

Implementation of Fair, Free and Transparent Transactions

With a basic policy centered on the three principles of openness and fairness, partnership and relationship with society, the NGK Group is engaged in fair and equitable business transactions with the procurement partners in our supply chain.

Basic Approach

The NGK Group has established the Basic Purchasing Policy in an attempt to conduct fair and honest business transactions and to prosper together with all our procurement partners.

Supply Chain Management System

At NGK, the Purchasing Department is responsible for managing suppliers based on the Supplier Management Regulations. Management targets cover all the tier 1 suppliers and selected suppliers among tier 2 and beyond, including raw materials manufacturers.

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> Communication Activities with Procurement Partners

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Basic Purchasing Policy

Open and Fair

- Open, fair, and equitable procurement
- Pursuit of the competition principles and profitability

Partnership

- Mutual prosperity based on mutual trust with suppliers

Relationship with Society

- Compliance with laws
- Preservation of the global environment

Familiarization of the Purchasing Handbook

Purchasing operations are directly related to various important aspects of corporate management, such as assets, production, development and business performance, and also involve external and financial activities, major areas prone to compliance issues. In light of this, we created the Purchasing Handbook to summarize internal rules for purchasing engagement and issued the first edition of it in fiscal 2007. The Handbook has since been reviewed every year. Efforts have also been made to better familiarize personnel with the tool: it has been made available on the intranet throughout the company and its significant objectives are discussed in company training programs, particularly for new managers.

We will continue with these efforts, confirming partners' activities and keeping up with social trends, in order to maintain and enhance our CSR procurement.



Promotion of CSR Procurement

In response to the rising social expectation for CSR-oriented supply chain management, the NGK Group promotes CSR procurement. We preferentially select CSR-aware companies and purchase CSR-based raw-materials and services.

CSR Procurement Guidelines

The NGK Group created the CSR Procurement Guidelines in fiscal 2010 as a guide to promote CSR procurement across the Group including overseas Group companies. The Guidelines specifically describe our obligations as a socially responsible buyer as well as our requirements for socially responsible suppliers. In fiscal 2013, the Guidelines were expanded by being integrated with the previous Green Procurement Guidelines, which set forth rules for preferential purchase of environmentally friendly products and services, and adding provisions of conflict minerals, anti-corruption and human rights and labor issues. The expanded CSR Procurement Guidelines are publicly available on our website in multiple languages (Japanese, English, and Chinese).

 For more details:

> **CSR Procurement Guidelines and Supplemental Materials**
<http://www.ngk.co.jp/english/about/procure/>

Procuring Resources and Raw Materials Responsibly

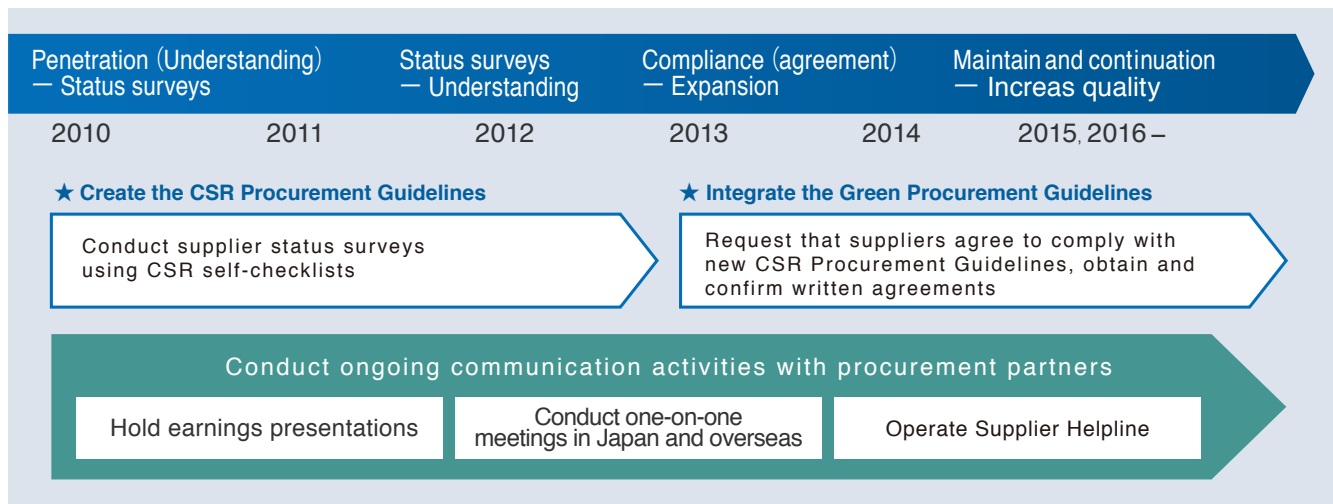
The NGK Group conducts procurement activities that consider impacts on regional communities stemming from the use of raw materials (e.g. "conflict minerals" including tin, tantalum, tungsten and gold from the Democratic Republic of the Congo and neighboring countries, as well as minerals that are the source of funds for armed insurgencies in that region) with the potential to cause social issues such as human rights violations and poverty, and takes steps to avoid using such materials when there is risk of adverse impact.

Improving CSR Procurement

At the NGK Group, we develop activities to promote CSR procurement, such as visiting individual suppliers and conducting on-site inspections. We also request our suppliers, particularly new companies, to sign an agreement to comply with the Guidelines. From fiscal 2016, we ask for annual renewal of the agreement in an effort to facilitate suppliers' awareness and understanding of CSR procurement while striving to increase the number of signers.

We will continue with these efforts, confirming partners' activities and keeping up with social trends, in order to maintain and enhance our CSR procurement.

Ongoing Promotion of CSR Procurement



Enhancement of Procurement Capabilities of Overseas Group Companies

Providing Buyer Training at Overseas Group Companies

NGK provides buyer training for employees in charge of procurement at overseas Group companies in order to improve their skills and organizational functionality in this area. In fiscal 2016, the Purchasing Department sent members to NGK Ceramics Indonesia as an instructor at a seminar, offering advice for efficient procurement activities and know-how on purchasing operations and supplier management.

Organizing Purchasing Liaison Meetings for Overseas Group Companies

In 2016, NGK held a purchasing liaison meeting at between NGK Ceramics USA and NGK Ceramics Mexico in May and October, respectively. In the meetings, buyers from each company reported on their issues associated with purchasing and logistics and conducted cost cutting measures. The meetings helped enhance the relevant expertise of participants and further develop purchasing functions of the two companies.

Fair and Honest Procurement Partner Evaluations and Extensive Resource Diversification

In accordance with the Basic Purchasing Policy, the NGK Group selects procurement partners based on fair and honest evaluations. We also attempt to ensure procurement when disasters occur through the extensive diversification of procurement resources.

Selection of Suppliers Based on Fair and Honest Evaluations

NGK opens its doors to a wide range of procurement sources, including companies with which it has had no previous transactions. In terms of selecting new suppliers, we choose from multiple companies through fair and honest evaluation of their CSR initiatives, environmental conservation efforts and financial condition as well as quality, cost and delivery (QCD). In addition to the procurement department being involved in the selection of suppliers, multiple departments are also involved in this process, which requires multi-stage approval before selection occurs in an effort to ensure fair and honest evaluation and decision-making.

Promoting Business Continuity Planning (BCP) through the Diversification of Procurement Resources

In the event of unforeseen circumstances such as a major natural disaster, NGK promotes the sourcing of raw materials, equipment, secondary materials and other critical purchased parts from multiple suppliers as part of its BCP efforts to ensure procurement is uninterrupted. For items which are available from only one supplier, we are in the process of ensuring sufficient inventory and that the storage facilities for these items are located in a safe place that cannot be damaged by tsunamis. In addition, when selecting a new procurement partner, we take into consideration the existence or absence of multiple locations and efforts to ensure inventory.