

## Summary of Consolidated Financial Results for the Six Months Ended September 30, 2017 [Japanese GAAP]

October 31, 2017

Company Name : NGK INSULATORS, LTD.  
 Stock Exchange Listings : Tokyo and Nagoya  
 Listing Code : 5333  
 URL : <http://www.ngk.co.jp/english/>  
 Representative : President Taku Oshima (Mr.)  
 Contact : General Manager Finance & Accounting Department Hideaki Shindo (Mr.)  
 (TEL) +81-52-872-7230

Date of the Filing of Securities Report "Shihanki Hokokusho" (Scheduled) : November 9, 2017  
 Date of Dividend Payment (Scheduled) : December 1, 2017  
 Availability of supplementary explanatory materials prepared for financial results : Available  
 Briefing session on financial results to be held : Yes (for securities analysts and institutional investors)

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

### 1. Consolidated Financial Results for the Six Months Ended September 30, 2017 (from April 1, 2017 to September 30, 2017)

#### (1) Consolidated Operating Results

(Percentage figures represent increase (decrease) from previous period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2017	219,754	13.1	35,874	4.7	34,212	5.7	19,792	(8.9)
Six months ended September 30, 2016	194,254	(7.8)	34,267	(17.1)	32,357	(19.6)	21,717	(21.0)

(Note) Comprehensive income : Six months ended September 30, 2017 38,151 million yen -%  
 : Six months ended September 30, 2016 (4,418) million yen -%

	Profit per share	Diluted profit per share
	Yen	Yen
Six months ended September 30, 2017	61.53	61.42
Six months ended September 30, 2016	67.08	66.97

#### (2) Consolidated Financial Position

	Total assets	Total net assets	Ratio of net worth to total assets
	Millions of yen	Millions of yen	%
September 30, 2017	816,511	459,400	54.8
March 31, 2017	759,434	427,593	54.9

(Reference) Net worth : As of September 30, 2017 447,814 million yen  
 : As of March 31, 2017 416,740 million yen

#### 2. Dividend Payment

	Cash dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Total (Full-year)
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2017	-	20.00	-	20.00	40.00
Year ending March 31, 2018	-	21.00			
Year ending March 31, 2018 (forecast)			-	23.00	44.00

(Note) Revision of cash dividend forecast during this period : Yes

### 3. Forecasts of Consolidated Financial Results for the Fiscal Year Ending March 31, 2018

(Percentage figures represent increase (decrease) from previous period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Year ending March 31, 2018	440,000	9.7	70,000	10.7	70,000	8.4	46,000	26.4	143.00

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

#### Notes

(1) Significant changes in subsidiaries during this period (changes in specified subsidiaries, "tokutei kogaisha" defined in the "Cabinet Office Ordinance on Disclosure of Corporate Information, etc.", involving a change of the scope of consolidation during this period) : None  
New — company ( ), Exclusion — company ( )

(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 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 stocks	September 30, 2017	327,560,196 shares	March 31, 2017	327,560,196 shares
ii. Number of treasury stocks at period end	September 30, 2017	5,871,593 shares	March 31, 2017	5,915,570 shares
iii. Average number of shares outstanding over period	September 30, 2017	321,667,967 shares	September 30, 2016	323,738,082 shares

\* **These quarterly financial statements are not subject to the quarterly review procedure.**

\* **Explanation of appropriate use of results forecasts and other notes**

This document contains forward-looking statements that are based on information and certain assumption NGK INSULATORS, LTD. ("NGK") has acquired and deemed reasonable as of the time of the release and NGK 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.

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## 1. Qualitative Information on Quarterly Financial Statements

### (1) Explanation of Business Results

During the six months ended September 30, 2017, the Japanese economy remained on a moderate recovery course, underpinned by improvements in the employment and income environment. Among overseas economies, developed economies, such as the U.S. and Europe, continued on a moderate recovery, and China and emerging countries were also robust with a sign of pick up.

The NGK Group saw sluggish performance in NAS® (sodium-sulfur) batteries in the Power Business Segment, while overseas shipments of insulators increased. In the Ceramics Business Segment, the quantity of ceramic substrates for catalytic conversion (large-size HONEYCERAM) increased due to an increase in truck sales in the Chinese market, and the quantity of sensors increased due to an increase in sensor usage caused by tighter emissions regulations in Europe and China. In the Electronics Business Segment, the quantity of ceramic packages decreased due to sluggish investment into mobile phone base stations in China, while the quantity of ceramic components for semiconductor manufacturing equipment increased as semiconductors became increasingly shrinking.

As a result of the above, consolidated net sales for the six months ended September 30, 2017 increased by 13.1% year on year to ¥219,754 million. In terms of earnings, despite increases in costs for research and development, depreciation, start ups, etc. as a result of increased consolidated net sales, operating income increased by 4.7% year on year to ¥35,874 million and ordinary income increased by 5.7% to ¥34,212 million. Profit attributable to owners of the parent decreased by 8.9% to ¥19,792 million owing to posting an impairment loss on fixed assets of ¥2,462 million and provision of reserve for loss related to competition law of ¥1,070 million under extraordinary losses.

By segment, the Power Business Segment posted ¥27,230 million in net sales, an increase of 3.2% year on year, and an operating loss of ¥2,109 million, compared to an operating loss of ¥2,783 million in the same period of the previous year. In the Ceramics Business Segment, net sales increased by 9.8% year on year to ¥131,044 million and operating income decreased by 15.1% year on year to ¥29,837 million. In the Electronics Business Segment, net sales increased by 26.6% year on year to ¥61,530 million and operating income increased by 324.6% year on year to ¥8,143 million.

### (2) Explanation of Financial Position

As of September 30, 2017, total assets were ¥816,511 million, an increase of ¥57,077 million from the previous fiscal year-end. This was mainly due to increases in tangible assets and cash and bank deposits.

Total liabilities increased by ¥25,270 million from the previous fiscal year-end to ¥357,111 million. This was mainly due to increases in long-term borrowings and long-term bonds payable despite decreases in income taxes payable and provision for loss related to competition law.

Total net assets stood at ¥459,400 million, or ¥31,807 million higher than the previous fiscal year-end, due to increases in retained earnings and foreign currency translation adjustments.

### (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, 2018, sales and profits are both expected to exceed previous forecasts as a result of factors including a weaker yen than initial assumptions (¥105 to the U.S. dollar and ¥115 to the euro) and an increase of demand for ceramic components for semiconductor manufacturing equipment in the Electronics Business Segment.

The consolidated financial results forecasts for the second half of the fiscal year assume that the yen trades at ¥110 to the U.S. dollar and ¥125 to the euro.

(Average exchange rates during the period: ¥111 to the U.S. dollar and ¥126 to the euro)

Forecasts of consolidated financial results for the fiscal year ending March 31, 2018 (Millions of yen)

April 1, 2017 - March 31, 2018	Net sales	Operating Income	Ordinary Income	Profit attributable to owners of parent	Profit per share (yen)
Previous forecast (A)	420,000	67,000	68,000	45,000	139.91
<b>Revised forecast (B)</b>	<b>440,000</b>	<b>70,000</b>	<b>70,000</b>	<b>46,000</b>	<b>143.00</b>
Change (B-A)	20,000	3,000	2,000	1,000	—
Change (%)	4.8	4.5	2.9	2.2	—
<b>For Reference :</b>					
<b>Results from previous year (the year ended March 31, 2017)</b>	401,266	63,212	64,557	36,379	112.71

Above Financial results forecasts are based on information that are currently available and actual results may differ materially from those in the forecasts due to various factors.

## 2. Consolidated Financial Statements and Notes

### (1) Consolidated Balance Sheet

(Millions of yen)

	As of September 30, 2017	As of March 31, 2017
<b>Assets</b>		
Current assets		
Cash and bank deposits	140,454	119,145
Notes and accounts receivable trade	99,513	92,181
Securities	72,496	71,659
Inventories	124,689	119,081
Other	33,022	37,062
Allowance for doubtful accounts	(553)	(867)
Total current assets	469,623	438,263
Non-current assets		
Tangible assets		
Buildings and structures	74,610	66,293
Machinery and vehicles	112,714	97,018
Other	63,764	65,795
Total tangible assets	251,090	229,107
Intangible assets	3,554	2,962
Investments and other assets		
Investment securities	76,322	72,526
Other	16,068	16,723
Allowance for doubtful accounts	(147)	(148)
Total investments and other assets	92,242	89,101
Total non-current assets	346,888	321,170
<b>Total assets</b>	<b>816,511</b>	<b>759,434</b>

(Millions of yen)

	As of September 30, 2017	As of March 31, 2017
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable trade	44,697	38,898
Short-term borrowings	7,052	6,016
Current portion of long-term borrowings	8,416	6,973
Income taxes payable	※ 1 11,822	21,056
Provision for NAS battery safety measures	3,393	3,650
Provision for loss related to competition law	2,607	9,167
Other	40,807	42,676
<b>Total current liabilities</b>	<b>118,798</b>	<b>128,439</b>
Long-term liabilities		
Bonds payable	10,000	—
Long-term borrowings	185,222	161,160
Net defined benefit liability	21,455	20,926
Other	21,635	21,314
<b>Total long-term liabilities</b>	<b>238,313</b>	<b>203,401</b>
<b>Total liabilities</b>	<b>357,111</b>	<b>331,841</b>
<b>Net assets</b>		
Shareholders' equity		
Common stock	69,849	69,849
Capital surplus	71,982	72,055
Retained earnings	303,355	289,996
Treasury stock	(12,315)	(12,407)
<b>Total shareholders' equity</b>	<b>432,871</b>	<b>419,492</b>
Accumulated other comprehensive income (loss)		
Unrealized gain on available -for-sale securities	26,997	23,458
Deferred loss on derivatives under hedge accounting	(61)	(20)
Foreign currency translation adjustments	(2,359)	(15,475)
Defined retirement benefit plans	(9,633)	(10,713)
<b>Total accumulated other comprehensive income (loss)</b>	<b>14,942</b>	<b>(2,751)</b>
Stock acquisition rights	986	898
Non-controlling interests	10,599	9,953
<b>Total net assets</b>	<b>459,400</b>	<b>427,593</b>
<b>Total liabilities and net assets</b>	<b>816,511</b>	<b>759,434</b>

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

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2016
<b>Net sales</b>	<b>219,754</b>	<b>194,254</b>
Cost of sales	150,966	128,621
<b>Gross profit</b>	<b>68,787</b>	<b>65,632</b>
Selling, general and administrative expenses	32,913	31,365
<b>Operating income</b>	<b>35,874</b>	<b>34,267</b>
Non-operating income		
Interest income	301	220
Dividend income	981	734
Gain on valuation of derivatives	—	393
Other	1,592	568
Total non-operating income	2,875	1,917
Non-operating expenses		
Interest expense	1,147	1,025
Equity in loss of unconsolidated subsidiaries and associated companies	915	296
Foreign exchange loss	145	2,302
Loss on valuation of derivatives	667	—
Loss on liquidation of subsidiaries and affiliates	1,459	—
Other	202	202
Total non-operating expense	4,537	3,827
<b>Ordinary income</b>	<b>34,212</b>	<b>32,357</b>
Extraordinary income		
Gain on sales of fixed assets	37	184
Gain on sales of investment securities	0	74
Total extraordinary income	38	258
Extraordinary loss		
Loss on sales and disposals of fixed assets	460	124
Impairment loss	2,462	3,205
Provision of reserve for loss related to competition law	1,070	1,062
Total extraordinary loss	3,993	4,392
<b>Income before income taxes and non-controlling interests</b>	<b>30,257</b>	<b>28,224</b>
Income taxes - current	※ 1 8,142	6,839
Income taxes - deferred	2,038	(340)
Income taxes - total	10,181	6,498
<b>Profit</b>	<b>20,075</b>	<b>21,725</b>
Profit attributable to non-controlling interests	283	7
<b>Profit attributable to owners of parent</b>	<b>19,792</b>	<b>21,717</b>



**Consolidated Statement of Comprehensive Income**

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2016
<b>Profit</b>	<b>20,075</b>	<b>21,725</b>
Other comprehensive income (loss)		
Unrealized gain (loss) on available-for-sale securities	3,560	(786)
Deferred loss on derivatives under hedge accounting	(43)	(184)
Foreign currency translation adjustments	13,587	(26,405)
Defined retirement benefit plans	1,035	1,351
Share of other comprehensive loss of associates accounted for by using the equity method	(64)	(120)
Total other comprehensive income (loss)	18,075	(26,144)
<b>Comprehensive income (loss)</b>	<b>38,151</b>	<b>(4,418)</b>
Comprehensive income (loss) attributable to:		
Owners of parent	37,486	(3,972)
Non-controlling interests	664	(446)

### **(3) Notes to Consolidated Financial Statements**

#### **(Note on the Assumption as a Going Concern)**

Not applicable

#### **(Significant Changes in Stockholder's Equity)**

Not applicable

#### **(Additional Information)**

With respect to transactions between NGK and its Polish subsidiary from the fiscal year ended March 31, 2007 through the fiscal year ended March 31, 2010, NGK received a correction based on transfer pricing taxation issued by the Nagoya Regional Taxation Bureau in March 2012. While NGK made a payment of approximately ¥6.2 billion in tax penalties including local taxes, it filed a complaint. NGK later requested the Nagoya National Tax Tribunal to carry out an administrative review, and on June 24, 2016, received a written verdict, which partially rescinded the correction. However, it went only so far as to refund approximately ¥0.1 billion of corporation taxes and local taxes, etc. Believing that cancellation should be made in the full amount, NGK filed an action for revocation of the correction with the Tokyo District Court on December 20, 2016.

While NGK believes that it could still take a considerable amount of time before judgment is passed on the claim, on June 23, 2017 NGK received a correction notice based on transfer pricing taxation for the fiscal year ended March 31, 2011 through the fiscal year ended March 31, 2015. Accordingly, based on the premise that NGK would be subject to the said correction for the fiscal year ended March 31, 2016 and the fiscal year ended March 31, 2017 as well, ¥8.5 billion in tax penalties for fiscal years from March 31, 2011 through March 31, 2015, and estimated tax amounts for the fiscal year ended March 31, 2016 and the fiscal year ended March 31, 2017 were added and factored into the financial statements for the fiscal year ended March 31, 2017. In addition, estimated tax amounts for the six months ended September 30, 2017 were recognized under "Income taxes - current" for the fiscal year ending March 31, 2018.

#### **(Consolidated Balance Sheet)**

##### **※1. Income taxes payable**

With respect to transactions between NGK and its Polish subsidiary, NGK received a correction notice based on transfer pricing taxation on June 23, 2017. Therefore, the amount includes estimated tax amounts based on the premise that NGK would be subject to the said correction for the period from the fiscal year ended March 31, 2016, to September 30, 2017.

## **2. Contingent liabilities**

The NGK Group is subject to an international investigation on the situation of competition.

Since the receiving of a subpoena by a U.S. subsidiary of NGK from the U.S. Department of Justice (DOJ) in 2011, NGK has cooperated in the investigation concerning ceramic substrates for catalytic converters including establishing the Independent Committee in 2012. In September, 2015, NGK entered into a Plea Agreement with DOJ, agreeing to pay a fine of US\$65.3 million based on charges that it violated U.S. laws including the antitrust law in connection with some transactions for ceramic substrates for catalytic converters, and paid the total amount in November 2015. We have entered into negotiations for compensation for damages with the relevant customers. In addition to some customers requiring monetary compensation, civil lawsuits (class action) have also been filed.

In consideration of such progresses, the NGK Group made an estimate of potential losses, and recognized the estimated amount as of the end of six months ended September 30, 2017, as “provision for loss related to competition law,” however, additional losses may arise with the emergence of new facts. Overall details of the investigation and negotiations are not disclosed because they may put the NGK Group at a disadvantage.

### **(Consolidated Statement of Income)**

#### **※1. Income taxes - current**

With respect to transactions between NGK and its Polish subsidiary, NGK received a correction notice based on transfer pricing taxation on June 23, 2017. Therefore, the amount includes estimated tax amounts for the six months ended September 30, 2017 based on the premise that NGK would be subject to the said correction.

**(Segment Information)**

(1) Six months ended September 30, 2017 ( from April 1, 2017 to September 30, 2017 )

(Millions of yen)

	Business Segment				Elimination or Adjustment	Consolidated
	Power	Ceramics	Electronics	Total		
Sales						
Sales to customers	27,216	131,007	61,530	219,754	—	219,754
Intersegment sales	14	36	—	51	(51)	—
Total sales	27,230	131,044	61,530	219,805	(51)	219,754
Operating income (loss)	(2,109)	29,837	8,143	35,870	4	35,874

(2) Six months ended September 30, 2016 ( from April 1, 2016 to September 30, 2016 )

(Millions of yen)

	Business Segment				Elimination or Adjustment	Consolidated
	Power	Ceramics	Electronics	Total		
Sales						
Sales to customers	26,388	119,261	48,604	194,254	—	194,254
Intersegment sales	7	49	—	56	(56)	—
Total sales	26,395	119,311	48,604	194,311	(56)	194,254
Operating income (loss)	(2,783)	35,132	1,917	34,267	—	34,267

(Notes) 1. Elimination or adjustment of operating income (loss) is an adjustment of intersegment transactions.

## 2. Main products by business segment

Business Segment	Main products
Power	Insulators, hardware for insulator assemblies, current limiting arching horns, bushing shells, fuse cut-outs, APM, line arrester and NAS® (sodium-sulfur) batteries
Ceramics	Automotive ceramics for exhaust gas purification, corrosion-resistant ceramic apparatuses for chemical industries, gas analyzers, industrial heating systems, refractory products and radioactive waste treatment systems
Electronics	Ceramic components for semiconductor manufacturing equipment, ceramic components for electronics, beryllium copper products, and molds