

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 honest 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 tier 1 suppliers. It also manages tier 2 and beyond suppliers that provide critical items such as raw materials. All supplier management is done in line with NGK's Supplier Management Regulations.

▶ P78 Communication Activities with Procurement Partners

Basic Purchasing Policy

Open and Fair

- Open, fair, and honest procurement
- Pursuit of 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 company intranet and its significant objectives are discussed in company training programs, particularly for new managers.



Fair and Honest Procurement Partner Evaluations and Extensive Resource Diversification

In accordance with the Basic Purchasing Policy, NGK 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 QCD (quality, cost, and delivery). 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 Plan (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 ensure that we have sufficient inventory and that their storage facilities are located in a safe place that cannot be damaged by disasters like a tsunami. In addition, when selecting a new procurement partner, we take into consideration the existence or absence of multiple locations and efforts to ensure inventory.

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-conscious companies and purchase CSR-sensitive 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. The Guidelines specifically describe our obligations as a socially responsible buyer as well as our requirements for socially responsible suppliers, such as specifying environmental obligations like greenhouse gas emissions reductions.

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, human rights, and labor issues.

The expanded CSR Procurement Guidelines are publicly available on our website in multiple languages (Japanese, English, and Chinese).

Reference
URL

CSR Procurement Guidelines and
Supplemental Materials

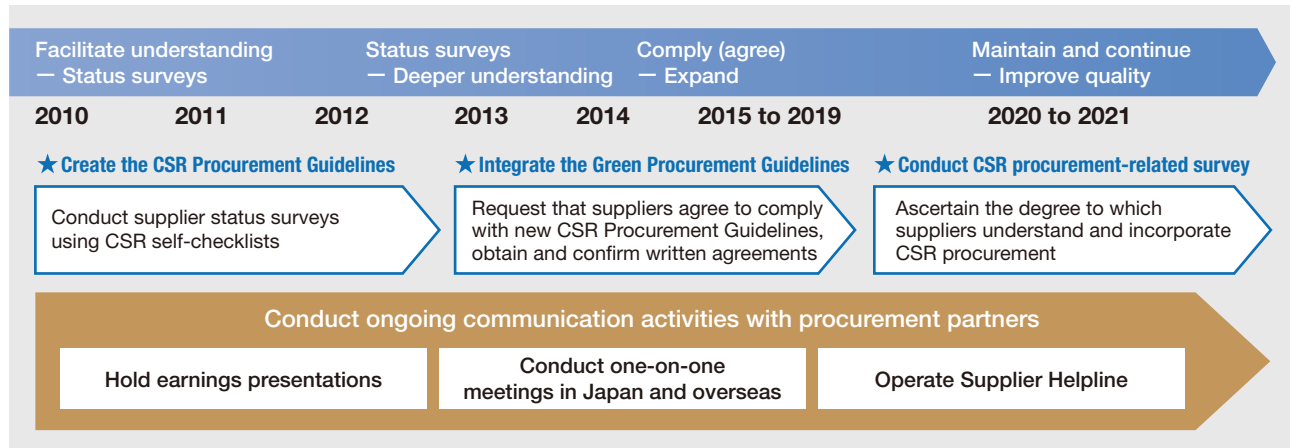
<https://www.ngk-insulators.com/en/info/procure/>

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 CSR Procurement Guidelines.

Looking ahead, we will conduct a survey over the course of 2020 to 2021 in order to ascertain the degree to which suppliers understand and incorporate CSR procurement. We will follow this up with information sessions and other communications aimed at improving the level of understanding and incorporation among all suppliers.

Ongoing Implementation of CSR Procurement



Procuring Resources and Raw Materials Responsibly

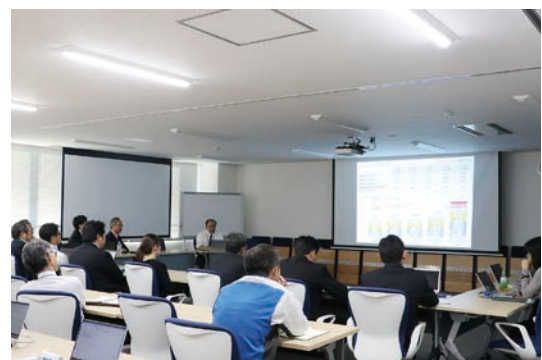
The NGK Group conducts procurement activities that consider impacts on regional communities stemming from the use of raw materials (e.g. conflict minerals*) with the potential to cause social issues such as human rights violations and poverty, and takes steps to avoid using such materials. Additionally, in response to requests from customers, we investigate suppliers regarding their responsible procurement of resources and raw materials.

*Minerals including tin, tantalum, tungsten, and gold produced in the Democratic Republic of the Congo and surrounding countries, and used as a source of funding for armed conflict in the area.

Enhancement of Procurement Capabilities of Group Companies

In fiscal 2019, we held our first NGK Group Purchasing Liaison Meeting for personnel within each Group company who are responsible for materials procurement. The meeting was attended by 11 people from three companies of similar size and in similar business sectors (Soshin Electric, NGK Ceramic Device, and NGK Electronics Devices). Presentations were delivered about the structure of each company's materials procurement department, their purchasing and cost reduction activities, the challenges they face, and more. This was accompanied by information sharing among the attendees.

We will continue to foster stronger collaboration among Group companies as a means of improving the procurement operations within the Group as a whole.



At the NGK Group Purchasing Liaison Meeting

Collaboration with Group Companies outside Japan

As part of our efforts to strengthen collaboration with Group companies outside Japan, we dispatched personnel to a Malaysian subsidiary of NGK Electronics Devices to assist the staff there during an RBA* audit. We also assist Group companies outside Japan with client management, cost reduction, and other matters when requested.

Furthermore, in order to obtain a clear understanding of the actual situation at Group companies outside Japan with regard to logistics, we conduct on-site hearings at around 10 companies every year.

*Responsible Business Alliance: Focusing primarily on the electronic equipment industry, the RBA establishes standards and conducts audits with the aim of promoting safe working environments, worker protection, and environmental responsibility.

Supply Chain Risk Assessment

In order to identify sustainability-related risks in the supply chain, the NGK Group relies upon the CSR Procurement Guidelines in selecting procurement partners as well as visits suppliers in order to identify high-risk procurement partners.

Communication Activities with Procurement Partners

Earnings Presentations for Suppliers

NGK held an earnings presentation meeting for major suppliers in June, which was attended by 236 participants from 130 companies.

In the meeting, the director in charge of purchasing first expressed gratitude for the daily transactions. This was followed by the Finance & Accounting Department's briefing on NGK's business results and an explanation by the Purchasing Department about efforts to tackle issues such as continuous communication.



Suppliers invited to the earnings presentation

Ongoing Operation of the Supplier Helpline

In 2008, NGK established the supplier helpline system. Receiving consultation via e-mail, fax, and telephone, we make an effort to respond with solutions quickly.

Reference
URL

Supplier Helpline

<https://www.ngk-insulators.com/en/info/procure/>

Visiting Individual Suppliers in Japan and Overseas

In order to ensure procurement from the most appropriate suppliers, NGK visits individual suppliers in Japan and overseas to conduct on-site audits, evaluating their QCD (quality, cost, and delivery) performance in a fair and equitable manner. In fiscal 2019, we visited a total of 90 suppliers: 11 new suppliers and 79 existing suppliers.

Following the visit, we explained audit results to each company, and asked them to conduct improvement measures in underperforming areas. Through these activities, we strive to strengthen our QCD management system as well as to communicate with our suppliers to forge a relationship of mutual trust.

Supplier Training-driven Support Efforts

The NGK Safety Cooperation Conference hosts meetings for facilities and equipment construction-related supplier members. These meetings are used as opportunities to share accident and disaster case studies, as well as to provide safety-related lectures.

The fiscal 2019 meeting was attended by around 15 people from NGK and 130 people from 85 conference member companies. The keynote address was on the topic of communications focused on on-site accident prevention.

Monitoring Activities Aimed at Suppliers outside Japan

We systematically undertake quality audits of our suppliers outside Japan.