

## Summary of Consolidated Financial Results for the Three Months Ended June 30, 2018 [Japanese GAAP]

July 27, 2018

Company Name : NGK INSULATORS, LTD.  
 Stock Exchange Listings : Tokyo and Nagoya  
 Listing Code : 5333  
 URL : <https://www.ngk-insulators.com/en/>  
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 Date of the Filing of Securities Report "Shihanki Hokokusho" (Scheduled) : August 3, 2018  
 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, 2018 (from April 1, 2018 to June 30, 2018)

#### (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, 2018	115,250	4.7	19,114	1.6	18,144	0.1	11,809	4.7
Three months ended June 30, 2017	110,044	11.2	18,807	(1.8)	18,126	(2.0)	11,279	(10.8)

(Note) Comprehensive income : Three months ended June 30, 2018 12,328 million yen (41.8)%  
 : Three months ended June 30, 2017 21,173 million yen -%

	Profit per share	Diluted profit per share
	Yen	Yen
Three months ended June 30, 2018	36.70	36.64
Three months ended June 30, 2017	35.07	35.01

#### (2) Consolidated Financial Position

	Total assets	Total net assets	Ratio of net worth to total assets
	Millions of yen	Millions of yen	%
June 30, 2018	820,975	478,407	56.8
March 31, 2018	826,243	472,863	55.8

(Reference) Net worth : As of June 30, 2018 446,581 million yen  
 : As of March 31, 2018 460,983 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, 2018	-	21.00	-	23.00	44.00
Year ending March 31, 2019	-				
Year ending March 31, 2019 (forecast)		25.00	-	25.00	50.00

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

### 3. Forecasts of Consolidated Financial Results for the Fiscal Year Ending March 31, 2019

(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, 2018	240,000	9.2	35,000	(2.4)	33,000	(3.5)	20,000	1.1	62.16
Year ending March 31, 2019	500,000	10.8	77,000	10.0	76,500	8.3	52,000	13.5	161.61

(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 : Yes
- ii. Changes in accounting policies other than the above (i) : None
- iii. Changes in accounting estimates : None
- iv. Retrospective restatement : None

(Note) For details, please refer to "2. Consolidated Financial Statements and Notes (3) Notes to Consolidated Financial Statements (Changes in accounting policy)" on page 8 of the Appendix.

(4) Number of shares outstanding (Common Shares)

i. Number of shares outstanding at period end including treasury stocks	June 30, 2018	327,560,196 shares	March 31, 2018	327,560,196 shares
ii. Number of treasury stocks at period end	June 30, 2018	5,794,443 shares	March 31, 2018	5,794,181 shares
iii. Average number of shares outstanding over period	June 30, 2018	321,765,859 shares	June 30, 2017	321,652,770 shares

**\* These quarterly financial statements are not subject to the quarterly review procedure of certified public accountant or audit firm**

#### \* 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, 2018, the Japanese economy remained on a moderate recovery, underpinned by improvements in the employment and income environment. Overseas economies were robust on the whole as developed countries, such as the U.S. and those in Europe, saw their economies to continue on a recovery path, and China and emerging countries showed signs of a pickup.

The NGK Group saw a drop in domestic demand and sluggish shipments of insulators for overseas markets in the Power Business Segment. In the Ceramics Business Segment, demand for SiC-based diesel particulate filters (DPF) fell, due to a slowdown in sales of diesel-fueled vehicles in the European market, while the volume of gasoline particulate filters (GPF) and sensors for gasoline-fueled vehicles increased, with the tightening of emission control in Europe. In the Electronics Business Segment, demand for bonded wafers for SAW filters grew, while demand for ceramics packages was weak, due to sluggish capital investments for mobile phone base stations in China. In the Process Technology Business Segment, the volume of products for semiconductor manufacturing equipment increased, in response to the trend toward multi-layered semiconductors and their microfabrication.

As a result of the above, consolidated net sales for the three months ended June 30, 2018 increased by 4.7% year on year to ¥115,250 million. In terms of earnings, despite increases in R&D and depreciation costs, as a result of increase in net sales, operating income increased by 1.6% year on year to ¥19,114 million, ordinary income remained largely unchanged to ¥18,144 million due to an increase of foreign exchange loss and profit attributable to owners of the parent increased by 4.7% to ¥11,809 million.

By segment, the Power Business Segment posted ¥12,416 million in net sales, a decrease of 14.9% year on year, and an operating loss of ¥1,275 million, compared to an operating loss of ¥619 million in the same period of the previous year. In the Ceramics Business Segment, net sales increased by 3.8% year on year to ¥61,814 million and operating income decreased by 0.5% year on year to ¥15,131 million. In the Electronics Business Segment, net sales decreased by 0.1% year on year to ¥14,859 million and an operating income of ¥135 million, compared to an operating loss of ¥46 million in the same period of the previous year. In the Process Technology Business Segment, net sales increased by 23.1% year on year to ¥26,822 million and operating income increased by 20.3% year on year to ¥5,120 million.

From the three months ended June 30, 2018, following organizational changes, the segment classification of the NGK Group has been changed from the "Power Business Segment," "Ceramics Business Segment," and "Electronics Business Segment" to the "Power Business Segment," "Ceramics Business Segment," "Electronics Business Segment," and "Process Technology Business Segment." Figures in each business segment for the previous fiscal year have been restated to reflect the change in segment classification to facilitate year-on-year comparisons of business performance.

### (2) Explanation of Financial Position

As of June 30, 2018, total assets were ¥820,975 million, a decrease of ¥5,267 million from the previous fiscal year-end. This was mainly due to decreases of cash, bank deposit and securities despite an increase in tangible assets.

Total liabilities decreased by ¥10,811 million from the previous fiscal year-end to ¥342,568 million. This was mainly due to decreases in income taxes payable and long-term borrowings.

Total net assets stood at ¥478,407 million, or ¥5,544 million higher than the previous fiscal year-end, due to increases in retained earnings and unrealized gain on available-for-sale securities.

### (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, 2019, no revisions have been made to those announced on April 27, 2018 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, 2018	As of March 31, 2018
<b>Assets</b>		
Current assets		
Cash and bank deposits	125,237	133,928
Notes and accounts receivable trade	100,834	104,029
Securities	55,063	68,428
Inventories	138,080	130,816
Other	17,802	18,855
Allowance for doubtful accounts	(120)	(123)
Total current assets	436,897	455,934
Non-current assets		
Tangible assets		
Buildings and structures	80,157	76,331
Machinery and vehicles	124,847	123,162
Other	80,865	70,607
Total tangible assets	285,870	270,100
Intangible assets	3,719	3,659
Investments and other assets		
Investment securities	74,608	74,649
Other	20,027	22,044
Allowance for doubtful accounts	(147)	(145)
Total investments and other assets	94,488	96,548
Total non-current assets	384,078	370,308
<b>Total assets</b>	<b>820,975</b>	<b>826,243</b>

(Millions of yen)

	As of June 30, 2018	As of March 31, 2018
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable trade	45,490	46,551
Short-term borrowings	5,739	5,969
Current portion of long-term borrowings	9,889	10,572
Income taxes payable	※ 1 10,663	※ 1 16,509
Provision for NAS battery safety measures	2,312	2,561
Provision for loss related to competition law	1,353	1,174
Other	43,356	43,561
<b>Total current liabilities</b>	<b>118,803</b>	<b>126,899</b>
Long-term liabilities		
Bonds payable	10,000	10,000
Long-term borrowings	181,322	185,032
Net defined benefit liability	21,215	20,909
Other	11,227	10,538
<b>Total long-term liabilities</b>	<b>223,764</b>	<b>226,480</b>
<b>Total liabilities</b>	<b>342,568</b>	<b>353,380</b>
<b>Net assets</b>		
Shareholders' equity		
Common stock	69,849	69,849
Capital surplus	71,948	71,948
Retained earnings	327,670	322,622
Treasury stock	(12,153)	(12,153)
<b>Total shareholders' equity</b>	<b>457,314</b>	<b>452,266</b>
Accumulated other comprehensive income		
Unrealized gain on available -for-sale securities	25,307	24,659
Deferred gain (loss) on derivatives under hedge accounting	1	(31)
Foreign currency translation adjustments	(8,422)	(7,990)
Defined retirement benefit plans	(7,619)	(7,919)
<b>Total accumulated other comprehensive income</b>	<b>9,267</b>	<b>8,717</b>
Stock acquisition rights	857	857
Non-controlling interests	10,968	11,021
<b>Total net assets</b>	<b>478,407</b>	<b>472,863</b>
<b>Total liabilities and net assets</b>	<b>820,975</b>	<b>826,243</b>

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

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2017
<b>Net sales</b>	<b>115,250</b>	<b>110,044</b>
Cost of sales	78,033	74,631
<b>Gross profit</b>	<b>37,217</b>	<b>35,413</b>
Selling, general and administrative expenses	18,103	16,605
<b>Operating income</b>	<b>19,114</b>	<b>18,807</b>
Non-operating income		
Interest income	183	141
Dividend income	626	644
Other	177	482
Total non-operating income	987	1,268
Non-operating expenses		
Interest expense	659	553
Equity in loss of unconsolidated subsidiaries and associated companies	397	531
Foreign exchange loss	389	176
Loss on valuation of derivatives	309	354
Other	201	333
Total non-operating expense	1,957	1,949
<b>Ordinary income</b>	<b>18,144</b>	<b>18,126</b>
Extraordinary income		
Gain on sales of fixed assets	28	11
Gain on sales of investment securities	35	-
Total extraordinary income	64	11
Extraordinary loss		
Loss on sales and disposals of fixed assets	92	267
Impairment loss	265	-
Provision of reserve for loss related to competition law	178	-
Total extraordinary loss	536	267
<b>Income before income taxes and non-controlling interests</b>	<b>17,672</b>	<b>17,869</b>
Income taxes - current	3,701	4,589
Income taxes - deferred	2,149	1,813
Income taxes - total	5,850	6,403
<b>Profit</b>	<b>11,821</b>	<b>11,466</b>
Profit attributable to non-controlling interests	12	186
<b>Profit attributable to owners of parent</b>	<b>11,809</b>	<b>11,279</b>

**Consolidated Statement of Comprehensive Income**

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2017
<b>Profit</b>	<b>11,821</b>	<b>11,466</b>
Other comprehensive income		
Unrealized gain on available-for-sale securities	628	1,466
Deferred gain (loss) on derivatives under hedge accounting	33	(4)
Foreign currency translation adjustments	(213)	7,812
Defined retirement benefit plans	279	523
Share of other comprehensive (loss) income of associates accounted for by using the equity method	(221)	(90)
Total other comprehensive income	506	9,707
<b>Comprehensive income</b>	<b>12,328</b>	<b>21,173</b>
Comprehensive income attributable to:		
Owners of parent	12,358	20,759
Non-controlling interests	(30)	414



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

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

Not applicable

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

Not applicable

#### **(Changes in Accounting Policy)**

The NGK Group's subsidiaries reporting under IFRS have applied IFRS 15 "Revenue from Contracts with Customers" from the three months ended June 30, 2018.

The impact of this change on profit or loss for the three months ended June 30, 2018 is insignificant.

The Group has adopted the approach of recognizing the cumulative effect of applying this standard at the date of initial application as permitted by transitional method of IFRS 15.

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

(Adoption of "ASBJ Guidance No. 28 Implementation Guidance on Tax Effect Accounting")

Effective from the fiscal year ended March 31, 2019, NGK adopted the "ASBJ Guidance No. 28 Implementation Guidance on Tax Effect Accounting". Accordingly, deferred tax assets were classified as Investments and other assets and deferred tax liabilities were classified as Long-term liabilities.

(Action filed for the revocation of correction and correction for the subsequent fiscal years based on transfer pricing taxation)

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 fiscal years subsequent to March, 2018 were recognized to the financial statement as necessary.

#### **(Other Notes)**

##### **(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 fiscal years subsequent to March, 2016.

##### **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, 2018, 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.

**(Segment Information)**

(1) Three months ended June 30, 2018 ( from April 1, 2018 to June 30, 2018 )

(Millions of yen)

	Business Segment					Elimination or Adjustment	Consolidated
	Power	Ceramics	Electronics	Process Technology	Total		
Sales							
Sales to customers	12,409	61,813	14,859	26,169	115,250	-	115,250
Intersegment sales	7	0	-	653	661	(661)	-
Total sales	12,416	61,814	14,859	26,822	115,912	(661)	115,250
Operating income (loss)	(1,275)	15,131	135	5,120	19,112	2	19,114

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

(2) 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	Process Technology	Total		
Sales							
Sales to customers	14,579	59,556	14,872	21,036	110,044	-	110,044
Intersegment sales	7	0	-	747	755	(755)	-
Total sales	14,586	59,557	14,872	21,783	110,800	(755)	110,044
Operating income (loss)	(619)	15,213	(46)	4,257	18,804	2	18,807

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

**(3) Changes in Segments**

From the three months ended June 30, 2018, following organizational changes, the segment classification of the NGK Group has been changed from the "Power Business Segment," "Ceramics Business Segment," and "Electronics Business Segment" to the "Power Business Segment," "Ceramics Business Segment," "Electronics Business Segment," and "Process Technology Business Segment." Figures in each business segment for the previous fiscal year have been restated to reflect the change in segment classification to facilitate year-on-year comparisons of business performance.