NGK INSULATORS

Summary of Consolidated Financial Results for the Year Ended March 31, 2022 [Japanese GAAP]

April 28, 2022

Company Name: **NGK INSULATORS, LTD.**
Stock Exchange Listings : Tokyo and Nagoya
Listing Code : 5333
URL : https://www.ngk-insulators.com/en/
Representative : (Title) President (Name) Shigeru Kobayashi
Contact : (Title) General Manager, Finance & Accounting Department. (Name) Hideaki Tsukui (TEL) +81-52-872-7230
Scheduled date of the Annual Shareholders' Meeting : June 27, 2022
Scheduled date of the filing of Securities Report : June 27, 2022
Scheduled date of Year-End Dividend Payment : June 28, 2022
Availability of Supplementary Explanatory Materials Prepared for Financial Results : Available
Briefing Session on Financial Results to be held : Yes (for securities analysts and institutional investors)

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

1. Consolidated Financial Results for the Year Ended March 31, 2022 (From April 1, 2021 to March 31, 2022)

(1) Consolidated Operating Results

% represents increase (decrease) from the previous period

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
Fiscal Year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2022	510,439	12.9	83,527	64.3	86,248	62.7	70,851	84.0
March 31, 2021	452,043	2.3	50,823	(7.6)	53,006	2.0	38,496	41.9

(Note) Comprehensive income : FY 2021 ¥98,684 million (50.5%)
: FY 2020 ¥65,564 million (—)

	Net income per share	Diluted net income per share	Ratio of net income to equity	Ratio of ordinary income to total assets	Ratio of operating income to net sales
Fiscal Year Ended	Yen	Yen	%	%	%
March 31, 2022	226.56	226.17	12.9	9.1	16.4
March 31, 2021	121.61	121.42	7.9	6.1	11.2

(Reference) Share of profit of entities accounted for using equity method : FY 2021 ¥1,666 million
: FY 2020 ¥1,622 million

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
March 31, 2022	982,833	589,594	59.3	1,871.22
March 31, 2021	908,967	517,892	56.3	1,617.33

(Reference) Equity : As of March 31, 2022 ¥583,147 million
: As of March 31, 2021 ¥512,003 million

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash & cash equivalents at end of period
Fiscal Year Ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
March 31, 2022	94,831	(46,291)	(45,263)	154,855
March 31, 2021	85,641	(51,724)	12,250	146,031

2. Dividend Payments

	Dividend per share					Total amount of dividends	Dividend payout ratio (Consolidated)	Dividend on equity ratio (Consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
Fiscal Year Ended	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
March 31, 2021	—	10.00	—	20.00	30.00	9,497	24.7	2.0
March 31, 2022	—	30.00	—	33.00	63.00	19,632	27.8	3.6
Fiscal Year ending March 31, 2023 (forecast)	—	33.00	—	33.00	66.00		31.6	

3. Forecasts of Consolidated Financial Results for the Fiscal Year Ending March 31, 2023

% 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
Six months Ending September 30, 2022	275,000	9.9	41,000	(10.7)	39,000	(11.2)	28,000	(12.4)	89.85
Fiscal Year Ending March 31, 2023	580,000	13.6	90,000	7.7	88,000	2.0	65,000	(8.3)	208.57

Notes

(1) Significant changes in subsidiaries during this period: None

(2) Changes in accounting policies, 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

(3) Number of shares outstanding (Common Shares)

(i)	Number of shares outstanding at period end including treasury stocks	March 31, 2022	317,211,996 shares	March 31, 2021	322,211,996 shares
(ii)	Number of treasury stocks at period end	March 31, 2022	5,570,919 shares	March 31, 2021	5,639,001 shares
(iii)	Average number of shares outstanding over period	March 31, 2022	312,726,048 shares	March 31, 2021	316,564,547 shares

(Reference) Overview of Non-Consolidated Financial Results

1. Non-Consolidated Financial Results for the Year Ended March 31, 2022 (from April 1, 2021 to March 31, 2022)

(1) Non-Consolidated Operating Results

% represents increase (decrease) from the previous period

Fiscal Year Ended March 31	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
2022	301,615	25.7	50,453	241.3	74,298	204.9	66,820	245.9
2021	239,964	(5.6)	14,782	(49.7)	24,371	(47.5)	19,316	(4.1)

Fiscal Year Ended March 31	Net income per share	Diluted net income per share
	Yen	Yen
2022	213.67	213.30
2021	61.02	60.93

(2) Non-Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
March 31, 2022	619,380	342,619	55.2	1,096.38
March 31, 2021	579,383	304,868	52.5	960.27

(Reference) Equity: As of March 31, 2022 ¥341,678 million
As of March 31, 2021 ¥303,996 million

* **The Summary of Consolidated Financial Results is not subject to audit by 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. (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. Overview of Business Results and Others, (4) Future Outlook.

Contents of Appendix

1. Overview of Business Results and Others

(1) Overview of Business Results for the Fiscal Year Ended March 31, 2022

During the fiscal year under review, the Japanese economy showed signs of recovery due to the progress of vaccination. Overseas, confusion in the supply chain due to a global semiconductor shortage and rising costs of raw materials have been prolonged, and concerns about a global economic downturn have heightened due to growing tension over the situation in Ukraine.

Under such circumstances, the Energy Infrastructure Business saw sluggish shipments of NAS® batteries for energy storage (sodium/sulfur batteries) despite the effects brought by improved products prices of insulators. In the Ceramics Business, shipments of automotive 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 metal related products, piezoelectric elements for HDDs and ceramic packages remained strong. In the Process Technology Business, demand for components for semiconductor manufacturing equipment increased, against the backdrop of favorable semiconductor market conditions. As a result, net sales for the fiscal year under review were up 12.9% year-on-year to ¥510,439 million.

In terms of income, due to the increases in sales of Ceramics Business and components for semiconductor manufacturing equipment and depreciation of the yen, operating income grew 64.3% year-on-year to ¥83,527 million. Ordinary income was up 62.7% year-on-year to ¥86,248 million. Net income attributable to owners of the parent increased 84.0% year-on-year to ¥70,851 million due to income taxes-refund and an increase in subsidies income.

The results of the business segments are as follows.

[Energy Infrastructure Business Segment]

Sales in this segment were ¥41,247 million, down 3.2% from the previous fiscal year.

Shipments of insulators declined due to the continued restraint on capital investment by domestic electric power companies and railway companies although the effects of improved products prices made a contribution. Sales of NAS® batteries remained sluggish due to a lack of shipments for large-scale projects both in Japan and overseas.

As a result of insulators returning to profitability after six years, the operating loss shrunk to ¥2,718 million from ¥3,978 million in the previous fiscal year.

[Ceramics Business Segment]

Sales in this segment were ¥292,688 million, up 17.6% from the previous fiscal year.

Although the global automobile market was affected by the global semiconductor shortage, shipments of automotive related products increased owing to tightening of exhaust gas regulations in some countries and stronger automobile sales due to a recovery in the global automobile market.

Operating income grew 58.1% year-on-year to ¥65,060 million due to an increase in shipment volume.

[Electronics Business Segment]

Sales in this segment were ¥53,410 million, down 1.3% from the previous fiscal year.

Demand for beryllium copper wrought materials, piezoelectric elements for HDDs and ceramic packages remained strong. However, overall sales decreased due to the exclusion of Soshin Electric Co., Ltd. and its consolidated subsidiaries from the scope of consolidation.

Operating income increased 105.7% year-on-year to ¥5,696 million due to changes in the product mix.

[Process Technology Business Segment]

Sales in this segment were ¥126,256 million, up 15.8% from the previous fiscal year.

The volume of components for semiconductor manufacturing equipment increased, backed by favorable semiconductor market conditions. With regard to products for industrial processes, sales remained unchanged from the previous fiscal year due to a decrease in shipment of low-level radioactive waste treatment systems and an increase in industrial heating systems for lithium-ion battery cathode material.

Operating income went up 42.6% year-on-year to ¥15,481 million due to an increase in shipments of components for semiconductor manufacturing equipment.

(2) Summary of Financial Position for the Fiscal Year Ended March 31, 2022

Total assets at the end of the fiscal year under review increased 8.1% from the end of the previous fiscal year to ¥982,833 million.

Current assets grew 15.2% year-on-year to ¥527,394 million due to an increase in securities and inventories. Non-current assets went up 1.0% to ¥455,438 million.

Current liabilities increased 11.6% year-on-year to ¥151,790 million due to increases in income taxes payable and the current portion of long-term borrowings. Non-current liabilities declined 5.3% year-on-year to ¥241,448 million due to a decrease in long-term borrowings.

Net assets rose 13.8% year-on-year to ¥589,594 million mainly due to an increase in retained earnings and an increase in foreign currency translation adjustments.

As a result, the equity ratio at the end of the fiscal year under review was 59.3% (56.3% at the end of the previous fiscal year), and net assets per share were ¥1,871.22, up ¥253.88 from the previous fiscal year.

(3) Summary of Cash Flows for the Fiscal Year Ended March 31, 2022

Cash and cash equivalents at the end of the fiscal year under review increased by ¥8,823 million year-on-year to ¥154,855 million. This was because proceeds from operating activities were ¥94,831 million, and there was a payment of ¥46,291 million from investing activities, and payment of ¥45,263 million from financing activities.

[Cash flows from operating activities]

Net cash provided by operating activities for the fiscal year under review totaled ¥94,831 million. This includes income before income taxes of ¥90,819 million and depreciation, although there was an increase in inventories. Compared with the previous fiscal year, net cash provided increased by ¥9,189 million.

[Cash flows from investing activities]

Net cash used in investing activities for the fiscal year under review amounted to ¥46,291 million. This was the result of capital expenditures mainly for automotive related products and increase in time deposits. Compared with the previous fiscal year, net cash used in declined by ¥5,432 million.

[Cash flows from financing activities]

Net cash used in financing activities for the fiscal year under review amounted to ¥45,263 million. This was mainly because dividends were paid and long-term borrowings were repaid, although long-term borrowings and issuance of bonds were taken out to secure funds for future capital investment and carbon neutral activities. Compared with the previous fiscal year, net cash used in increased by ¥57,514 million.

(4) Future Outlook

The outlook for the global economy remains uncertain due to the additional rising prices of materials and supply chain disruption arising out of the situation in Ukraine and the lockdown in China caused by the spread of COVID-19.

Under these circumstances, the Company expects an increase in revenue due to rises in demand for automotive related products owing to recovery of global automobile sales and tightening of exhaust gas regulations, and components for semiconductor manufacturing equipment backed by strong capital investment of semiconductor manufacturers. In terms of income, operating income and ordinary income are expected to go up from the previous fiscal year due to an increase in revenue and the depreciation of the yen, despite the rising prices of materials.

Based on the exchange rates of ¥120 to US$ and ¥130 to euro, the Company is targeting net sales of ¥580,000 million (+13.6% y/y), operating income of ¥90,000 million (+7.7%y/y), ordinary income of ¥88,000 million (+2.0%y/y), and net income attributable to owners of the parent of ¥65,000 million (-8.3%y/y).

(5) Basic Policy on Profit Distribution and Dividends for the Fiscal Year Ended March 31, 2022, and the Fiscal Year Ending March 31, 2023

The Company places a high value on the interests of shareholders and considers continuous enhancement of corporate value and the return of profits to be among the most important management policies.

As one of the major management indicators, the Company considers return on equity (ROE) which exceeds capital costs to be an essential medium- to long-term goal. For this purpose, the Company is working to improve return on equity by using the NGK version of ROIC (calculated by operating income, trade receivable, inventory, and equipment), which each department can manage.

The Company intends to pay dividends by taking into account the management of net assets in line with changes in business risks and a link to operating performance (ROE) over a period of three years or so. The Company will do this while targeting a dividend on equity ratio of 3% and a consolidated dividend payout ratio of approximately 30% over the medium term and considering the outlook for cash flows among other things.

The Company proposes to pay a year-end dividend for the fiscal year ended March 31, 2022 of ¥33 per share, and together with the interim dividend of ¥30 already paid, the total dividend for the fiscal year will be ¥63 per share.

The Company plans to pay an interim dividend of ¥33, a year-end dividend of ¥33, and an annual dividend of ¥66 for the next fiscal year ending March 31, 2023 in consideration of the dividend payout ratio and the dividend on equity ratio.

The Company will use retained earnings to increase corporate value by expanding existing core businesses and investing in new businesses.

2. Management Policies

(1) Basic Management Policies of the Company

The NGK Group Philosophy and NGK Group Vision: "Road to 2050" that we adhere to are as follows:

<NGK Group Philosophy>

Our Mission

“Enriching Human Life by Adding New Value to Society.”

Our Values

“Quality of People: Embrace challenges and teamwork”

“Quality of Products: Exceed expectations”

“Quality of Management: Social trust is our foundation”

<NGK Group Vision: "Road to 2050">

We look ahead to a future society in 2050, taking the major trend towards carbon neutrality and the explosive evolution into a digital society as an opportunity for further development. We will work on driving Five Transformations: [1] Promotion of ESG management, [2] Profitability improvement, [3] Focus on R&D, [4] Focus on commercialization, and [5] Digital transformation (DX). With “Surprising Ceramics” as the slogan for our unique ceramic technologies, we intend to convert our business structure toward the “Third Foundation.”

(2) Targeted Management Indicators and Capital Policy

The NGK Group is pursuing management that prioritizes capital efficiency based on return on equity (ROE) as one of our key management indicators. We employ return on invested capital (the NGK version of ROIC), which is closely linked to ROE, as a management indicator, and use business assets (accounts receivable, inventories and fixed assets) in lieu of invested capital, and operating income in lieu of after-tax operating income, to allow our business divisions to proactively take control of their targets. Aiming to achieve a minimum medium-to long-term target ROE of 10%, we will implement a capital policy that is conducive to the sustained enhancement of corporate value by accommodating changes in business risks. We will strive to reduce capital costs through communication with shareholders and investors, as well as conducting the decision-making process for business planning and capital investment, to secure earnings exceeding capital costs. We will also work on active shareholder returns, reviewing our payout ratio and dividend on equity (DOE) ratio. Through these efforts, we aim to maintain sound levels of profitability, capital turnover, and financial leverage, which are components of ROE, consistent with our business strategy while maintaining financial health of the Company.

Furthermore, as a new management indicator, we employed the NGK version of value added (NGK Value-Added) that considering costs of CO_2 emissions, labor and R&D; and ESG target achievement rates. In a bid to improve corporate citizenship in a super-long term in addition to “financial value” such as short-term profitability and medium- to long-term growth potential, we will work on continuous improvement of human capital and intellectual capital, which are sources of future competitiveness of the Company, and also fulfill a broad range of social responsibilities including initiatives to reduce environmental burden and respect human rights. We will improve our corporate value by increasing “non-financial value” of the Company through these initiatives.

(3) Medium-to Long-Term Management Strategies and Issues to Be Addressed

While it is still unpredictable when the COVID-19 pandemic will come to an end, the increasing prices of raw materials and supply chain disruptions are expected to be persistent and remain uncertain due to growing tension over the situation in Ukraine. From a medium-to long-term perspective, amid the global trend toward realization of a carbon-free society, business opportunities for our company are expected to increase against the backdrop of a technological revolution centered on carbon neutrality and DX. Toward the future society of 2050, we will ensure we drive the “Five Transformations” set forth in the NGK Group Vision in order to convert the business structure.

The NGK Group's priority issues for the fiscal 2022 are as follows:

[1] Advancement of ESG management

The NGK Group has 37 Group companies (including 19 manufacturing companies) across 19 countries. Placing ESG at the center of the management, we seek to ensure greater managerial transparency and an environment that allows every member of the NGK Group to act based on a fair sense of value and decision-making criteria and in a way that accords with international norms. In April 2022, we renamed the former "ESG Committee" to the "ESG Management Committee" whose chairperson is the President of NGK. The Committee will more proactively addresses the NGK Group's sustainability issues that include ESG and SDG elements at the management level, and the activities will be appropriately supervised by the Board of Directors.

We also ensure thorough understanding of the "NGK Group Code of Conduct" by providing various opportunities for dialogue to enable all members of the NGK Group to achieve a sustainable society, pay respect to human rights and be compliant with applicable rules.

[Environment (E)]

In April 2021, we formulated the "NGK Group Environmental Vision" along with the NGK Group Vision. With our goal of net zero CO_2 emissions by 2050, we will make progress in initiatives whose framework consists of contribution to achievement of carbon neutrality, a recycling-oriented society, and coexistence with nature. The NGK Group has drawn up its "Carbon Neutrality Strategic Roadmap" to realize the goals of the NGK Group Environmental Vision. In fiscal 2021, we achieved the target of 700,000 metric tons, which is a reduction of 20% from 870,000 metric tons in fiscal 2019, of our record CO_2 emissions (a reduction of 4% compared with the fiscal 2013 base year). We have established a target of 550,000 metric tons by fiscal 2025 (a reduction of 25% compared with fiscal 2013) and 370,000 metric tons by fiscal 2030 (a reduction of 50% compared with fiscal 2013) as a milestone. In order to achieve the targets ahead of schedule, we will work on development, implementation within the NGK Group and provision of products and services related to hydrogen, ammonia, CCU/CCS (Carbon dioxide Capture and Utilization and Carbon dioxide Capture and Storage). At the same time, as part of these efforts, we plan to switch all electricity used in our overseas sites to renewable energy by the fiscal 2025. Through these initiatives, approximately 60% of all energy used by the NGK Group is expected to be renewable energy by 2025, aiming to reduce CO_2 emissions by 330,000 metric tons a year. In December 2021, the NGK Group issued its inaugural green bond (unsecured corporate bond), which will be used to offer environmentally friendly products and services and to promote carbon neutrality in its business and production activities.

With regard to the Task Force on Climate-related Financial Disclosures (TCFD), in April 2022, we posted information on our website regarding the result of scenario analysis based on the four categories: "Governance," "Strategy," "Risk management," and "Metrics and Targets." We will continue to expand and improve disclosure of relevant information without delaying the response to social demand.

[Society (S)]

The NGK Group will strictly comply with international standards regarding human rights and respect the diversity of all people. We will respect the individuality and independence of each employee and not engage in discrimination on the basis of race, nationality, gender, age, religion, belief, existence of handicaps, sexual diversity, or any other aspect. In fiscal 2021, we established "NGK Group Human Rights Policy" based on the "United Nations Guiding Principles on Business and Human Rights" to prevent violation or abuse of human rights of anyone impacted by the NGK Group's business operations, and released the UK Modern Slavery Act Statement. In the future, we will expand initiatives to ensure respect for human rights beyond the Group to our entire supply chain.

The NGK Group has positioned "human resources" as the top value in the NGK Group Philosophy. It is our human resources who will drive the "Five Transformations" to achieve the vision described in the NGK Group Vision. We are providing diverse career paths that allow self-directed growth of each of our employees and also deploying various measures including creating a work environment through flexible work styles utilizing telecommuting and reduction of long working hours.

In a bid to promote the advancement of women from the diversity perspective, we have set numerical targets for the percentage of female new college graduates hired and are expanding the areas of employment of the positions they are assigned or transferred to. We have implemented a system to support early return from parental leave to encourage employees who took maternity and childcare leave to resume their careers early. In addition to systems such as providing training for employees returning from childcare leave and expansion and improvement of childcare leave for male employees, we have been working on creating an environment that allows women to thrive through organizing internal lectures that aim for deeper understanding of balancing work and family responsibilities.

At the NGK Group, approximately 13,000 of the 20,000 Group employees are stationed overseas. We believe the advancement of local human resources is essential for prompt and appropriate decision-making based on the circumstances, culture and practices in each local community for management of the NGK Group. Therefore, we actively hire local human resources and assign them to division-head-level positions at overseas sites.

As part of social contribution activities, we support international students. We opened our first overseas branch and representative offices in the 1930s. We have since expanded its business operations while establishing production sites and other offices around the world. Based on our sense of gratitude for the warm welcome and support given by local communities and their residents, we began an international student support program focusing on dormitory lodging and scholarships in 1997 and established the “NGK Foundation for International Students” in March of the following year. In April 2022, the foundation was re-established as a “General Incorporated Foundation NGK Foundation for International Students” to further enhance its nature of public welfare.

[Governance (G)]

With regard to corporate governance, in light of enhancing the functions of the Board of Directors, the Company appoints independent outside directors who are qualified to perform their roles and responsibilities for its sustainable growth and medium- to long-term improvement of corporate value. The number of independent outside directors is one-third or more of the total members of the Board of Directors. The Company established the Nomination and Compensation Advisory Committee, the majority of whose members are independent outside directors to ensure management transparency and enhancement of supervision and monitoring functions of the Board of Directors. The Company also founded the Business Ethics Committee, whose primary members are outside directors, and it handles response to fraudulent acts or violations of laws and regulations where the officers and others of the Company have been involved and provides response, reports and advice to the Board of Directors. The committee strives to strengthen the compliance system by establishing a whistleblowing system (“Hotline”), which is directly linked to the Business Ethics Committee. This serves as a mechanism to prevent any such fraudulent act or violation of laws and regulations in addition to the existing Helpline System, which provides advice and receives reports from employees.

From the compliance perspective, the Company has established the NGK Group Code of Conduct as guidelines for all members of the NGK Group to conduct sound business activities based on a sense of ethics. In April 2021, the “NGK Group Basic Guidelines for Compliance Activities” were formulated with the aim of establishing a mechanism for evaluating and verifying its compliance activities in light of international norms and for continuous improvement based on shared understanding and values.

For compliance with applicable laws and regulations such as competition laws and anti-bribery laws, the Company ensures thorough compliance through continuously disseminating messages from the top management, carrying out compliance education programs for officers and employees of the NGK Group companies in and outside Japan, and organizing competition law compliance programs that meet international norms and utilizing the “Competition Law Compliance Handbook.”

Regarding a quality compliance system, the Company has been working on improving corporate characteristics through enhancement of mechanisms such as quality control activities by the top management and direct guidance by the quality committee as well as ensuring thorough quality education for the management members and employees. In terms of safety of the working environment, the Company works on reducing work-related injuries by strengthening the control capability of each site across the NGK Group in addition to identifying significant accident risks and enhancing preventative measures through conducting risk assessment of the NGK Group companies in and outside Japan.

In respect of risk management, risks that are deemed significant from the management perspective are classified into categories of business environment, strategy and internal factors, and continuously reviewed. Furthermore, risks are analyzed through questionnaires and special risk assessment in the internal control process, and various committees including the Compliance Committee and personnel in charge of various departments take the lead and make efforts to avoid and prevent risks for each business.

Through these efforts, the Company will further increase the awareness of compliance that supports global management, reduce risks, and enhance and improve the governance system.

[2] Initiatives for improving earning capacity of existing businesses and creating new businesses

Aiming to become a company that provides new value to society through NGK's proprietary ceramics technology, the Company will transform its business structure through the "Five Transformations." the Company has developed the business portfolio policy and carefully examines growth potential from two perspectives: profitability measured using the NGK version of ROIC and the net sales growth rate. In addition to considering investment of management resources in core businesses and business groups where future growth is anticipated, we evaluate the quantitative aspects of businesses in the low-growth, low-profit categories based on the annual and medium-term business plans and discuss their growth potential and profitability at the strategy departments, which will be supervised by the Board of Directors as important matters concerning the company management. Decisions on capital investments are based on the time it will take to recover the individual investment, the NGK version of ROIC, internal carbon pricing (ICP) implemented in fiscal 2022, and the value added from an ESG perspective.

As part of our efforts to strengthen the profitability of existing business, we launched the "Manufacturing ∞ (Chain) Innovation" initiative in fiscal 2021. This new initiative is focused on activities all across the process chain—from product development to manufacturing and sales—that contribute to increased competitiveness. The two central focuses of the initiative are "production innovation activities" which fill in the gap between the ideal and reality in the manufacturing chain and "cost reduction activities," which improve manufacturing costs by reducing loss at production sites. The activities of this initiative will be driven by digital technology to achieve greater transparency and global integration in manufacturing, thereby leading to greater competitiveness.

For the business structure conversion, two major organizational changes took place in April 2022. The first one was a business segment review. In business domains related to "carbon neutrality" and "digital society" that were positioned as our areas of focus in the medium- to long-term vision, we are aiming to enhance the readiness for technological and environmental changes by streamlining the organization and generating synergetic effects among departments. To this end, the Company was reorganized into a three-business-group system from a four-business-group system.

The other change is to mobilize personnel in charge of various business domains from a number of business groups and departments in the head office to the newly founded "Corporate NV Creation," which will be launched with 100 members in and outside Japan. NGK will speed up the processes from "research and development" to "commercialization" through cooperation among the three business groups: promoting the marketing function of the Corporate NV Creation, differentiation technology of Corporate R&D and manufacturing by Corporate Manufacturing Engineering. In the beginning of fiscal 2022, the "Development and Commercialization Committee" was established as a higher body in charge of policy development and to oversee the entire processes of the company internal research and development and commercialization. With the goal "New Value 1000" under which we aim to create a new business with sales of 100 billion yen by 2030, we will invest 300 billion yen in R&D over the next 10 years with 80% allocated to carbon neutrality and a digital society. As an input to achieve the goal, we will allocate our management resources, such as increasing the R&D staff by 40%, focusing on the promising themes. We will also promote materials informatics which involves creating databases of enormous testing results we have accumulated and combining them with AI technologies to develop innovative ceramic materials in a short period of time. Furthermore, we will convert our business structure by driving active creation of new products and businesses through alliances with third parties.

In April 2022, "NGK Group Digital Vision" was announced. It is to contribute to carbon neutrality and a digital society through realization of the "Third Foundation" using DX as a driving force for innovation. The "Digital Transformation and Innovation Department (DX Department)," established in April 2021, will transform the Company into a company where utilization of data and digital technology is an everyday activity by 2030. To this end, the DX Department will work as a company-wide department based on the following three pillars: "human resources" (internal activities for raising awareness of DX and training DX human resources for literacy improvement), "digital" (building a foundation for digital utilization, developing the next-generation technology, and solid IT security), and "organization and culture" (commitment of the management members through formulation of a vision, global cooperation and promotion, and reforming a correct mentality of all members of the NGK Group).

Priority issues by segment are as follows. Please refer to "(Significant Subsequent Event) (Changes in segments)" on page 27 for primary products included in each reporting segment.

[Environment Business]

The Environment Business will respond to increasing demand due to a recovery of the automobile market and tightening of exhaust gas regulations in various countries in the foreseeable future, and will aim for profit maximization by building a stable supply system on a global scale. Although the internal-combustion business will experience a gradual decrease in the future due to the expansion of electronic vehicles, we will accelerate the speed of new product development such as gasoline sensors and electric heated catalysts (EHC) in addition to the conventional automobile-related products. As a business holistically involving the environment in a broad definition, the Environmental Business will produce high-value-added products and also venture into the carbon neutral-related market which is expected to expand globally.

[Digital Society Business]

In the business domains related to the digital society stated in the NGK Group Vision, new businesses using the metaverse are coming to the surface in addition to the progress of the IoT and 5G. The expansion of the semiconductor-related market is expected to be continued. As a leading supplier for manufacturers of semiconductor manufacturing equipment with a goal of customer value improvement, the Digital Society Business aims for highly profitable business by improving productivity at its domestic and overseas manufacturing sites through the use of digital transformation technology and providing new technologies. In addition, by integrating products that contribute to the digital society, we aim to link information of the company that is internal and external and venture into new fields by combining our unique process technologies and new materials.

[Energy & Industry Business]

In the Energy Storage Business, discussions for adopting renewable energy have been making progress toward carbon neutrality by 2050, and the importance of storage batteries has been increasing. While it may take a while for the demand for NAS® batteries to become full-blown, we will work on developing business models, leveraging the NAS® battery features of large capacity and long duration of energy discharging. Combining NAS® batteries and NGK's unique energy management system (EMS) makes it possible to make the most of NAS® battery capacity and maximize the value of energy resources. Developing businesses to "sell value and services" will be accelerated in addition to the conventional business of "selling products." Amid the continued reduction in capital spending by domestic power companies, the Insulator Business will run its business, having medium- to long-term market changes in perspective. The Industrial Process Business regards ceramic membranes as its core competency. It will provide products and facilities that contribute to environmental needs of society such as separation of CO_2 and nitrogen, and a bio-economy, aiming to serve as a business domain that handles new carbon neutral products.

Through these initiatives, the Company will maintain its capital efficiency-focused and shareholder-oriented corporate management by further strengthening its management infrastructure in order to achieve sustainable growth and greater corporate value.

3. Basic Policies Concerning Selection of Accounting Standards

The Company applies Japanese GAAP, on the other hand, the Company has already unified its accounting standards for accounting period, depreciation and amortization methods, etc. to standards which are same as those of IFRS, in order to make a financial report more appropriate.

4. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	March 31, 2022	March 31, 2021
Assets		
Current assets		
Cash and deposits	139,198	131,359
Notes and accounts receivable-trade	—	114,496
Notes receivable–trade	2,575	—
Accounts receivable–trade	119,636	—
Contract assets	9,573	—
Securities	46,443	35,003
Inventories	※1 188,336	※1 150,471
Other	21,783	26,739
Allowance for doubtful accounts	(152)	(130)
Total current assets	527,394	457,940
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	122,617	118,820
Machinery, equipment and vehicles, net	180,269	185,433
Tools, furniture and fixtures, net	10,358	9,269
Land	28,924	28,384
Construction in progress	30,947	28,027
Other, net	2,195	2,275
Total property, plant and equipment	375,312	372,210
Intangible assets		
Software	6,008	4,864
Other	188	200
Total intangible assets	6,196	5,065
Investments and other assets		
Investment securities	59,052	61,160
Deferred tax assets	5,890	5,472
Retirement benefit asset	6,692	4,814
Other	2,642	2,574
Allowance for doubtful accounts	(347)	(271)
Total investments and other assets	73,930	73,751
Total non-current assets	455,438	451,027
Total assets	**982,833**	**908,967**

(Millions of yen)

	March 31, 2022	March 31, 2021
Liabilities		
Current liabilities		
Notes and accounts payable-trade	44,328	42,438
Short-term borrowings	6,198	18,046
Current portion of long-term borrowings	32,263	21,927
Accounts payable-other	16,246	15,212
Accrued expenses	20,969	18,040
Income taxes payable	※2 19,830	※2 9,098
Contract liabilities	1,828	—
Provision for NAS battery safety measures	972	1,465
Other	9,151	9,763
Total current liabilities	151,790	135,992
Non-current liabilities		
Bonds payable	35,000	25,000
Long-term borrowings	178,888	199,271
Deferred tax liabilities	1,085	1,402
Provision for product warranties	630	591
Retirement benefit liability	21,420	21,758
Other	4,423	7,059
Total non-current liabilities	241,448	255,082
Total liabilities	**393,238**	**391,074**
Net assets		
Shareholders' equity		
Share capital	69,849	69,849
Capital surplus	70,199	70,199
Retained earnings	416,205	372,640
Treasury shares	(10,944)	(11,205)
Total shareholders' equity	545,308	501,483
Accumulated other comprehensive income		
Valuation difference on available -for-sale securities	17,060	19,257
Deferred gains or losses on hedges	(199)	(186)
Foreign currency translation adjustment	21,620	(4,918)
Remeasurements of defined benefit plans	(642)	(3,632)
Total accumulated other comprehensive income	37,838	10,520
Share acquisition rights	941	872
Non-controlling interests	5,505	5,017
Total net assets	**589,594**	**517,892**
Total liabilities and net assets	**982,833**	**908,967**

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

Consolidated Statement of Income

(Millions of yen)

	Fiscal Year Ended March 31, 2022	Fiscal Year Ended March 31, 2021
Net sales	**510,439**	**452,043**
Cost of sales	347,748	329,061
Gross profit	**162,691**	**122,982**
Selling, general and administrative expenses	※1 79,163	※1 72,158
Operating income	**83,527**	**50,823**
Non-operating income		
Interest income	398	321
Dividend income	1,042	1,059
Share of profit of entities accounted for using equity method	1,666	1,622
Foreign exchange gains	1,453	1,781
Interest on refund of income taxes	※2 1,196	—
Subsidies for employment adjustment	62	1,013
Other	2,123	2,396
Total non-operating income	7,943	8,194
Non-operating expenses		
Interest expense	3,590	3,438
Loss on valuation of derivatives	837	928
Other	794	1,644
Total non-operating expense	5,222	6,011
Ordinary income	**86,248**	**53,006**
Extraordinary income		
Gain on sales of non-current assets	72	232
Gain on sales of investment securities	1,161	1,433
Subsidies income	4,896	1,879
Total extraordinary income	6,130	3,546
Extraordinary losses		
Loss on disposals of non-current assets	399	352
Impairment loss	※3 1,159	2,266
Loss on sales of investment securities	—	813
Total extraordinary losses	1,559	3,432
Income before income taxes	**90,819**	**53,120**
Income taxes-current	25,551	11,089
Income taxes-refund	※2 (5,758)	—
Income taxes-deferred	(6)	3,374
Total income taxes	19,787	14,464
Net income	**71,032**	**38,656**
Net income attributable to non-controlling interests	180	160
Net income attributable to owners of the parent	**70,851**	**38,496**

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal Year Ended March 31, 2022	Fiscal Year Ended March 31, 2021
Net income	**71,032**	**38,656**
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,195)	7,918
Deferred gain or loss on hedges	(4)	275
Foreign currency translation adjustment	26,625	16,984
Remeasurements of defined benefit plans, net of tax	2,966	1,915
Share of other comprehensive income of entities accounted for using equity method	261	(185)
Total other comprehensive income	27,652	26,908
Comprehensive income	**98,684**	**65,564**
Comprehensive income attributable to		
Owners of the parent	98,170	64,937
Non-controlling interests	514	626

(3) Consolidated Statement of Changes in Equity

Year Ended March 31, 2022 (Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholder's equity
Balance at March 31, 2021	69,849	70,199	372,640	(11,205)	501,483
Cumulative effects of changes in accounting policies			(1,777)		(1,777)
Restated balance	69,849	70,199	370,863	(11,205)	499,706
Changes during period					
Dividends of surplus			(15,679)		(15,679)
Net income attributable to owners of the parent			70,851		70,851
Purchase of treasury shares				(9,700)	(9,700)
Disposal of treasury shares		(6)		138	131
Cancellation of treasury shares		(9,823)		9,823	—
Transfer from retained earnings to capital surplus		9,830	(9,830)		—
Net changes in items other than shareholders' equity					
Total changes during period	—	—	45,341	260	45,602
Balance at March 31, 2022	69,849	70,199	416,205	(10,944)	545,308

	Accumulated other comprehensive income					Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at March 31, 2021	19,257	(186)	(4,918)	(3,632)	10,520	872	5,017	517,892
Cumulative effects of changes in accounting policies								(1,777)
Restated balance	19,257	(186)	(4,918)	(3,632)	10,520	872	5,017	516,115
Changes during period								
Dividends of surplus								(15,679)
Net income attributable to owners of the parent								70,851
Purchase of treasury shares								(9,700)
Disposal of treasury shares								131
Cancellation of treasury shares								—
Transfer from retained earnings to capital surplus								—
Net changes in items other than shareholders' equity	(2,197)	(13)	26,539	2,989	27,318	69	488	27,875
Total changes during period	(2,197)	(13)	26,539	2,989	27,318	69	488	73,478
Balance at March 31, 2022	17,060	(199)	21,620	(642)	37,838	941	5,505	589,594

Year Ended March 31, 2021 (Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholder's equity
Balance at March 31, 2020	69,849	70,199	345,688	(11,264)	474,473
Changes during period					
Dividends of surplus			(11,079)		(11,079)
Net income attributable to owners of the parent			38,496		38,496
Purchase of treasury shares				(3)	(3)
Disposal of treasury shares		(25)		61	36
Transfer from retained earnings to capital surplus		25	(25)		—
Change in scope of consolidation			(440)		(440)
Net changes in items other than shareholders' equity					
Total changes during period	—	—	26,951	58	27,009
Balance at March 31, 2021	69,849	70,199	372,640	(11,205)	501,483

	Accumulated other comprehensive income					Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at March 31, 2020	11,336	(461)	(21,390)	(5,406)	(15,921)	828	9,737	469,118
Changes during period								
Dividends of surplus								(11,079)
Net income attributable to owners of the parent								38,496
Purchase of treasury shares								(3)
Disposal of treasury shares								36
Transfer from retained earnings to capital surplus								—
Change in scope of consolidation								(440)
Net changes in items other than shareholders' equity	7,921	275	16,471	1,773	26,441	43	(4,720)	21,764
Total changes during period	7,921	275	16,471	1,773	26,441	43	(4,720)	48,774
Balance at March 31, 2021	19,257	(186)	(4,918)	(3,632)	10,520	872	5,017	517,892

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal Year Ended March 31, 2022	Fiscal Year Ended March 31, 2021
Cash flows from operating activities		
Income before income taxes	90,819	53,120
Depreciation	49,270	44,942
Impairment loss	1,159	2,266
Interest and dividend income	(1,441)	(1,380)
Interest expense	3,590	3,438
Share of loss (profit) of entities accounted for using equity method	(1,666)	(1,622)
Loss (gain) on sales of investment securities	(1,161)	(620)
Decrease (increase) in trade receivables	(1,651)	(12,637)
Decrease (increase) in contract assets	(3,737)	—
Decrease (increase) in inventories	(27,900)	10,425
Decrease (increase) in other current assets	(117)	1,688
Increase (decrease) in trade payables	330	(2,375)
Increase (decrease) in other current liabilities	(284)	3,198
Other	(2,091)	252
Subtotal	105,119	100,698
Interest and dividends received	1,459	1,385
Dividends received from entities accounted for using equity method	424	434
Interest paid	(3,832)	(3,528)
Income taxes paid	(12,920)	(13,347)
Tax refunds and interest on tax refunds received	4,580	—
Net cash provided by (used in) operating activities	**94,831**	**85,641**
Cash flows from investing activities		
Purchase of securities	(54,699)	(41,399)
Proceeds from sales and redemption of securities	51,231	36,671
Purchase of property, plant and equipment	(35,226)	(50,839)
Purchase of intangible assets	(2,202)	(2,503)
Proceeds from sales and redemption of investment securities	1,840	2,909
Net decrease (increase) in time deposits	(6,810)	1,720
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	—	706
Other	(424)	1,009
Net cash provided by (used in) investing activities	**(46,291)**	**(51,724)**
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(12,016)	11,264
Proceeds from long-term borrowings	5,000	21,284
Repayments of long-term borrowings	(22,006)	(9,417)
Proceeds from issuance of bonds	10,000	900
Purchase of treasury shares	(9,700)	(3)
Dividends paid	(15,679)	(11,079)
Other	(859)	(698)
Net cash provided by (used in) financing activities	**(45,263)**	**12,250**
Effect of exchange rate changes on cash and cash equivalents	5,547	5,172
Net increase (decrease) in cash and cash equivalents	8,823	51,340
Cash and cash equivalents at beginning of period	146,031	94,691
Cash and cash equivalents at end of period	**154,855**	**146,031**

(5) Notes to Consolidated Financial Statements

(Note on the Assumption as a Going Concern)

Not applicable

(Significant Items Underlying the Preparation of Consolidated Financial Statements)

Accounting standards

Accounting standards for significant allowances

1) Provision for NAS battery safety measures

In response to the fire involving NGK-manufactured NAS® batteries that occurred in September 2011, the Company reserved an allowance as "Provision for NAS battery safety measures" to cover anticipated future expenses on safety measures necessary to expand the NAS battery business.

2) Provision for product warranties

The Company and some consolidated subsidiaries estimate and accrue the costs of warranty repair for products sold in reserve for future expenses.

(Changing 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.

"Notes and accounts receivable-trade" and "Other" under "Current assets" in the consolidated balance sheets of the previous fiscal year have been included in "Notes receivable-trade," "Accounts receivable-trade," "Contract assets" and "Other" from the current fiscal year. "Other" under "Current liabilities" have been included in "Contract liabilities" and "Other" from the current fiscal year. In the consolidated statement of cash flows, "Decrease (increase) in notes and receivable-trade" and "Decrease (increase) in other current assets" under "Cash flows from operating activities" have been included in "Decrease (increase) in notes and receivable-trade", "Decrease (increase) in contract assets" and "Decrease (increase) in other current assets" from the current fiscal year. However, please note that, 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.

As a result, the effects on the consolidated financial statements and the per share information are immaterial.

In accordance with the transitional treatment prescribed in Paragraph 89-3 of the Revenue Recognition Accounting Standards, the Company did not make any notes to the revenue recognition accounting concerning the previous fiscal year.

(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 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 (The Company paid approximately ¥6.2 billion in back taxes, including local taxes. Approximately ¥0.1 billion was refunded as decision of a request for examination with the Nagoya National Tax Tribunal.). based on transfer pricing taxation from the Nagoya Regional Taxation Bureau with respect to transactions with its subsidiary in Poland that took place during the period from the fiscal year ended March 31, 2007 to the fiscal year ended March 31, 2010. The Company filed an action with the Tokyo District Court in December 2016 for revocation of the Correction. After the subsequent proceedings, in November 2020, the Tokyo District Court rendered a judgment that granted most of the Company's claims and revoked the Correction with respect to a total of approximately ¥5.8 billion in corporate and local taxes, etc. (hereinafter referred to as the "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 in December of the same year. After the subsequent proceedings, the Tokyo High Court rendered a judgment in March 2022 that approved the judgement of the Tokyo District Court, granted most of the Company's claims, and rejected the appeal filed by the national government and the incidental appeal filed by the Company. The Company considered all factors involved including the fact that most of the Company's claims were granted by the court and did not file either a final appeal or a petition for acceptance of final appeal. At the same time, the national government had not filed a final appeal or a petition for acceptance of final appeal by the designated deadlines; therefore, the judgement by the Tokyo District Court became final. Accordingly, with regard to the amount paid in the past including income taxes and local taxes, the Company recorded in the current fiscal year the tax refund of approximately ¥5.8 billion to income taxes-refund as well as interest on tax refund of approximately ¥1.2 billion to non-operating income.

Following the correction abovementioned, also with regard to 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, the Company received a correction based on transfer pricing taxation from the Nagoya Regional Taxation Bureau in June 2017, and the Company made payment of approximately ¥8.5 billion in tax penalties, including local taxes. A request for re-examination was submitted to the Nagoya National Tax Tribunal in July 2018 as a request for cancellation of the correction, and the Company received a written verdict that partially rescinded the correction in July 2019. However, it went only so far as to refund 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.

In light of the above, the Company 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.

(Consolidated Balance Sheets)

※1. The breakdown of inventories is as follows:

	March 31, 2022	March 31, 2021
Finished goods and merchandise	83,308 million yen	60,301 million yen
Cost of contracts in progress	682	863
Work in process	22,337	19,207
Raw materials and supplies	82,008	70,100

※2. Income taxes payable

Year ended March 31, 2022 (From April 1, 2021 to March 31, 2022)

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.

Concerning the Correction in March 2012 from the Nagoya Regional Taxation Bureau based on transfer pricing taxation with respect to transactions with the Company's subsidiary in Poland from the fiscal year ended March 31, 2007 to the fiscal year ended March 31, 2010, the Tokyo High Court rendered a judgment in March 2022 that approved the judgment of the Tokyo District Court. The judgement granted most of the Company's claims, and subsequently, the judgement became final. Accordingly, the Company recorded a tax refund and interest on a tax refund in the amount including income taxes and local taxes that the Company had already paid.

Year ended March 31, 2021 (From April 1, 2020 to March 31, 2021)

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.

3. 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 (¥16,828,777,030) and the relevant delay changes.

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.

(Consolidated Statement of Income)

※1. The major items and their amounts of selling, general and administrative expenses are as follows:

	Fiscal Year Ended March 31, 2022	Fiscal Year Ended March 31, 2021
Salaries, wages, and bonuses	21,607 million yen	20,071 million yen
Freight-out	13,305	9,731
Research and development expenses	10,394	10,171
Retirement benefit expenses	1,429	1,442

※2. Interest on refund of income taxes and income taxes–refund

Year ended March 31, 2022 (From April 1, 2021 to March 31, 2022)

Concerning the Correction in March 2012 from the Nagoya Regional Taxation Bureau based on transfer pricing taxation with respect to transactions with the Company's subsidiary in Poland from the fiscal year ended March 31, 2007 to the fiscal year ended March 31, 2010, the Tokyo High Court rendered a judgment in March 2022 that approved the judgment of the Tokyo District Court. The judgement granted most of the Company's claims, and subsequently, the judgement became final. Accordingly, the Company recorded ¥5,758 million as tax refund to income taxes-refund and ¥1,196 million as interest on tax refund to non-operating income.

※3. Impairment loss

Year ended March 31, 2022 (From April 1, 2021 to March 31, 2022)

The Company recognized impairment loss as follows:

Groups	Asset category	Location	Millions of yen
Ceramics Business	Machinery, equipment and vehicles	China	1,034

The Company recognized an impairment loss mainly in the asset groups and idle assets which deteriorated in profitability or to be disposed, and the carrying amounts of the relevant assets were written down to the memorandum value for the fiscal year ended March 31, 2022.

The Company recognized impairment loss as ¥8 million in buildings and structures, ¥1,075 million in machinery, equipment and vehicles, ¥37 million in construction in progress and ¥38 million in other.

(Segment Information, etc.)

[Segment Information]

1. Overview of reportable business segments

The Company's reportable business segments are components of the Company 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 Company develops and conducts its operations under four business segments: Energy Infrastructure Business, Ceramics Business, Electronics Business, and Process Technology Business while planning a comprehensive strategy for domestic and overseas markets. Consequently, the Company defines those four business segments as its reportable business segments.

Business segment	Main products
Energy Infrastructure	Insulators, hardware for insulator assemblies, current limiting arching horn, bushing shells, fuse cut-outs, APM, line arrester and NAS® (sodium-sulfur) batteries
Ceramics	Automotive ceramics for exhaust gas purification and sensors
Electronics	Electronics components, beryllium copper products, and molds
Process Technology	Components for semiconductor manufacturing equipment, corrosion-resistant ceramic apparatuses for chemical industries, gas analyzer, industrial heating systems, refractory products and radioactive waste treatment systems

2. Methods of calculating sales, income or loss, assets, liabilities, and other items by business segment

The accounting methods applied to the reported business segments are generally the same as those listed in "Significant items underlying the preparation of consolidated financial statements" in the Company's most recent securities report filed on June 28, 2021.

Business segment income is based on operating income. Intersegment sales is based on market prices.

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 segment as well.

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

3. Sales, income or loss, assets, liabilities, and other items by business segment

Year ended March 31, 2022 (Millions of yen)

	Business segment					Adjustment	Consolidated
	Energy Infrastructure	Ceramics	Electronics	Process Technology	Total		
Net Sales							
Sales to customers	40,594	292,670	53,406	123,767	510,439	—	510,439
Intersegment sales	652	17	3	2,489	3,163	(3,163)	—
Total sales	41,247	292,688	53,410	126,256	513,602	(3,163)	510,439
Operating income	(2,718)	65,060	5,696	15,481	83,520	7	83,527
Total assets	56,483	475,050	70,536	151,909	753,980	228,852	982,833
Other							
Depreciation	1,981	34,717	3,423	9,147	49,270	—	49,270
Impairment loss	125	1,034	—	—	1,159	—	1,159
Capital expenditures	1,247	20,066	5,447	6,894	33,655	4,474	38,130

(Notes)
1. The adjustment of ¥7 million to operating income comprises of intersegment transactions.
2. Corporate assets within total assets that are included in adjustment are ¥235,964 million, consisting mainly of surplus funds managed by the Company (cash and securities), long-term investment funds (investment securities) and assets related to administrative divisions.
3. Adjustment of capital expenditures is an increase at head office divisions.

Year ended March 31, 2021 (Millions of yen)

	Business segment					Adjustment	Consolidated
	Energy Infrastructure	Ceramics	Electronics	Process Technology	Total		
Net Sales							
Sales to customers	41,996	248,908	54,099	107,038	452,043	—	452,043
Intersegment sales	635	7	1	1,979	2,623	(2,623)	—
Total sales	42,632	248,916	54,101	109,017	454,667	(2,623)	452,043
Operating income	(3,978)	41,160	2,769	10,853	50,805	18	50,823
Total assets	54,107	459,392	64,014	139,977	717,491	191,475	908,967
Other							
Depreciation	1,871	31,797	3,067	8,206	44,942	—	44,942
Impairment loss	786	—	1,291	25	2,102	163	2,266
Capital expenditures	1,524	23,607	7,510	12,099	44,742	6,088	50,831

(Notes)
1. The adjustment of ¥18 million to operating income comprises of intersegment transactions.
2. Corporate assets within total assets that are included in adjustment are ¥198,255 million, consisting mainly of surplus funds managed by the Company (cash and securities), long-term investment funds (investment securities) and assets related to administrative divisions.
3. Adjustment of capital expenditures is an increase at head office divisions.

[Related information]

Year ended March 31, 2022

Information about geographical areas

Net Sales (Millions of yen)

	Japan	North America			Europe			Asia			Others	Total
		Total	USA	Others	Total	Germany	Others	Total	China	Others		
Sales to customers	124,855	110,944	106,920	4,024	108,830	46,717	62,113	155,091	93,241	61,849	10,716	510,439

(Note) Net sales are attributed to countries based on the location of the customers.

Year ended March 31, 2021

Information about geographical areas

Net Sales (Millions of yen)

	Japan	North America			Europe			Asia			Others	Total
		Total	USA	Others	Total	Germany	Others	Total	China	Others		
Sales to customers	127,525	89,177	85,738	3,438	95,863	25,649	70,214	130,265	80,644	49,621	9,210	452,043

(Note) Net sales are attributed to countries based on the location of the customers.

(Revenue Recognition)

Disaggregated revenue recognized from contracts with customers
Year ended March 31, 2022

(Millions of yen)

	Business Segment				Total
	Energy Infrastructure	Ceramics	Electronics	Process Technology	
Major geographical regions					
Japan	29,741	27,609	25,603	41,900	124,855
North America	5,238	51,077	4,804	49,823	110,944
Europe	450	105,378	2,905	95	108,830
Asia	2,695	100,545	20,022	31,828	155,091
Others	2,468	8,058	69	118	10,716
Total	40,594	292,670	53,406	123,767	510,439
Major product lines					
Insulators	39,279	—	—	—	39,279
Energy storage	1,314	—	—	—	1,314
Automotive ceramics for exhaust gas purification	—	228,938	—	—	228,938
Sensors	—	63,732	—	—	63,732
Metal related	—	—	23,885	—	23,885
Electronics components	—	—	29,521	—	29,521
SPE related (Components for semiconductor production equipment)	—	—	—	96,904	96,904
Industrial processes	—	—	—	26,862	26,862
Total	40,594	292,670	53,406	123,767	510,439
Timing of revenue recognition					
Goods and services transferred at a point in time	40,296	292,670	53,406	111,187	497,560
Goods and services transferred over time	298	—	—	12,579	12,878
Total	40,594	292,670	53,406	123,767	510,439

(Per Share Information)

	Fiscal Year Ended March 31, 2022	Fiscal Year Ended March 31, 2021
Net assets per share	1,871.22 yen	1,617.33 yen
Net income per share	226.56 yen	121.61 yen
Diluted net income per share	226.17 yen	121.42 yen

(Note) The basis for calculation of net income per share and diluted net income per share is as follows

	Fiscal Year Ended March 31, 2022	Fiscal Year Ended March 31, 2021
Net income per share		
Net income attributable to owners of the parent (Millions of yen)	70,851	38,496
Amount not attributable to common shareholders (Millions of yen)	—	—
Net income on common stock (Millions of yen)	70,851	38,496
Average number of shares of common stock outstanding over the period (Thousand shares)	312,726	316,564
Diluted net income per share		
Adjustment to net income (Millions of yen)	—	—
Increase in common shares (Thousand shares)	541	484
(Stock options in the form of stock acquisition rights)	(541)	(484)
Summary of potentially dilutive shares not included in the calculation of diluted net income per share due to their anti-dilutive effect	—	—

(Significant Subsequent Event)

(Changes in Segments)

In the fiscal year ended March 31, 2022, the business segments consisted of "Energy Infrastructure," "Ceramics," "Electronics," and "Process Technology,". However, along with the change of organization effective on April 1, 2022, the business segments have been changed to "Environment," "Digital Society," and "Energy & Industry," from the fiscal year ending March 31, 2023.

Listed below are main products of the respective new business segments.

Business Segment	Main products
Environment	Automotive ceramics for exhaust gas purification and sensors
Digital Society	Components for semiconductor manufacturing equipment, electronics components, beryllium copper products, and molds
Energy & Industry	NAS® (sodium-sulfur) batteries, Insulators, hardware for insulator assemblies, current limiting arching horn, bushing shells, fuse cut-outs, APM, line arrester, corrosion-resistant ceramic apparatuses, for chemical industries, gas analyzer, industrial heating systems, refractory products and radioactive waste treatment systems

Amounts of net sales, and income for the fiscal year ended March 31, 2022 in accordance with the new business segments are as below.

1. Sales, income or loss, assets, liabilities, and other items by business segment

Year ended March 31, 2022 (Millions of yen)

	Business segment				Elimination or Adjustment	Consolidated
	Environment	Digital Society	Energy & Industry	Total		
Sales						
Sales to customers	292,670	150,311	67,457	510,439	—	510,439
Intersegment sales	17	3	2,429	2,451	(2,451)	—
Total sales	292,688	150,314	69,887	512,890	(2,451)	510,439
Operating income	65,060	19,865	(1,406)	83,520	7	83,527

(Notes) The adjustment of ¥7 million to operating income comprises of intersegment transactions.

2. Disaggregated revenue recognized from contracts with customers
Year ended March 31, 2022

(Millions of yen)

	Business Segment			
	Environment	Digital Society	Energy & Industry	Total
Major geographical regions				
Japan	27,609	46,975	50,270	124,855
North America	51,077	54,426	5,440	110,944
Europe	105,378	2,936	516	108,830
Asia	100,545	45,898	8,647	155,091
Others	8,058	74	2,582	10,716
Total	292,670	150,311	67,457	510,439
Major product lines				
Automotive ceramics for exhaust gas purification	228,938	—	—	228,938
Sensors	63,732	—	—	63,732
SPE related (Components for semiconductor production equipment)	—	96,904	—	96,904
Electronics components	—	29,521	—	29,521
Metal related	—	23,855		23,855
Energy storage	—	—	1,314	1,314
Insulators	—	—	39,279	39,279
Industrial processes	—	—	26,862	26,862
Total	292,670	150,311	67,457	510,439
Timing of revenue recognition				
Goods and services transferred at a point in time	292,670	150,311	54,579	497,560
Goods and services transferred over time	—	—	12,878	12,878
Total	292,670	150,311	67,457	510,439