

## Summary of Consolidated Financial Results for the Three Months Ended June 30, 2017 [Japanese GAAP]

July 28, 2017

Company Name : NGK INSULATORS, LTD.  
 Stock Exchange Listings : Tokyo and Nagoya  
 Listing Code : 5333  
 URL : <http://www.ngk.co.jp/english/>  
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Date of the Filing of Securities Report "Shihanki Hokokusho" (Scheduled) : August 4, 2017  
 Date of Dividend Payment (Scheduled) : —  
 Availability of supplementary explanatory materials prepared for financial results : None  
 Briefing session on financial results to be held : None

(All yen amounts are rounded down to the nearest million.)

### 1. Consolidated Financial Results for the Three Months Ended June 30, 2017 (from April 1, 2017 to June 30, 2017)

#### (1) Consolidated Operating Results

(Percentage figures represent increase (decrease) from previous period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2017	110,044	11.2	18,807	(1.8)	18,126	(2.0)	11,279	(10.8)
Three months ended June 30, 2016	98,975	(5.3)	19,151	(3.9)	18,500	(7.1)	12,646	(8.7)

(Note) Comprehensive income : Three months ended June 30, 2017 21,173 million yen -%  
 : Three months ended June 30, 2016 (11,935) million yen -%

	Profit per share	Diluted profit per share
	Yen	Yen
Three months ended June 30, 2017	35.07	35.01
Three months ended June 30, 2016	38.87	38.81

#### (2) Consolidated Financial Position

	Total assets	Total net assets	Ratio of net worth to total assets
	Millions of yen	Millions of yen	%
June 30, 2017	768,113	442,314	56.1
March 31, 2017	759,434	427,593	54.9

(Reference) Net worth : As of June 30, 2017 431,077 million yen  
 : As of March 31, 2017 416,740 million yen

#### 2. Dividend Payment

	Cash dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Total (Full-year)
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2017	-	20.00	-	20.00	40.00
Year ending March 31, 2018	-	-	-	-	-
Year ending March 31, 2018 (forecast)	-	21.00	-	21.00	42.00

(Note) Revision of cash dividend forecast during this period : None

### 3. Forecasts of Consolidated Financial Results for the Fiscal Year Ending March 31, 2018

(Percentage figures represent increase (decrease) from previous period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending September 30, 2017	205,000	5.5	33,000	(3.7)	31,500	(2.7)	20,000	(7.9)	62.18
Year ending March 31, 2018	420,000	4.7	67,000	6.0	68,000	5.3	45,000	23.7	139.91

(Note) Revision of forecasts of consolidated financial results during this period : None

#### Notes

(1) Significant changes in subsidiaries during this period (changes in specified subsidiaries, "tokutei kogaisha" defined in the "Cabinet Office Ordinance on Disclosure of Corporate Information, etc.", involving a change of the scope of consolidation during this period) : None  
New — company ( ), Exclusion — company ( )

(2) Application of special accounting methods for preparing quarterly consolidated financial statements : None

(3) Changes in accounting policies, accounting estimates or retrospective restatements

- i. Changes due to revisions of accounting standards : None
- ii. Changes in accounting policies other than the above (i) : None
- iii. Changes in accounting estimates : None
- iv. Retrospective restatement : None

(4) Number of shares outstanding (Common Shares)

i. Number of shares outstanding at period end including treasury stocks	June 30, 2017	327,560,196 shares	March 31, 2017	327,560,196 shares
ii. Number of treasury stocks at period end	June 30, 2017	5,904,851 shares	March 31, 2017	5,915,570 shares
iii. Average number of shares outstanding over period	June 30, 2017	321,652,770 shares	June 30, 2016	325,332,733 shares

\* **These quarterly financial statements are not subject to the quarterly review procedure.**

\* **Explanation of appropriate use of results forecasts and other notes**

This document contains forward-looking statements that are based on information and certain assumption NGK INSULATORS, LTD. ("NGK") has acquired and deemed reasonable as of the time of the release and NGK does not guarantee the achievement of them. Actual future results and trends may differ materially from those in the forecasts due to a variety of factors.

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## **1. Qualitative Information on Quarterly Financial Statements**

### **(1) Explanation of Business Results**

During the three months ended June 30, 2017, the Japanese economy remained on a moderate recovery course, underpinned by improvements in the employment and income environment. Among overseas economies, developed economies, such as the U.S. and Europe, were robust, while emerging countries experienced a slowdown in economic growth.

The NGK Group saw sluggish performance in NAS® (sodium-sulfur) batteries in the Power Business Segment, while overseas shipments of insulators increased. In the Ceramics Business Segment, the volume of automotive ceramics increased due to steady progress of passenger car sales in Europe and truck sales in China, despite a slowdown in passenger car sales in the Chinese and U.S. markets. In the Electronics Business Segment, the quantity of ceramic components for semiconductor manufacturing equipment increased as semiconductors became increasingly shrinking.

As a result of the above, consolidated net sales for the three months ended June 30, 2017 increased by 11.2% year on year to ¥110,044 million. In terms of earnings, despite an increase in net sales, as a result of increased R&D and depreciation costs, among other factors, operating income decreased by 1.8% year on year to ¥18,807 million, ordinary income decreased by 2.0% to ¥18,126 million and profit attributable to owners of the parent decreased by 10.8% to ¥11,279 million.

By segment, the Power Business Segment posted ¥14,586 million in net sales, an increase of 9.1% year on year, and an operating loss of ¥619 million, compared to an operating loss of ¥1,428 million in the same period of the previous year. In the Ceramics Business Segment, net sales increased by 7.8% year on year to ¥64,971 million and operating income decreased by 20.6% year on year to ¥15,332 million. In the Electronics Business Segment, net sales increased by 20.3% year on year to ¥30,509 million and operating income increased by 219.8% year on year to ¥4,091 million.

### **(2) Explanation of Financial Position**

As of June 30, 2017, total assets were ¥768,113 million, an increase of ¥8,679 million from the previous fiscal year-end. This was mainly due to increases in tangible assets and cash and bank deposits despite a decrease of securities.

Total liabilities decreased by ¥6,041 million from the previous fiscal year-end to ¥325,799 million. This was mainly due to a decrease in income taxes payable despite an increase of long-term borrowings.

Total net assets stood at ¥442,314 million, or ¥14,721 million higher than the previous fiscal year-end, due to increases in foreign currency translation adjustments and retained earnings.

### **(3) Explanation of Forward-looking Statements including Forecasts for Consolidated Financial Statements**

With regard to the financial results forecasts for the full year ending March 31, 2018, no revisions have been made to those announced on April 28, 2017 and the previous forecasts remain unchanged. If there is any necessity to revise the full year forecasts, updated information will be disclosed immediately.

Financial results forecasts are based on information that are currently available and actual results may differ materially from those in the forecasts due to various factors.

## 2. Consolidated Financial Statements and Notes

### (1) Consolidated Balance Sheet

(Millions of yen)

	As of June 30, 2017	As of March 31, 2017
<b>Assets</b>		
Current assets		
Cash and bank deposits	128,583	119,145
Notes and accounts receivable trade	94,243	92,181
Securities	62,602	71,659
Inventories	117,575	119,081
Other	31,723	37,062
Allowance for doubtful accounts	(720)	(867)
Total current assets	434,009	438,263
Non-current assets		
Tangible assets		
Buildings and structures	74,874	66,293
Machinery and vehicles	98,018	97,018
Other	67,714	65,795
Total tangible assets	240,607	229,107
Intangible assets	2,931	2,962
Investments and other assets		
Investment securities	73,686	72,526
Other	17,026	16,723
Allowance for doubtful accounts	(147)	(148)
Total investments and other assets	90,566	89,101
Total non-current assets	334,104	321,170
<b>Total assets</b>	<b>768,113</b>	<b>759,434</b>

(Millions of yen)

	As of June 30, 2017	As of March 31, 2017
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable trade	39,529	38,898
Short-term borrowings	6,046	6,016
Current portion of long-term borrowings	7,443	6,973
Income taxes payable	※ 1 9,378	21,056
Provision for NAS battery safety measures	3,494	3,650
Provision for loss related to competition law	9,167	9,167
Other	36,786	42,676
<b>Total current liabilities</b>	<b>111,846</b>	<b>128,439</b>
Long-term liabilities		
Long-term borrowings	169,430	161,160
Net defined benefit liability	21,165	20,926
Other	23,357	21,314
<b>Total long-term liabilities</b>	<b>213,952</b>	<b>203,401</b>
<b>Total liabilities</b>	<b>325,799</b>	<b>331,841</b>
<b>Net assets</b>		
Shareholders' equity		
Common stock	69,849	69,849
Capital surplus	72,043	72,055
Retained earnings	294,843	289,996
Treasury stock	(12,385)	(12,407)
<b>Total shareholders' equity</b>	<b>424,349</b>	<b>419,492</b>
Accumulated other comprehensive income (loss)		
Unrealized gain on available -for-sale securities	24,912	23,458
Deferred loss on derivatives under hedge accounting	(23)	(20)
Foreign currency translation adjustments	(7,993)	(15,475)
Defined retirement benefit plans	(10,168)	(10,713)
<b>Total accumulated other comprehensive income (loss)</b>	<b>6,727</b>	<b>(2,751)</b>
Stock acquisition rights	887	898
Non-controlling interests	10,349	9,953
<b>Total net assets</b>	<b>442,314</b>	<b>427,593</b>
<b>Total liabilities and net assets</b>	<b>768,113</b>	<b>759,434</b>

**(2) Consolidated Statement of Income  
and Consolidated Statement of Comprehensive Income  
Consolidated Statement of Income**

(Millions of yen)

	Three months ended June 30, 2017	Three months ended June 30, 2016
<b>Net sales</b>	<b>110,044</b>	<b>98,975</b>
Cost of sales	74,631	63,734
<b>Gross profit</b>	<b>35,413</b>	<b>35,240</b>
Selling, general and administrative expenses	16,605	16,088
<b>Operating income</b>	<b>18,807</b>	<b>19,151</b>
Non-operating income		
Interest income	141	106
Dividend income	644	638
Equity in earnings of unconsolidated subsidiaries and associated companies	-	16
Gain on valuation of derivatives	-	1,159
Other	482	314
Total non-operating income	1,268	2,235
Non-operating expenses		
Interest expense	553	490
Equity in loss of unconsolidated subsidiaries and associated companies	531	-
Foreign exchange loss	176	2,285
Loss on valuation of derivatives	354	-
Other	333	111
Total non-operating expense	1,949	2,887
<b>Ordinary income</b>	<b>18,126</b>	<b>18,500</b>
Extraordinary income		
Gain on sales of fixed assets	11	8
Gain on sales of investment securities	-	2
Total extraordinary income	11	11
Extraordinary loss		
Loss on sales and disposals of fixed assets	267	57
Impairment loss	-	1,157
Provision of reserve for loss related to competition law	-	1,062
Total extraordinary loss	267	2,277
<b>Income before income taxes and non-controlling interests</b>	<b>17,869</b>	<b>16,233</b>
Income taxes - current	※ 1 4,589	2,213
Income taxes - deferred	1,813	1,382
Income taxes - total	6,403	3,596
<b>Profit</b>	<b>11,466</b>	<b>12,637</b>
Profit (loss) attributable to non-controlling interests	186	(9)
<b>Profit attributable to owners of parent</b>	<b>11,279</b>	<b>12,646</b>



**Consolidated Statement of Comprehensive Income**

(Millions of yen)

	Three months ended June 30, 2017	Three months ended June 30, 2016
<b>Profit</b>	<b>11,466</b>	<b>12,637</b>
Other comprehensive income (loss)		
Unrealized gain (loss) on available-for-sale securities	1,466	(2,294)
Deferred loss on derivatives under hedge accounting	(4)	(111)
Foreign currency translation adjustments	7,812	(23,045)
Defined retirement benefit plans	523	752
Share of other comprehensive (loss) income of associates accounted for by using the equity method	(90)	125
Total other comprehensive income (loss)	9,707	(24,573)
<b>Comprehensive income (loss)</b>	<b>21,173</b>	<b>(11,935)</b>
Comprehensive income (loss) attributable to:		
Owners of parent	20,759	(11,516)
Non-controlling interests	414	(418)

### **(3) Notes to Consolidated Financial Statements**

#### **(Note on the Assumption as a Going Concern)**

Not applicable

#### **(Significant Changes in Stockholder's Equity)**

Not applicable

#### **(Additional Information)**

With respect to transactions between NGK and its Polish subsidiary from the fiscal year ended March 31, 2007 through the fiscal year ended March 31, 2010, NGK received a correction based on transfer pricing taxation issued by the Nagoya Regional Taxation Bureau in March 2012. While NGK made a payment of approximately ¥6.2 billion in tax penalties including local taxes, it filed a complaint. NGK later requested the Nagoya National Tax Tribunal to carry out an administrative review, and on June 24, 2016, received a written verdict, which partially rescinded the correction. However, it went only so far as to refund approximately ¥0.1 billion of corporation taxes and local taxes, etc. Believing that cancellation should be made in the full amount, NGK filed an action for revocation of the correction with the Tokyo District Court on December 20, 2016.

While NGK believes that it could still take a considerable amount of time before judgment is passed on the claim, on June 23, 2017 NGK received a correction notice based on transfer pricing taxation for the fiscal year ended March 31, 2011 through the fiscal year ended March 31, 2015. Accordingly, based on the premise that NGK would be subject to the said correction for the fiscal year ended March 31, 2016 and the fiscal year ended March 31, 2017 as well, ¥8.5 billion in tax penalties for fiscal years from March 31, 2011 through March 31, 2015, and estimated tax amounts for the fiscal year ended March 31, 2016 and the fiscal year ended March 31, 2017 were added and factored into the financial statements for the fiscal year ended March 31, 2017. In addition, estimated tax amounts for the three months ended June 30, 2017 were recognized under "Income taxes - current" for the fiscal year ending March 31, 2018.

#### **(Consolidated Balance Sheet)**

##### **※1. Income taxes payable**

With respect to transactions between NGK and its Polish subsidiary, NGK received a correction notice based on transfer pricing taxation on June 23, 2017. Therefore, the amount includes estimated tax amounts based on the premise that NGK would be subject to the said correction for the period from the fiscal year ended March 31, 2016, to June 30, 2017.

## **2. Contingent liabilities**

The NGK Group is subject to an international investigation on the situation of competition.

Since the receiving of a subpoena by a U.S. subsidiary of NGK from the U.S. Department of Justice (DOJ) in 2011, NGK has cooperated in the investigation concerning ceramic substrates for catalytic converters including establishing the Independent Committee in 2012. In September, 2015, NGK entered into a Plea Agreement with DOJ, agreeing to pay a fine of US\$65.3 million based on charges that it violated U.S. laws including the antitrust law in connection with some transactions for ceramic substrates for catalytic converters, and paid the total amount in November 2015. We have entered into negotiations for compensation for damages with the relevant customers. In addition to some customers requiring monetary compensation, civil lawsuits (class action) have also been filed.

In consideration of such progresses, the NGK Group made an estimate of potential losses, and recognized the estimated amount as of the end of three months ended June 30, 2017, as “provision for loss related to competition law,” however, additional losses may arise with the emergence of new facts. Overall details of the investigation and negotiations are not disclosed because they may put the NGK Group at a disadvantage.

### **(Consolidated Statement of Income)**

#### **※1. Income taxes - current**

With respect to transactions between NGK and its Polish subsidiary, NGK received a correction notice based on transfer pricing taxation on June 23, 2017. Therefore, the amount includes estimated tax amounts for the three months ended June 30, 2017 based on the premise that NGK would be subject to the said correction.

**(Segment Information)**

(1) Three months ended June 30, 2017 ( from April 1, 2017 to June 30, 2017 )

(Millions of yen)

	Business Segment				Elimination or Adjustment	Consolidated
	Power	Ceramics	Electronics	Total		
Sales						
Sales to customers	14,579	64,956	30,509	110,044	-	110,044
Intersegment sales	7	15	-	23	(23)	-
Total sales	14,586	64,971	30,509	110,067	(23)	110,044
Operating income (loss)	(619)	15,332	4,091	18,804	2	18,807

(2) Three months ended June 30, 2016 ( from April 1, 2016 to June 30, 2016 )

(Millions of yen)

	Business Segment				Elimination or Adjustment	Consolidated
	Power	Ceramics	Electronics	Total		
Sales						
Sales to customers	13,365	60,241	25,367	98,975	-	98,975
Intersegment sales	2	13	-	15	(15)	-
Total sales	13,367	60,255	25,367	98,991	(15)	98,975
Operating income (loss)	(1,428)	19,300	1,279	19,151	-	19,151

(Notes) 1. Elimination or adjustment of operating income (loss) is an adjustment of intersegment transactions.

## 2. Main products by business segment

Business Segment	Main products
Power	Insulators, hardware for insulator assemblies, current limiting arching horns, bushing shells, fuse cut-outs, APM, line arrester and NAS® (sodium-sulfur) batteries
Ceramics	Automotive ceramics for exhaust gas purification, corrosion-resistant ceramic apparatuses for chemical industries, gas analyzers, industrial heating systems, refractory products and radioactive waste treatment systems
Electronics	Ceramic components for semiconductor manufacturing equipment, ceramic components for electronics, beryllium copper products, and molds