

Summary of Consolidated Financial Results for the Nine Months Ended December 31, 2016 [Japanese GAAP]

January 31, 2017

Company Name : NGK INSULATORS, LTD.
 Stock Exchange Listings : Tokyo and Nagoya
 Listing Code : 5333
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Date of the Filing of Securities Report "Shihanki Hokokusho" (Scheduled) : February 3, 2017
 Date of Dividend Payment (Scheduled) : —
 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, 2016 (from April 1, 2016 to December 31, 2016)

(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	%
Nine months ended December 31, 2016	293,345	(5.5)	49,834	(18.1)	49,544	(18.7)	34,754	(10.7)
Nine months ended December 31, 2015	310,306	14.7	60,864	40.6	60,907	43.4	38,898	8.7

(Note) Comprehensive Income : Nine months ended December 31, 2016 40,006million yen 11.0 %
 : Nine months ended December 31, 2015 36,054million yen (47.0)%

	Profit per share	Diluted profit per share
	Yen	Yen
Nine months ended December 31, 2016	107.56	107.38
Nine months ended December 31, 2015	119.13	118.90

(2) Consolidated financial position

	Total assets	Total net assets	Ratio of net worth to total assets
	Millions of yen	Millions of yen	%
December 31, 2016	735,118	433,742	57.5
March 31, 2016	711,897	417,972	57.1

(Reference) Net worth : As of December 31, 2016, 422,619million yen
 : As of March 31, 2016, 406,743 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, 2016	-	18.00	-	20.00	38.00
Year ending March 31, 2017	-	20.00	-		
Year ending March 31, 2017 (forecast)				20.00	40.00

(Note) Revision of cash dividend forecast during this period : None

3. Forecasts of consolidated financial results for the fiscal year ending March 31, 2017

(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, 2017	400,000	(8.2)	63,000	(22.1)	64,000	(21.5)	35,000	(34.4)	108.44

(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	December 31, 2016	327,560,196 shares	March 31, 2016	327,560,196 shares
ii. Number of treasury stocks at period end	December 31, 2016	5,945,107 shares	March 31, 2016	981,389 shares
iii. Average number of shares outstanding over period	December 31, 2016	323,100,875 shares	December 31, 2015	326,535,436 shares

* Presentation regarding the implementation status of review procedures

These financial statements are outside the scope of review procedures in accordance with the Financial Instruments and Exchange Law of Japan. At the time of disclosure of this report, the review procedures of the consolidated financial statements in accordance with the Financial Instruments and Exchange Law of Japan are in progress.

* 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.

Contents of Appendix

1. Qualitative Information on Quarterly Financial Statements	2
(1) Explanation of Business Results	2
(2) Explanation of Financial Position	2
(3) Explanation of Forward-looking Statements including Forecasts for Consolidated Financial Statements.....	3
2. Consolidated Financial Statements	4
(1) Consolidated Balance Sheet	4
(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income ..	6
Consolidated Statement of Income	6
Consolidated Statement of Comprehensive Income	7
(3) Notes to Consolidated Financial Statements	8
(Changes in accounting policy)	8
(Additional information)	8
(Note on the assumption as a going concern)	8
(Significant changes in stockholder's equity).....	8
(Consolidated Balance Sheet)	9
(Segment information).....	9

1. Qualitative Information on Quarterly Financial Statements

(1) Explanation of Business Results

During the nine months ended December 31, 2016, the Japanese economy remained on a moderate recovery course underpinned by improvements in the employment and income environment, despite some signs of weakness. Among overseas economies, developed economies, such as the U.S. and Europe, were robust, while China and other emerging countries experienced a slowdown in economic growth.

The NGK Group saw sluggish performance in the Power Business Segment due to a decrease in overseas shipments of insulators and a lack of large shipments of NAS® (sodium-sulfur) batteries. In the Ceramics Business Segment, demand for automotive ceramics increased due to factors including favorable sales of passenger cars in the U.S. and European markets, in addition to an increase in small passenger car sales in response to tax reduction measures and an increase in truck sales in response to strict controls on overloaded vehicles in China. In the Electronics Business Segment, demand for ceramic components for semiconductor manufacturing equipment grew against the backdrop of increased capital investment by semiconductor manufacturers on 3D-NAND flash memories and semiconductor foundries, while demand for ceramic packages was sluggish with its recovery delayed.

As a result of the above, combined with the impact of the stronger yen compared to the previous year, consolidated net sales for the nine months ended December 31, 2016 decreased by 5.5% year on year to ¥293,345 million. In terms of earnings, as a result of decreased net sales among other factors, operating income decreased by 18.1% year on year to ¥49,834 million and ordinary income decreased by 18.7% to ¥49,544 million. Profit attributable to owners of parent decreased by 10.7% to ¥34,754 million.

By segment, the Power Business Segment posted ¥39,643 million in net sales, a decrease of 19.6% year on year, and an operating loss of ¥3,595 million, compared to an operating income of ¥694 million in the same period of the previous year. In the Ceramics Business Segment, net sales decreased by 2.6% year on year to ¥179,391 million and operating income decreased by 6.0% year on year to ¥49,916 million. In the Electronics Business Segment, net sales decreased by 3.2% year on year to ¥74,523 million and operating income decreased by 49.9% year on year to ¥3,541 million.

(2) Explanation of Financial Position

As of December 31, 2016, total assets were ¥735,118 million, a increase of ¥23,221 million from the previous fiscal year-end. This was mainly due to increases in cash and bank deposits, inventories and tangible assets despite decreases in notes and accounts receivable trade and securities.

Total liabilities increased by ¥7,451 million from the previous fiscal year-end to ¥301,376 million.

Total net assets stood at ¥433,742 million, or ¥15,769 million higher than the previous fiscal year-end, due to increases in retained earnings and unrealized gain on available-for-sale securities.

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

Regarding forecasts related to consolidated financial statements, net sales, operating income, ordinary income, and profit attributable to owners of parent are all expected to exceed previous forecasts due to factors including a weak yen, as well as increased demand for automotive ceramics in the Ceramics Business Segment and ceramic components for semiconductor manufacturing equipment in the Electronics Business Segment. Accordingly, the financial results forecasts for the full year ending March 31, 2017 have been revised.

For details, please refer to " Notice Regarding Revisions to the financial results forecasts for the full year ending March 31, 2017" that has been released today, January 31, 2017.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Millions of yen)

	As of December 31, 2016	As of March 31, 2016
Assets		
Current assets		
Cash and bank deposits	134,141	97,481
Notes and accounts receivable trade	82,062	102,575
Securities	51,642	72,503
Inventories	123,634	108,945
Other	28,169	31,654
Allowance for doubtful accounts	(645)	(826)
Total current assets	419,004	412,333
Non-current assets		
Tangible assets		
Buildings and structures	68,143	62,252
Machinery and vehicles	94,837	86,606
Other	60,017	56,135
Total tangible assets	222,999	204,993
Intangible assets	2,876	3,019
Investments and other assets		
Investment securities	75,769	78,675
Other	14,624	13,049
Allowance for doubtful accounts	(154)	(174)
Total investments and other assets	90,238	91,550
Total non-current assets	316,114	299,563
Total assets	735,118	711,897

(Millions of yen)

	As of December 31, 2016	As of March 31, 2016
Liabilities		
Current liabilities		
Notes and accounts payable trade	35,619	36,052
Short-term borrowings	5,453	4,549
Current portion of long-term borrowings	6,923	20,242
Income taxes payable	4,143	7,137
Provision for NAS battery safety measures	4,107	5,405
Provision for loss related to competition law	3,916	4,307
Other	36,383	34,767
Total current liabilities	96,548	112,463
Long-term liabilities		
Long-term borrowings	158,676	139,180
Net defined benefit liability	22,131	21,418
Other	24,020	20,861
Total long-term liabilities	204,828	181,461
Total liabilities	301,376	293,924
Net assets		
Shareholders' equity		
Common stock	69,849	69,849
Capital surplus	72,082	72,092
Retained earnings	288,371	266,580
Treasury stock	(12,469)	(1,363)
Total shareholders' equity	417,832	407,158
Accumulated other comprehensive income		
Unrealized gain on available -for-sale securities	27,537	20,832
Deferred loss on derivatives under hedge accounting	(70)	-
Foreign currency translation adjustments	(8,918)	(5,888)
Defined retirement benefits plans	(13,762)	(15,358)
Total accumulated other comprehensive income	4,786	(414)
Stock acquisition rights	934	875
Non-controlling interests	10,188	10,352
Total net assets	433,742	417,972
Total liabilities and net assets	735,118	711,897

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

(Millions of yen)

	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Net sales	293,345	310,306
Cost of sales	195,835	200,750
Gross profit	97,510	109,555
Selling, general and administrative expenses	47,675	48,690
Operating income	49,834	60,864
Non-operating income		
Interest income	344	517
Dividend income	1,274	1,487
Foreign exchange gain	882	—
Other	913	2,490
Total non-operating income	3,415	4,495
Non-operating expenses		
Interest expense	1,532	1,474
Equity in loss of unconsolidated subsidiaries and associated companies	228	1,094
Foreign exchange loss	—	1,508
Loss on valuation of derivatives	1,567	—
Other	377	375
Total non-operating expense	3,705	4,452
Ordinary income	49,544	60,907
Extraordinary income		
Gain on sales of fixed assets	185	38
Gain on sales of investment securities	1,793	453
Subsidy income	—	153
Total extraordinary income	1,979	644
Extraordinary loss		
Loss on sales and disposals of fixed assets	192	174
Impairment loss	3,228	—
Provision of reserve for loss related to competition law	1,062	6,097
Total extraordinary loss	4,483	6,271
Income before income taxes and non-controlling interests	47,041	55,280
Income taxes -current	10,791	13,961
Income taxes -deferred	1,407	2,167
Income taxes - total	12,199	16,129
Profit	34,841	39,151
Profit attributable to non-controlling interests	86	252
Profit attributable to owners of parent	34,754	38,898

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Profit	34,841	39,151
Other comprehensive income		
Unrealized gain(loss) on available-for-sale securities	6,730	(66)
Deferred loss on derivatives under hedge accounting	(71)	(7)
Foreign currency translation adjustments	(2,633)	(3,521)
Defined retirement benefit plans	1,524	426
Share of other comprehensive (loss) income of associates accounted for by using the equity method	(383)	73
Total other comprehensive income	5,165	(3,096)
Comprehensive Income	40,006	36,054
Comprehensive Income attributable to:		
Owners of parent	39,955	35,896
Non-controlling interests	51	157

(3) Notes to Consolidated Financial Statements

(Changes in accounting policy)

Not applicable

(Additional information)

(Adoption of “Implementation Guidance on Recoverability of Deferred Tax Assets”)

Effective from the first quarter of fiscal 2016, NGK adopted the “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016).

(Filing of action for the revocation of correction

and risk of receiving correction for the subsequent fiscal years based on transfer pricing taxation)

With respect to transactions between NGK and its two overseas subsidiaries from the fiscal year ended March 31, 2006 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, and NGK made a payment of approximately ¥7.9 billion in tax penalties including local taxes, while filing a complaint. With respect to approximately ¥1.7 billion of the aforementioned tax penalties concerning the transactions with a U.S. subsidiary, NGK received approximately ¥1.4 billion refund in total in Japan and the U.S. upon agreement under a Japan-U.S. Mutual Agreement, which has been reflected in the financial results for the year ended March 31, 2014.

On the other hand, with respect to the remaining tax penalties of approximately ¥6.2 billion concerning the transactions with a Polish subsidiary, NGK requested its cancellation and in August 2014 requested the Nagoya National Tax Tribunal to carry out an administrative review. On June 24, 2016, NGK 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., and NGK believes that cancellation should be made in the full amount. To reclaim the remaining tax penalties paid, NGK filed an action for revocation of correction to the Tokyo District Court on December 20, 2016.

NGK, however, believes that it could still take a considerable time for the judgement on the claim to be made. Meanwhile, there is a risk of receiving a correction on transactions arising from subsequent fiscal years after April 1, 2010 (fiscal year ended March 31, 2011) in whole or in part, as a difference of view with the tax authorities remains.

(Note on the assumption as a going concern)

Not applicable

(Significant changes in stockholder's equity)

NGK acquired 5,000,000 shares of treasury stock based on the resolution at the meeting of the board of directors held on April 28, 2016. With this acquisition, treasury stock increased ¥11,106 million in the nine months ended December 31, 2016, and treasury stock as of December 31, 2016 amounted to ¥12,469 million.

(Consolidated Balance Sheet)
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 nine months ended December 31, 2016, 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.

(Segment information)

(1) Nine months ended December 31, 2016 (from April 1, 2016 to December 31, 2016)

(Millions of yen)

	Business Segment				Elimination or Adjustment	Consolidated
	Power	Ceramics	Electronics	Total		
Sales						
Sales to customers	39,629	179,192	74,523	293,345	-	293,345
Intersegment sales	14	198	-	212	(212)	-
Total sales	39,643	179,391	74,523	293,558	(212)	293,345
Operating income (loss)	(3,595)	49,916	3,541	49,862	(27)	49,834

(2) Nine months ended December 31, 2015 (from April 1, 2015 to December 31, 2015)

(Millions of yen)

	Business Segment				Elimination or Adjustment	Consolidated
	Power	Ceramics	Electronics	Total		
Sales						
Sales to customers	49,297	184,017	76,990	310,306	-	310,306
Intersegment sales	26	196	-	223	(223)	-
Total sales	49,324	184,214	76,990	310,529	(223)	310,306
Operating income	694	53,094	7,075	60,864	-	60,864

(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 wrought products, and molds