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Summary of Consolidated Financial Results for the Six Months Ended September 30, 2023 [Japanese GAAP]

October 27, 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: November 6, 2023

Scheduled date of commencing of dividend payments: December 4, 2023

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, 2023 (from April 1, 2023, to September 30, 2023)

(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	%
September 30, 2023	282,884	3.0	32,485	(16.3)	28,940	(16.2)	18,181	(31.4)
September 30, 2022	274,688	9.8	38,808	(15.5)	34,533	(21.3)	26,510	(17.0)

(Note) Comprehensive income: Six months ended September 30, 2023 ¥54,576 million (9.5) %
: Six months ended September 30, 2022 ¥60,275 million 71.9 %

Fiscal Year ended	Net income per share	Diluted net income per share
September 30, 2023	Yen 59.35	Yen 59.25
September 30, 2022	85.06	84.91

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
September 30, 2023	1,082,986	687,105	62.8
March 31, 2023	1,029,168	642,446	61.7

(Reference) Equity: As of September 30, 2023 ¥679,616 million
: As of March 31, 2023 ¥635,447 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, 2023	—	33.00	—	33.00	66.00
Fiscal Year ending March 31, 2024	—	25.00			
Fiscal Year ending March 31, 2024 (forecast)			—	25.00	50.00

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

3. Forecasts of Consolidated Financial Results for the Fiscal Year Ending March 31, 2024

% 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, 2024	575,000	2.8	62,000	(7.1)	58,000	(12.0)	39,000	(29.2)	128.26

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

Notes

(1) Changes in significant subsidiaries during six months ended September 30, 2023: 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 : None
- (ii) Changes in accounting policies other than the above (i) : None
- (iii) Changes in accounting estimates : None
- (iv) Retrospective restatement : None

(4) Number of shares outstanding (Common Shares)

(i) Number of shares outstanding at period end including treasury shares	September 30, 2023	311,956,996 shares	March 31, 2023	311,829,996 shares
(ii) Number of treasury shares at period end	September 30, 2023	5,538,241 shares	March 31, 2023	5,539,120 shares
(iii) Average number of shares outstanding over period	September 30, 2023	306,327,515 shares	September 30, 2022	311,681,786 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 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

In the six months ended September 30, 2023, the Japanese economy made a moderate recovery due to improvements in the employment and income environments in addition to progress in the normalization of economic and social activities as COVID-19 was reclassified as a Class 5 disease. Overseas, the economy recovered moderately due to a pickup in consumption mainly in the U.S. although the economic recovery in China was slowing down as the real estate market stagnated. However, the outlook remains uncertain mainly due to an economic slowdown resulting from prolonged monetary tightening across the world and the trend of the Chinese economy.

Under these circumstances, the Environment Business of the Group increased shipments of automotive-related products mainly for the Chinese market largely due to a recovery in the automotive production volume against the background of an easing of component shortages including semiconductors, and stricter exhaust gas emission regulations. In the Digital Society Business, shipments of components for semiconductor manufacturing equipment and electronic components, declined primarily due to reduced investments in semiconductors and data centers. In the Energy & Industry Business, shipments of insulators in U.S. increased.

As a result, net sales in the six months ended September 30, 2023, increased 3.0% year-on-year to ¥282,884 million, due to the positive effect of the depreciation of the yen and an increase in sales of the automotive-related products, despite a decrease shipment of components for semiconductor manufacturing equipment. With regard to profits, operating income decreased 16.3% year on year to ¥32,485 million due to a decrease shipment of components for semiconductor manufacturing equipment and the impact of rising labor costs and others despite increase shipments of the automotive-related products. Ordinary income decreased 16.2% year on year to ¥28,940 million. Quarterly net income attributable to owners of the parent decreased 31.4% year on year to ¥18,181 million due to a decline in ordinary income and recorded the income taxes for prior periods in the same period of the previous fiscal year.

By segment, net sales increased 17.5% year on year in the Environment Business to ¥179,849 million, and operating income increased 23.0% year on year to ¥32,246 million. In the Digital Society Business, net sales decreased 25.0% year on year to ¥66,083 million. Operating income decreased 94.6% year on year to ¥735 million. In the Energy & Industry Business, net sales increased 9.9% year on year to ¥38,014 million and operating loss was ¥506 million (operating loss of ¥1,089 million in the same period of the previous fiscal year).

(2) Explanation of Financial Position

As of September 30, 2023, total assets were ¥1,082,986 million, an increase of ¥53,818 million from the previous fiscal year-end. This was mainly due to increases in cash and deposits, inventories and tangible assets and others despite decreases in securities.

Total liabilities increased by ¥9,159 million from the previous fiscal year-end to ¥395,880 million. This was mainly due to increases in income taxes payable and deferred tax liabilities included in other non-current liabilities despite a decrease in long-term borrowings.

Total net assets stood at 687,105 million, or ¥44,659 million higher than the previous fiscal year-end, due to increases in foreign currency translation adjustment.

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

Regarding the full-year forecasts for financial statements, net sales and profits are both expected to exceed the previous forecast due to the following factors. Although demand for each of the products in the Digital Society Business is to decrease due to prolonged reduced investments in semiconductors and data centers, the yen is expected to depreciate more significantly than the initial assumptions (¥130 to the U.S. dollar and ¥140 to the euro) and demand in the Environment Business is expected to remain strong.

The assumed exchange rates for the second half of the fiscal year are ¥140 to the U.S. dollar and ¥150 to the euro.

(Average exchange rates for the year: ¥141 to the U.S. dollar and ¥152 to the euro)

Consolidated financial results forecasts for the fiscal year ending March 31, 2024 (April 1, 2023 to March 31, 2024)

(Millions of yen)	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Profit per share
Previous forecast (A)	565,000	56,000	53,000	38,500	(yen) 125.67
Revised forecast (B)	575,000	62,000	58,000	39,000	128.26
Change (B-A)	10,000	6,000	5,000	500	—
Change (%)	1.8	10.7	9.4	1.3	—
For Reference: Results from the previous year (Fiscal year ended March 31, 2023)	559,240	66,761	65,887	55,048	177.47

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, 2023	March 31, 2023
Assets		
Current assets		
Cash and deposits	189,101	168,447
Notes and accounts receivable-trade, and contract assets	127,237	120,118
Securities	41,216	46,260
Inventories	229,746	214,423
Other	21,323	24,632
Allowance for doubtful accounts	(159)	(162)
Total current assets	608,466	573,718
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	130,124	126,436
Machinery and vehicles, net	175,188	172,418
Other, net	73,353	67,592
Total property, plant and equipment	378,665	366,446
Intangible assets	6,622	6,414
Investments and other assets		
Investment securities	63,980	58,223
Other	25,558	24,668
Allowance for doubtful accounts	(307)	(303)
Total investments and other assets	89,231	82,588
Total non-current assets	474,519	455,449
Total assets	1,082,986	1,029,168

(Millions of yen)

	September 30, 2023	March 31, 2023
Liabilities		
Current liabilities		
Notes and accounts payable-trade	46,527	44,872
Short-term borrowings	11,300	11,143
Current portion of long-term borrowings	36,757	34,860
Income taxes payable	7,645	4,164
Other	58,959	54,466
Total current liabilities	161,190	149,507
Non-current liabilities		
Bonds payable	40,000	40,000
Long-term borrowings	160,192	167,353
Retirement benefit liability	20,922	20,283
Other	13,574	9,576
Total non-current liabilities	234,690	237,214
Total liabilities	395,880	386,721
Net assets		
Shareholders' equity		
Share capital	70,064	69,955
Capital surplus	70,390	70,305
Retained earnings	448,603	440,530
Treasury shares	(10,293)	(10,294)
Total shareholders' equity	578,765	570,496
Accumulated other comprehensive income		
Valuation difference on available -for-sale securities	21,476	17,101
Deferred gains or losses on hedges	19	(9)
Foreign currency translation adjustment	74,276	42,849
Remeasurements of defined benefit plans	5,078	5,009
Total accumulated other comprehensive income	100,851	64,951
Share acquisition rights	878	882
Non-controlling interests	6,611	6,116
Total net assets	687,105	642,446
Total liabilities and net assets	1,082,986	1,029,168

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

(Millions of yen)

	Six months ended September 30, 2023	Six months ended September 30, 2022
Net sales	282,884	274,688
Cost of sales	207,958	193,231
Gross profit	74,926	81,456
Selling, general and administrative expenses	42,440	42,648
Operating income	32,485	38,808
Non-operating income		
Interest income	667	292
Dividend income	693	705
Foreign exchange gains	—	617
Other	629	436
Total non-operating income	1,989	2,052
Non-operating expenses		
Interest expense	1,978	1,886
Share of loss of associates accounted for using equity method	358	200
Foreign exchange losses	1,264	—
Loss on valuation of derivatives	1,277	1,826
Loss on liquidation of subsidiaries	24	1,534
Other	630	879
Total non-operating expense	5,534	6,327
Ordinary income	28,940	34,533
Extraordinary income		
Gain on sales of non-current assets	63	75
Gain on sales of investment securities	196	759
Subsidies income	184	234
Total extraordinary income	443	1,069
Extraordinary losses		
Loss on disposals of non-current assets	214	180
Impairment loss	329	834
Loss on valuation of investment securities	956	—
Total extraordinary losses	1,501	1,015
Income before income taxes	27,883	34,587
Income taxes-current	8,976	10,587
Income taxes for prior periods	—	*1 (4,100)
Income taxes-deferred	790	1,564
Total income taxes	9,767	8,052
Net income	18,116	26,535
Net (loss)income attributable to non-controlling interests	(65)	25
Net income attributable to owners of the parent	18,181	26,510

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Six months ended September 30, 2023	Six months ended September 30, 2022
Net income	18,116	26,535
Other comprehensive income		
Valuation difference on available-for-sale securities	4,369	(214)
Deferred gain or loss on hedges	19	(428)
Foreign currency translation adjustment	31,701	33,574
Defined retirement benefit plans	(14)	279
Share of other comprehensive income of entities accounted for using equity method	383	528
Total other comprehensive income	36,460	33,739
Comprehensive income	54,576	60,275
Comprehensive income attributable to:		
Owners of the parent	54,081	59,857
Non-controlling interests	495	417

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

Not applicable

(Significant Changes in Stockholder's Equity)

Not applicable

(Other Notes)**(Consolidated Balance Sheet)****Contingent liabilities**

(Lawsuit filed against the Company)

On July 6, 2021, a lawsuit was filed against the Company in Nagoya District court and the Company received the complaint on October 29, 2021 that P.T.Paiton Energy ("Paiton"), its insurance companies and their reinsurer companies ("the plaintiffs") filed a claim against the Company for compensation for damages of US\$151,392,337.48 (¥16,828,772,234) and the amount of the relevant delay charges. Thereafter, the plaintiffs issued petition for amendment of claim on January 11, 2022, the amount of the claim increased by US\$41.36 (¥4,796) to US\$151,392,378.84 (¥16,828,777,030) and the relevant delay charges.

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

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

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

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

The number in yen terms for the damage compensation in the text is the amount stated in the complaint and is converted into yen at a different exchange rate from that used by the Company to prepare the consolidated financial statements.

(Consolidated Statement of Income)***1. Income taxes for prior periods**

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

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 had recorded the estimated tax for each consolidated fiscal year from the fiscal year ended March 2016 as income taxes payable. 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, 2023 (from April 1, 2023, to September 30, 2023)

(Millions of yen)

	Business Segment				Adjustment	Consolidated
	Environment	Digital Society	Energy & Industry	Total		
Net sales						
Sales to customers	179,845	66,063	36,975	282,884	—	282,884
Intersegment sales	4	20	1,038	1,063	(1,063)	—
Total	179,849	66,083	38,014	283,948	(1,063)	282,884
Operating income	32,246	735	(506)	32,475	9	32,485

(Note) The adjustment of 9 million to operating income comprises of intersegment transactions.

(2) 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.

(Revenue Recognition)

Disaggregated revenue recognized from contracts with customers

Six months ended September 30, 2023 (from April 1, 2023, to September 30, 2023)

(Millions of yen)

	Business Segment			Total
	Environment	Digital Society	Energy & Industry	
Major geographical regions				
Japan	14,619	22,283	25,456	62,359
North America	35,710	21,001	5,525	62,237
Europe	67,425	2,016	245	69,688
Asia	58,565	20,694	3,630	82,890
Others	3,524	66	2,116	5,708
Total	179,845	66,063	36,975	282,884
Major product lines				
Automotive ceramics for exhaust gas purification	146,967	—	—	146,967
Sensors	32,878	—	—	32,878
SPE related (Components for semiconductor production equipment)	—	41,753	—	41,753
Electronics components	—	11,695	—	11,695
Metal related	—	12,614	—	12,614
Energy storage	—	—	711	711
Insulators	—	—	22,805	22,805
Industrial processes	—	—	13,457	13,457
Total	179,845	66,063	36,975	282,884
Timing of revenue recognition				
Goods and services transferred at a point in time	179,845	66,063	31,988	277,897
Goods and services transferred over time	—	—	4,987	4,987
Total	179,845	66,063	36,975	282,884

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 production 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

