

Summary of Consolidated Financial Results for the Nine Months Ended December 31, 2017 [Japanese GAAP]

January 30, 2018

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 Stock Exchange Listings : Tokyo and Nagoya
 Listing Code : 5333
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Date of the Filing of Securities Report "Shihanki Hokokusho" (Scheduled) : February 6, 2018
 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, 2017 (from April 1, 2017 to December 31, 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	%
Nine months ended December 31, 2017	332,394	13.3	54,934	10.2	53,187	7.4	33,560	(3.4)
Nine months ended December 31, 2016	293,345	(5.5)	49,834	(18.1)	49,544	(18.7)	34,754	(10.7)

(Note) Comprehensive income : Nine months ended December 31, 2017 60,801 million yen 52.0%
 : Nine months ended December 31, 2016 40,006 million yen 11.0%

	Profit per share	Diluted profit per share
	Yen	Yen
Nine months ended December 31, 2017	104.33	104.15
Nine months ended December 31, 2016	107.56	107.38

(2) Consolidated Financial Position

	Total assets	Total net assets	Ratio of net worth to total assets
	Millions of yen	Millions of yen	%
December 31, 2017	836,693	475,276	55.4
March 31, 2017	759,434	427,593	54.9

(Reference) Net worth : As of December 31, 2017 463,527 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 : None

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 : None

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, 2017	327,560,196 shares	March 31, 2017	327,560,196 shares
ii. Number of treasury stocks at period end	December 31, 2017	5,853,081 shares	March 31, 2017	5,915,570 shares
iii. Average number of shares outstanding over period	December 31, 2017	321,677,848 shares	December 31, 2016	323,100,875 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 nine months ended December 31, 2017, the Japanese economy remained on a moderate recovery, 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 and off-road vehicle sales in the North American and European markets, 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 nine months ended December 31, 2017 increased by 13.3% year on year to ¥332,394 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 10.2% year on year to ¥54,934 million and ordinary income increased by 7.4% to ¥53,187 million. Profit attributable to owners of the parent decreased by 3.4% to ¥33,560 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 ¥2,145 million under extraordinary losses.

By segment, the Power Business Segment posted ¥40,925 million in net sales, an increase of 3.2% year on year, and an operating loss of ¥2,501 million, compared to an operating loss of ¥3,595 million in the same period of the previous year. In the Ceramics Business Segment, net sales increased by 9.9% year on year to ¥197,096 million and operating income decreased by 11.8% year on year to ¥44,035 million. In the Electronics Business Segment, net sales increased by 26.8% year on year to ¥94,467 million and operating income increased by 278.2% year on year to ¥13,394 million.

(2) Explanation of Financial Position

As of December 31, 2017, total assets were ¥836,693 million, an increase of ¥77,258 million from the previous fiscal year-end. This was mainly due to increases in tangible assets, cash and bank deposits and inventories.

Total liabilities increased by ¥29,575 million from the previous fiscal year-end to ¥361,416 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 ¥475,276 million, or ¥47,683 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, no revisions have been made to those announced on October 31, 2017 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 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 December 31, 2017	As of March 31, 2017
Assets		
Current assets		
Cash and bank deposits	137,427	119,145
Notes and accounts receivable trade	99,145	92,181
Securities	69,649	71,659
Inventories	134,463	119,081
Other	32,414	37,062
Allowance for doubtful accounts	(673)	(867)
Total current assets	472,426	438,263
Non-current assets		
Tangible assets		
Buildings and structures	75,157	66,293
Machinery and vehicles	115,206	97,018
Other	73,505	65,795
Total tangible assets	263,870	229,107
Intangible assets		
Investments and other assets	3,605	2,962
Investment securities	81,500	72,526
Other	15,438	16,723
Allowance for doubtful accounts	(147)	(148)
Total investments and other assets	96,791	89,101
Total non-current assets	364,266	321,170
Total assets	836,693	759,434

(Millions of yen)

	As of December 31, 2017	As of March 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable trade	44,532	38,898
Short-term borrowings	7,862	6,016
Current portion of long-term borrowings	10,590	6,973
Income taxes payable	※ 1 10,789	21,056
Provision for NAS battery safety measures	3,023	3,650
Provision for loss related to competition law	1,174	9,167
Other	41,180	42,676
Total current liabilities	119,154	128,439
Long-term liabilities		
Bonds payable	10,000	—
Long-term borrowings	188,318	161,160
Net defined benefit liability	21,092	20,926
Other	22,851	21,314
Total long-term liabilities	242,262	203,401
Total liabilities	361,416	331,841
Net assets		
Shareholders' equity		
Common stock	69,849	69,849
Capital surplus	71,967	72,055
Retained earnings	310,368	289,996
Treasury stock	(12,277)	(12,407)
Total shareholders' equity	439,908	419,492
Accumulated other comprehensive income (loss)		
Unrealized gain on available -for-sale securities	30,887	23,458
Deferred loss on derivatives under hedge accounting	(41)	(20)
Foreign currency translation adjustments	1,692	(15,475)
Defined retirement benefit plans	(8,919)	(10,713)
Total accumulated other comprehensive income (loss)	23,619	(2,751)
Stock acquisition rights	962	898
Non-controlling interests	10,786	9,953
Total net assets	475,276	427,593
Total liabilities and net assets	836,693	759,434

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

(Millions of yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2016
Net sales	332,394	293,345
Cost of sales	226,994	195,835
Gross profit	105,399	97,510
Selling, general and administrative expenses	50,464	47,675
Operating income	54,934	49,834
Non-operating income		
Interest income	455	344
Dividend income	1,502	1,274
Foreign exchange gain	—	882
Other	2,141	913
Total non-operating income	4,099	3,415
Non-operating expenses		
Interest expense	1,833	1,532
Equity in loss of unconsolidated subsidiaries and associated companies	920	228
Foreign exchange loss	671	—
Loss on valuation of derivatives	273	1,567
Loss on liquidation of subsidiaries and affiliates	1,847	—
Other	300	377
Total non-operating expense	5,846	3,705
Ordinary income	53,187	49,544
Extraordinary income		
Gain on sales of fixed assets	52	185
Gain on sales of investment securities	818	1,793
Total extraordinary income	871	1,979
Extraordinary loss		
Loss on sales and disposals of fixed assets	647	192
Impairment loss	2,462	3,228
Provision of reserve for loss related to competition law	2,145	1,062
Total extraordinary loss	5,255	4,483
Income before income taxes and non-controlling interests	48,802	47,041
Income taxes - current	※ 1 12,176	10,791
Income taxes - deferred	2,680	1,407
Income taxes - total	14,856	12,199
Profit	33,946	34,841
Profit attributable to non-controlling interests	385	86
Profit attributable to owners of parent	33,560	34,754

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2016
Profit	33,946	34,841
Other comprehensive income		
Unrealized gain on available-for-sale securities	7,457	6,730
Deferred loss on derivatives under hedge accounting	(22)	(71)
Foreign currency translation adjustments	17,705	(2,633)
Defined retirement benefit plans	1,726	1,524
Share of other comprehensive loss of associates accounted for by using the equity method	(10)	(383)
Total other comprehensive income	26,855	5,165
Comprehensive income	60,801	40,006
Comprehensive income attributable to:		
Owners of parent	59,931	39,955
Non-controlling interests	870	51

(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 nine months ended December 31, 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 December 31, 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 nine months ended December 31, 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 nine months ended December 31, 2017 based on the premise that NGK would be subject to the said correction.

(Segment Information)

(1) Nine months ended December 31, 2017 (from April 1, 2017 to December 31, 2017)

(Millions of yen)

	Business Segment				Elimination or Adjustment	Consolidated
	Power	Ceramics	Electronics	Total		
Sales						
Sales to customers	40,887	197,038	94,467	332,394	—	332,394
Intersegment sales	37	57	—	94	(94)	—
Total sales	40,925	197,096	94,467	332,489	(94)	332,394
Operating income (loss)	(2,501)	44,035	13,394	54,928	5	54,934

(2) 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

(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