forward exchange contracts.

t. ***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 rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

u. ***Derivatives and Hedging Activities***—The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, interest rate and currency swaps, and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (1) 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 consolidated statement of income; and (2) for derivatives used for hedging purposes, if such 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.

Foreign currency forward contracts employed to hedge foreign exchange exposures for export sales are measured at fair value and the unrealized gains/losses are recognized in income. Forward contracts applied for forecasted (or committed) transactions are also measured at fair value but the unrealized gains/losses are deferred until the underlying transactions are completed.

Receivables or payables denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations are translated at the contracted rate if the forward contracts qualify for hedge accounting.

Long-term debt denominated in foreign currencies for which currency and interest rate swaps are used to hedge the foreign currency and interest rate fluctuations is also translated at the contracted rate if the forward contracts qualify for hedge accounting.

Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense.

v. ***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 conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding stock acquisition rights.

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

w. ***Accounting Changes and Error Corrections***—In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

x. New Accounting Pronouncements

Accounting Standard for Retirement Benefits—On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998, with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

Major change is as follows:

Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases

The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance above are effective for the starting of annual periods beginning on or after April 1, 2014, or for the starting of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the starting of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Group expects to apply the revised accounting standard and the guidance above effective April 1, 2014, and the effects of applying the revised accounting standard and the guidance above will be to increase retained earnings by approximately ¥3,100 million ($30,097 thousand) at April 1, 2014, while the effects are immaterial to the consolidated statement of income for the year ending March 31, 2015.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	**2013**	**2014**
Current:			
Investment trusts and other	¥ 8,840	¥ 3,751	$ 85,825
Debt securities	12,154	13,940	118,000
Total	¥20,994	¥17,691	$203,825
Noncurrent:			
Equity securities and other	¥40,459	¥26,628	$392,806
Debt securities	11,308	18,452	109,786
Total	¥51,767	¥45,080	$502,592

The costs and aggregate fair values of marketable and investment securities at March 31, 2014 and 2013, were as follows:

	Millions of Yen			
March 31, 2014	**Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Securities classified as:				
Available-for-sale:				
Equity securities	¥13,397	¥24,997	¥43	¥38,351
Investment trusts and other	8,408	528	96	8,840
Held-to-maturity:				
Debt securities	23,462	288	4	23,746

	Millions of Yen			
March 31, 2013	**Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Securities classified as:				
Available-for-sale:				
Equity securities	¥13,427	¥11,220	¥147	¥24,500
Investment trusts and other	3,356	454	59	3,751
Held-to-maturity:				
Debt securities	32,392	210	201	32,401

	Thousands of U.S. Dollars			
March 31, 2014	**Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Securities classified as:				
Available-for-sale:				
Equity securities	$130,068	$242,689	$417	$372,340
Investment trusts and other	81,631	5,126	932	85,825
Held-to-maturity:				
Debt securities	227,787	2,796	39	230,544

Available-for-sale securities whose fair values are not readily determinable as of March 31, 2014 and 2013, were as follows:

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Available-for-sale:			
Equity securities and other	¥2,108	¥2,128	$20,466
Total	¥2,108	¥2,128	$20,466

Proceeds from sales of available-for-sale securities (including marketable securities and investment securities) for the years ended March 31, 2014 and 2013, were ¥1,748 million ($16,971 thousand) and ¥4,361 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, were ¥752 million ($7,301 thousand) and ¥0, respectively, for the year ended March 31, 2014, and ¥1,195 million and ¥873 million, respectively, for the year ended March 31, 2013.

In the year ended March 31, 2013, bonds (carrying amount of ¥2,987 million) previously classified as held-to-maturity were reclassified to available-for-sale because the bonds no longer qualified as held-to-maturity due to the fact that the credit status of the issuer was significantly degraded. All of the bonds were sold in the year ended March 31, 2013.

The amount of impairment loss on investment securities for the year ended on March 31, 2014, is not presented because of its immateriality. Impairment loss on investment securities of ¥3,045 million was recognized for the year ended on March 31, 2013.

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, 2014, 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	-	¥12,154	-	$118,000
Due after one year through five years	-	11,308	-	109,787
Total	-	¥23,462	-	$227,787

4. INVENTORIES

Inventories at March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Finished products	¥ 54,340	¥49,542	$527,573
Work in process	9,239	9,149	89,699
Raw materials and supplies	37,582	36,777	364,874
Cost of contracts in progress	192	476	1,864
Total	¥101,353	¥95,944	$984,010

5. LONG-LIVED ASSETS

During the years ended March 31, 2014 and 2013, the Group recognized impairment losses mainly at the Power Business Group.
As a result of changes in the market and business environment in the Insulator Business, the Group reviewed its business planning for certain production companies in China and Japan. Consequently, it recognized impairment losses on the plant and property of those companies and the goodwill in relation to the business, based on the projection that future profitability will be lower than originally expected. The Group reduced the carrying amounts of the assets to their recoverable values that were determined as fair value, less cost to sell, mainly based on estimated fair value.

The Group-recognized impairment losses for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Land	¥ 1	-	$ 10
Building and structure	2,208	¥1,019	21,437
Machinery and equipment	2,920	1,056	28,349
Construction in progress	277	-	2,689
Goodwill	-	173	-
Total	¥5,406	¥2,248	$52,485

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2014 and 2013, consisted of notes to banks. The weighted-average interest rates on short-term borrowings as of March 31, 2014 and 2013, were 0.6% and 2.8%, respectively.

Long-term debt at March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Borrowings from banks and other financial institutions due serially through 2028, with weighted-average interest rates of 1.2% (2014) and 1.3% (2013)	¥142,301	¥130,710	$1,381,563
Unsecured 0.734% Japanese yen bonds due on December 4, 2014	20,000	20,000	194,175
Total	162,301	150,710	1,575,738
Less: portion due within one year	(20,142)	-	(195,554)
Long-term debt, less current portion	¥142,159	¥150,710	$1,380,184

Annual maturities of long-term debt at March 31, 2014, were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2015	¥ 20,142	$ 195,554
2016	6,591	63,990
2017	19,357	187,932
2018	5,738	55,709
2019	7,385	71,699
2020 and thereafter	103,088	1,000,854
Total	¥162,301	$1,575,738

7. NET DEFINED BENEFITS FOR LIABILITY (ASSET)

The Company and certain consolidated subsidiaries have severance payment plans for employees, directors, and Audit & Supervisory Board members.
The Company and certain domestic subsidiaries have unfunded retirement plans, contributory pension plans, smaller enterprise retirement allowance mutual aid plans, and specific retirement allowance mutual aid plans.
Certain domestic subsidiaries contribute to multiemployer pension plans.
The Company has employee retirement benefit trusts.
Furthermore, additional retirement benefits that are not included in Net defined benefit liability are paid in certain cases.
Some of the domestic subsidiaries participate in multiemployer contributory funded plans, and the plans are accounted for as if the plans were defined contribution plans in the case that the plan assets attributable to the contributions by the subsidiaries cannot be rationally determined.
Certain U.S. subsidiaries have defined benefit plans and defined contribution plans.
The simplified calculation method was applied to measure the liability and the cost of defined benefit plans and lump-sum payment plans in immaterial domestic subsidiaries.

Year Ended March 31, 2014

a. Defined Benefit Pension Plans

1. The changes in defined benefit obligation for the year ended March 2014 (except for the plans to which the simplified method was applied) were as follows:

	2014	
	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥85,363	$828,767
Current service cost	2,507	24,340
Interest cost	1,510	14,660
Actuarial gains	(770)	(7,476)
Benefits paid	(4,041)	(39,233)
Past service cost	44	427
Others	722	7,010
Balance at end of year	¥85,335	$828,495

2. The changes in plan assets for the year ended March 2014 (except for the plans to which the simplified method was applied) were as follows:

	2014	
	Millions of Yen	**Thousands of U.S. Dollars**
Balance at beginning of year	¥71,920	$698,253
Expected return on plan assets	1,359	13,194
Actuarial gains	3,103	30,126
Contributions from the employer	4,771	46,320
Benefits paid	(3,648)	(35,417)
Others	484	4,699
Balance at end of year	¥77,989	$757,175

3. The changes in Net defined benefit liability, where the simplified method was applied to measure the liability, for the year ended March 31, 2014, were as follows:

	2014	
	Millions of Yen	**Thousands of U.S. Dollars**
Balance at beginning of year	¥1,785	$17,330
Pension costs	237	2,301
Benefits paid	(100)	(971)
Contributions to pension plans	(81)	(786)
Balance at end of year	¥1,841	$17,874

4. Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2014

	2014	
	Millions of Yen	**Thousands of U.S. Dollars**
Funded defined benefit obligation	¥ 77,255	$ 750,049
Plan assets	(78,785)	(764,903)
	(1,530)	(14,854)
Unfunded defined benefit obligation	10,717	104,048
Net liability arising from defined benefit obligation	¥ 9,187	$ 89,194

	2014	
	Millions of Yen	**Thousands of U.S. Dollars**
Net defined benefit liability	¥16,678	$161,922
Net defined benefit asset	(7,491)	(72,728)
Net liability arising from defined benefit obligation	¥ 9,187	$ 89,194

5. The components of net periodic benefit costs for the year ended March 31, 2014, were as follows:

	2014	
	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 2,507	$ 24,340
Interest cost	1,510	14,660
Expected return on plan assets	(1,359)	(13,194)
Recognized actuarial losses	1,432	13,903
Amortization of past service cost	(482)	(4,680)
Benefit costs measured by the simplified method	237	2,301
Others	44	427
Net periodic benefit costs	¥ 3,889	$ 37,757

6. Other comprehensive income on defined retirement benefit plans (before tax effect) for the year ended March 31, 2014

	2014	
	Millions of Yen	Thousands of U.S. Dollars
Unrecognized actuarial losses	¥906	$8,796
Unrecognized past service revenue	(44)	(427)
Total	¥862	$8,369

7. Accumulated other comprehensive income on defined retirement benefit plans (before tax effect) as of March 31, 2014

	2014	
	Millions of Yen	Thousands of U.S. Dollars
Unrecognized actuarial gains	¥(16,498)	$(160,175)
Unrecognized past service cost	1,040	10,097
Total	¥(15,458)	$(150,078)

8. Plan assets

(1) Components of plan assets

Plan assets consisted of the following:

	2014
Assets in an insurer’s general account	37%
Equity investments	29%
Debt investments	23%
Cash and cash equivalents	2%
Others	9%
Total	100%

6.7% of total plan assets were from the employee retirement benefit trusts.

(2) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

9. Assumptions used for the year ended March 31, 2014, were set forth as follows:

Discount rate	Primarily 1.5%
Expected rate of return on plan assets	Primarily 1.4%

b. Funded Status of the Multiemployer Contributory Funded Pension Plans

The amount of contributions paid by domestic consolidated subsidiaries to multiemployer contributory funded pension plans, which was accounted for as if they were defined contribution plans, for the year ended March 31, 2014, was ¥165 million ($1,602 thousand).

1. Funded status of the multiemployer pension plan at March 31, 2013 (the latest information available as of March 31, 2014), was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Fair value of plan assets	¥ 281,339	$ 2,731,447
Pension benefit obligation	(290,987)	(2,825,117)
Difference	¥ (9,648)	$ (93,670)

The difference mainly resulted from obligations of past service costs and capital surplus of ¥21,968 million ($213,282 thousand) and ¥12,320 million ($119,282 thousand), respectively, at March 31, 2013.

Past service cost is amortized over 20 years.

2. The Group’s contribution percentage at March 31, 2013, was 1.9%

c. Defined Contribution Pension Plans

The Group’s contribution to defined contribution pension plan funds for the year ended March 31, 2014, was ¥132 million ($1,282 thousand).

Year Ended March 31, 2013

The liability (asset) for retirement benefits at March 31, 2013, consisted of the following:

	Millions of Yen
	2013
Projected benefit obligation	¥ 84,874
Fair value of plan assets	(72,599)
Unrecognized prior service benefit	1,602
Unrecognized actuarial loss	(18,210)
Net asset	(4,333)
Prepaid pension cost	17,469
Other postretirement obligation	3,031
Amount recognized as liability	¥ 16,167

The components of net periodic benefit costs for the year ended March 31, 2013, were as follows:

	Millions of Yen
	2013
Service cost	¥ 2,635
Interest cost	1,744
Expected return on plan assets	(1,468)
Amortization of prior service benefit	(527)
Recognized actuarial loss	2,324
Other	8
Net periodic benefit costs	¥ 4,716

Assumptions used for the year ended March 31, 2013, were set forth as follows:

	2013
Discount rate	Primarily 1.5%
Expected rate of return on plan assets	Primarily 1.8%
Amortization period of prior service cost/benefit	Primarily 10 years
Recognition period of actuarial gain/loss	Primarily 10 years

Funded status of the multiemployer pension plan at March 31, 2012 (the latest information available as of March 31, 2013), was as follows:

	Millions of Yen
Fair value of plan assets	¥ 254,798
Pension benefit obligation recorded by pension fund	(299,366)
Difference	¥ (44,568)

The Group's contribution percentage for the multiemployer pension plan is 1.8%

Notes
1. The difference mainly resulted from a deficit recorded by the pension fund of ¥42,914 million.
2. Prior service cost is amortized over 20 years.

8. EQUITY

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

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The 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 aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

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

9. STOCK OPTIONS

The stock options outstanding as of March 31, 2014, were as follows:

Stock Option Scheme	Persons Originally Granted	Number of Options Originally Granted	Date of Grant	Exercise Price	Exercise Period
2005 Stock Option Scheme	12 directors 2 full-time audit and supervisory board members 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 audit and supervisory board members	Common shares 113,000 shares	August 11, 2006	¥1 ($0.01)	From August 12, 2006 to June 30, 2036
2006 Stock Option Scheme (2-2)	10 officers	Common shares 41,000 shares	August 11, 2006	¥1 ($0.01)	From August 12, 2006 to June 30, 2036
2007 Stock Option Scheme	12 directors 10 officers	Common shares 62,000 shares	August 30, 2007	¥1 ($0.01)	From August 31, 2007 to June 30, 2037
2008 Stock Option Scheme	11 directors 9 officers	Common shares 57,000 shares	August 13, 2008	¥1 ($0.01)	From August 14, 2008 to June 30, 2038
2009 Stock Option Scheme	12 directors 10 officers	Common shares 62,000 shares	August 17, 2009	¥1 ($ 0.01)	From August 18, 2009 to June 30, 2039
2010 Stock Option Scheme	12 directors 11 officers	Common shares 64,000 shares	August 16, 2010	¥1 ($0.01)	From August 17, 2010 to June 30, 2040
2011 Stock Option Scheme	11 directors 11 officers	Common shares 62,000 shares	August 15, 2011	¥1 ($0.01)	From August 16, 2011 to June 30, 2041
2012 Stock Option Scheme	10 directors 14 officers	Common shares 66,000 shares	August 15, 2012	¥1 ($0.01)	From August 16, 2012 to June 30, 2042
2013 Stock Option Scheme	9 directors 16 officers	Common shares 61,000 Shares	August 16, 2013	¥1 ($0.01)	From August 17, 2013 to June 30, 2043

The stock option activity is as follows:

	2005 Stock Option	2006 Stock Option (2-1)	2006 Stock Option (2-2)	2007 Stock Option	2008 Stock Option	2009 Stock Option	2010 Stock Option	2011 Stock Option	2012 Stock Option	2013 Stock Option
						(Shares)				
<u>For the year ended March 31, 2013</u>										
<u>Non-vested</u>										
April 1, 2012 －Outstanding	-	-	-	-	-	-	-	-	-	-
Granted	-	-	-	-	-	-	-	-	-	-
Canceled	-	-	-	-	-	-	-	-	-	-
Vested	-	-	-	-	-	-	-	-	-	-
March 31, 2013 －Outstanding	-	-	-	-	-	-	-	-	-	-
<u>Vested</u>										
April 1, 2012 －Outstanding	129,000	93,000	28,000	55,000	55,000	62,000	64,000	62,000	66,000	-
Vested	-	-	-	-	-	-	-	-	-	-
Exercised	(22,000)	(22,000)	-	(8,000)	-	-	-	-	-	-
Canceled	-	-	-	-	-	-	-	-	-	-
March 31, 2013 －Outstanding		71,000	28,000	47,000	55,000	62,000	64,000	62,000	66,000	-
<u>For the year ended March 31, 2014</u>										
<u>Non-vested</u>										
March 31, 2013 －Outstanding	-	-	-	-	-	-	-	-	-	-
Granted	-	-	-	-	-	-	-	-	-	61,000
Canceled	-	-	-	-	-	-	-	-	-	-
Vested	-	-	-	-	-	-	-	-	-	61,000
March 31, 2014 －Outstanding	-	-	-	-	-	-	-	-	-	-
<u>Vested</u>										
March 31, 2013 －Outstanding	107,000	71,000	28,000	47,000	55,000	62,000	64,000	62,000	66,000	-
Vested	-	-	-	-	-	-	-	-	-	61,000
Exercised	12,000	8,000	4,000	5,000	2,000	-	-	-	-	-
Canceled	-	-	-	-	-	-	-	-	-	-
March 31, 2014 －Outstanding	95,000	63,000	24,000	42,000	53,000	62,000	64,000	62,000	66,000	61,000
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1
	($0 01)	($0 01)	($0 01)	($0 01)	($0 01)	($0 01)	($0 01)	($0 01)	($0 01)	($0 01)
Average stock price at exercise	¥1,174	¥1,213	¥1,145	¥1,361	¥1,937	N/A	N/A	N/A	N/A	N/A
	($11 40)	($11 78)	($11 12)	($13 21)	($18 81)					
Fair value price at grant date	−	¥1,506	¥1,506	¥3,658	¥1,434	¥2,072	¥1,289	¥1,100	¥923	¥1,276
		($14 62)	($14 62)	($35 51)	($13 92)	($20 12)	($12 51)	($10 68)	($89 61)	($12 39)

The Assumptions Used to Measure the Fair Value of 2013 Stock Option

Estimate method:	Black-Scholes option-pricing model
Volatility of stock price:	41.31%
Estimated remaining outstanding period:	Four-and-a-half years
Estimated dividend:	¥20 per share
Risk-free interest rate:	0.28%

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 37.8% for the years ended March 31, 2014 and 2013.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Deferred tax assets:			
Inventories	¥ 9,948	¥ 11,166	$ 96,583
Allowance for bad debt	106	117	1,029
Accounts payable and accrued expenses	3,403	2,644	33,039
Enterprise taxes payable	110	101	1,068
Accrued bonuses to employees	479	515	4,650
Property, plant and equipment	7,737	7,222	75,117
Pension and severance costs	6,735	5,831	65,388
Tax loss carryforwards	12,763	10,781	123,913
Investment securities	1,351	1,361	13,116
Tax deduction of a foreign subsidiary	3,831	2,630	37,194
Provision for NAS Battery safety measures	3,854	7,865	37,417
Other	2,127	1,427	20,650
Total	52,444	51,660	509,164
Less: valuation allowance	(18,478)	(18,664)	(179,398)
Offset with deferred tax liabilities	(15,291)	(14,477)	(148,456)
Net deferred tax assets	¥ 18,675	¥ 18,519	$ 181,310
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ 7,705	¥ 3,328	$ 74,806
Deferred gains on sales of property	1,300	1,385	12,621
Undistributed earnings of foreign subsidiaries	5,669	4,534	55,039
Fixed asset	1,073	1,007	10,417
Net defined benefit asset	3,204	6,319	31,107
Other	1,851	736	17,971
Total	20,802	17,309	201,961
Offset with deferred tax assets	(15,291)	(14,477)	(148,456)
Net deferred tax liabilities	¥ 5,511	¥ 2,832	$ 53,505

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, 2014, with the corresponding figures for 2013 is as follows:

	2014	2013
Normal effective statutory tax rate	37.8%	37.8%
Expenses not deductible for income tax purposes	1.2	3.4
Income excluded from income tax such as dividends received	(2.2)	(1.2)
(Decrease) increase in valuation allowance	(3.2)	5.4
Undistributed earnings of foreign subsidiaries	3.0	4.4
Effect of tax rate reduction	2.1	-
Effect of special corporate tax	-	4.9
Lower income tax rates applicable to income in certain foreign countries	(2.5)	(6.5)
Tax credit of foreign subsidiaries	(3.3)	(8.9)
Equity in earnings of unconsolidated subsidiaries and associated companies	(2.2)	(5.1)
Income taxes for previous periods	(3.7)	-
Other - net	0.5	(0.5)
Actual effective tax rate	27.5%	33.7%

New tax reform laws enacted in 2014 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2014, from approximately 37.8% to 35.4%. The effect of this change was to decrease deferred tax assets in the consolidated balance sheet as of March 31, 2014, by ¥787 million ($7,641 thousand) and to increase income taxes - deferred in the consolidated statement of income for the year then ended by ¥787 million ($7,641 thousand).

Income taxes - previous periods of ¥1,404 thousand ($13,631 thousand) in the consolidated statement of income represents tax refunds of corporation taxes paid in past fiscal years, after the Japanese and U.S. tax authorities reached an agreement settling a dispute about transfer pricing taxation.

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥12,060 million ($117,087 thousand) and ¥11,316 million for the years ended March 31, 2014 and 2013, respectively, which included consigned research costs of ¥822 million ($7,981 thousand) and ¥888 million for the years ended March 31, 2014 and 2013, respectively.

12. LEASES

The minimum rental commitments under noncancelable operating leases at March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 426	$ 4,136
Due after one year	971	9,427
Total	¥1,397	$13,563

13. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group policy for financial instruments

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

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

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

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

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

The borrowings from banks and other financial institutions and debenture bonds are principally raised for capital investment, and their maximum maturities do not exceed 13 years and 11 months after the balance sheet date. All such long-term debts carry fixed-interest rates. However, a part of such fixed-interest rates is converted to floating rates by using interest-rate swap derivatives and is exposed to the market risks of rising interest rates.

Derivatives consist of forward currency contracts, which are for hedging currency risks from the trade receivables and payables denominated in foreign currencies, currency swaps, which are for hedging foreign exchange risks from the borrowings denominated in foreign currencies, and interest rate swaps, which are for reducing cash outflow from interest payments of borrowings. The Company’s management believes that the credit risks from those transactions are not significant because the transactions are entered into only with highly rated financial institutions. Derivative transactions are strictly managed complying with internal policies for approval and reporting. For more details about hedge accounting, including hedging instruments, hedged items, hedge policies, and hedge effectiveness, please see Note 2. u.

(3) Supplemental remarks on fair values of financial instruments

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

(a) Fair values of financial instruments

	Millions of yen		
March 31, 2014	**Carrying amount**	**Fair value**	**Unrealized gain/loss**
Cash and cash equivalents	¥ 119,782	¥ 119,782	-
Time deposits	9,092	9,092	-
Notes and accounts receivable:			
Trade notes and accounts	70,296	70,210	¥ (86)
Marketable and investment securities	70,653	70,938	285
Notes and accounts payable:			
Trade notes and accounts	(25,541)	(25,541)	-
Short-term borrowings	(3,063)	(3,063)	-
Income taxes payable	(2,854)	(2,854)	-
Long-term debt, including current potion	(162,301)	(164,867)	(2,566)
Derivatives	(2)	(2)	-

	Millions of yen		
March 31, 2013	**Carrying amount**	**Fair value**	**Unrealized gain/loss**
Cash and cash equivalents	¥ 102,845	¥ 102,845	-
Time deposits	742	742	-
Notes and accounts receivable:			
Trade notes and accounts	57,654	57,592	¥ (62)
Marketable and investment securities	60,643	60,652	9
Notes and accounts payable:			
Trade notes and accounts	(24,998)	(24,998)	-
Short-term borrowings	(3,106)	(3,106)	-
Income taxes payable	(1,462)	(1,462)	-
Long-term debt	(150,710)	(148,309)	2,401
Derivatives	20	20	-

	Thousands of U.S. Dollars		
March 31, 2014	**Carrying amount**	**Fair value**	**Unrealized gain/loss**
Cash and cash equivalents	$ 1,162,932	$ 1,162,932	-
Time deposits	88,272	88,272	-
Notes and accounts receivable:			
Trade notes and accounts	682,485	681,650	$ (835)
Marketable and investment securities	685,951	688,718	2767
Notes and accounts payable:			
Trade notes and accounts	(247,971)	(247,971)	-
Short-term borrowings	(29,738)	(29,738)	-
Income taxes payable	(27,708)	(27,708)	-
Long-term debt, including current potion	(1,575,738)	(1,600,651)	(24,913)
Derivatives	(19)	(19)	-

Cash and cash equivalents and time deposits

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

Notes and accounts receivable

The fair values of the majority of receivables are measured at the carrying amount because of their short maturities while those of some receivables are measured at the amount to be received at maturity discounted at the Group's assumed discount rate determined considering credit risks.

Marketable and investment securities

The fair values of the majority of marketable and investment securities are measured at the quoted market price while those of some securities represents the carrying amount because they are approximately equal. Fair value information for the marketable and investment securities by classification is included in Note 3.

Notes and accounts payables, short-term borrowings, and income taxes payable

The fair values of these financial instruments approximate the carrying amount due to their short maturities.

Long-term debt, including current portion

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

The long-term loan payables with floating interest rates and hedged with interest rate swaps are accounted for together with the hedging swaps, and the fair value of such loan payables are measured by discounting the total cash flows from the payables and hedging swaps at the Group's assumed corporate borrowing rate.

Derivatives

Fair value information for derivatives is included in Note 14.

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

	Millions of Yen		Thousands of U.S. Dollars
	2014	**2013**	**2014**
Investments in equity instruments that do not have a quoted market price in an active market			
Stock of associated companies	¥13,136	¥21,045	$127,534
Other	2,108	2,128	20,466

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

	Millions of Yen			
March 31, 2014	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Cash and cash equivalents	¥119,782	-	-	-
Notes and accounts receivable:				
Trade notes and accounts	69,550	¥ 746	-	-
Held-to-maturity securities				
Debt securities	12,154	11,308	-	-

	Thousands of U.S. Dollars			
March 31, 2014	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Cash and cash equivalents	$1,162,932	-	-	-
Notes and accounts receivable:				
Trade notes and accounts	675,242	$ 7,243	-	-
Held-to-maturity securities				
Debt securities	118,000	109,786	-	-

Please see Note 6 for annual maturities of long-term debt.

14. DERIVATIVES

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

Derivative transactions to which hedge accounting is not applied at March 31, 2014 and 2013, were as follows:

	Millions of Yen			
At March 31, 2014	**Contract Amount**	**Contract Amount Due After One Year**	**Fair Value**	**Unrealized Gain/Loss**
Foreign currency forward contracts:				
Selling U.S.$	¥ 7,206	-	¥ 3	¥ 3
Selling Euro	4,224	-	(21)	(21)
Selling Swiss franc	16	-	(0)	(0)
Buying U.S.$	270	-	(9)	(9)
Buying Euro	11	-	(0)	(0)
Buying Japanese yen	8	-	0	0
Total	¥11,735	-	¥(27)	¥(27)

	Millions of Yen			
At March 31, 2013	**Contract Amount**	**Contract Amount Due After One Year**	**Fair Value**	**Unrealized Gain/Loss**
Foreign currency forward contracts:				
Selling U.S.$	¥13,966	-	¥(177)	¥(177)
Selling Euro	3,137	-	121	121
Buying U.S.$	1,015	-	45	45
Buying Euro	106	-	(1)	(1)
Buying Japanese yen	13	-	(2)	(2)
Total	¥18,237	-	¥ (14)	¥ (14)

	Thousands of U.S. Dollars			
At March 31, 2014	**Contract Amount**	**Contract Amount Due After One Year**	**Fair Value**	**Unrealized Gain/Loss**
Foreign currency forward contracts:				
Selling U.S.$	$ 69,961	-	$ 29	$ 29
Selling Euro	41,010	-	(204)	(204)
Selling Swiss franc	155	-	(0)	(0)
Buying U.S.$	2,621	-	(87)	(87)
Buying Euro	107	-	(0)	(0)
Buying Japanese yen	78	-	0	0
Total	$113,932	-	$(262)	$(262)

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

Derivative transactions to which hedge accounting is applied at March 31, 2014 and 2013, were as follows:

		Millions of Yen		
At March 31, 2014	**Hedged Item**	**Contract Amount**	**Contract Amount Due After One Year**	**Fair Value**
Foreign currency forward contracts:				
Selling U.S.$	Receivables	¥41	-	-
Total		¥41	-	-

		Millions of Yen		
At March 31, 2013	**Hedged Item**	**Contract Amount**	**Contract Amount Due After One Year**	**Fair Value**
Foreign currency forward contracts:				
Selling U.S.$	Receivables	¥28	-	-
Total		¥28	-	-

		Thousands of U.S. Dollars		
At March 31, 2014	**Hedged Item**	**Contract Amount**	**Contract Amount Due After One Year**	**Fair Value**
Foreign currency forward contracts:				
Selling U.S.$	Receivables	$398	-	-
Total		$398	-	-

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

At March 31, 2014	Hedged Item	Millions of Yen Contract Amount	 Contract Amount Due After One Year	 Fair Value
Interest rate swaps:				
(Floating rate payment, fixed-rate receipt)	Long-term debt	¥ 1,000	¥ 1,000	¥29
Interest rate swaps:				
(Fixed rate payment, floating rate receipt)(*)	Long-term debt	39,765	39,765	-
Total		¥40,765	¥40,765	¥29

At March 31, 2013	Hedged Item	Millions of Yen Contract Amount	 Contract Amount Due After One Year	 Fair Value
Interest rate swaps:				
(Floating rate payment, fixed-rate receipt)	Long-term debt	¥ 1,000	¥ 1,000	¥34
Interest rate swaps:				
(Fixed rate payment, floating rate receipt)(*)	Long-term debt	39,011	39,011	-
Total		¥40,011	¥40,011	¥34

At March 31, 2014	Hedged Item	Thousands of U.S. Dollars Contract Amount	 Contract Amount Due After One Year	 Fair Value
Interest rate swaps:				
(Floating rate payment, fixed rate receipt)	Long-term debt	$ 9,709	$ 9,709	$282
Interest rate swaps:				
(Fixed rate payment, floating rate receipt)(*)	Long-term debt	386,068	386,068	-
Total		$395,777	$395,777	$282

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

At March 31, 2014	Hedged Item	Millions of Yen Contract Amount	Contract Amount Due After One Year	Fair Value
Interest rate and currency swaps:				
(Fixed rate payment, floating rate receipt) (Japanese yen payment, U.S.$ receipt)(*)	Long-term debt	¥10,000	¥10,000	-
Total		¥10,000	¥10,000	-

At March 31, 2013	Hedged Item	Millions of Yen Contract Amount	Contract Amount Due After One Year	Fair Value
Interest rate and currency swaps:				
(Fixed rate payment, floating rate receipt) (Japanese yen payment, U.S.$ receipt) (*)	Long-term debt	¥10,000	¥10,000	-
Total		¥10,000	¥10,000	-

At March 31, 2014	Hedged Item	Thousands of U.S. Dollars Contract Amount	Contract Amount Due After One Year	Fair Value
Interest rate and currency swaps:				
(Fix rate payment, floating rate receipt) (Japanese yen payment, U.S.$ receipt)(*)	Long-term debt	$97,087	$97,087	-
Total		$97,087	$97,087	-

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

15. CONTINGENT LIABILITIES

At March 31, 2014, the Group had contingent liabilities as follows:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees for bank borrowings of employees	¥ 51	$ 495
Guarantees for bank borrowings of a business-related company	238	2,311

16. COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥14,504	¥ 1,817	$140,815
Reclassification adjustments to profit or loss	(582)	2,722	(5,650)
Amount before income tax effect	13,922	4,539	135,165
Income tax effect	(4,378)	(1,047)	(42,505)
Total	¥ 9,544	¥ 3,492	$ 92,660
Deferred loss on derivatives under hedge accounting:			
Gains arising during the year	¥10	¥ 4	$ 97
Reclassification adjustments to profit or loss	(16)	(22)	(155)
Amount before income tax effect	(6)	(18)	(58)
Income tax effect	2	6	19
Total	¥(4)	¥(12)	$ (39)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥20,237	¥27,203	$196,476
Reclassification adjustments to profit or loss	3	-	29
Total	¥20,240	¥27,203	$196,505
Share of other comprehensive income in associates—			
Gains arising during the year	¥2	¥1	$20
Defined retirement benefit plans:			
Gains (losses) arising during the year	¥ 503	¥(262)	$ 4,884
Reclassification adjustments to profit or loss	359	154	3,485
Amount before income tax effect	862	(108)	8,369
Income tax effect	(302)	18	(2,932)
Total	¥ 560	¥ (90)	$ 5,437
Total other comprehensive income	¥30,342	¥30,594	$294,583

17. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2014 and 2013, was as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2014	Net Income	Weighted-Average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥27,045	326,555	¥82.82	$0.804
Effect of dilutive securities:				
Stock options	-	575		
Diluted EPS—Net income for computation	¥27,045	327,130	¥82.67	$0.803
Year Ended March 31, 2013				
Basic EPS—Net income available to common shareholders	¥11,422	326,531	¥34.98	
Effect of dilutive securities:				
Stock options	-	562		
Diluted EPS—Net income for computation	¥11,422	327,093	¥34.92	

18. RELATED-PARTY DISCLOSURES

(1) Transactions with related parties

The Company had the following transactions with related parties for the years ended March 31, 2014 and 2013:

For the year ended March 31, 2014

Category	Company name	Address	Capital	Content of business	Ratio of voting rights	Relationship	Summary of transactions	Amount	Account items	Balance at the end of fiscal year
Company owned by the directors and their close relatives, holding the majority of ratio of voting rights (including its subsidiaries)	Yoshimura Sangyo Kabushiki Kaisya	Ena-shi, Gifu-ken	¥ 10 million ($97 thousand)	Manufacture of clay for ceramics	(Held) Direct 0.0%	Purchase of raw materials	Purchase of clay/silica sand	¥132 million ($1,282 thousand)	Notes and accounts payable	¥4 million ($39 thousand)

For the year ended March 31, 2013

Category	Company name	Address	Capital	Content of business	Ratio of voting rights	Relationship	Summary of transactions	Amount	Account items	Balance at the end of fiscal year
Company owned by the directors and their close relatives, holding the majority of ratio of voting rights (including its subsidiaries)	Yoshimura Sangyo Kabushiki Kaisya	Ena-shi, Gifu-ken	¥ 10 million	Manufacture of clay for ceramics	(Held) Direct 0.0%	Purchase of raw materials	Purchase of clay/silica sand	¥ 145 million	Notes and accounts payable	¥ 13 million

Notes
1. The above "Amount" does not include consumption tax; the balance includes consumption tax.
2. Transaction terms and policy for determining transaction terms
   Transactions stated above were determined through negotiations with reference to the prevailing market price.

A consolidated subsidiary had the transactions with related parties for the years ended March 31, 2014 and 2013, as follows:

For the year ended March 31, 2014

Category	Company name	Address	Capital	Content of business	Ratio of voting rights	Relationship	Summary of transactions	Amount	Account items	Balance at the end of fiscal year
Company owned by the directors and their close relatives, holding the majority of ratio of voting rights (including its subsidiaries)	Yoshimura Sangyo Kabushiki Kaisya	Ena-shi, Gifu-ken	¥ 10 million ($97 thousand)	Manufacture of clay for ceramics	(Held) Direct 0.0%	Purchase of raw materials	Purchase of clay/silica sand	¥ 63 million ($612 thousand)	Notes and accounts payable	¥6 million ($58 thousand)

For the year ended March 31, 2013

Category	Company name	Address	Capital	Content of business	Ratio of voting rights	Relationship	Summary of transactions	Amount	Account items	Balance at the end of fiscal year
Company owned by the directors and their close relatives, holding the majority of ratio of voting rights (including its subsidiaries)	Yoshimura Sangyo Kabushiki Kaisya	Ena-shi, Gifu-ken	¥ 10 million	Manufacture of clay for ceramics	(Held) Direct 0.0%	Purchase of raw materials	Purchase of clay/silica sand	¥ 79 million	Notes and accounts payable	¥ 7 million

Notes
1. "Amount"above does not include consumption tax; the balance includes consumption tax.
2. Transaction terms and policy for determining transaction terms
   Transactions stated above were determined through negotiations with reference to the prevailing market price.

(2) Summary of financial information of significant associated company

Condensed financial information of Metawater Co., Ltd, a significant associated company, for the years ended March 31, 2014 and 2013, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	**2013**	**2014**
Total current assets	¥61,644	¥69,455	$598,485
Total noncurrent assets	11,580	10,667	112,427
Total current liabilities	49,831	43,892	483,796
Total noncurrent liabilities	2,540	1,958	24,660
Total equity	20,853	34,272	202,456
Sales	95,146	96,734	923,748
Net income before income taxes	7,481	7,697	72,631
Net income	4,327	4,738	42,010

19. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2014, was approved at the Company's shareholders' meeting held on June 27, 2014:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥12 ($0.12) per share	¥3,918	$38,039

20. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) *Description of Reportable Segments*

The Group's reportable segments are components of the Group about which separate financial information is available that is evaluated regularly by the Company's management in deciding how to allocate resources and in assessing performance. The Group develops and conducts its operations under three business groups: Power Business Group, Ceramics Products Business Group, and Electronics Business Group, while planning a comprehensive strategy for domestic and overseas markets. Consequently, the Group defines those three business groups as its reportable segments.

Business segment	Main products
Power	Insulators, hardware for insulator assemblies, current limiting arching horns, bushing shells, fuse cut-outs, APM, line arresters, and NAS® (sodium sulfur) batteries
Ceramics products	Automotive ceramics for exhaust gas purification, corrosion-resistant ceramic apparatuses for chemical industries, gas analyzers, 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

(2) *Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets, and Other Items for Each Reportable Segment*

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

As stated in Note 2. h to the consolidated financial statements, during the year ended March 31, 2014, the Company and domestic consolidated subsidiaries changed their depreciation method for property, plant, and equipment from the declining-balance method to the straight-line method. The effects of this accounting policy change for the year ended March 31, 2014, were as follows:

1) Segment loss of Power decreased by ¥593 million ($5,757 thousand).
2) Segment profit of Ceramics increased by ¥1,630 million ($15,825 thousand).
3) Segment profit of Electronics increased by ¥740 million ($7,185 thousand).

(3) Information about Sales, Profit (Loss), Assets, and Other Items

	Millions of Yen					
	2014					
	Reportable segment					
	Power	Ceramics	Electronics	Total	Reconciliations	Consolidated
Sales						
Sales to customers	¥58,985	¥190,761	¥58,925	¥308,671	-	¥308,671
Intersegment sales or transfers	19	217	2	238	¥ (238)	-
Total	¥59,004	¥190,978	¥58,927	¥308,909	¥ (238)	¥308,671
Segment (loss) profit	¥ (3,900)	¥ 44,998	¥ 3,104	¥ 44,202	¥ 50	¥ 44,252
Segment assets	90,148	262,638	67,907	420,693	193,527	614,220
Other:						
Depreciation and amortization	3,258	13,815	2,821	19,894	-	19,894
Impairment losses on assets	5,059	-	272	5,331	75	5,406
Increase in property, plant, and equipment and intangible assets	3,038	20,419	3,904	27,361	1,074	28,435

	Millions of Yen					
	2013					
	Reportable segment					
	Power	Ceramics	Electronics	Total	Reconciliations	Consolidated
Sales						
Sales to customers	¥57,730	¥143,972	¥51,087	¥252,789	-	¥252,789
Intersegment sales or transfers	35	137	-	172	¥ (172)	-
Total	¥57,765	¥144,109	¥51,087	¥252,961	¥ (172)	¥252,789
Segment (loss) profit	¥ (5,729)	¥ 25,984	¥ 441	¥ 20,696	-	¥ 20,696
Segment assets	87,680	230,011	68,638	386,329	¥176,701	563,030
Other:						
Depreciation and amortization	4,759	11,749	3,581	20,089	-	20,089
Impairment losses on assets	2,248	-	-	2,248	-	2,248
Increase in property, plant, and equipment and intangible assets	2,747	24,109	2,327	29,183	2,033	31,216

	Thousands of U.S. Dollars					
	2014					
	Reportable segment					
	Power	Ceramics	Electronics	Total	Reconciliations	Consolidated
Sales						
Sales to customers	$572,670	$1,852,048	$572,087	$2,996,805	-	$2,996,805
Intersegment sales or transfers	184	2,107	19	2,310	$ (2,310)	-
Total	$572,854	$1,854,155	$572,106	$2,999,115	$ (2,310)	$2,996,805
Segment (loss) profit	$(37,864)	$ 436,874	$ 30,136	$429,146	$ 485	$429,631
Segment assets	875,223	2,549,884	659,291	4,084,398	1,878,903	5,963,301
Other:						
Depreciation and amortization	31,631	134,126	27,389	193,146	-	193,146
Impairment losses on assets	49,116	-	2,641	51,757	728	52,485
Increase in property, plant, and equipment and intangible assets	29,495	198,243	37,903	265,641	10,427	276,068

Notes:
1. Reconciliation of segment profit is the adjustment of intersegment transactions.
2. The amount of general corporate assets included in the reconciliation of segment assets is ¥234,348 million ($2,275,223 thousand) and ¥224,361 million at March 31, 2014 and 2013, respectively, mainly consisting of surplus funds (cash and marketable securities), long-term investment funds (investment securities), and the assets of administrative departments.
3. Increase in property, plant, and equipment and intangible assets in other relates to the increase in corporate departments.

Information about geographical areas

(1) Sales

Millions of Yen							
2014							
	North America		Europe			Other	
Japan	USA	Others	Germany	Others	Asia	Areas	Total
¥98,929	¥59,655	¥7,061	¥44,480	¥25,614	¥50,754	¥22,178	¥308,671

Millions of Yen							
2013							
	North America		Europe			Other	
Japan	USA	Others	Germany	Others	Asia	Areas	Total
¥103,655	¥42,180	¥4,651	¥28,356	¥20,121	¥36,428	¥17,398	¥252,789

Thousands of U.S. Dollars							
2014							
	North America		Europe			Other	
Japan	USA	Others	Germany	Others	Asia	Areas	Total
$960,476	$579,175	$68,553	$431,844	$248,680	$492,757	$215,320	$2,996,805

Sales are attributed to countries based on the location of the customers.

(2) Property, plant, and equipment

Millions of Yen									
2014									
	North America			Europe		Asia		Other	
Japan	USA	Mexico	Others	Poland	Others	China	Others	Areas	Total
¥78,284	¥18,674	¥26,069	¥13	¥24,738	¥2,967	¥17,588	¥7,377	¥614	¥176,324

Millions of Yen									
2013									
	North America			Europe		Asia		Other	
Japan	USA	Mexico	Others	Poland	Others	China	Others	Areas	Total
¥78,020	¥12,616	¥23,234	¥13	¥16,776	¥2,627	¥22,709	¥7,185	¥705	¥163,885

Thousands of U.S. Dollars									
2014									
	North America			Europe		Asia		Other	
Japan	USA	Mexico	Others	Poland	Others	China	Others	Areas	Total
$760,039	$181,301	$253,097	$126	$240,175	$28,806	$170,757	$71,622	$5,961	$1,711,884

Subsidiaries and Affiliated Companies

As of March 31, 2014

JAPAN

	Company's Direct and Indirect Ownership (%)	Principal Products and Services
■ ENERGY SUPPORT CORPORATION	100	Power distribution equipment
■ AKECHI INSULATORS, LTD.	100	Electrical insulators
■ IKEBUKURO HORO KOGYO CO., LTD.	78.9	Glass-lined reactors & tanks for chemical processing industries
■ NGK CHEM-TECH, LTD.	100	Chemical equipment and maintenance
■ NGK FILTECH, LTD.	100	Membrane separation systems
■ NGK ADREC CO., LTD.	96.7	Refractories/kiln furniture
■ NGK KILNTECH CORPORATION	100	Thermal process engineering & products
■ HEISEI CERAMICS CO., LTD.	60	Refractories/kiln furniture
■ NGK OKHOTSK, LTD.	100	Jig for ceramics production
■ NGK METEX CORPORATION	100	Beryllium copper wrought products
■ NGK FINE MOLDS, LTD.	100	Molds
■ NGK CERAMIC DEVICE CO., LTD.	100	Ceramic electronic components
■ SOSHIN ELECTRIC CO., LTD.	40.6	Electronic components and devices
■ METAWATER CO., LTD.	50	Environmental protection systems
■ TAJIMI COUNTRY CLUB CO., LTD.	100	Operation of a golf course

Other Group Companies

■ KANSAI ENERGYS CORPORATION	■ KYUSYU ENERGYS CORPORATION	■ HOKURIKU ENERGYS CORPORATION	■ TOKAI ENERGYS CORPORATION
■ ENERGYS SANGYO CORPORATION	■ SOSHIN DEVICE CO., LTD.	■ RISSHIN ELECTRONICS CO., LTD.	■ SOSHIN POWERTECH CO., LTD.
NGK SPORTS PLANNING CO., LTD.	NGK LIFE CO., LTD.	NGK YU-SERVICE CO., LTD.	NGK TECHNICA, LTD.
NGK BUILDING SERVICE, LTD.	NGK LOGISTICS, LTD.	NGK EDUCATION SERVICES, LTD.	

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

Global Network

NORTH AMERICA

LOCKE INSULATORS, INC.

NGK-LOCKE POLYMER INSULATORS, INC.

NGK CERAMICS USA, INC.

NGK METALS CORPORATION

FM INDUSTRIES, INC.

NGK CERAMICS MEXICO, S. DE R.L. DE C.V.

NGK-LOCKE, INC.
NGK AUTOMOTIVE CERAMICS USA, INC.
NGK ELECTRONICS USA, INC.
NGK INSULATORS OF CANADA, LTD.

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 METALS CORPORATION	100	Beryllium copper products
■ NGK ELECTRONICS USA, INC.	100	Ceramics for semiconductor manufacturing equipment
■ FM INDUSTRIES, INC.	100	Modules for semiconductor production equipment

EUROPE AND AFRICA

	Company's Direct and Indirect Ownership (%)	Principal Products and Services
■ NGK CERAMICS EUROPE S.A.	100	Automotive ceramics
■ NGK EUROPE GMBH	100	Ceramic products
■ NGK CERAMICS POLSKA SP. Z O.O.	95	Automotive ceramics
■ NGK CERAMICS SOUTH AFRICA (PTY) LTD.	100	Automotive ceramics
■ NGK BERYLCO FRANCE	100	Beryllium copper products
■ NGK BERYLCO U.K. LTD.	100	Beryllium copper products
■ NGK DEUTSCHE BERYLCO GMBH	100	Beryllium copper products

ASIA PACIFIC

	Company's Direct and Indirect Ownership (%)	Principal Products and Services
■ NGK INSULATORS TANGSHAN CO., LTD.	100	Electrical insulators
■ NGK INSULATORS SUZHOU CO., LTD.	100	Electrical insulators
■ NGK STANGER PTY. LTD.	100	Power distribution equipment
■ NGK INSULATORS (CHINA) INVESTMENT CO., LTD.	100	Electrical insulators and beryllium copper products
■ P.T. NGK CERAMICS INDONESIA	97.8	Automotive ceramics
■ SIAM NGK TECHNOCERA CO., LTD.	100	Refractories/kiln furniture
■ NGK CERAMICS SUZHOU CO., LTD.	100	Automotive ceramics
■ NGK TECHNOCERA SUZHOU CO., LTD.	100	Thermal process engineering & products, refractories/kiln furniture

Other Group Companies

■ ENERGY ELECTRIC (SHANGHAI) CORPORATION
■ NGK AUTOMOTIVE CERAMICS MEXICO, S. DE R.L. DE C.V.
NGK AUTOMOTIVE CERAMICS KOREA CO., LTD.
■ SOSHIN ELECTRONICS OF AMERICA, INC.
■ SOSHIN ELECTRONICS (HK) LIMITED
TAIWAN SOSHIN ELECTRIC CO., LTD.
■ SOSHIN ELECTRONICS (SZ) LIMITED
■ SOSHIN ELECTRONICS (M) SDN. BHD.
SOSHIN ELECTRONICS EUROPE GMBH

EUROPE


NGK CERAMICS EUROPE S.A.


NGK CERAMICS POLSKA SP. Z O.O.


NGK BERYLCO FRANCE

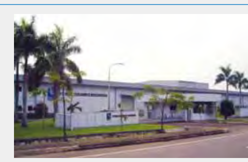
NGK BERYLCO U.K. LTD.
NGK EUROPE GMBH
NGK DEUTSCHE BERYLCO GMBH
NGK ITALY S.R.L.

AFRICA


NGK CERAMICS SOUTH AFRICA (PTY) LTD.

ASIA PACIFIC


NGK INSULATORS TANGSHAN CO., LTD.


PT. NGK CERAMICS INDONESIA


NGK STANGER PTY. LTD.


SIAM NGK TECHNOCERA CO., LTD.


NGK CERAMICS SUZHOU CO., LTD.


NGK TECHNOCERA SUZHOU CO., LTD.

NGK INSULATORS (CHINA) INVESTMENT CO., LTD.
NGK AUTOMOTIVE CERAMICS KOREA CO., LTD.
NGK INSULATORS, LTD. NEW DELHI LIAISON OFFICE

Corporate Data
As of March 31, 2014

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
327,560 thousand shares

Number of Shareholders
22,408

Stock Exchange Listings
Tokyo and Nagoya

Auditors
Deloitte Touche Tohmatsu LLC
(Japanese member firm of Deloitte Touche Tohmatsu)

Organization
As of April 1, 2014

Power Business Group
- Business Planning Dept.
- Sales Div.
- Electrical Insulator Div.
  - Electrical Equipment Dept.
- NAS Battery Div.
  - Quality Assurance Dept.

Ceramic Products Business Group
- Business Planning Dept.
- Worldwide Sales and Marketing Div.
- Engineering Div.
- Manufacturing Div.
- Sensor Div.
- Industrial Process Div.
  - Quality Assurance Dept.

Electronics Business Group
- Business Planning Dept.
- High Performance Ceramics Div.
- New Metals Div.
- Electronic Components Div.
  - Quality Assurance Dept.

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

Corporate R&D
- Wafer Project
- NCM Project
- Functional Materials Development Project
- Advanced Materials Development Center
- Materials Research Laboratory
- Future Technology Management Center

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

Board of Directors, Executive Officers and Audit & Supervisory Board

As of June 27, 2014

Board of Directors

*Representative Directors

Eiji Hamamoto*
Chairman

Taku Oshima*
President

Hiroshi Fujito*
Executive Vice President

Toshiyuki Hamanaka
Director and
Senior Vice President

Yukihisa Takeuchi
Director and
Senior Vice President

Susumu Sakabe
Director and
Senior Vice President

Ryohei Iwasaki
Director and
Senior Vice President

Hiroshi Kanie
Director and
Senior Vice President

Hideaki Saito
Director and
Senior Vice President

Nobumitsu Saji
Director and Vice President

Hiroyuki Kamano
Outside Director

Toshio Nakamura
Outside Director

Executive Officers

Takafumi Hochi
Senior Vice President

Shuhei Ishikawa
Senior Vice President

Nobuo Takahashi
Vice President

Yukiyasu Ohguchi
Vice President

Koji Yokoi
Vice President

Hideki Yamamoto
Vice President

Hiroshi Kurachi
Vice President

Takaya Teshima
Vice President

Atsushi Matsuda
Vice President

Toshiyuki Mima
Vice President

Chiaki Niwa
Vice President

Hitoshi Sakai
Vice President

Hiroto Matsuda
Vice President

Audit & Supervisory Board

Takeyuki Mizuno
Audit & Supervisory
Board Member

Michio Fukuhara
Audit & Supervisory
Board Member

Setsuo Tanaka
Audit & Supervisory
Board Member, Outside

Ichiro Terato
Audit & Supervisory
Board Member, Outside

NGK

MIX
Paper from responsible sources
FSC® C014969
FSC www.fsc.org

VEGETABLE OIL INK

This Annual Report is printed on FSC-approved paper using vegetable oil inks.

Printed in Japan