

## Summary of Consolidated Financial Results for the Six Months Ended September 30, 2016 [Japanese GAAP]

October 28, 2016

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 7, 2016  
 Date of Dividend Payment (Scheduled) : December 2, 2016  
 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, 2016 (From April 1, 2016 to September 30, 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	%
Six months ended September 30, 2016	194,254	(7.8)	34,267	(17.1)	32,357	(19.6)	21,717	(21.0)
Six months ended September 30, 2015	210,582	25.3	41,331	43.7	40,261	49.8	27,488	36.8

(Note) Comprehensive Income : Six months ended September 30, 2016 (4,418) million yen — %  
 : Six months ended September 30, 2015 23,407 million yen (25.3)%

	Profit per share	Diluted profit per share
	Yen	Yen
Six months ended September 30, 2016	67.08	66.97
Six months ended September 30, 2015	84.18	84.03

#### (2) Consolidated financial position

	Total assets	Total net assets	Ratio of net worth to total assets
	Millions of yen	Millions of yen	%
September 30, 2016	684,919	395,768	56.2
March 31, 2016	711,897	417,972	57.1

(Reference) Net worth : As of September 30, 2016, 385,115 million 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, 2016	-	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, 2016	385,000	(11.7)	54,000	(33.2)	54,000	(33.7)	33,000	(38.1)	102.24

(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

(Note) For details, please refer to "2. Consolidated Financial Statements (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	September 30, 2016	327,560,196 shares	March 31, 2016	327,560,196 shares
ii. Number of treasury stocks at period end	September 30, 2016	5,948,468 shares	March 31, 2016	981,389 shares
iii. Average number of shares outstanding over period	September 30, 2016	323,738,082 shares	September 30, 2015	326,532,728 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 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.

## Contents of Appendix

<b>1. Qualitative Information on Quarterly Financial Statements</b> .....	<b>2</b>
(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
<b>2. Consolidated Financial Statements</b> .....	<b>4</b>
(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 six months ended September 30, 2016, the Japanese economy remained on a moderate recovery course underpinned by improvements in the employment and income environment, despite some signs of weakness. Overseas economies were robust in developed economies, such as the U.S. and Europe, while China and emerging countries experienced a slowdown in economic growth.

The NGK Group saw sluggish performance in the Power Business Segment due to a lack of large shipments of NAS® (sodium-sulfur) batteries, in addition to a decrease in overseas shipments of insulators. In the Ceramics Business Segment, demand increased for automotive ceramics due to factors including strong sales of passenger cars in the U.S. and European market and increase of small passenger car sales owing to tax reduction measures in China. In the Electronics Business Segment, demand for ceramic components for semiconductor manufacturing equipment grew against the backdrop of increased spending on capital investment for 3D-NAND flash memory, concluded by semiconductor manufacturers, while there was a delay in the recovery of demand for ceramic packages.

As a result of the above, combined with the impact of the strong yen, consolidated net sales for the six months ended September 30, 2016 decreased by 7.8% year on year to ¥194,254 million. In terms of earnings, as a result of decreased net sales among other factors, operating income decreased by 17.1% year on year to ¥34,267 million and ordinary income decreased by 19.6% to ¥32,357 million. Profit attributable to owners of the parent decreased by 21.0% to ¥21,717 million as a result of both a decrease in operating income and the recording of an impairment loss on fixed assets of ¥3,205 million as an extraordinary loss.

By segment, the Power Business Segment posted ¥26,395 million in net sales, a decrease of 21.9% year on year, and an operating loss of ¥2,783 million, compared to an operating income of ¥390 million in the same period of the previous year. In the Ceramics Business Segment, net sales increased by 2.8% year on year to ¥119,311 million and operating income increased by 0.4% year on year to ¥35,132 million. In the Electronics Business Segment, net sales decreased by 10.1% year on year to ¥48,604 million and operating income decreased by 67.8% year on year to ¥1,917million.

### **(2) Explanation of Financial Position**

As of September 30, 2016, total assets were ¥684,919 million, a decrease of ¥26,978 million from the previous fiscal year-end. This was mainly due to a decrease in the balance of notes and accounts receivable trade and the balance of securities despite increases in cash and bank deposits and inventories.

Total liabilities decreased by ¥4,774 million from the previous fiscal year-end to ¥289,150million.

Total net assets stood at ¥395,768 million, or ¥22,203 million lower than the previous fiscal year-end, due to the repurchase of treasury stock and a decrease in 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, 2017, sales and profits are both expected to fall below previous forecasts as a result of factors including a higher yen than initial assumptions (¥108 to the U.S. dollar and ¥120 to the euro), an expected delay in the major overseas project of insulators in the Power Business Segment until the next fiscal year, and a delay in the recovery of demand for ceramics packages due to delays in investments in mobile phone base stations in China in the Electronics Business.

The consolidated financial results forecasts for the second half of the fiscal year assume that the yen trades at ¥100 to the U.S. dollar and ¥110 to the euro.

(Average exchange rates during the period: ¥103 to the U.S. dollar and ¥115 to the euro)

Forecasts of consolidated financial results for the fiscal year ending March 31, 2017 (Millions of yen)

April 1, 2016 - March 31, 2017	Net sales	Operating Income	Ordinary Income	Profit attributable to owners of parent	Profit per share (yen)
Previous forecast (A)	410,000	60,000	63,000	44,000	136.84
<b>Revised forecast (B)</b>	<b>385,000</b>	<b>54,000</b>	<b>54,000</b>	<b>33,000</b>	<b>102.24</b>
Change (B-A)	(25,000)	(6,000)	(9,000)	(11,000)	-
Change (%)	(6.1)	(10.0)	(14.3)	(25.0)	-
For Reference :					
Results from previous year (the year ended March 31, 2016)	435,797	80,898	81,498	53,316	163.28

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

### (1) Consolidated Balance Sheet

(Millions of yen)

	As of September 30, 2016	As of March 31, 2016
<b>Assets</b>		
Current assets		
Cash and bank deposits	125,301	97,481
Notes and accounts receivable trade	80,239	102,575
Securities	45,186	72,503
Inventories	111,171	108,945
Other	28,004	31,654
Allowance for doubtful accounts	(718)	(826)
Total current assets	389,184	412,333
Non-current assets		
Tangible assets		
Buildings and structures	65,148	62,252
Machinery and vehicles	87,563	86,606
Other	53,117	56,135
Total tangible assets	205,828	204,993
Intangible assets	2,778	3,019
Investments and other assets		
Investment securities	73,293	78,675
Other	14,002	13,049
Allowance for doubtful accounts	(168)	(174)
Total investments and other assets	87,127	91,550
Total non-current assets	295,734	299,563
<b>Total assets</b>	<b>684,919</b>	<b>711,897</b>

(Millions of yen)

	As of September 30, 2016	As of March 31, 2016
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable trade	35,429	36,052
Short-term borrowings	6,037	4,549
Current portion of long-term borrowings	3,817	20,242
Income taxes payable	4,945	7,137
Provision for NAS battery safety measures	4,229	5,405
Provision for loss related to competition law	4,004	4,307
Other	36,920	34,767
<b>Total current liabilities</b>	<b>95,384</b>	<b>112,463</b>
Long-term liabilities		
Long-term borrowings	152,423	139,180
Net defined benefit liability	21,112	21,418
Other	20,230	20,861
<b>Total long-term liabilities</b>	<b>193,765</b>	<b>181,461</b>
<b>Total liabilities</b>	<b>289,150</b>	<b>293,924</b>
<b>Net assets</b>		
Shareholders' equity		
Common stock	69,849	69,849
Capital surplus	72,080	72,092
Retained earnings	281,766	266,580
Treasury stock	(12,476)	(1,363)
<b>Total shareholders' equity</b>	<b>411,219</b>	<b>407,158</b>
Accumulated other comprehensive income		
Unrealized gain on available -for-sale securities	20,044	20,832
Deffered gain on derivatives under hedge accounting	(179)	-
Foreign currency translation adjustments	(32,008)	(5,888)
Remeasurements of defined benefits plans	(13,959)	(15,358)
<b>Total accumulated other comprehensive income</b>	<b>(26,104)</b>	<b>(414)</b>
Stock acquisition rights	944	875
Non-controlling interests	9,708	10,352
<b>Total net assets</b>	<b>395,768</b>	<b>417,972</b>
<b>Total liabilities and net assets</b>	<b>684,919</b>	<b>711,897</b>

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

(Millions of yen)

	Six months ended September 30, 2016	Six months ended September 30, 2015
<b>Net sales</b>	<b>194,254</b>	<b>210,582</b>
Cost of sales	128,621	136,837
<b>Gross profit</b>	<b>65,632</b>	<b>73,744</b>
Selling, general and administrative expenses	31,365	32,412
<b>Operating income</b>	<b>34,267</b>	<b>41,331</b>
Non-operating income		
Interest income	220	351
Dividend income	734	813
Gain on valuation of derivatives	393	268
Reversal of Provision for loss related to competition law	—	1,151
Other	568	490
Total non-operating income	1,917	3,075
Non-operating expenses		
Interest expense	1,025	993
Equity in loss of unconsolidated subsidiaries and associated companies	296	1,047
Foreign exchange loss	2,302	1,857
Other	202	247
Total non-operating expense	3,827	4,146
<b>Ordinary income</b>	<b>32,357</b>	<b>40,261</b>
Extraordinary income		
Gain on sales of fixed assets	184	27
Gain on sales of investment securities	74	224
Subsidy income	—	153
Total extraordinary income	258	405
Extraordinary loss		
Loss on sales and disposals of fixed assets	124	137
Impairment loss	3,205	—
Provision of reserve for loss related to competition law	1,062	—
Total extraordinary loss	4,392	137
<b>Income before income taxes and non controlling interests</b>	<b>28,224</b>	<b>40,529</b>
Income taxes -current	6,839	8,808
Income taxes -deferred	(340)	4,037
Income taxes - total	6,498	12,845
<b>Profit</b>	<b>21,725</b>	<b>27,683</b>
Profit (Loss) attributable to non-controlling interests	7	195
<b>Profit attributable to owners of parent</b>	<b>21,717</b>	<b>27,488</b>



**Consolidated Statement of Comprehensive Income**

(Millions of yen)

	Six months ended September 30, 2016	Six months ended September 30, 2015
<b>Profit</b>	<b>21,725</b>	<b>27,683</b>
Other comprehensive income		
Unrealized gain on available-for-sale securities	(786)	(3,416)
Deferred losses on hedges	(184)	(2)
Foreign currency translation adjustments	(26,405)	(1,204)
Remeasurements of defined benefit plans	1,351	298
Share of other comprehensive income of associates accounted for by using the equity method	(120)	48
Total other comprehensive income	(26,144)	(4,276)
<b>Comprehensive Income</b>	<b>(4,418)</b>	<b>23,407</b>
Comprehensive Income attributable to:		
Owners of parent	(3,972)	23,263
Non-controlling interests	(446)	143

### **(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, the Company adopted the “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016).

##### **(Receipt of the written verdict from the National Tax Tribunal regarding transfer pricing taxation)**

On June 24, 2016, the Company received a written verdict from the Nagoya National Tax Tribunal in response to the following a request for re-examination of a correction submitted by the Company.

With respect to the transactions between the Company and its two overseas subsidiaries from the fiscal year ended March 31, 2006 through the fiscal year ended March 31, 2010, the Company received a correction based on transfer pricing taxation issued by the Nagoya Regional Taxation Bureau in March 2012, and the Company made 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, the Company 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 approximately ¥6.2 billion tax penalty concerning the transactions with a Polish subsidiary, the Company requested the cancellation of it and had submitted a request for re-examination of a correction to the Nagoya National Tax Tribunal in August 2014. This decision partially rescinds these corrections, and the amount of corporation taxes, local taxes, etc. to be refunded is approximately ¥ 0.1 billion, part of which has already been refunded.

However, considering the content of the written verdict, the Company still believes its claim is reasonable, and while it is considering taking measures to reclaim the rest of the tax penalty paid, it could still take considerable time for this matter to be resolved. In the meantime, there is a risk of receiving corrections, as remaining differences with the views of the tax authorities, for the fiscal years subsequent to April 1, 2010.

##### **(Note on the assumption as a going concern)**

Not applicable

##### **(Significant changes in stockholder's equity)**

The Company 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. As a result, treasury stock increased ¥11,175 million in the six months ended September 30, 2016, and treasury stock as of September 30, 2016 amounted to ¥12,476 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 Insulators, LTD. (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, 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) 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

(2) Six months ended September 30, 2015 ( from April 1, 2015 to September 30, 2015 )

(Millions of yen)

	Business Segment				Elimination or Adjustment	Consolidated
	Power	Ceramics	Electronics	Total		
Sales						
Sales to customers	33,795	122,723	54,063	210,582	—	210,582
Intersegment sales	16	48	—	64	(64)	—
Total sales	33,811	122,771	54,063	210,647	(64)	210,582
Operating income	390	34,979	5,962	41,331	—	41,331

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