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

October 28, 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: November 7, 2022

Scheduled date of commencing of dividend payments: December 2, 2022

Availability of supplementary explanatory materials prepared for financial results: Yes

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 Six Months Ended September 30, 2022 (from April 1, 2022 to September 30, 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	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal Year ended								
September 30, 2022	274,688	9.8	38,808	(15.5)	34,533	(21.3)	26,510	(17.0)
September 30, 2021	250,159	28.3	45,925	296.8	43,905	259.3	31,950	339.7

(Note) Comprehensive income: Six months ended September 30, 2022 ¥60,275 million 71.9 %
: Six months ended September 30, 2021 ¥35,059 million 183.7 %

	Net income per share	Diluted net income per share
Fiscal Year ended	Yen	Yen
September 30, 2022	85.06	84.91
September 30, 2021	101.86	101.69

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
September 30, 2022	1,015,325	639,918	62.3
March 31, 2022	982,833	589,594	59.3

(Reference) Equity: As of September 30, 2022 ¥ 633,029 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	—	33.00			
Fiscal Year ending March 31, 2023 (forecast)			—	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
Fiscal Year ending March 31, 2023	580,000	13.6	78,000	(6.6)	74,000	(14.2)	61,000	(13.9)	196.62

(Note) Revision of forecasts of consolidated financial results during this period: Yes

Notes

(1) Changes in significant subsidiaries during the six months ended September 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 8 of the Appendix.

(4) Number of shares outstanding (Common Shares)

(i) Number of shares outstanding at period end including treasury stocks	September 30, 2022	317,329,996 shares	March 31, 2022	317,211,996 shares
(ii) Number of treasury stocks at period end	September 30, 2022	5,558,646 shares	March 31, 2022	5,570,919 shares
(iii) Average number of shares outstanding over period	September 30, 2022	311,681,786 shares	September 30, 2021	313,674,975 shares

*** This document 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 Forward-looking Statements including Forecasts for Consolidated Financial Statements" on page 3 of the Appendix.

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1. Qualitative Information on Quarterly Financial Statements

(1) Explanation of Business Results

During the six months of the fiscal year, although the Japanese economy was affected by the spread of Covid-19 and the worldwide price hike, there were signs of a gradual pick-up amid normalization of economic and social activities. Overseas, despite the pause in economic recovery mainly in China, the economy gradually recovered due to the resumption of economic activities in each country. However, the outlook still remains uncertain due to the prolonged situation in Ukraine and sign of a slowdown for semiconductor demand, as well as heightened concerns over an economic slowdown accompanying global monetary tightening.

Under these circumstances, shipments of automotive-related products decreased in the Environment Business mainly due to restrained economic activities and a decrease in the number of trucks sold in China. In the Digital Society Business, shipments of components for semiconductor manufacturing equipment increased due to robust capital investment in semiconductor industry, and shipments of electronics components increased. In the Energy & Industry Business, sales of industrial heating systems increased.

As a result, net sales in the six months increased 9.8% year-on-year to ¥274,688 million. This was due to the positive effect of the depreciation of the yen and an increase in sales of components for semiconductor manufacturing equipment, while the shipments of automotive-related products decreased. Despite the positive effect of the depreciation of the yen, operating income decreased 15.5% year on year to ¥38,808 million due to the impact of rising labor costs and soaring raw material and fuel prices in addition to the decline in the shipments of automotive-related products. Ordinary income decreased 21.3% year on year to ¥34,533 million, due to the decrease of operating income and the impact of a loss on liquidation of subsidiary. Quarterly net income attributable to owners of the parent decreased 17.0% year on year to ¥26,510 million, mainly due to the decrease of ordinary income despite the reversal of the estimated amount that had been recorded as a result of the completion of tax audits for the fiscal year ended March 2016 and thereafter.

By segment, net sales increased 3.8% year on year in the Environment Business to ¥153,106 million, and operating income decreased 28.7% year on year to ¥26,214 million. In the Digital Society Business, net sales increased 23.2% year on year to ¥88,166 million. Operating income increased 36.6% year on year to ¥13,671 million. In the Energy & Industry Business, net sales increased 7.4% year on year to ¥34,595 billion and operating loss was ¥1,089 million (operating loss of ¥864 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 September 30, 2022, total assets were ¥1,015,325 million, an increase of ¥32,491 million from the previous fiscal year-end. This was mainly due to foreign currency translation caused by the depreciation of the yen for overseas subsidiaries and increase in inventories despite decreases in notes and accounts receivable trade, and contract assets.

Total liabilities decreased by ¥17,832 million from the previous fiscal year-end to ¥375,406 million. This was mainly due to decreases in current portion of long-term borrowings and income taxes payable despite an increase in short-term borrowings.

Total net assets stood at ¥639,918 million, or ¥50,324 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

Regarding the full-year forecasts for financial statements, the previous forecast of net sales has not been changed. Although the yen is expected to depreciate more significantly than the initial assumptions (¥120 to the U.S. dollar and ¥130 to the euro), demand for each of the products in the Environment Business and the Digital Society Business is to decrease due to the impact of the worsening situation in Ukraine, the slowdown in the global economy, and new China export regulations for advanced semiconductors by the U.S. Incomes are assumed to be lower than the previous forecast due to an increase in raw material and fuel costs in addition to a decrease of shipments, despite the positive effect of foreign exchange rates.

The assumed exchange rates for the second half of the fiscal year are ¥140 to the U.S. dollar and ¥135 to the euro.

(Average exchange rates for the year: ¥137 to the U.S. dollar and ¥137 to the euro)

Consolidated financial results forecasts for the fiscal year ending March 31, 2023 (April 1, 2022 to March 31, 2023)

(Millions of yen)	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Profit per share
Previous forecast (A)	580,000	90,000	88,000	65,000	(yen) 208.57
Revised forecast (B)	580,000	78,000	74,000	61,000	196.62
Change (B-A)	—	(12,000)	(14,000)	(4,000)	—
Change (%)	—	(13.3)	(15.9)	(6.2)	—
For Reference: Results from the previous year (Fiscal year ended March 31, 2022)	510,439	83,527	86,248	70,851	226.56

Financial results forecasts are based on information available at the time of the release, but are subject to many uncertainties. Actual results therefore may vary from forecasts due to changes in business conditions and other factors.

2. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	September 30, 2022	March 31, 2022
Assets		
Current assets		
Cash and deposits	144,666	139,198
Notes and accounts receivable-trade, and contract assets	123,828	131,785
Securities	43,987	46,443
Inventories	220,313	188,336
Other	18,354	21,783
Allowance for doubtful accounts	(150)	(152)
Total current assets	550,999	527,394
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	129,319	122,617
Machinery and vehicles, net	180,257	180,269
Other, net	73,822	72,425
Total property, plant and equipment	383,399	375,312
Intangible assets	6,337	6,196
Investments and other assets		
Investment securities	58,901	59,052
Other	16,011	15,225
Allowance for doubtful accounts	(323)	(347)
Total investments and other assets	74,589	73,930
Total non-current assets	464,325	455,438
Total assets	1,015,325	982,833

(Millions of yen)

	September 30, 2022	March 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable-trade	43,785	44,328
Short-term borrowings	10,252	6,198
Current portion of long-term borrowings	21,481	32,263
Income taxes payable	9,664	19,830
Provision for NAS battery safety measures	887	972
Other	50,059	48,196
Total current liabilities	136,130	151,790
Non-current liabilities		
Bonds payable	35,000	35,000
Long-term borrowings	173,952	178,888
Retirement benefit liability	22,198	21,420
Other	8,124	6,138
Total non-current liabilities	239,275	241,448
Total liabilities	375,406	393,238
Net assets		
Shareholders' equity		
Share capital	69,955	69,849
Capital surplus	70,305	70,199
Retained earnings	432,503	416,205
Treasury shares	(10,920)	(10,944)
Total shareholders' equity	561,843	545,308
Accumulated other comprehensive income		
Valuation difference on available -for-sale securities	16,845	17,060
Deferred losses on hedges	(618)	(199)
Foreign currency translation adjustment	55,285	21,620
Remeasurements of defined benefit plans	(326)	(642)
Total accumulated other comprehensive income	71,186	37,838
Share acquisition rights	918	941
Non-controlling interests	5,970	5,505
Total net assets	639,918	589,594
Total liabilities and net assets	1,015,325	982,833

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

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2021
Net sales	274,688	250,159
Cost of sales	193,231	166,340
Gross profit	81,456	83,819
Selling, general and administrative expenses	42,648	37,893
Operating income	38,808	45,925
Non-operating income		
Interest income	292	204
Dividend income	705	515
Foreign exchange gains	617	—
Insurance claim income	35	666
Other	401	678
Total non-operating income	2,052	2,065
Non-operating expenses		
Interest expense	1,886	1,771
Share of loss of associates accounted for using equity method	200	443
Foreign exchange losses	—	943
Loss on valuation of derivatives	1,826	326
Loss on liquidation of subsidiaries	1,534	98
Other	879	502
Total non-operating expense	6,327	4,086
Ordinary income	34,533	43,905
Extraordinary income		
Gain on sales of non-current assets	75	37
Gain on sales of investment securities	759	951
Subsidies income	234	450
Total extraordinary income	1,069	1,439
Extraordinary losses		
Loss on disposals of non-current assets	180	204
Impairment loss	834	15
Total extraordinary losses	1,015	220
Income before income taxes	34,587	45,125
Income taxes-current	10,587	13,673
Income taxes for prior periods	*1 (4,100)	—
Income taxes-deferred	1,564	(690)
Total income taxes	8,052	12,982
Net income	26,535	32,142
Net income attributable to non-controlling interests	25	192
Net income attributable to owners of the parent	26,510	31,950

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2021
Net income	26,535	32,142
Other comprehensive income		
Valuation difference on available-for-sale securities	(214)	(1,079)
Deferred loss on hedges	(428)	(283)
Foreign currency translation adjustment	33,574	3,461
Remeasurements of defined benefit plans, net of tax	279	566
Share of other comprehensive income of entities accounted for using equity method	528	252
Total other comprehensive income	33,739	2,917
Comprehensive income	60,275	35,059
Comprehensive income attributable to:		
Owners of the parent	59,857	34,855
Non-controlling interests	417	204

(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 took the position that the entire amount should be rescinded, the Company filed an action with the Tokyo District Court for the revocation of correction in December 2019.

Subsequently, in October 2022, the Company received a notice of correction (the "Revision of the Correction") from the Nagoya Regional Taxation bureau stating that the amount of the correction would be reduced. As a result, the amount of approximately 7.7 billion yen in corporate, local and other taxes already paid will be refunded. The total amount of the refund and the interest on such refund will be recorded as a positive factor for net income in fiscal year ending March 31, 2023. In addition, the Company plans to withdraw the revocation of correction, comprehensively considering that the significant amount of the back taxes paid will be refunded due to the Revision of the Correction.

(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 changes.

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**

In June 2017, as the Company received a notice of reassessment based on transfer pricing taxation regarding transactions between the Company and its Polish subsidiary, 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, the Company reversed the estimated amount that had been recorded.

(Segment Information)

(1) Six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)

(Millions of yen)

	Business Segment				Adjustment	Consolidated
	Environment	Digital Society	Energy & Industry	Total		
Net sales						
Sales to customers	153,103	88,156	33,427	274,688	—	274,688
Intersegment sales	2	10	1,167	1,179	(1,179)	—
Total	153,106	88,166	34,595	275,868	(1,179)	274,688
Operating income	26,214	13,671	(1,089)	38,795	12	38,808

(Note) The adjustment of ¥12 million to operating income comprises of intersegment transactions.

(2) Six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021)

(Millions of yen)

	Business Segment				Adjustment	Consolidated
	Environment	Digital Society	Energy & Industry	Total		
Net sales						
Sales to customers	147,558	71,539	31,060	250,159	—	250,159
Intersegment sales	5	0	1,141	1,146	(1,146)	—
Total	147,564	71,540	32,201	251,306	(1,146)	250,159
Operating income	36,777	10,008	(864)	45,921	3	45,925

(Note) The adjustment of ¥ 3 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

Six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)

(Millions of yen)

	Business Segment			Total
	Environment	Digital Society	Energy & Industry	
Major geographical regions				
Japan	13,735	26,567	23,433	63,737
North America	32,696	32,780	4,104	69,581
Europe	59,178	1,957	107	61,242
Asia	45,436	26,825	4,028	76,289
Others	2,057	25	1,753	3,836
Total	153,103	88,156	33,427	274,688
Major product lines				
Automotive ceramics for exhaust gas purification	125,347	—	—	125,347
Sensors	27,755	—	—	27,755
SPE related (Components for semiconductor manufacturing equipment)	—	59,024	—	59,024
Electronics components	—	16,384	—	16,384
Metal related	—	12,747	—	12,747
Energy storage	—	—	1,073	1,073
Insulators	—	—	20,010	20,010
Industrial processes	—	—	12,343	12,343
Total	153,103	88,156	33,427	274,688
Timing of revenue recognition				
Goods and services transferred at a point in time	153,103	88,156	27,361	268,622
Goods and services transferred over time	—	—	6,066	6,066
Total	153,103	88,156	33,427	274,688

Six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021)

(Millions of yen)

	Business Segment			Total
	Environment	Digital Society	Energy & Industry	
Major geographical regions				
Japan	14,209	22,967	22,561	59,738
North America	26,169	24,923	2,464	53,557
Europe	52,823	1,304	246	54,374
Asia	48,937	22,308	4,397	75,643
Others	5,419	35	1,391	6,845
Total	147,558	71,539	31,060	250,159
Major product lines				
Automotive ceramics for exhaust gas purification	115,487	—	—	115,487
Sensors	32,071	—	—	32,071
SPE related (Components for semiconductor manufacturing equipment)	—	45,838	—	45,838
Electronics components	—	14,002	—	14,002
Metal related	—	11,699	—	11,699
Energy storage	—	—	803	803
Insulators	—	—	19,113	19,113
Industrial processes	—	—	11,143	11,143
Total	147,558	71,539	31,060	250,159
Timing of revenue recognition				
Goods and services transferred at a point in time	147,558	71,539	26,417	245,516
Goods and services transferred over time	—	—	4,643	4,643
Total	147,558	71,539	31,060	250,159

(Significant Subsequent Event)

(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. In October 2022, the Company received a notice of correction from the Nagoya Regional Taxation bureau stating that the amount of the correction would be reduced. For details, please refer to “2. Consolidated Financial Statements and Notes (3) Notes to Consolidated Financial Statements (Additional Information).

(Regarding acquisition of own shares and cancellation of treasury shares)

The Company hereby announces that, at the meeting of the Board of Directors held on October 28, 2022, it has resolved the acquisition of own shares pursuant to the provisions of Article 156 of the Companies Act, applied by replacing terms pursuant to the provisions of Article 165, paragraph 3 of said Act, and has resolved the cancellation of treasury shares pursuant to the provisions of Article 178 of the Companies Act, as described below.

1. Reasons for the acquisition of own shares and cancellation of treasury shares

To improve capital efficiency and achieve the Company's capital policy in response to the changing managerial environment.

2. Details of matters pertaining to the acquisition of own shares

- | | |
|---|--|
| (1) Types of shares to be acquired | Shares of common stock |
| | Up to 5.5 million shares |
| (2) Total number of shares to be acquired | (1.8% of the total number of outstanding shares excluding treasury shares) |
| (3) Total value of shares to be acquired | Up to 10 billion yen |
| (4) Acquisition period | From October 31, 2022 to February 28, 2023 |
| (5) Acquisition method | Market purchases |
| (6) Plan for the acquired shares | All the acquired shares to be cancelled |

3. Details of matters pertaining to the cancellation of treasury shares

- | | |
|--|---|
| (1) Types of shares to be cancelled | Shares of common stock |
| (2) Total number of shares to be cancelled | All of the shares acquired as stated in 2 hereinabove |
| (3) Schedule date of cancellation | March 31, 2023 (planned) |