

Policies on Determining the Details of Compensation for Directors and Others

1. Basic View

NGK specifies the system of officer compensation to contribute to sustained growth of the NGK Group and medium and long-term improvement in corporate value by putting the NGK Group philosophy into practice and achieving the NGK Group Vision. We reassess whether the level and composition of compensation is appropriate in light of those objectives and revise it as appropriate. NGK also strives to ensure transparency and fairness in governance of compensation.

2. Level of Compensation

When determining the level of compensation, we start by considering social and economic conditions and the business environment NGK is in. We then reference aggregate data on officer compensation from a reliable external survey firm and, when necessary, take into consideration the level of compensation at corporate groups of similar size or in the human resources market in Japan and overseas.

3. Composition of Compensation

(1) Directors (excluding outside directors) and corporate officers

We have established the following compensation structure from the perspectives of promoting healthy risk-taking to improve performance, increase officer incentive, have officers share value with shareholders, and instill a mindset of enhancing future corporate value. We also set an allowance for representative directors and an allowance for directors as part of the cash compensation component.

- Cash compensation (1): Annual basic compensation
- Cash compensation (2): Performance-linked bonus that fluctuates according to performance each fiscal year
- Stock-based compensation: Restricted shares linked to enhancement of corporate value over the medium and long-term through the stock price

(However, we may employ an alternative method to compensate officers who are residing overseas for longer than a temporary basis when compensation with restricted shares is not appropriate.)

(2) Outside directors and Auditor & Supervisory Board members

Outside directors and Audit & Supervisory Board members are responsible for the management supervisory function and the management audit function, respectively. Because the focus is on independence from management, they are only paid a fixed basic compensation and are not paid a performance-linked bonus and granted restricted shares.

The compensation of individual Audit & Supervisory Board members is determined through discussion among the Audit & Supervisory Board.

4. Details of Compensation

(1) Policy on determining the calculation method for basic compensation

After determining the total level of compensation and the variable compensation components described in 2 and 3, below, an appropriate annual fixed salary is set as basic compensation. That amount is determined according to position.

(2) Policy on determining the details and calculation method for performance-linked indicators related to performance-linked bonuses

Indicators include consolidated net sales, operating income, net income attributable to owners of the parent (hereafter, "net income"), capital efficiency, etc., as well as items designated by NGK as important medium-term management issues. The performance-linked bonus to be paid is calculated by comparing performance results for the fiscal year under review with the publicly disclosed performance targets and results for the previous fiscal year, and evaluating the degree to which medium-term management issues have been achieved in the fiscal year under review.

The objective in calculating the performance-linked bonuses in this manner is target-based. The basic bonus amount (hereafter, the "basic amount") is set for directors (excluding outside directors) and corporate officers by position, then permit a certain amount of variation in relation to the basic amount.

(3) Policy on determining the details and calculation method of restricted shares

NGK grants restricted shares to directors (excluding outside directors) and corporate officers to increase their sensitivity to NGK's stock price, enable them to share more of the benefits and risks from fluctuation in the stock price with shareholders, and increase their incentive to enhance corporate value over the medium and long term. Once restricted shares are granted, they must be held during the term of office, in principle. The transfer restrictions will be released when the person resigns from an officer or employee position predetermined by the NGK Board of Directors. However, when the holder of restricted shares resigns for reasons other than an official reason, NGK may make reasonable accommodations on the number of shares to be released from transfer restrictions and the timing of release, as necessary. Immediately upon release of restricted shares, NGK will naturally acquire the shares that remain restricted, at no consideration. Because the value of the restricted shares varies directly with the fluctuation in the stock price, a fixed monetary amount is not established for restricted shares; NGK sets a fixed number of shares to grant, based on position.

(4) Policy on determining the relative proportions of basic compensation, performance-linked bonus, and restricted shares

NGK's business is in a materials-based industry that handles many products which contribute to industrial and social infrastructure of people's lives and we focus on material technologies, production technologies and other technologies that we have developed on our own when creating new products and new business. Because of this, it takes a relatively long time to develop and launch new products and bring them to the point where they

contribute to earnings. NGK therefore focuses on stability and improvement in performance over the medium and long-term. NGK has designed the variable component of compensation so that the sum of the performance-linked bonus amount and the conversion value of restricted shares comprises an appropriate percentage of total compensation.

(5) Timing of payment or granting compensation

Annual fixed basic compensation is paid at the end of each month in 12 equal installments.

Performance-linked bonuses are paid at the end of June each year, in an amount reflecting the final results for the previous fiscal year.

Restricted shares are allocated to directors (excluding outside directors) and corporate officers by resolution of the Board of Directors within one month of election to office, in principle. All of the monetary compensation claims paid to each eligible individual based on the resolution are paid in as in-kind investment assets on the specified pay-in date within one month after the Board of Directors resolution and NGK common stock is granted for these assets.

5. Compensation Governance

(1) Authority of the Nomination and Compensation Advisory Committee concerning officer compensation

The Nomination and Compensation Advisory Committee, which has independent directors as a majority of its members, deliberates on inquiries received from the Board of Directors concerning matters relating to compensation of directors, corporate officers, and Audit & Supervisory Board members, and reports back to the Board of Directors on its conclusions.

- Policy and procedures for determining compensation
- Maximum limit on total overall compensation for directors and Audit & Supervisory Board members
- The basic compensation amount, basic amount used as the basis for calculating performance-linked bonuses, and the number of restricted shares granted (the level of monetary claims for payment as compensation for granting restricted shares) according to the position of each director and corporate officer
- Performance-linked bonus amounts paid to individual directors

The Nomination and Compensation Advisory Committee also reviews inquiries from the Board of Directors on the performance-linked bonus amounts paid to individual corporate officers and reports its conclusions to the Board of Directors.

(2) Decisions by resolution of the Board of Directors

After sufficient consideration of the conclusions of the Nomination and Compensation Advisory Committee, the Board of Directors passes a resolution determining the basic compensation amount, basic amount used as the basis calculating performance-linked bonuses, and number of restricted shares to grant (the level of monetary claims to pay as compensation for granting restricted shares) according to the position of each director and corporate officer, as well as the amount of the performance-linked bonus to pay each individual director.