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Summary of Consolidated Financial Results for the Three Months Ended June 30, 2022 [Japanese GAAP]

July 29, 2022

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

Stock exchange listings : Tokyo and Nagoya

Stock 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 filing quarterly report: August 5, 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 Three Months Ended June 30, 2022 (from April 1, 2022 to June 30, 2022)

(1) Consolidated Operating Results

% represents increase (decrease) from the previous period

Fiscal Year ended	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	%
June 30, 2022	131,000	1.7	20,635	(12.7)	20,669	(10.6)	17,963	11.1
June 30, 2021	128,779	55.1	23,637	—	23,111	—	16,170	—

(Note) Comprehensive income: Three months ended June 30, 2022 ¥40,058 million 117.6 %
: Three months ended June 30, 2021 ¥18,413 million — %

Fiscal Year ended	Net income per share	Diluted net income per share
June 30, 2022	57.64	57.54
June 30, 2021	51.30	51.22

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
June 30, 2022	993,115	619,496	61.7
March 31, 2022	982,833	589,594	59.3

(Reference) Equity: As of June 30, 2022 ¥612,666 million
: As of March 31, 2022 ¥583,147 million

2. Dividend Payments

	Cash dividends per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year ended March 31, 2022	—	30.00	—	33.00	63.00
Fiscal Year ending March 31, 2023	—				
Fiscal Year ending March 31, 2023 (forecast)		33.00	—	33.00	66.00

(Note) Revision of dividend forecasts during this period: None

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

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

Notes

(1) Changes in significant subsidiaries during the three months ended June 30, 2022: None

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

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

(i) Changes 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	June 30, 2022	317,211,996 shares	March 31, 2022	317,211,996 shares
(ii) Number of treasury stocks at period end	June 30, 2022	5,558,469 shares	March 31, 2022	5,570,919 shares
(iii) Average number of shares outstanding over period	June 30, 2022	311,644,100 shares	June 30, 2021	315,224,489 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. (hereinafter referred to as 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

In the three months ended June 30, 2022, the Japanese economy showed signs of recovery due to the normalization of economic and social activities amid measures including vaccination to prevent the spread of COVID-19. Although the economic recovery in China was stagnant due to restrained economic activity in some districts, overseas countries like the U.S. gradually resumed economic activity and the economy gradually recovered. However, the outlook is becoming increasingly uncertain due to concerns over a prolonged situation in Ukraine and ongoing supply chain disruptions, as well as the economic slowdown caused by worldwide inflation and the rapid spread of COVID-19.

Under these circumstances, shipments of automotive-related products decreased in the Environment Business mainly due to restrained economic activities in China. In the Digital Society Business, shipments of products for semiconductor manufacturing equipment increased due to robust capital investment in semiconductor industry. In the Energy & Industry Business, shipments of insulator products declined due to decrease of large projects for overseas markets.

As a result, net sales in the three months ended June 30, 2022 increased 1.7% year-on-year to ¥131,000 million, due to the positive effect of the depreciation of the yen and an increase in sales of semiconductor manufacturing equipment products. With regard to profits, operating income decreased 12.7% year on year to ¥20,635 million due to the impact of rising labor costs and soaring raw material and fuel prices, mainly in the Environment Business, despite the positive effect of the depreciation of the yen. Ordinary income decreased 10.6% year on year to ¥20,669 million. Quarterly net income attributable to owners of the parent increased 11.1% year on year to ¥17,963 million, mainly due to the completion of tax audits and the reversal of the estimated amount recorded.

By segment, net sales decreased 5.7% year on year in the Environment Business to ¥73,293 million, and operating income decreased 26.0% year on year to ¥14,173 million. In the Digital Society Business, net sales increased 23.5% year on year to ¥43,312 million. Operating income increased 48.7% year on year to ¥7,157 million. In the Energy & Industry Business, net sales decreased 9.2% year on year to ¥15,004 billion and operating loss was ¥710 million (operating loss of ¥339 million in the same period of the previous fiscal year).

Effective from the first quarter of the current fiscal year, the reportable segments, which were the Energy Infrastructure Business, Ceramics Business, Electronics Business, and Process Technology Business, were changed to the Environment Business, Digital Society Business, and Energy & Industry Business due to the organizational change. Year-on-year figures for each segment were calculated after adjusting the figures for the same period of the previous fiscal year to the revised segment classification.

(2) Explanation of Financial Position

As of June 30, 2022, total assets were ¥993,115 million, an increase of ¥10,282 million from the previous fiscal year-end. This was mainly due to increases in inventories, cash and deposits, tangible assets despite decreases in securities and notes and accounts receivable trade, and contract assets.

Total liabilities decreased by ¥19,620 million from the previous fiscal year-end to ¥373,618 million. This was mainly due to decreases in income taxes payable and current portion of long-term borrowings despite an increase in short-term borrowings.

Total net assets stood at ¥619,496 million, or ¥29,902 million higher than the previous fiscal year-end, due to increases in foreign currency translation adjustment and retained earnings.

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

With regard to the financial results forecasts for the full year ending March 31, 2023 no revisions have been made to those announced on April 28, 2022 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)

	June 30, 2022	March 31, 2022
Assets		
Current assets		
Cash and deposits	157,858	139,198
Notes and accounts receivable-trade, and contract assets	116,671	131,785
Securities	28,170	46,443
Inventories	210,605	188,336
Other	16,621	21,783
Allowance for doubtful accounts	(143)	(152)
Total current assets	529,784	527,394
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	127,907	122,617
Machinery and vehicles, net	184,619	180,269
Other, net	71,717	72,425
Total property, plant and equipment	384,244	375,312
Intangible assets	6,226	6,196
Investments and other assets		
Investment securities	58,301	59,052
Other	14,899	15,225
Allowance for doubtful accounts	(341)	(347)
Total investments and other assets	72,859	73,930
Total non-current assets	463,331	455,438
Total assets	993,115	982,833

(Millions of yen)

	June 30, 2022	March 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable-trade	43,691	44,328
Short-term borrowings	9,893	6,198
Current portion of long-term borrowings	26,683	32,263
Income taxes payable	4,877	19,830
Provision for NAS battery safety measures	940	972
Other	47,015	48,196
Total current liabilities	133,101	151,790
Non-current liabilities		
Bonds payable	35,000	35,000
Long-term borrowings	175,567	178,888
Retirement benefit liability	21,853	21,420
Other	8,095	6,138
Total non-current liabilities	240,516	241,448
Total liabilities	373,618	393,238
Net assets		
Shareholders' equity		
Share capital	69,849	69,849
Capital surplus	70,199	70,199
Retained earnings	423,956	416,205
Treasury shares	(10,920)	(10,944)
Total shareholders' equity	553,085	545,308
Accumulated other comprehensive income		
Valuation difference on available -for-sale securities	16,701	17,060
Deferred gains or losses on hedges	(480)	(199)
Foreign currency translation adjustment	43,823	21,620
Remeasurements of defined benefit plans	(462)	(642)
Total accumulated other comprehensive income	59,581	37,838
Share acquisition rights	918	941
Non-controlling interests	5,911	5,505
Total net assets	619,496	589,594
Total liabilities and net assets	993,115	982,833

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

(Millions of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2021
Net sales	131,000	128,779
Cost of sales	89,253	85,262
Gross profit	41,747	43,517
Selling, general and administrative expenses	21,112	19,879
Operating income	20,635	23,637
Non-operating income		
Interest income	116	94
Dividend income	636	519
Foreign exchange gains	1,891	—
Insurance claim income	5	627
Other	158	276
Total non-operating income	2,808	1,517
Non-operating expenses		
Interest expense	906	875
Share of loss of associates accounted for using equity method	207	441
Foreign exchange losses	—	52
Loss on valuation of derivatives	1,340	326
Other	319	347
Total non-operating expense	2,774	2,044
Ordinary income	20,669	23,111
Extraordinary income		
Gain on sales of non-current assets	32	31
Gain on sales of investment securities	205	—
Subsidies income	234	366
Total extraordinary income	471	397
Extraordinary losses		
Loss on disposals of non-current assets	24	67
Impairment loss	834	15
Total extraordinary losses	859	83
Income before income taxes	20,281	23,425
Income taxes-current	4,048	6,111
Income taxes for prior periods	*1 (4,100)	—
Income taxes-deferred	2,345	988
Total income taxes	2,294	7,100
Net income	17,986	16,325
Net income attributable to non-controlling interests	22	155
Net income attributable to owners of the parent	17,963	16,170

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2021
Net income	17,986	16,325
Other comprehensive income		
Valuation difference on available-for-sale securities	(359)	(1,590)
Deferred gain or loss on hedges	(288)	(60)
Foreign currency translation adjustment	22,418	3,036
Remeasurements of defined benefit plans, net of tax	163	456
Share of other comprehensive income of entities accounted for using equity method	137	245
Total other comprehensive income	22,071	2,087
Comprehensive income	40,058	18,413
Comprehensive income attributable to:		
Owners of the parent	39,706	18,205
Non-controlling interests	351	208

(3) Notes to Consolidated Financial Statements**(Note on the Assumption as a Going Concern)**

Not applicable

(Significant Changes in Stockholder's Equity)

Not applicable

(Changes in Accounting Policy)

The Company has adopted the "Implementation Guidance on Accounting Standard for Fair Value Measurement " (ASBJ Guidance No. 31, June 17, 2021. Hereinafter referred to as the "Implementation Guidance") from the beginning of the first quarter consolidated accounting period. In accordance with the transitional treatment prescribed in Paragraph 27-2 of the Implementation Guidance, the Company will apply the new accounting policies described by the Implementation Guidance in the future. There is no impact on the quarterly consolidated financial statements.

(Additional Information)

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

In June 2017, the Company received 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 and the Company paid an additional tax of approximately 8.5 billion yen 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 yen 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.

(Other Notes)**(Consolidated Balance Sheet)****1. 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 (hereinafter referred to as "Paiton"), its insurance companies and their reinsurer companies (hereinafter referred to as 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 charges.

In January 2018, a fire incident allegedly occurred in a transformer (hereinafter referred to as the "Transformer") installed in a thermal power plant (hereinafter referred to as the "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. Income taxes for prior periods**

As the Company received a notice of reassessment based on transfer pricing taxation regarding transactions between the Company and its Polish subsidiary in June 2017, the Company recorded the estimated tax for each consolidated fiscal year from the fiscal year ended March 2016. However, as a result of the completion of tax audits for the fiscal year ended March 2016 and thereafter, we reversed the estimated amount that had been recorded.

(Segment Information)

(1) Three months ended June 30, 2022 (from April 1, 2022 to June 30, 2022)

(Millions of yen)

	Business Segment				Adjustment	Consolidated
	Environment	Digital Society	Energy & Industry	Total		
Net sales						
Sales to customers	73,293	43,310	14,396	131,000	—	131,000
Intersegment sales	0	2	607	610	(610)	—
Total	73,293	43,312	15,004	131,611	(610)	131,000
Operating income	14,173	7,157	(710)	20,621	14	20,635

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

(2) Three months ended June 30, 2021 (from April 1, 2021 to June 30, 2021)

(Millions of yen)

	Business Segment				Adjustment	Consolidated
	Environment	Digital Society	Energy & Industry	Total		
Net sales						
Sales to customers	77,729	35,063	15,986	128,779	—	128,779
Intersegment sales	—	0	535	535	(535)	—
Total	77,729	35,064	16,521	129,315	(535)	128,779
Operating income	19,160	4,813	(339)	23,634	2	23,637

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

(3) 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

(Revenue Recognition)

Disaggregated revenue recognized from contracts with customers

Three months ended June 30, 2022 (from April 1, 2022 to June 30, 2022)

(Millions of yen)

	Business Segment			Total
	Environment	Digital Society	Energy & Industry	
Major geographical regions				
Japan	6,351	13,292	10,271	29,916
North America	17,070	15,568	1,878	34,517
Europe	29,621	1,032	54	30,709
Asia	19,378	13,402	1,430	34,210
Others	871	13	761	1,647
Total	73,293	43,310	14,396	131,000
Major product lines				
Automotive ceramics for exhaust gas purification	58,311	—	—	58,311
Sensors	14,982	—	—	14,982
SPE related (Component for semiconductor production equipment)	—	28,613	—	28,613
Electronics components	—	8,382	—	8,382
Metal related	—	6,313	—	6,313
Energy storage	—	—	331	331
Insulators	—	—	8,794	8,794
Industrial processes	—	—	5,270	5,270
Total	73,293	43,310	14,396	131,000
Timing of revenue recognition				
Goods and services transferred at a point in time	73,293	43,310	11,912	128,516
Goods and services transferred over time	—	—	2,484	2,484
Total	73,293	43,310	14,396	131,000

Three months ended June 30, 2021 (from April 1, 2021 to June 30, 2021)

(Millions of yen)

	Business Segment			Total
	Environment	Digital Society	Energy & Industry	
Major geographical regions				
Japan	7,426	11,230	11,312	29,969
North America	13,453	12,781	1,329	27,564
Europe	27,842	672	52	28,567
Asia	24,792	10,349	2,680	37,823
Others	4,213	30	610	4,855
Total	77,729	35,063	15,986	128,779
Major product lines				
Automotive ceramics for exhaust gas purification	61,132	—	—	61,132
Sensors	16,596	—	—	16,596
SPE related (Components for semiconductor production equipment)	—	22,599	—	22,599
Electronics components	—	6,702	—	6,702
Metal related	—	5,761	—	5,761
Energy storage	—	—	551	551
Insulators	—	—	10,325	10,325
Industrial processes	—	—	5,109	5,109
Total	77,729	35,063	15,986	128,779
Timing of revenue recognition				
Goods and services transferred at a point in time	77,729	35,063	13,739	126,532
Goods and services transferred over time	—	—	2,246	2,246
Total	77,729	35,063	15,986	128,779