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Summary of Consolidated Financial Results for the Nine Months Ended December 31, 2021 [Japanese GAAP]

January 31, 2022

Company name: **NGK INSULATORS, LTD.**

Stock exchange listings: Tokyo and Nagoya

Stock code: 5333

URL: <https://www.ngk-insulators.com/en/>

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Scheduled date of filing quarterly report: February 4, 2022

Scheduled date of commencing of dividend payments: —

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 Nine Months Ended December 31, 2021 (from April 1, 2021 to December 31, 2021)

(1) Consolidated Operating Results

% represents increase (decrease) from the previous period

Nine months ended December 31	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
2021	371,882	16.6	64,543	93.0	63,416	76.2	46,359	77.4
2020	318,805	(3.1)	33,447	(25.6)	35,991	(17.7)	26,132	(16.5)

(Note) Comprehensive income: Nine months ended December 31, 2021 ¥55,431 million 55.9 %
: Nine months ended December 31, 2020 ¥35,553 million 43.8 %

Nine months ended December 31	Net income per share	Diluted net income per share
	Yen	Yen
2021	148.09	147.83
2020	82.55	82.43

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
December 31, 2021	924,226	546,368	58.4
March 31, 2021	908,967	517,892	56.3

(Reference) Equity: As of December 31, 2021 ¥540,158 million
: As of March 31, 2021 ¥512,003 million

2. Dividend Payments

	Cash dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2021	—	10.00	—	20.00	30.00
Year ending March 31, 2022	—	30.00	—		
Year ending March 31, 2022 (forecast)				30.00	60.00

(Note) Revision of dividends forecast during this period: None

3. Forecasts of Consolidated Financial Results for the Fiscal Year Ending March 31, 2022

% represents increase (decrease) from the previous period

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Year ending March 31, 2022	515,000	13.9	83,000	63.3	82,000	54.7	60,000	55.9	191.86

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

Notes

(1) Changes in significant subsidiaries during the nine months ended December 31, 2021: None

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

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

- (i) Changes in accounting policies 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	December 31, 2021	317,211,996 shares	March 31, 2021	322,211,996 shares
(ii) Number of treasury stocks at period end	December 31, 2021	5,598,126 shares	March 31, 2021	5,639,001 shares
(iii) Average number of shares outstanding over period	December 31, 2021	313,055,656 shares	December 31, 2020	316,561,953 shares

***The report of the quarterly financial results is not subject to the quarterly review by certified public accountant or audit firm**

***Explanation about the appropriate use of the business forecasts and other notes**

This document contains forward-looking statements that are based on information and certain assumptions that NGK INSULATORS, LTD. (the “Company”) has acquired and deemed reasonable as of the time of the release and the Company 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. For the basis of presumption of the business forecast and the notes on its use, please refer to “1. Qualitative Information on Quarterly Financial Statements, (3) Explanation of Future Statements including Forecasts for Consolidated Financial Statements” on page 2 of the Appendix.

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1. Qualitative Information on Quarterly Financial Statements

(1) Explanation of Business Results

During the nine months of the fiscal year, while the Japan's economy showed signs of recovery as the restraints on activities due to the spread of COVID-19 gradually eased. However, the confusion in the supply chain due to global semiconductor shortage and rising cost of raw material have been prolonged, and recently the variants that could pose a new threat has been identified. The outlook for the global economy is assumed to remain uncertain.

Under such circumstances, in the Energy Infrastructure Business, although the sales prices improved, demand for insulators remained sluggish due to curbs on capital investment by domestic electric power and railroad companies. In the Ceramics Business, shipments of automobile-related products increased significantly due to a recovery in the global automobile market. In the Electronics Business, although overall sales decreased due to the exclusion of Soshin Electric Co., Ltd. and its consolidated subsidiaries from the scope of consolidation, the demand for beryllium copper wrought materials, piezoelectric elements for HDDs and ceramic packages remained strong. In the Process Technology Business, shipment of products for semiconductor manufacturing equipment increased, supported by favorable semiconductor market conditions.

As a result, consolidated net sales in the nine months ended December 31, 2021 increased 16.6% year-on-year to ¥371,882 million. In terms of income, due to the increase in sales of Ceramics Business and products for semiconductor manufacturing equipment and depreciation of the yen, operating income increased 93.0 % year on year to ¥64,543 million, and ordinary income was up 76.2% to ¥63,416 million. Net income attributable to owners of the parent increased 77.4% to ¥46,359 million.

By segment, the Energy Infrastructure Business posted net sales of ¥30,853 million, an increase of 0.4% year on year, and an operating loss of ¥1,230 million (operating loss of ¥2,581 million in the same period of the previous year). In the Ceramics Business, net sales increased 25.5% year on year to ¥213,644 million and operating income increased 105.5% year on year to ¥50,014 million. In the Electronics Business, net sales decreased 3.8% year on year to ¥39,796 million and operating income increased 154.0% year on year to ¥4,698 million. In the Process Technology Business, net sales increased 14.7% year on year to ¥90,003 million and operating income increased 12.6% year on year to ¥11,059 million.

(2) Explanation of Financial Position

As of December 31, 2021, total assets were ¥924,226 million, an increase of ¥15,258 million from the previous fiscal year-end. This was mainly due to an increase in current assets due to increases in cash and deposits and inventories, while machinery, equipment and vehicles turned to decrease due to the completion of large capital investments.

Total liabilities decreased by ¥13,216 million from the previous fiscal year-end to ¥377,858 million. This was mainly due to a decrease in non-current liabilities as a result of the repayment of long-term borrowings.

Total net assets stood at ¥546,368 million, or ¥28,475 million higher than the previous fiscal year-end, due to an increase in retained earnings.

(3) Explanation of Future Statements including Forecasts for Consolidated Financial Statements

With regard to the financial results forecasts for the full year ending March 31, 2022 no revisions have been made to those announced on October 29, 2021 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. Actual results may differ significantly from those in the forecasts due to various factors.

2. Consolidated Financial Statements and Notes
(1) Consolidated Balance Sheets

(Millions of yen)

	December 31, 2021	March 31, 2021
Assets		
Current assets		
Cash and deposits	142,984	131,359
Notes and accounts receivables, trade	—	114,496
Notes and accounts receivables, trade, and contract assets	111,604	—
Marketable securities	27,433	35,003
Inventories	180,368	150,471
Other current assets	18,913	26,739
Allowance for doubtful accounts	(123)	(130)
Total current assets	481,182	457,940
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	117,998	118,820
Machinery, equipment and vehicles, net	180,538	185,433
Other, net	67,454	67,957
Total property, plant and equipment	365,991	372,210
Intangible assets	5,799	5,065
Investments and other assets		
Investment securities	57,305	61,160
Others	14,269	12,861
Allowance for doubtful accounts	(322)	(271)
Total investments and other assets	71,252	73,751
Total non-current assets	443,043	451,027
Total assets	924,226	908,967

(Millions of yen)

	December 31, 2021	March 31, 2021
Liabilities		
Current liabilities		
Notes and accounts payables, trade	38,454	42,438
Short-term borrowings	7,051	18,046
Current portion of long-term borrowings	30,582	21,927
Income taxes payable	※ 1 16,767	※ 1 9,098
Provision for NAS battery safety measures	998	1,465
Other current liabilities	42,608	43,017
Total current liabilities	136,461	135,992
Non-current liabilities		
Bonds payable	35,000	25,000
Long-term borrowings	177,991	199,271
Net defined benefit liability	22,356	21,758
Other non-current liabilities	6,048	9,052
Total non-current liabilities	241,396	255,082
Total liabilities	377,858	391,074
Net assets		
Shareholders' equity		
Common stock	69,849	69,849
Capital surplus	70,199	70,199
Retained earnings	391,719	372,640
Treasury stock	(10,998)	(11,205)
Total shareholders' equity	520,769	501,483
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	17,570	19,257
Deferred gains or losses on hedges	(333)	(186)
Foreign currency translation adjustments	4,914	(4,918)
Remeasurements of defined benefit plans	(2,762)	(3,632)
Total accumulated other comprehensive income	19,389	10,520
Stock acquisition rights	989	872
Non-controlling interests	5,219	5,017
Total net assets	546,368	517,892
Total liabilities and net assets	924,226	908,967

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

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2020
Net sales	371,882	318,805
Cost of sales	249,986	233,969
Gross profit	121,896	84,836
Selling, general and administrative expenses	57,352	51,388
Operating income	64,543	33,447
Non-operating income		
Interest income	314	226
Dividend income	1,025	1,032
Foreign exchange gains	130	1,539
Gain on valuation of derivatives	—	329
Insurance claim income	698	374
Other	831	2,717
Total non-operating income	3,000	6,220
Non-operating expenses		
Interest expense	2,694	2,563
Share of loss of associates accounted for using equity method	295	196
Loss on valuation of derivatives	348	—
Other	789	917
Total non-operating expense	4,127	3,676
Ordinary income	63,416	35,991
Extraordinary income		
Gain on sales of non-current assets	41	215
Gain on sales of investment securities	1,119	1,119
Subsidy income	932	555
Total extraordinary income	2,093	1,891
Extraordinary loss		
Loss on sales and disposals of non-current assets	248	128
Impairment loss	15	1,546
Loss on sales of investment securities	—	107
Total extraordinary loss	263	1,782
Income before income taxes	65,246	36,100
Income taxes-current	19,178	6,444
Income taxes-deferred	(432)	3,510
Total taxes and others	18,746	9,954
Net income	46,500	26,146
Net income attributable to non-controlling interests	141	13
Net income attributable to owners of the parent	46,359	26,132

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2020
Net income	46,500	26,146
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,686)	4,798
Deferred gains or losses on hedges	(146)	396
Foreign currency translation adjustment	9,683	4,154
Remeasurements of defined benefit plans	810	129
Share of other comprehensive income of associates accounted for using equity method	269	(71)
Total other comprehensive income	8,930	9,407
Comprehensive income	55,431	35,553
Comprehensive income attributable to:		
Owners of the parent	55,228	35,368
Non-controlling interests	202	185

(3) Notes to Consolidated Financial Statements

(Note on the Assumption as a Going Concern)

Not applicable

(Significant Changes in Shareholder's Equity)

The Company acquired 5,000,000 shares of its own shares from April 30, 2021 to July 9, 2021 based on the resolution at the meeting of the Board of Directors held on April 28, 2021.

The Company cancelled 5,000,000 shares of treasury stock, effective September 10, 2021 based on the resolution at the meeting of the Board of directors held on April 28, 2021. Since the balance of other capital surplus turned to negative due to the cancellation of treasury stock, retained earnings were transferred to capital surplus.

As a result, during the nine months of the fiscal year capital surplus and treasury stock decreased by ¥9,823 million.

(Changes in Accounting Policy)

(Application of accounting standards for revenue recognition)

The Company has adopted the "Accounting Standards for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020. Hereinafter referred to as the "Revenue Recognition Accounting Standards") from the beginning of the first quarter consolidated accounting period and recognizes revenue in the amount expected to be received in exchange for the promised goods or services when the control of such goods or services is transferred to the customer. The main changes are as follows.

(1) Combination of contracts and identification of performance obligations

Previously, in some cases, the Company recognized revenues from sales of products upon their arrival or upon the completion of customer acceptance, and revenues from services such as installation and test runs upon the completion of the Company's work for such services. However, the Company changed the method to recognize revenues upon the completion of services, with sales of products and provision of accompanying services as a single performance obligation.

(2) Performance obligations satisfied over time

With respect to construction contracts, the Company previously used the percentage-of-completion method when the outcome of the construction activity was deemed certain; however, when the control of the goods or services is transferred to the customer over a certain period of time, the Company now recognizes revenues over a certain period of time as it satisfies the performance obligation to transfer the goods or services to the customer. Progress in satisfying performance obligations is measured based on the ratio of construction costs incurred by the end of each reporting period to the total estimated construction costs. In cases where it is not possible to reasonably estimate the progress of the satisfaction of performance obligations, but the recovery of costs incurred is expected, the Company recognizes revenues on a cost recovery basis. For construction contracts with a very short period from the transaction start date to the time when the performance obligation is expected to be fully satisfied, the Company applies alternative treatment and recognizes revenues when the obligation is fully satisfied instead of recognizing revenues over a certain period of time.

For application of the Revenue Recognition Accounting Standards, the Company follows the transitional treatment prescribed in the provisions of Paragraph 84 of the Standards, adds/deducts the cumulative effect of retroactive application of the new accounting policy prior to the beginning of the first quarter consolidated accounting period to/from retained earnings at the beginning of the first quarter consolidated accounting period, and applies the new accounting policy from the beginning balance of the period.

As a result, the effect on the consolidated financial statements is immaterial.

As the Revenue Recognition Accounting Standards have been applied, "Notes and accounts receivables, trade" under "Current assets" and "Contract assets" included in "Other current assets" under "Current assets" in the consolidated balance sheets of the previous fiscal year have been included in "Notes and accounts receivables, trade, and contract assets" from the first quarter consolidated accounting period. In accordance with the transitional treatment prescribed in Paragraph 89-2 of the Revenue Recognition Accounting Standards, the Company has not made reclassifications for the previous fiscal year based on the new presentation method. In addition, in accordance with the transitional treatment prescribed in Paragraph 28-15 of the "Accounting Standards for Quarterly Financial Statements" (ASBJ Statement No. 12, March 31, 2020), the Company has not included disaggregated information for revenue that has arisen from contracts with customers pertaining to the previous consolidated cumulative third quarter.

(Application of accounting standards for fair value measurement)

The Company has adopted the "Accounting Standards for fair value measurement" (ASBJ Statement No. 30, July 4, 2019. Hereinafter referred to as the "Fair Value Measurement Accounting Standards") from the beginning of the first quarter consolidated accounting period. In accordance with the transitional treatment prescribed in Paragraph 19 of the Fair Value Measurement Accounting Standards and in Paragraph 44-2 of the "Accounting Standards for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the Company will apply the new accounting policies prescribed by the Fair Value Measurement Accounting Standards in the future. There was no impact on the quarterly consolidated financial statements.

(Additional Information)

(Regarding filing action for the revocation of correction based on transfer pricing taxation)

In March 2012, the Company received the correction based on transfer pricing taxation from the Nagoya Regional Taxation Bureau with respect to transactions with its subsidiary in Poland from the fiscal year ended March 31, 2007 to the fiscal year ended March 31, 2010. Although the Company paid an additional tax of approximately ¥6.2 billion, including local taxes, approximately ¥0.1 billion was refunded as decision of a request for re-examination with the Nagoya National Tax Tribunal, which the Company had filed an action with the Tokyo District Court for revocation of the correction in December 2016. In November 2020, after the subsequent proceedings, the Tokyo District Court rendered a judgment that granted most of the Company's claims and revoked the correction related to ¥5.8 billion in corporate and local taxes. ("First Instance Judgment"). Dissatisfied with the First Instance Judgment described above, the national government filed an appeal with the Tokyo High Court in December 2020. In response, the Company filed an incidental appeal with respect to the portions of the First Instance Judgment that did not grant its claims on the same month.

In June 2017, the Company received another correction based on transfer pricing taxation from the Nagoya Regional Taxation Bureau regarding the transactions between the Company and its subsidiary in Poland from the fiscal year ended March 31, 2011 through the fiscal year ended March 31, 2015 based on transfer pricing taxation and the Company paid an additional tax of approximately ¥8.5 billion including local taxes. A request for re-examination was submitted to the Nagoya National Tax Tribunal in July 2018 requesting for cancellation of the correction, and the Company received a written verdict that partially rescinded the correction in July 2019. However, it only provided refund of approximately ¥0.4 billion of corporate taxes and local taxes, etc. at this stage. Because the Company takes the position that the entire amount should be rescinded, it filed an action with the Tokyo District Court for the revocation of correction in December 2019.

Based on above, the Company estimated tax amounts based on the premise that it would be subject to the corrections mentioned above for fiscal years subsequent to March 31, 2016 and recognized the amounts in the consolidated financial statements.

(Other Notes)**(Consolidated Balance Sheets)****※1. Income taxes payable**

With respect to transactions between the Company and its Polish subsidiary, the Company received a correction notice based on transfer pricing taxation in June 2017. Therefore, the amount includes estimated tax amounts based on the premise that the Company would be subject to the said correction for the fiscal years subsequent to March 31, 2016.

2. Contingent liabilities**(Lawsuit filed against the Company)**

On July 6, 2021, a lawsuit was filed against the Company in Nagoya District court and the Company received the complaint on October 29, 2021 that P.T.Paiton Energy ("Paiton"), its insurance companies and their reinsurer companies ("the plaintiffs") filed a claim against the Company for compensation for damages of US\$151,392,337.48 (¥16,828,772,234) and the amount of the relevant delay charges. Thereafter, the plaintiffs issued petition for amendment of claim on January 11, 2022, the amount of the claim increased by US\$41.36 (¥4,796) to US\$151,392,378.84 (¥16,828,770,030) and the relevant delay charges.

In January 2018, a fire incident allegedly occurred in a transformer ("Transformer") installed in a thermal power plant ("Power Plant") in Indonesia operated by Paiton. In connection with this accident, the plaintiffs filed a claim against the Company for damages and relevant delay charges based on alleged product liability and torts.

The Company is a distributor of the bushing (manufactured in 2010) incorporated in the Transformer. The Company delivered the bushing to a third-party transformer manufacturer that incorporated the same into the Transformer. The Transformer was then delivered to the Power Plant through a plant engineering manufacturer.

The Company believes that it is not liable for the incident described above. Therefore, the Company will take necessary actions in response to the claim to demonstrate the quality of the bushings and the adequacy of the Company's operations.

The Company will make timely disclosures in relation to this lawsuit upon the occurrence of any incident that may have a material impact on the Company's financial results.

(Segment Information)

(1) Nine months ended December 31, 2021 (from April 1, 2021 to December 31, 2021)

(Millions of yen)

	Business Segment					Adjustment	Consolidated
	Energy Infrastructure	Ceramics	Electronics	Process Technology	Total		
Net sales							
Sales to customers	30,365	213,639	39,793	88,085	371,882	—	371,882
Intersegment sales	488	5	2	1,918	2,414	(2,414)	—
Total	30,853	213,644	39,796	90,003	374,297	(2,414)	371,882
Operating income	(1,230)	50,014	4,698	11,059	64,541	2	64,543

(Notes) The adjustment of ¥2 million to operating income comprises of intersegment transactions.

As stated in Changes in Accounting Policies, the Company has adopted the Revenue Recognition Accounting Standards from the beginning of the first quarter consolidated accounting period and changed the accounting method for revenue recognition. The Company has therefore changed the method of calculating the income and loss of business segments as well.

The effect of this change on the net sales and segment income for each business segment is immaterial.

(2) Nine months ended December 31, 2020 (from April 1, 2020 to December 31, 2020)

(Millions of yen)

	Business Segment					Adjustment	Consolidated
	Energy Infrastructure	Ceramics	Electronics	Process Technology	Total		
Net sales							
Sales to customers	30,266	170,218	41,353	76,968	318,805	—	318,805
Intersegment sales	478	3	1	1,516	1,999	(1,999)	—
Total	30,744	170,221	41,354	78,484	320,805	(1,999)	318,805
Operating income	(2,581)	24,343	1,849	9,822	33,433	14	33,447

(Notes) The adjustment of ¥14 million to operating income comprises of intersegment transactions.

(Revenue Recognition)

Disaggregated revenue recognized from contracts with customers

Nine months ended December 31, 2021 (from April 1, 2021 to December 31, 2021)

(Millions of yen)

	Business Segment				Total
	Energy Infrastructure	Ceramics	Electronics	Process Technology	
Major geographical regions					
Japan	21,984	20,935	19,044	28,682	90,646
North America	3,686	37,008	3,379	35,919	79,993
Europe	405	74,620	2,084	85	77,195
Asia	2,365	75,677	15,245	23,335	116,623
Others	1,923	5,397	40	62	7,424
Total	30,365	213,639	39,793	88,085	371,882
Major product lines					
Insulators	29,214	—	—	—	29,214
Energy storage	1,150	—	—	—	1,150
Automotive ceramics for exhaust gas purification	—	166,537	—	—	166,537
Sensor	—	47,101	—	—	47,101
Special metals and molds	—	—	17,979	—	17,979
Electronics components	—	—	21,814	—	21,814
Components for semiconductor manufacturing equipment	—	—	—	70,851	70,851
Industrial processes	—	—	—	17,233	17,233
Total	30,365	213,639	39,793	88,085	371,882
Timing of revenue recognition					
Goods and services transferred at a point in time	30,151	213,639	39,793	80,995	364,580
Goods and services transferred over time	213	—	—	7,089	7,302
Total	30,365	213,639	39,793	88,085	371,882