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Summary of Consolidated Financial Results for the Nine Months Ended December 31, 2022 [Japanese GAAP]

January 31, 2023

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: February 6, 2023

Scheduled date of commencing of dividend payments: —

Availability of supplementary explanatory materials prepared for financial results: None

Briefing session on financial results to be held: None

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

1. Consolidated Financial Results for the Nine Months Ended December 31, 2022 (from April 1, 2022 to December 31, 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	%
December 31, 2022	415,081	11.6	57,589	(10.8)	56,227	(11.3)	51,636	11.4
December 31, 2021	371,882	16.6	64,543	93.0	63,416	76.2	46,359	77.4

(Note) Comprehensive income: Nine months ended December 31, 2022 ¥69,260 million 24.9 %
: Nine months ended December 31, 2021 ¥55,431 million 55.9 %

Fiscal Year ended	Net income per share	Diluted net income per share
	Yen	Yen
December 31, 2022	165.90	165.62
December 31, 2021	148.09	147.83

(2) Consolidated Financial Position

As of	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
December 31, 2022	1,013,502	633,221	61.8
March 31, 2022	982,833	589,594	59.3

(Reference) Equity: As of December 31, 2022 ¥ 626,397 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: None

Notes

(1) Changes in significant subsidiaries during the nine months ended December 31, 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	December 31, 2022	317,329,996 shares	March 31, 2022	317,211,996 shares
(ii) Number of treasury stocks at period end	December 31, 2022	8,606,401 shares	March 31, 2022	5,570,919 shares
(iii) Average number of shares outstanding over period	December 31, 2022	311,250,672 shares	December 31, 2021	313,055,656 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 nine months of the fiscal year, although the Japanese economy was affected by the worldwide price hike, under the coexist with COVID-19 there were signs of a gradual pick-up amid normalization of economic and social activities. Overseas, the economy gradually recovered due to the resumption of economic activities in each country, although the economy in China and Europe remained stagnant due to the spread of COVID-19 and the prolonged situation in Ukraine. However, the economic slowdown accompanying the global monetary tightening has recently become apparent, the outlook still remains uncertain due to restraints on capital investment against the backdrop of deteriorating business confidence and the effects of a decline in demand.

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 investments in semiconductor industry, whereas shipments of electronics components decreased. In the Energy & Industry Business, sales of insulators and industrial heating systems increased.

As a result, net sales in the nine months increased 11.6% year-on-year to ¥415,081 million. While the shipments of automotive-related products decreased, the positive effect of the yen depreciation and shipments of components for semiconductor manufacturing equipment contributed to increase net sales. Despite the positive effect of the depreciation of the yen, operating income decreased 10.8% year on year to ¥57,589 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 11.3% year on year to ¥56,227 million, due to the decrease of operating income and the impact of a loss on liquidation of subsidiary. Net income attributable to owners of the parent increased 11.4% year on year to ¥51,636 million, mainly due to 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 in addition to the income taxes-refund (please refer to “2. Consolidated Financial Statements and Notes, (3) Notes to Consolidated Financial Statements, (Other Notes), (Consolidated Statement of Income)” on page 9 of the Appendix.).

By segment, net sales increased 8.6% year on year in the Environment Business to ¥231,978 million, and operating income decreased 19.8% year on year to ¥40,089 million. In the Digital Society Business, net sales increased 17.7% year on year to ¥130,222 million. Operating income increased 21.8% year on year to ¥18,695 million. In the Energy & Industry Business, net sales increased 10.6% year on year to ¥54,719 billion and operating loss was ¥1,208 million (operating loss of ¥828 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 December 31, 2022, total assets were ¥1,013,502 million, an increase of ¥30,669 million from the previous fiscal year-end. This was mainly due to increases in inventories and cash and deposits in addition to foreign currency translation caused by the depreciation of the yen for overseas subsidiaries despite decreases in notes and accounts receivable trade, and contract assets.

Total liabilities decreased by ¥12,958 million from the previous fiscal year-end to ¥380,280 million. This was mainly due to decreases in income taxes payable and current portion of long-term borrowings despite increases in short-term borrowings and bonds payable.

Total net assets stood at ¥633,221 million, or ¥43,627 million higher than the previous fiscal year-end, due to increases in retained earnings and foreign currency translation adjustment.

(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 October 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)

	December 31, 2022	March 31, 2022
Assets		
Current assets		
Cash and deposits	156,686	139,198
Notes and accounts receivable-trade, and contract assets	109,256	131,785
Securities	51,775	46,443
Inventories	223,136	188,336
Other	21,589	21,783
Allowance for doubtful accounts	(144)	(152)
Total current assets	562,299	527,394
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	125,319	122,617
Machinery and vehicles, net	174,743	180,269
Other, net	71,971	72,425
Total property, plant and equipment	372,033	375,312
Intangible assets	6,436	6,196
Investments and other assets		
Investment securities	57,533	59,052
Other	15,506	15,225
Allowance for doubtful accounts	(308)	(347)
Total investments and other assets	72,731	73,930
Total non-current assets	451,202	455,438
Total assets	1,013,502	982,833

(Millions of yen)

	December 31, 2022	March 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable-trade	43,077	44,328
Short-term borrowings	11,723	6,198
Current portion of long-term borrowings	20,424	32,263
Income taxes payable	4,651	19,830
Provision for NAS battery safety measures	819	972
Other	46,080	48,196
Total current liabilities	126,777	151,790
Non-current liabilities		
Bonds payable	40,000	35,000
Long-term borrowings	183,448	178,888
Retirement benefit liability	22,074	21,420
Other	7,980	6,138
Total non-current liabilities	253,503	241,448
Total liabilities	380,280	393,238
Net assets		
Shareholders' equity		
Share capital	69,955	69,849
Capital surplus	70,306	70,199
Retained earnings	447,341	416,205
Treasury shares	(16,287)	(10,944)
Total shareholders' equity	571,315	545,308
Accumulated other comprehensive income		
Valuation difference on available -for-sale securities	17,434	17,060
Deferred gains or losses on hedges	5	(199)
Foreign currency translation adjustment	37,876	21,620
Remeasurements of defined benefit plans	(233)	(642)
Total accumulated other comprehensive income	55,082	37,838
Share acquisition rights	891	941
Non-controlling interests	5,932	5,505
Total net assets	633,221	589,594
Total liabilities and net assets	1,013,502	982,833

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

	(Millions of yen)	
	Nine months ended December 31, 2022	Nine months ended December 31, 2021
Net sales	415,081	371,882
Cost of sales	293,669	249,986
Gross profit	121,411	121,896
Selling, general and administrative expenses	63,822	57,352
Operating income	57,589	64,543
Non-operating income		
Interest income	507	314
Dividend income	1,319	1,025
Foreign exchange gains	—	130
Income on valuation of derivatives	1,614	—
Insurance claim income	177	698
Other	1,154	831
Total non-operating income	4,773	3,000
Non-operating expenses		
Interest expense	2,885	2,694
Share of loss of associates accounted for using equity method	100	295
Foreign exchange losses	971	—
Loss on valuation of derivatives	—	348
Loss on liquidation of subsidiaries	907	148
Other	1,270	641
Total non-operating expense	6,135	4,127
Ordinary income	56,227	63,416
Extraordinary income		
Gain on sales of non-current assets	114	41
Gain on sales of investment securities	1,048	1,119
Subsidies income	332	932
Total extraordinary income	1,495	2,093
Extraordinary losses		
Loss on disposals of non-current assets	293	248
Impairment loss	834	15
Total extraordinary losses	1,128	263
Income before income taxes	56,594	65,246
Income taxes-current	14,647	19,178
Income taxes-refund	*1 (7,654)	—
Income taxes for prior periods	*2 (4,100)	—
Income taxes-deferred	1,931	(432)
Total income taxes	4,824	18,746
Net income	51,770	46,500
Net income attributable to non-controlling interests	134	141
Net income attributable to owners of the parent	51,636	46,359

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended December 31, 2022	Nine months ended December 31, 2021
Net income	51,770	46,500
Other comprehensive income		
Valuation difference on available-for-sale securities	375	(1,686)
Deferred gains or losses on hedges	186	(146)
Foreign currency translation adjustment	15,738	9,683
Remeasurements of defined benefit plans, net of tax	333	810
Share of other comprehensive income of entities accounted for using equity method	855	269
Total other comprehensive income	17,489	8,930
Comprehensive income	69,260	55,431
Comprehensive income attributable to:		
Owners of the parent	68,880	55,228
Non-controlling interests	379	202

(3) Notes to Consolidated Financial Statements

(Note on the Assumption as a Going Concern)

Not applicable

(Significant Changes in Stockholder's Equity)

The Company acquired 3,061,500 shares of its own shares based on the resolution at the meeting of the Board of Directors held on October 28, 2022. As a result, during the nine months ended December 31, 2022, treasury shares increased by ¥5,342 million, and as of December 31, 2022, treasury shares stood at ¥16,287 million.

(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 the 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, during the nine months ended December 31, 2022, the Company recorded the refund of approximately 7.7 billion yen as income taxes-refund and interest on such refund as non-operating income. In addition, the Company withdrew 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-refund**

In December 2019, the Company filed an appeal with the Tokyo District Court contesting a transfer pricing correction (the “Correction”) made in June 2017 by the Nagoya Regional Taxation Bureau in relation to transactions the Company conducted with its Polish subsidiary from the fiscal year ended March 31, 2011 to 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. Accordingly income taxes-refund relating corporate, local and other taxes already paid in the past was recorded.

***2. 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) Nine months ended December 31, 2022 (from April 1, 2022 to December 31, 2022)

(Millions of yen)

	Business Segment				Adjustment	Consolidated
	Environment	Digital Society	Energy & Industry	Total		
Net sales						
Sales to customers	231,975	130,204	52,901	415,081	—	415,081
Intersegment sales	2	18	1,818	1,839	(1,839)	—
Total	231,978	130,222	54,719	416,920	(1,839)	415,081
Operating income	40,089	18,695	(1,208)	57,577	12	57,589

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

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

(Millions of yen)

	Business Segment				Adjustment	Consolidated
	Environment	Digital Society	Energy & Industry	Total		
Net sales						
Sales to customers	213,639	110,644	47,598	371,882	—	371,882
Intersegment sales	5	2	1,870	1,879	(1,879)	—
Total	213,644	110,647	49,469	373,761	(1,879)	371,882
Operating income	50,014	15,355	(828)	64,541	2	64,543

(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

Nine months ended December 31, 2022 (from April 1, 2022 to December 31, 2022)

(Millions of yen)

	Business Segment			Total
	Environment	Digital Society	Energy & Industry	
Major geographical regions				
Japan	21,696	38,809	36,168	96,674
North America	48,386	49,223	6,659	104,269
Europe	87,250	2,908	352	90,510
Asia	71,203	39,196	6,509	116,909
Others	3,438	66	3,212	6,717
Total	231,975	130,204	52,901	415,081
Major product lines				
Automotive ceramics for exhaust gas purification	190,225	—	—	190,225
Sensors	41,749	—	—	41,749
SPE related (Components for semiconductor manufacturing equipment)	—	86,814	—	86,814
Electronics components	—	22,981	—	22,981
Metal related	—	20,408	—	20,408
Energy storage	—	—	1,865	1,865
Insulators	—	—	31,858	31,858
Industrial processes	—	—	19,177	19,177
Total	231,975	130,204	52,901	415,081
Timing of revenue recognition				
Goods and services transferred at a point in time	231,975	130,204	43,797	405,977
Goods and services transferred over time	—	—	9,103	9,103
Total	231,975	130,204	52,901	415,081

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

(Millions of yen)

	Business Segment			Total
	Environment	Digital Society	Energy & Industry	
Major geographical regions				
Japan	20,935	34,870	34,840	90,646
North America	37,008	39,244	3,740	79,993
Europe	74,620	2,108	466	77,195
Asia	75,677	34,378	6,567	116,623
Others	5,397	43	1,983	7,424
Total	213,639	110,644	47,598	371,882
Major product lines				
Automotive ceramics for exhaust gas purification	166,537	—	—	166,537
Sensors	47,101	—	—	47,101
SPE related (Components for semiconductor manufacturing equipment)	—	70,851	—	70,851
Electronics components	—	21,814	—	21,814
Metal related	—	17,979	—	17,979
Energy storage	—	—	1,150	1,150
Insulators	—	—	29,214	29,214
Industrial processes	—	—	17,233	17,233
Total	213,639	110,644	47,598	371,882
Timing of revenue recognition				
Goods and services transferred at a point in time	213,639	110,644	40,295	364,580
Goods and services transferred over time	—	—	7,302	7,302
Total	213,639	110,644	47,598	371,882