

Corporate Governance

NGK is conducting measures to expand and strengthen its corporate governance to increase corporate value with the intent of becoming a company trusted by all its stakeholders.

 Reference URL

> Corporate Governance Report
http://www.ngk.co.jp/english/csr/pdf/governance_en.pdf

Basic Policies


Guidelines for Corporate Behavior and Thorough Observance of Behavioral Guidelines

To ensure appropriate operations and transparent management, NGK has set its sights on establishing and maintaining an organization capable of swiftly responding to changes in the business environment, and a fair and open management system emphasizing the interests of shareholders. These components make up NGK's basic approach to corporate governance. To put this approach into practice, NGK has chosen a corporate governance structure anchored by a Audit & Supervisory Board. In addition to the General Meeting of Shareholders, the Board of Directors and the Audit & Supervisory Board, NGK corporate governance includes the Executive Committee and several other committees established to assist the president in management decision-making. These bodies help to enhance governance efficacy by deliberating and reviewing important matters.

In recognition of needs to execute swift and optimal decision making and respond promptly to changes in the operating environment, NGK introduced executive officer system, thus separating the management decision-making and supervision functions from business execution functions, and clearly defining the responsibilities of both.


Furthermore, to strengthen the supervision and monitoring functions of the Board of Directors, major committees among those tasked with mitigating the various risks surrounding NGK are obligated to report to the Board of Directors, and NGK has established a new committee scheme, including a Nomination and Compensation Advisory Committee, a Corporate Council, a Conference of Outside Directors and Outside Auditors & Supervisory Board Members and a Business Ethics Committee, etc., to ensure the effectiveness of the Corporate Governance Code.

NGK will continue working toward developing a more comprehensive corporate governance scheme.

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> Nomination and Compensation Advisory Committee, Corporate Council, Conference of Outside Directors and Outside Auditors & Supervisory Board Members, Business Ethics Committee

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> Corporate Governance Scheme

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Corporate Governance Enhancement

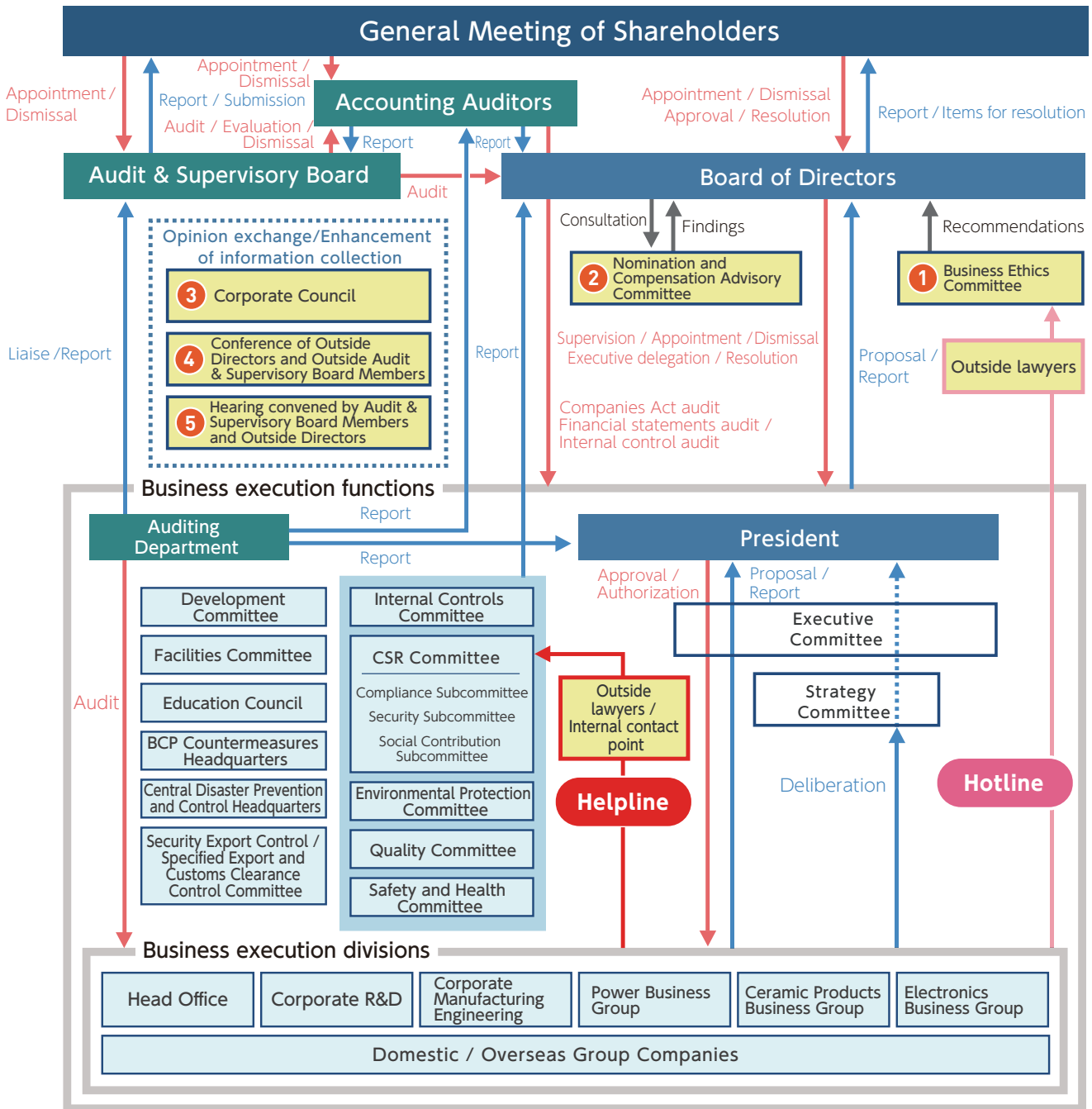
Ongoing structural enhancements aimed at strengthening corporate governance include the introduction of an executive officer system and an outside director system to improve the management supervision and monitoring functions and facilitate recommendations with respect to overall management.

April 1999	Formulated Guidelines for Corporate Behavior
April 2003	Revised to NGK Group Guidelines for Corporate Behavior
June 2005	Introduced an executive officer system
	Introduced a stock option
	Introduced an outside director system
July 2005	Established the CSR Committee
April 2007	Established the CSR Office

June 2010	Appointed independent directors
July 2011	Major revision to NGK Group Guidelines for Corporate Behavior
April 2015	Signed on to UN Global Compact
June 2015	Established the Global Compliance Office
December 2015	Established committees for corporate governance
June 2017	Appointed one additional outside director

Corporate Governance Structure Scheme

To ensure lawful business activities and management transparency, respond quickly to changes in the management environment, and create and maintain a fair management system from the shareholders perspective, NGK has created the following systems:



NGK INSULATORS, LTD., has further strengthened and enhanced its corporate governance structures by establishing committees to bolster the supervision and monitoring functions of the Board of Directors.

Board of Directors

The Board of Directors, comprising 13 members, deliberates matters prescribed in the Companies Act, as well as other important management issues, providing oversight for the execution of duties by directors. To clarify the division of roles between execution and supervision of management, Board of Directors meetings are led by a Chairman, who, in principle, does not execute business. The Board of Directors includes three outside directors to create a system enabling management monitoring based on professional knowledge and decision-making from a wider perspective. The current Board of Directors comprises 13 members (12 men and one woman)(as of June 29, 2017).

Audit & Supervisory Board

The Audit & Supervisory Board consists of four members, each of whom attends Board of Directors meetings and conducts other activities to audit the execution of duties by directors. The Audit & Supervisory Board includes two external members, each possessing significant business experience and extensive insight. The Audit & Supervisory Board members, including these highly independent outside members, conduct audits on the execution of duties by directors, business operations and the company's financial position.

Executive Committee

Comprising the president, directors, Audit & Supervisory Board members and executive officers and division heads designated by the president, this body deliberates the matters necessary to help the president with decision-making. The current Executive Committee comprises 15 members (14 men and one woman).

Business Ethics Committee

Comprised of outside directors and one internal director responsible for compliance, this committee monitors for fraud or illegalities involving senior management, as well as for compliance with the Competition Law and the Foreign Corrupt Practices Act, and reports directly to the Board of Directors. As a mechanism to prevent fraud or legal violations, in addition to the Helpline, an internal reporting system (Hotline) linked directly to outside directors was established with the aim of strengthening NGK's compliance structure.

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> Internal Reporting System
(Hotline)

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Corporate Council

The meeting enables outside directors to exchange opinions with representative directors etc when proactive recommendations for senior management are sought from outside directors regarding various management-related issues.

Nomination and Compensation Advisory Committee

Comprising a majority of outside directors, this committee attempts to ensure fairness and increase transparency related to determining the appointment and remuneration of board members and officers by deliberating matters related to the appointment and remuneration of board members and executive officers, Chief Executive Officer succession planning and other matters, the results of which are reported to the Board of Directors.

Conference of Outside Directors and Outside Audit & Supervisory Board Members

Comprised exclusively of outside directors, these meetings facilitate an exchange of opinions regarding NGK management issues, with the intent of proactively contributing to discussions at Board of Director meetings.

Hearing convened by Audit & Supervisory Board Members and Outside Directors

Comprised of Audit & Supervisory Board members and outside directors, these hearings gather information from internal sources regarding the business environment and issues surrounding NGK.

Bodies Concerning Observance of Laws, Regulations and Corporate Ethics

Internal Controls Committee	<p>This body deliberates matters necessary to help the president and Internal Controls Committee Chairman with decision-making regarding internal controls system assessment and reporting related to financial reporting based on the Financial Instruments and Exchange Act.</p> <ol style="list-style-type: none"> 1. Determines the scope of reporting for each fiscal year, assessment and reporting schedules, standards to assess internal controls and other basic matters 2. Summarizes internal controls assessment and drafts internal controls report.
CSR Committee	<p>This body assists the president and CSR Committee Chair with decision-making by deliberating matters necessary for the observance of laws, regulations and corporate ethics.</p> <p>Observance of Laws, Regulations and Corporate Ethics</p> <ol style="list-style-type: none"> 1. Determination and revision or abolition of basic policies related to the observance of laws, regulations and corporate ethics, including the NGK Group Guidelines for Corporate Behavior 2. Determination of systems, structures and strict observance of important activities pertaining to laws, regulations and corporate ethics company-wide 3. Determination, revision or abolition of risk management structures pertaining to laws, regulations and corporate ethics <p>Additionally, responses to items determined to pose a significant threat to the company among other matters, incidents or accidents related to laws, regulations or corporate ethics, as well as consideration and evaluation of the projects promoted by each subcommittee and other CSR-related items identified as important by the CSR Committee Chair, are also deliberated.</p>
Environmental Protection Committee	<p>This body formulates and deliberates the planning of matters necessary to help the president and the Environmental Protection Committee Chairman with decision-making regarding the realization of our Core Policy on the Environment to promote business activities in harmony with the environment.</p>
Quality Committee	<p>Aiming to increase customer satisfaction and trust by realizing even higher-quality products and services, this body deliberates the matters necessary to help the president and the Quality Committee Chairman with decision-making regarding the following items.</p> <ol style="list-style-type: none"> 1. Determination and revision or abolition of Quality Policy and Objectives 2. Items pertaining to the prevention of serious quality defects in the market and technological responses after occurrence 3. Other quality-related matters determined to be important
Safety and Health Committee	<p>This body deliberates important issues on safety and health to assist the decision-making of the president and Safety and Health Committee Chairman regarding the establishment of basic policies and priority targets pertaining to safety and health and the confirmation of labor accidents and priority activities.</p>
Development Committee	<p>This body deliberates items necessary to assist the decision-making of the president and Development Committee Chairman regarding policies, evaluations, budgets, major individual planning and commercialization projects related to development.</p>
Facilities Committee	<p>This body deliberates items necessary to assist the decision-making of the president and Facilities Committee Chairman regarding the examination and evaluation of policies, budgets, performance, and major individual planning related to capital expenditure and information systems.</p>
Education Council	<p>This body deliberates items necessary to assist the president's decision-making regarding policies, systems, structures and major promotion programs related to human resource development.</p>
BCP Countermeasures Headquarters	<p>Aimed at ensuring business continuity in times of emergency, this body executes the operation and maintenance of business continuity planning (BCP) in normal times as well as gives instructions on and support to restoration systems, and prioritizes restoration orders when BCP is in effect.</p>
Central Disaster Prevention and Control Headquarters	<p>This body executes requisite duties under commands from the Head and deliberates items necessary to assist the decision-making of the president and Head of this body regarding items related to earthquakes, storm and flood damage, fires and explosions that threaten or significantly impact the company.</p>
Security Export Control/ Specified Export and Customs Clearance Control Committee	<p>This body deliberates and determines items necessary for guidance for subsidiaries and affiliates, legal compliance and the improvement of other internal systems with respect to security export controls, specified export declaration systems and the management of customs clearance operations.</p>

Business Execution Status

Regarding business execution based on the Board of Directors resolutions, the president presides over company business as the chief executive of business execution. The Executive Committee holds discussions to assist the president's decision-making with respect to important matters regarding business execution.

In addition, the Board of Directors is asked for proactive recommendations for management by outside directors pertaining to management-related issues at Corporate Council, which facilitates an exchange of opinions between outside directors and representative directors.

Monitoring Status

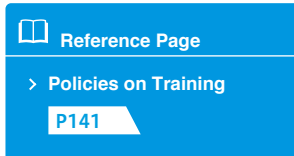
In line with audit policies and plans defined by the Audit & Supervisory Board, Audit & Supervisory Board members make an effort to collect information through Hearing convened by Audit & Supervisory Board Members and Outside Directors, etc., in an attempt to communicate with directors and employees while monitoring director business execution by attending Board of Directors and Executive Committee meetings. At Audit & Supervisory Board meetings attended by outside Audit & Supervisory Board members, the Members exchange information with accounting auditors and Internal Auditing Department in an attempt to facilitate mutual cooperation.

Election of Board Members, Executive Officers and Audit & Supervisory Board Members

With respect to the nomination of candidates for the Board of Directors and Audit & Supervisory Board, all representative directors discuss matters related to each candidate. The Nomination and Compensation Advisory Committee, of which external directors make up a majority, then deliberates matters related to each candidate, and reports the results to the Board of Directors. As for candidates for the Audit & Supervisory Board, approval is obtained from the Audit & Supervisory Board in order to secure the independence of Audit & Supervisory Board members. With consideration given to the report made by the Nomination and Compensation Advisory Committee, candidates for the Board of Directors and Audit & Supervisory Board are determined by resolution of the Board of Directors and their confirmation is set as an agenda item for the General Meeting of Shareholders. Members of the Board of Directors and Audit & Supervisory Board are then appointed by resolution of the General Meeting of Shareholders. Also, to further clarify the directors' mission and responsibilities, the term of office for directors is one year.

Director Training

Newly appointed representative directors, directors and executive officers are provided with training conducted by attorneys practicing in the United States and Japan related to the Companies Act and the Competition Law, conducted at the time of their appointment. In addition, each year lectures are held, targeting all directors and executive officers, related to compliance with the Competition Law, focused on the expanding scope of Competition Law enforcement and practical business risks. In addition, with regard to external directors, we provide regular opportunities for the provision of individual explanations by personnel from relevant business divisions concerning mainly proposals presented to the Board of Directors meeting as well as information and exchange of opinions pertaining to business environment and related issues.



External Directors and Outside Audit & Supervisory Board Members

NGK appoints individuals who possess outstanding achievements and a wealth of experience from a variety of industries to monitor director business execution in an attempt to realize stronger, more efficient management. Additionally, in terms of outside director independence, overall determinations are made with consideration for the Tokyo Stock Exchange "Guidelines for Listing" to avoid conflicts of interest with general shareholders. Our three outside directors are professionals able to make objective, rational decisions, while our two Outside Audit & Supervisory Board Members provide opinions mainly from social and financial perspectives.

Activities of Outside Directors and Outside Audit & Supervisory Board Members

	Name	Attendance at Board of Director meetings	Main activities
External Directors	Hiroyuki Kamano	Attended 13 out of the 13 meetings held.	Mr. Kamano offers advice regarding compliance structure enhancement and management approaches for management planning utilizing his substantial experience and specialization as an attorney.
	Toshio Nakamura	Attended 13 out of the 13 meetings held.	Mr. Nakamura offers opinions that clarify the foundation of business decisions utilizing his wide-ranging experience and achievements in economic and industrial administration.

	Name	Attendance at Board of Director meetings	Attendance at Audit & Supervisory Board meetings	Main activities
Outside Audit & Supervisory Board Members	Setsuo Tanaka	Attended 12 out of 13 meetings held.	Attended all 14 Audit & Supervisory Board meetings	Mr. Tanaka offers advice pertaining to enhancing risk management systems utilizing his experience and achievements in police administration.
	Ichiro Terato	Attended 12 out of 13 meetings held.	Attended all 14 Audit & Supervisory Board meetings	Mr. Terato provides opinions on general management utilizing experience and wide-ranging knowledge gained in management positions with The Bank of Tokyo-Mitsubishi UFJ and the Nikon Corporation.

Current Independent Directors and Reasons for Appointment

Name	Reasons for Appointment
Outside Director Hiroyuki Kamano	Having long engaged in legal practice as an attorney-at-law, Mr. Kumano possesses a wealth of experience and achievements in the legal community, including his service as Vice-President of the Tokyo Bar Association. Drawing on this experience, he has been fulfilling his duties as an outside director of the company by sharing opinions regarding the management strategy and strengthening of the compliance structure, as well as offering suggestions in connection with the company's business operation and properly overseeing the management of the company. We have therefore elected him to the position of outside director.
Outside Director Toshio Nakamura	Having served as Director for the Trade Bureau of the Ministry of International Trade and Industry (former name of the Ministry of Economy, Trade and Industry), Director-General of the Small and Medium Enterprise Agency, and President of the Japan Chamber of Commerce and Industry, Mr. Nakamura has long been playing a vital role in the promotion of commerce and industry. By leveraging his knowledge and abundant experience cultivated over the course of his career, he has been appropriately fulfilling his duties as an outside director of the company by sharing his opinions on the importance of clarifying the basis for business decisions, as well as offering suggestions in connection with the company's business operation and overseeing the management of the company. We have therefore elected him to the position of outside director.
Outside Director Emiko Hamada	Ms. Hamada has made remarkable achievements, such as leading the invention and world-first commercialization of the CD-R (recordable CD) while working at Taiyo Yuden Co., Ltd. Since then, she has been engaged in research activities mainly based on industry-academia-government collaboration as Professor at the Nagoya Institute of Technology and Visiting Professor at Nagoya University. We have elected her to the position of outside director having judged her capable of appropriately fulfilling the relevant duties by offering suggestions in connection with business operations, starting with the company's technology development, and overseeing the management of the company by utilizing the insights she has developed over the course of her career.
Outside Audit & Supervisory Board Member Setsuo Tanaka	Mr. Tanaka has served various key management positions in the National Police Agency including as Commissioner General of the National Police Agency. We have elected him to the position of Outside Audit & Supervisory Board member on the expectation that he would provide suggestions regarding the overall management of the company from the perspectives of the legitimacy of the company's business practices and risk management by leveraging his wealth of experience and achievements in public administration.
Outside Audit & Supervisory Board Member Ichiro Terato	Mr. Terato has long engaged in corporate management, including his service as Senior Management Executive Officer at the Bank of Tokyo-Mitsubishi, Ltd. (former name of the Bank of Tokyo-Mitsubishi UFJ, Ltd.) and Representative Director and Senior Executive Vice President of Nikon Corporation. By leveraging his ample experience and expertise fostered over the course of his career as a corporate management expert, he has been appropriately fulfilling his duties as an outside Audit & Supervisory Board member of the company to enhance the company's corporate governance by way of offering opinions and advice regarding the overall management of the company. Based on this, we have elected him to the position of outside Audit & Supervisory Board member.

Policies for Determining Remuneration, etc. of Directors and Audit & Supervisory Board Members

With the aim of incentivizing the realization of NGK's corporate philosophy and management policies, as well as to heighten the transparency, fairness and clarity of their responsibilities, the remuneration of NGK directors is comprised of three components: (1) a level-based, fixed annual salary as basic remuneration, (2) an annual performance-based bonus to heighten the link with the company's performance and further clarify the fulfillment of responsibilities of each director, and (3) stock-related remuneration designed to boost motivation and morale toward enhancing corporate value over the medium- to long-term through sound company management by having them share with shareholders the risk of stock price decline as well as the rewards of stock price increases and increasing their sensitivity to NGK's share prices.

In terms of the ratio of fixed annual remuneration to variable remuneration, from the perspective of emphasis on maintaining and improving performance over the medium- to long-term, NGK sets the performance-based variable remuneration at an appropriate level.

For the purpose of ensuring fairness and increasing transparency during the process of determining remuneration, the Nomination and Compensation Advisory Committee comprising a majority of outside directors deliberates matters related to the policies for determining remuneration, proposals on the total amount of remuneration for directors and Audit & Supervisory Board members, and proposals on the amount of remuneration for individual directors and executive officers, the results of which are reported to the Board of Directors.

Outside directors and Audit & Supervisory Board members receive only basic remuneration based on their supervision of management from an independent perspective and role as monitors.

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> Policies and Procedures for Determining Remuneration of Senior Management and Directors by the Board of Directors

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Remuneration of Directors and Audit & Supervisory Board members (FY2016)

Director category	Total remuneration (Millions of yen)	Total remuneration by type (Millions of yen)				Applicable directors (people)
		Basic remuneration	Stock options	Bonus	Retirement benefits	
Directors (excluding Outside Directors)	692	419	75	197	—	10
Audit & Supervisory Board Members (Excluding Outside Audit & Supervisory Board Members)	59	59	—	—	—	2
Outside Directors and Outside Audit & Supervisory Board Members	52	52	—	—	—	4

Directors Receiving Total Remuneration of ¥100 Million or More (FY2016)

Name	Director category	Remuneration by type (Million yen)				Total remuneration (Million yen)
		Basic remuneration	Stock option	Bonus	Retirement benefits	
Eiji Hamamoto	Director	59	13	35	—	107
Taku Oshima	Director	68	13	41	—	123

Comments from Outside Directors

Outside Director **Hiroyuki Kamano**

Understanding Compliance from a Global Perspective

In December of 2015, NGK reformed its governance scheme. In recent years the remuneration of executives has become a hot topic within corporate governance in Japan, and NGK aims to build a governance scheme to address this, including establishment of the Nomination and Compensation Advisory Committee. I also feel that NGK has overcome various problems with respect to compliance, and we are moving in a very positive direction. Originally, compliance was focused on operations in the head office however, we are now advancing to the point where NGK's wide-ranging corporate activities can be viewed from a global perspective. I believe that it is important to enliven discussion on long-term strategy to improve corporate value while citing future problems and to make efforts to optimize our corporate portfolio for the next generation. Business strategy and governance are one in the same thus, as we globalize, we will be called upon to even further strengthen our efforts in this area.



Outside Director **Toshio Nakamura**

Remaining Incisive towards Issues Is Crucial

It has been six terms now since I became involved in the management of NGK as an outside director, and I feel that the corporate governance of NGK has progressed very well over these past few years. In the area of risk management, it is crucial to create a system that can discern risks, clarify the decision-making process, and verify and accurately respond when problems do arise. Additionally, it is also important for everyone in the company, from the management to the employees, to share an incisiveness about whether or not there is an internal problem. On this point, I feel that after repeated communication and training, the mentality of the employees has changed. Another important role for corporate governance is to endeavor for the continued success of the company. For NGK, It is important to properly refine basic technology, discern the potential of its technology and seek to apply these in new friends. Specific efforts, such as “2017 Challenge 30” , are already underway, so I expect to see momentum develop there for major leaps forward in the future.



Outside Director **Emiko Hamada**

Using a Technological Perspective to Become Involved in Both the Workplace and in the Business

I have had a strong impression of NGK as a highly technical and research-oriented company from the outside. I was appointed as an outside director beginning in 2017. I hope to bring new potential to NGK when developing new technology by providing my outsider's perspective as the first technological development-related outside director. To that end, I hope to engage in discussions with the people in development and to actively visit the workplace. I also believe that I can play a role in sharing my knowledge on the culture and rules of the electronics industry from my own abundant experience in the field of electronics, when NGK further penetrates the electronics industry. I would like to contribute to the future growth of NGK from perspectives that have been absent within the company and in new ways that no one has been aware of up to now.



Whistle-blowing System

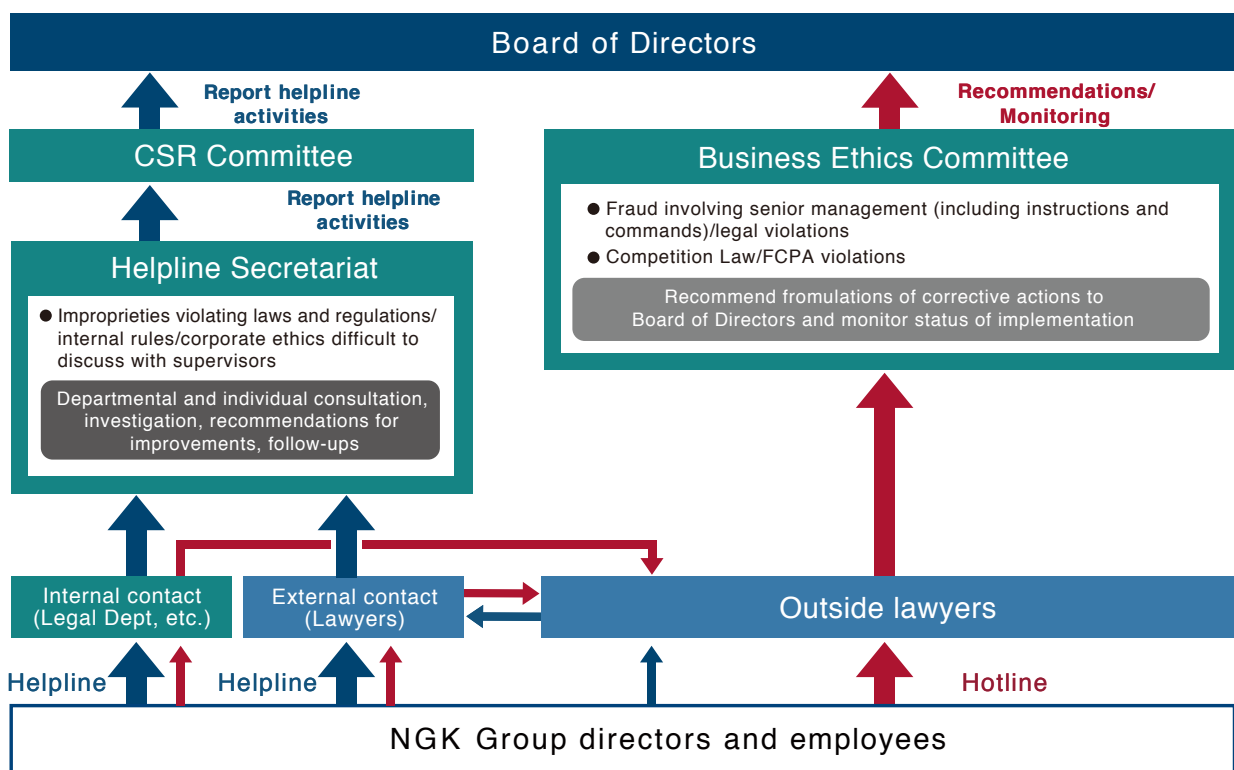
Helpline

We have established a helpline to receive inquiries and reports from employees aimed at curtailing and preventing activities contrary to the spirit of the NGK Group Guidelines for Corporate Behavior and to facilitate the quick resolution when issues occur. Each overseas Group company has its own helpline. Those seeking advice or reporting issues are promised protection under corporate regulations. There were 17 consultation cases in fiscal 2016.

Hotline

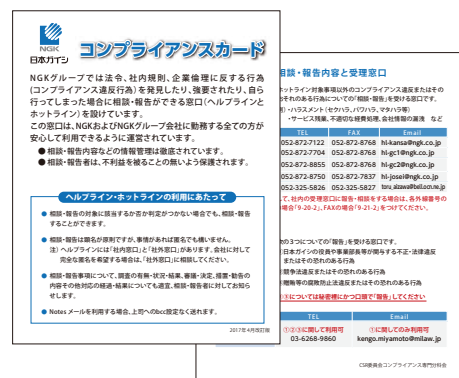
We have established a hotline as an internal control system for responding to fraud and legal infractions committed by senior management, including Competition Law and Anti-Corruption laws and regulations violations. The hotline is operated by outside lawyers, with issues handled by the Business Ethics Committee, composed mainly of outside directors, who report directly to the Board of Directors.

We have been pushing forward with the establishment of the hotline at overseas Group companies in light of the circumstances in each country.



Compliance Card

For thorough awareness of the Whistle-blowing System, we created carry-size compliance card and distributed it to all employees at NGK and all domestic Group companies.



Approaches to Observe the Corporate Governance Code

In accordance with the basic principles of the Corporate Governance Code mandated by the Tokyo Stock Exchange, NGK's implementation status is as follows: NGK implements all of the individual principles of Corporate Governance Code.

Disclosure based on the principles of the Japan's Corporate Governance Code

Principle 1-4. Policy on Cross-Shareholdings and Standards for Exercise of Voting Rights Pertaining to Cross-Shareholdings

NGK continuously holds shares of listed companies, which contribute to long-term business development, as cross-shareholdings, primarily in order to maintain and strengthen business relationships.

NGK holds the shares of Morimura Group, which was established by the same founders of NGK, to enhance the brand value of NGK Group. NGK Group companies will mutually work on the improvement of management quality and each company will contribute to the development of the industry focusing on ceramics.

At its Board of Directors' meeting, NGK determines the necessity of the continuous holding of shares as cross-shareholdings by regularly reviewing the significance of holding, stock prices, dividend yields, ratings, and so forth, and NGK gives specific explanations on the purpose and rationality of holding of shares as cross-shareholdings in its annual securities reports.

For voting rights pertaining to cross-shareholdings, NGK exercises voting rights focusing on factors including whether the content of proposals adversely affect the interest of shareholders and, from a medium to long term perspective, whether the investee company implements management that emphasizes the enhancement of corporate value and the interest of shareholders.

Principle 1-7. Framework of Procedures for Related Party Transactions

At NGK, transactions with directors and corporate officers are designated as matters to be approved by the Board of Directors in accordance with the procedures pertaining to conflict of interest transactions prescribed in laws and regulations. NGK deliberates and makes a resolution of said transactions, at its Board of Directors' meeting, in terms of whether or not the content and conditions of transactions are appropriate and do not impair NGK, and discloses the major content of transactions in its business reports and annual securities reports. Transactions with audit & supervisory board members and major shareholders that do not pose a conflict of interest prescribed in laws and regulations are also designated as matters to be approved at the Board of Directors' meeting, as well as disclosed as above.

Principle 3-1. Full Disclosure

1. Company objectives (e.g., business principles.), business strategies and business plans;

NGK's corporate philosophy states "NGK products and technologies must create new value and contribute to the quality of life." Business strategies and plans are disclosed in our Consolidated Financial Results as well as on our website.

2. Basic views and guidelines on corporate governance

For details regarding NGK's basic views on corporate governance, please see Page 128 "Basic Policies" in this report. NGK's basic guidelines on corporate governance are as follows:

(1) Securing the rights and equality of shareholders

To effectively secure shareholders' rights including voting rights at a General Meeting of Shareholders, NGK complies with appropriate procedures pertaining to the exercise of voting rights by shareholders, and provides information that sufficiently explains to shareholders in both quality and quantity through timely and appropriate information disclosure.

(2) Appropriate cooperation with stakeholders other than shareholders

Based on its corporate philosophy, NGK endeavors to ensure sustainable growth and create medium- to long-term corporate value by actively promoting appropriate cooperation with various stakeholders, including employees, customers, business partners, creditors, and local communities.

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(3) Ensuring appropriate information disclosure and transparency

Recognizing that appropriate disclosure of information contributes to ensuring the transparency of corporate management as well as improving corporate governance, NGK actively provides not only financial information, such as financial conditions and operating results of NGK, but also non-financial information, such as information related to business strategies and business issues, risks, and corporate governance.

(4) Responsibilities of the Board of Directors, etc.

Based on recognition that the major responsibilities of the Board of Directors are to present the basic policy on management as well as supervision and monitoring of the performance of duties by directors, NGK will leverage the various committees pertaining to business execution and advisory committees that consist mainly of outside directors/audit & supervisory board members so that the Board of Directors can adequately fulfill their responsibilities.

(5) Dialogue with shareholders

Based on recognition that constructive dialogue with shareholders is important for the sustainable growth and the enhancement of medium- to long-term corporate value, NGK sincerely responds to dialogue requested by shareholders in cooperation with the relevant divisions as necessary, and works to provide the management with effective feedback on opinions and concerns of shareholders.

3. Board Policies and procedures in determining of the remuneration of the senior management and directors

Remuneration policy

With the aim of providing motivation to realize NGK's corporate philosophy and management policies, as well as heighten the transparency, fairness and clarity of director responsibilities, director (excluding outside directors) and executive officer remuneration is comprised of three components

1. a level-based, fixed annual salary as basic remuneration,
2. an annual performance-based bonus to heighten the connection to company performance and further clarify the fulfillment of responsibilities by each director, and
3. stock-related remuneration to boost motivation and morale aimed at enhancing corporate value over the mid- to long-term through proper company management,

by sharing the shareholders' risk of declines as well as the merits of stock price increases and increasing sensitivity to NGK share prices. In terms of the ratio of fixed annual remuneration to variable remuneration, from the perspective of emphasis on maintaining and improving performance over the mid to long-term, NGK sets the performance-based variable remuneration at an appropriate level.

Outside directors and audit & supervisory board members receive only basic remuneration based on their supervision of management from an independent perspective and role as monitors; no performance or share price-based remuneration is provided.

In terms of amounts, resolutions at the regular general shareholders meeting held in June 2007 and June 2017, excluding stock-related remuneration, namely stock options, capped annual compensation for directors at 800 million yen and outside director compensation was capped at 60 million yen per year. Similarly, resolutions for director (excluding outside director) stock options were limited to 200 million yen or less per year, while Audit & Supervisory Board members' remuneration, etc., was capped at 100 million yen per year.

Remuneration procedure

Regarding directors' remuneration, the Nomination and Compensation Advisory Committee, which consists of majority of outside directors to ensure fairness and increase the transparency of the process, deliberates on remuneration policy, the overall limit of director and executive officer remuneration, as well as the amount of remuneration received by individual directors and executive officers. The outcomes of the deliberations are then reported to the Board of Directors. Based on the Committee's advice, the Board then decides on the remuneration for the directors and executive officers. Upon the board resolution, annual remuneration, including bonuses, is determined in consultation with representative directors.

In terms of specific procedures, the basic remuneration is determined by considering corporate performance and the level of remuneration within the similar industry, with the amount set according to position or rank. Performance-based bonuses, which are annual bonuses, are determined based on management indicators and increases/decreases in performance, including annual consolidated operating margins, consolidated sales and consolidated ROE. In terms of stock-related remuneration, as a long-term incentive, the allotment of stock remuneration-type stock options with a strike price of 1 yen per share are determined in accordance with position or rank. In principle, conditions determining the exercise of stock options stipulate that stock options can be exercised starting one year after a director's resignation for no longer than a period of five years. The amount of remuneration for each audit & supervisory board members is determined by discussion by audit & supervisory board members.

4. Board Policies and procedures in the appointment of the senior management and the nomination of directors and audit and supervisory board member candidates (Policies)

Nomination policy

NGK is a manufacturer in the business of providing ceramics and other materials and related products to a variety of industries in a wide range of areas in and outside Japan. The senior management directors and executive officers responsible for business execution, are required to engage in business judgments and decision-making based on individual knowledge pertaining to each NGK business area, production technologies and research and development, as well as financial, legal and labor-related knowledge. Similarly, standing audit & supervisory board members are also required to conduct monitoring based on a specialized knowledge of finance, etc., and knowledge gained through individual business experience. Accordingly, candidate nominations place importance on practical experience with production technologies, research and development, sales and planning, etc., as well as leadership and financial, legal and labor-related knowledge. Outside director and outside audit & supervisory board member candidates are nominated for their high degree of specialization in law, corporate finance and other areas, as well as knowledge related to international affairs, and social and economic trends. In accordance with NGK's Articles of Incorporation, the total number of directors is limited to 15 or less.

The Nomination and Compensation Advisory Committee, consisting of a majority of outside director, deliberates on these policies and the results of deliberation are reported to the Board of Directors.

Nomination procedure

Regarding the nominations of directors and audit & supervisory board members, each candidate's suitability is assessed by all representative directors. With regard to audit & supervisory board member candidates, the approval of Audit & Supervisory Board is obtained to ensure independence. Moreover, the Nomination and Compensation Advisory Committee, established to ensure fairness and improve transparency in the nomination process, screens each candidate, and the outcome of the deliberations is then reported to the Board of Directors. Based on the Committee's advice, the Board of Directors approves the nomination of candidates and puts the matter to a resolution at a General Meeting of Shareholders.

5. Explanations regarding the individual nomination and appointment when appointing director and audit & supervisory board member candidates and the senior management

Concerning reasons for the appointment of the directors and executive officers elected at the 151th Annual Shareholders' Meeting, please refer to "Convocation Notice of the 151th Annual Shareholders' Meeting," posted on our website (<http://www.ngk.co.jp/english/ir/>). : The reasons for the appointment of Audit & Supervisory Board Members (excluding Outside members) whose term of office had not expired are as follows:

Takeyuki Mizuno :

With business management experience focused on manufacturing, Mr. Mizuno was involved in the establishment of the Ceramics Division for Semiconductor Manufacturing Equipment after being engaged in technological development in the Ceramic Product Business Group. He also served as Head of the Manufacturing Technologies Division and Chair of the Quality Committee and the Environmental Committee. He was appointed as a Audit & Supervisory Board Member in consideration of the knowledge gained through these positions as well as his ability to monitor NGK business management.

Ken Sugiyama :

After joining NGK, Mr. Sugiyama spent many years in the Finance Department, where he served as General Manager. In addition to involvement in the business management of an overseas subsidiary, he also has experience as head of the Auditing Department. He was appointed as an Audit & Supervisory Board Member in consideration of his wealth of knowledge and experience related to financial accounting and business auditing.

 Reference URL

Our website
<http://www.ngk.co.jp/english/ir/>

Supplementary Principle 4-1-1. Outline of the Scope of Matters Delegated to the Management

At NGK, matters prescribed by laws and regulations to be resolved at the Board of Directors, and corresponding matters deemed necessary to be resolved at the Board of Directors in light of their significance and characteristics, etc., are decided and resolved at the Board of Directors. The Board of Directors deliberates on the formulation of management strategies and management plans to provide a strategic direction for the achievement of NGK's management philosophies, and delegates decisions on business execution to NGK's management based on such direction.

Matters to be judged and determined by the Board of Directors are specifically prescribed in the Articles of Incorporation and the Board of Directors' Regulations of NGK, which primarily include company-wide unified budgeting, strategic planning such as dissolution, mergers, and alliances of the company, share-handling regulations, determination to call a General Meeting of Shareholders, appointing and removing representative directors, approval of financial statements, business reports, etc., the disposal and acceptance of transfer of important assets (long-term holding securities, land, equipment, etc.), the appointment and dismissal of an important employee, and the establishment and change of important organizations.

NGK has introduced a corporate officer system, thus separating management decision-making and business execution to expedite decision-making, and matters other than the above are decided by the management pursuant to the administrative authority table prescribed separately.

Principle 4-9. Independence Standards for Independent Outside Directors

In addition to the requirements for an outside director under the Companies Act and for an independent director specified by the Tokyo Stock Exchange, NGK may not designate a person who falls under any of the following items as an outside director with independence (hereinafter referred to as the "Independent Outside Director"); provided, however, that if NGK considers that such person, who falls under any of the items, is appropriate as the Independent Outside Director of NGK in light of such person's personality, insight, etc., NGK may designate said person as an Independent Outside Director on the condition that said person satisfies the requirements for an outside director under the Companies Act and for an independent director specified by the Tokyo Stock Exchange as well as on the condition that NGK externally explains the reason why such person is appropriate as the Independent Outside Director of NGK.

In these independence standards, a person who executes business refers to an executive director, executive officer, corporate officer, manager, or other employee, and NGK Group refers to NGK or NGK's subsidiaries or affiliated companies.

1. A major shareholder who holds 10% or more of the current voting rights of NGK. If such major shareholder is a corporation, a person who has executed the business of said corporation during the last three fiscal years including the most recent fiscal year.
2. A person who currently executes the business of a business partner where the amount of transactions between NGK Group in any of the last three fiscal years including the most recent fiscal year is 2% or more of the consolidated sales of either said business partner or NGK Group.
3. A person who has executed the business of a financial institution or other corporation that is a major creditor, which is indispensable for NGK Group's fundraising and on which NGK Group depends to the extent that it is irreplaceable, in the past three fiscal years including the most recent fiscal year.
4. An incumbent director or officer of an organization that receives a donation or grant from NGK Group in the amount exceeding ¥10 million per year or 30% of average annual total expenses of such organization, whichever the greater, in any of the last three fiscal years including the most recent fiscal year.
5. A certified public accountant, tax accountant or an incumbent employee of an auditing firm or tax accounting firm who served as an accounting auditor or accounting advisor of NGK Group in the past three fiscal years including the most recent fiscal year.
6. A person who is a lawyer, certified public accountant, tax accountant, or other consultant who does not correspond to any of the individuals mentioned in 5. above and who, in addition to his/her remuneration as an officer, has received cash and other property benefits of ¥10 million or more per year from the NGK Group in the past three fiscal years including the most recent fiscal year, or an incumbent employee, etc., of a law firm, auditing firm, tax accounting firm, consulting firm, or other advisory firm that does not correspond to any of the firms mentioned in 5. above, which received a payment of more than 2% of its annual consolidated gross sales from NGK Group in any of the last three fiscal years including the most recent fiscal year.
7. A person who has executed the business of a company, of which NGK is currently a major shareholder, in the last three fiscal years including the most recent fiscal year.
8. Relatives within the second degree of kinship to a person who falls under the items 1 to 7 above.

Supplementary Principle 4-11-1. Views on the Balance Between Knowledge, Experience, and Skills of the Board of Directors as a Whole, and Diversity and Size of the Board

At NGK, the Board of Directors is comprised of persons who have practical experience in business operations in various business fields, such as manufacturing technology, research and development, sales, and planning as well as leadership, persons who have knowledge of finance, legal affairs, and labor affairs, highly independent external personnel who have a high level of expertise in legal affairs, corporate finance, etc., and knowledge, etc., of international affairs, social and economic trends, and the Articles of Incorporation of NGK stipulate that the number of directors shall not exceed fifteen. NGK recognizes that the appointment of young as well as foreign persons is a priority issue for ongoing consideration in terms of necessity associated with future business expansion.

Supplementary Principle 4-11-2. Status of Directors and Audit & Supervisory Board Members Who Also Serve as Officers at Other Listed Companies

With regard to the status of directors and audit & supervisory board members who also serve as directors and audit & supervisory board members at other companies, NGK discloses such status each year in its convocation notice of the General Meeting of Shareholders, annual securities reports, and report on corporate governance.

Supplementary Principle 4-11-3. A Summary of the Results of Analyses and Evaluation on the Effectiveness of the Board of Directors

The operation of meetings of NGK's Board of Directors has been conducted appropriately in accordance with the applicable laws and regulations, the Articles of Incorporation, and internal regulations, and discussions have been held actively in the meetings. With regard to its effectiveness, the Board of Directors issued a survey on the fiscal year ended March 31, 2017 to all directors and audit & supervisory board members. The results were reported at the Board of Directors' meeting, after the analysis and evaluation by an external organization. As a result, the Board of Directors is considered to be effective, with its strength in members being committed and able to conduct sound and transparent discussions while reliably monitoring compliance and complying with governance requirements. Moreover, based on these results, NGK will work to continue to maintain and strengthen the effectiveness of the Board of Directors, such as further enriching discussions on the most important issues (significant themes related to long-term strategies).

Supplementary Principle 4-14-2. Training Policies for Directors and Audit & Supervisory Board Members

Taking into account that directors and audit & supervisory board members assume the duty of care of a good manager as a fiduciary of NGK, NGK has established training policies to provide the following opportunities to improve their skills and knowledge so that they can adequately fulfil their respective responsibilities as an expert in management or as a supervisor of business execution.

1. Training for internal officers relating to the Companies Act, Financial Instruments and Exchange Act, competition laws, and corporate governance and compliance
2. The provision of individual explanations from the relevant divisions to outside directors/audit & supervisory board members mainly relating to the items brought up at the Board of Directors' meetings as well as the periodical provision of information to and opportunities to exchange opinions with outside directors/audit & supervisory board members on the business environment and issues.

Principle 5-1. Policy for Measures and Organizational Structures Aimed at Promoting Constructive Dialogue with Shareholders

NGK strives to provide accurate and prompt explanations concerning business conditions and operational policies and to maximize its corporate value through mutual communication between shareholders and investors.

With regard to the requests of meetings, questions at the General Meeting of Shareholders, and inquiries through NGK's website from shareholders and investors, both NGK's Finance & Accounting Department and General Affairs Department, under the direction of directors responsible for these departments, sincerely respond to shareholders and investors in close cooperation with the Corporate Strategy Office, Corporate Communications Department, Legal Department, and other departments where appropriate, thereby working to promote constructive dialogue with shareholders.

NGK also places emphasis on opportunities to conduct direct dialogue with institutional investors, and holds financial results briefings (twice each year) and overseas IR (twice each year) and others with the senior managements.

NGK provides feedback to its management by regularly reporting the results of such dialogue to the Board of Directors, thereby leading to the improvement of the efficiency and transparency of management.

NGK conducts dialogue with shareholders and investors for the purpose of improving corporate value and capital efficiency as well as the promotion of sustainable growth, and given that the disclosure of unpublished material facts in the dialogue will impair the equality among shareholders, NGK, in principle, has no intention to disclose unpublished material facts.

Internal Control Systems

The Board of Directors and the executive bodies overseen by the president are responsible for establishing and operating NGK's internal control system. The Auditing Department, a specialized internal audit body, is responsible for assessing the status of business execution at each operating division. Moreover, NGK has established the Internal Controls Committee to manage its reporting system for internal controls pursuant to Japan's Financial Instruments and Exchange Act.

The NGK Group Guidelines for Corporate Behavior were formulated as a policy embodying the Group's corporate philosophy. These guidelines specify the Group's fundamental stance with respect to business activities and corporate behavior to ensure it remains a company that is beneficial to society, even in the pursuit of its economic goals. The CSR Committee, under which Compliance Subcommittee, Security Subcommittee, and Social Contribution Subcommittee are organized, is responsible for a range of activities that include formulating NGK Group Guidelines for Corporate Behavior, ensuring compliance with laws, regulations and corporate ethics is fully entrenched throughout the Group, and developing responses to incidents and accidents which it believes could significantly impact the Company. The Committee's actions are designed to maintain and improve the level of the Group's internal control system.

Please note that the "resolution for the development of systems to ensure the appropriateness of operations" was amended at a Board of Director meeting held in March 2017.