

Summary of Consolidated Financial Results for the Three Months Ended June 30, 2019 [Japanese GAAP]

July 30, 2019

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 6, 2019
 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, 2019 (from April 1, 2019 to June 30, 2019)

(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, 2019	108,510	(5.8)	16,200	(15.2)	15,040	(17.1)	11,413	(3.4)
Three months Ended June 30, 2018	115,250	4.7	19,114	1.6	18,144	0.1	11,809	4.7

(Note) Comprehensive income : Three months Ended June 30, 2019 2,486 million yen (79.8)%
 : Three months Ended June 30, 2018 12,328 million yen (41.8) %

	Profit per share	Diluted profit per share
	Yen	Yen
Three months Ended June 30, 2019	35.47	35.41
Three months Ended June 30, 2018	36.70	36.64

(2) Consolidated Financial Position

	Total assets	Total net assets	Ratio of net worth to total assets
	Millions of yen	Millions of yen	%
June 30, 2019	854,872	484,069	55.3
March 31, 2019	863,636	489,245	55.3

(Reference) Net worth : As of June 30, 2019 472,664 million yen
 : As of March 31, 2019 477,516 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, 2019	—	25.00	—	25.00	50.00
Year ending March 31, 2020	—	—	—	—	—
Year ending March 31, 2020 (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, 2020

(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, 2019	230,000	0.8	27,000	(24.4)	25,000	(27.0)	17,000	(31.2)	52.83
Year ending March 31, 2020	490,000	5.7	70,000	8.2	71,000	10.2	47,000	32.4	146.06

(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 7 of the Appendix.

- (4) Number of shares outstanding (Common Shares)

i. Number of shares outstanding at period end including treasury stocks	June 30, 2019	327,560,196 shares	March 31, 2019	327,560,196 shares
ii. Number of treasury stocks at period end	June 30, 2019	5,752,957 shares	March 31, 2019	5,779,637 shares
iii. Average number of shares outstanding over period	June 30, 2019	321,792,662 shares	June 30, 2018	321,765,859 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, 2019, the Japanese economy continued to recover gradually due to improvements in the employment and income environments. The overseas economies, notably the U.S. economy, continued on a recovery path, while the Chinese economy decelerated as reflected in its slower rate of growth.

In the Power Business Segment, the NGK Group saw a drop in demand for insulators against a backdrop of reduced capital investment by domestic electric power companies and increased competition overseas. In addition, shipment volumes of NAS batteries were poor. In the Ceramics Business Segment, while shipments of ceramic substrates for automotive catalytic converters (HONEYCERAM) dropped due to a decline in global passenger car sales, the distribution volume of gasoline particulate filters (GPF) and sensors for gasoline-fueled vehicles increased, with tightened regulation of emissions in Europe and China. In the Electronics Business Segment, the volume of beryllium copper alloy products and noise filters used in industrial equipment declined. In the Process Technology Business Segment, the distribution volume of products for semiconductor manufacturing equipment dropped against a backdrop of reduced capital investment by semiconductor manufacturers.

As a result of the above, consolidated net sales for the three months ended June 30, 2019 decreased by 5.8% year on year to ¥108,510 million. In terms of earnings, an increase in depreciation costs in addition to a decrease in net sales, causing operating income to fall 15.2% year on year to ¥16,200 million, and ordinary income was down 17.1% to ¥15,040 million. Profit attributable to owners of the parent decreased 3.4% to ¥11,413 million due to a decrease in income before income taxes and non-controlling interests despite the recording of refund of income taxes.

By segment, the Power Business Segment posted ¥9,468 million in net sales, a decrease of 23.7% year on year, and an operating loss of ¥1,285 million, compared to an operating loss of ¥1,275 million in the same period of the previous year. In the Ceramics Business Segment, net sales increased by 4.2% year on year to ¥64,408 million and operating income increased by 4.2% year on year to ¥15,760 million. In the Electronics Business Segment, net sales decreased by 4.8% year on year to ¥14,147 million and operating income increased by 82.5% year on year to ¥247 million. In the Process Technology Business Segment, net sales decreased by 21.5% year on year to ¥21,053 million and operating income decreased by 71.2% year on year to ¥1,474 million.

(2) Explanation of Financial Position

As of June 30, 2019, total assets were ¥854,872 million, a decrease of ¥8,763 million from the previous fiscal year-end. This was mainly due to decreases of securities and notes and accounts receivable trade despite increases in tangible assets and inventories.

Total liabilities decreased by ¥3,588 million from the previous fiscal year-end to ¥370,802 million. This was mainly due to decreases in income taxes payable and notes and accounts payable trade.

Total net assets stood at ¥484,069 million, or ¥5,175 million lower than the previous fiscal year-end, due to decreases in foreign currency translation adjustments and unrealized gain on available-for-sale securities despite an increase in 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, 2020, no revisions have been made to those announced on April 26, 2019 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, 2019	As of March 31, 2019
Assets		
Current assets		
Cash and bank deposits	97,750	97,133
Notes and accounts receivable trade	99,148	106,413
Securities	52,030	67,029
Inventories	157,360	148,031
Other	20,424	24,886
Allowance for doubtful accounts	(119)	(124)
Total current assets	426,594	443,370
Non-current assets		
Tangible assets		
Buildings and structures	96,941	94,934
Machinery and vehicles	146,287	135,880
Other	95,720	95,247
Total tangible assets	338,949	326,061
Intangible assets	3,180	3,700
Investments and other assets		
Investment securities	66,338	69,860
Other	20,081	20,790
Allowance for doubtful accounts	(270)	(147)
Total investments and other assets	86,149	90,503
Total non-current assets	428,278	420,265
Total assets	854,872	863,636

(Millions of yen)

	As of June 30, 2019	As of March 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable trade	49,169	51,353
Short-term borrowings	5,172	4,230
Current portion of long-term borrowings	28,114	29,198
Income taxes payable	※ 1 7,346	※ 1 11,731
Provision for NAS battery safety measures	1,922	2,029
Provision for loss related to competition law	1,177	1,177
Other	45,889	48,065
Total current liabilities	138,793	147,786
Long-term liabilities		
Bonds payable	25,000	25,000
Long-term borrowings	176,298	170,994
Net defined benefit liability	20,905	20,934
Other	9,805	9,675
Total long-term liabilities	232,009	226,604
Total liabilities	370,802	374,391
Net assets		
Shareholders' equity		
Common stock	69,849	69,849
Capital surplus	71,973	71,978
Retained earnings	347,119	343,323
Treasury stock	(12,065)	(12,122)
Total shareholders' equity	476,876	473,029
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	19,247	21,260
Deferred gain (loss) on derivatives under hedge accounting	(68)	(136)
Foreign currency translation adjustments	(17,942)	(11,056)
Defined retirement benefit plans	(5,448)	(5,580)
Total accumulated other comprehensive income	(4,212)	4,486
Stock acquisition rights	855	923
Non-controlling interests	10,550	10,805
Total net assets	484,069	489,245
Total liabilities and net assets	854,872	863,636

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

(Millions of yen)

	Three months ended June 30, 2019	Three months ended June 30, 2018
Net sales	108,510	115,250
Cost of sales	73,525	78,033
Gross profit	34,985	37,217
Selling, general and administrative expenses	18,785	18,103
Operating income	16,200	19,114
Non-operating income		
Interest income	134	183
Dividend income	674	626
Gain on valuation of derivatives	584	—
Other	327	177
Total non-operating income	1,721	987
Non-operating expenses		
Interest expense	724	659
Equity in loss of unconsolidated subsidiaries and associated companies	297	397
Foreign exchange loss	760	389
Loss on valuation of derivatives	—	309
Other	1,097	201
Total non-operating expense	2,880	1,957
Ordinary income	15,040	18,144
Extraordinary income		
Gain on sales of fixed assets	37	28
Gain on sales of investment securities	10	35
Total extraordinary income	48	64
Extraordinary loss		
Loss on sales and disposals of fixed assets	173	92
Impairment loss	149	265
Provision of reserve for loss related to competition law	—	178
Total extraordinary loss	323	536
Income before income taxes and non-controlling interests	14,766	17,672
Income taxes-current	2,647	3,701
Refund of income taxes	※ 1 (425)	—
Income taxes-deferred	1,248	2,149
Income taxes-total	3,470	5,850
Profit	11,295	11,821
Profit (loss) attributable to non-controlling interests	(117)	12
Profit attributable to owners of parent	11,413	11,809

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Three months ended June 30, 2019	Three months ended June 30, 2018
Profit	11,295	11,821
Other comprehensive income		
Unrealized gain(loss) on available-for-sale securities	(2,013)	628
Deferred gain on derivatives under hedge accounting	72	33
Foreign currency translation adjustments	(7,037)	(213)
Defined retirement benefit plans	96	279
Share of other comprehensive (loss) income of associates accounted for by using the equity method	72	(221)
Total other comprehensive income	(8,809)	506
Comprehensive income	2,486	12,328
Comprehensive income attributable to:		
Owners of parent	2,714	12,358
Non-controlling interests	(227)	(30)

(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 16 "Leases" from the three months Ended June 30, 2019. Accordingly, lessees in principal recognize all leases as assets and liabilities on the balance sheet. In accordance with transitional treatment of IFRS 16, the Group has recognized the cumulative effect of applying this standard as an adjustment of the retained earnings at the beginning of the three months ended June 30, 2019.

The impact of this change on the consolidated financial statements for the three months ended June 30, 2019 is insignificant.

(Additional Information)

(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. NGK believes that it could still take a considerable amount of time before judgment is passed on the claim.

With failure to settle the above-mentioned action filed for revocation of correction, on June 23, 2017, NGK received a correction notice based on transfer pricing taxation with respect to transactions between NGK and its Polish subsidiary for the fiscal year ended March 31, 2011 through the fiscal year ended March 31, 2015. Accordingly, NGK made a payment of ¥8.5 billion in tax penalties for fiscal years March 31, 2011 through March 31, 2015. NGK subsequently requested the Nagoya National Tax Tribunal to carry out an administrative review, and on July 5, 2019, received a written verdict, which partially rescinded the correction. However, it went only so far as to refund approximately ¥0.4 billion of corporation taxes and local taxes, etc. NGK plans to pursue revocation of correction in its entirety and take the required measures in accordance with laws and regulations. In light of the above, NGK estimated tax amounts for the said period based on the premise that it would be subject to the said correction for fiscal years subsequent to March 31, 2016, and recognized the amounts in the financial statements.

(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, 2019, 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. Refund of income taxes

Year ended June 30, 2019 (From April 1, 2019 to June 30, 2019)

The amount of tax refunded following the receipt of a written verdict, which partially rescinded the correction based on transfer pricing taxation on tax penalties paid by NGK with respect to transactions between NGK and its Polish subsidiary, issued by the Nagoya National Tax Tribunal on July 5, 2019.

(Segment Information)

(1) Three months Ended June 30, 2019(from April 1, 2019 to June 30, 2019)

(Millions of yen)

	Business Segment					Elimination or Adjustment	Consolidated
	Power	Ceramics	Electronics	Process Technology	Total		
Sales							
Sales to customers	9,460	64,404	14,146	20,499	108,510	—	108,510
Intersegment sales	7	3	1	554	567	(567)	—
Total sales	9,468	64,408	14,147	21,053	109,078	(567)	108,510
Operating income(loss)	(1,285)	15,760	247	1,474	16,197	2	16,200

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

(2) 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.