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## CORPORATE GOVERNANCE

Last Updated: November 11, 2015

Inabata & Co., Ltd.

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Securities Code: 8098

<http://www.inabata.co.jp>

The corporate governance of Inabata & Co., Ltd. (the "Company") is described below.

### I. Corporate Governance (Basic Views), Capital Structure, Corporate Attributes, and Other Basic Information

#### 1. Basic Views

The Company's Mission is to "contribute to the development of society based on the humanitarian spirit of 'ai (love)' and 'kei (respect).'" This Mission applies to shareholders, business partners, employees and all stakeholders who support our corporate activities. To execute the mission, the Company maintains an awareness of the importance and necessity of corporate governance and implements various measures to develop and enhance its system.

#### [Reasons for Non-compliance with the Principles of the Corporate Governance Code]

Update

[Principle 3-1. Enhancement of Information Disclosure]

(v) Although the reasons for each election and appointment of candidates for directors and corporate auditors the Board of Directors makes based on Principle 3-1 (iv) have not been included in notices of General Meeting of Shareholders, the Company plans to include such reasons in notices going forward.

[Principle 4-11. Prerequisite for Securing Viability of the Board of Directors and the Board of Corporate Auditors]

Supplementary Principle 4-11-3

Based on the idea that enhancement of effectiveness of the Board of Directors is important, the Company began performing their self-evaluation for the first time this year, utilizing an outside consultant. The Company will consider an action plan based on the results of this evaluation and is also considering disclosure of its overview.

At this point in time, the Company is not implementing the following principles but it is currently constructing an internal system and is aiming for early implementation.

[Principle 1-1] Securing the Rights of Shareholders      Supplementary Principle 1-1-1 (Examination at Board of Directors' meeting of results of analysis of reasons for votes cast against proposals at a General Meeting of Shareholders)

[Principle 1-2] Exercising Rights at General Meetings of Shareholders      Supplementary Principle 1-2-4 (English translations of notifications of General Meeting of Shareholders)

[Principle 2-2] Drafting and Implementation of Code of Conduct      Supplementary Principle 2-2-1 (Report to Board of Directors' meeting of implementation of Code of Conduct)

[Principle 2-3] Sustainability Issues, Including Social and Environmental Matters      Supplementary Principle 2-3-1 (Report to Board of Directors' meeting of response to sustainability issues including social and environmental matters)

[Principle 4-2] Roles and Responsibilities of the Board of Directors (2)      Supplementary Principle 4-2-1 (Examination of introduction of remuneration system for management that uses the Company's own stock)

#### [Disclosure Based on the Principles of the Corporate Governance Code]

Update

[Principle 1-4. Strategically Held Shares]

##### 1. Policy on Strategic Holding of Listed Shares

###### (1) Basic Views

Close business and cooperative relations with various companies are valuable assets to the Company, and the Company believes the establishment, maintenance and development of these relations improve the Company's corporate value in the medium and long term and lead to the benefit of shareholders and investors. Also, as the Company believes the strategic holding of shares of such companies is one effective way to establish, maintain and develop good cooperative relations, the Company owns strategically held shares.

###### (2) Decision on Acquisition, Continuous Holding and Disposal of Strategically Held Shares

The Company bases its decision of whether to acquire strategically held shares on whether such holding contributes to the establishment of cooperative relations, enhances the Company's corporate value in the medium and long term and leads to the benefit of shareholders and investors.

More specifically, the Company makes such decisions considering the financial status, liquidity of shares of potential investees, changes in trading volume and income from business with such investees or investee groups as well as outlook thereof in the medium and long term, and economic rationality based on risk and return and other qualitative information in a comprehensive manner.

After acquiring such shares, the Company reviews the significance of owning strategically held shares annually based on the same criteria and method as above and explains the rationality of such holding at the Board of Directors' meetings. The Company disposes of shares the holding of which is not considered significant, while considering timing and the effect on the market and the business.

##### 2. Criteria for Exercise of Voting Rights for Strategically Held Shares

In principle, the Company exercises voting rights for all agendas in order to exercise its rights as a shareholder.

While taking note of the main purpose of strategic holding (maintenance and enhancement of good cooperative relations), the Company reviews agendas and exercises voting rights based on the judgment criteria of whether sustainable growth of investees and improvement of corporate value in the medium and long term can be expected.

[Principle 1-7. Related Party Transactions]

The Company shall obtain approval of the Board of Directors in accordance with the Regulations for the Board of Directors when a competitive transaction of directors or a transaction between the Company and directors is conducted. In addition, the Company annually reviews whether there is any related party transaction which involves directors or corporate auditors.

Regarding any transaction with major shareholders, the Company determines a price and other terms and conditions in the same way as for general transactions after individual negotiation and discloses details of such transactions in securities reports, etc.

[Principle 3-1. Enhancement of Information Disclosure]

(i) With the Mission of contributing to the development of society based on the humanitarian spirit of “ai” (love) and “kei” (respect), which has been the Company motto since its inception, as the basis of corporate management, the Company operates its businesses with its Vision of continually evolving, serving clients and society through global operations, and meeting their changing needs. The Company discloses its management strategy and plan on the website and in securities report, etc.

(ii) Based on the Mission and the Vision mentioned in (i) above, the Company establishes continuous improvement of corporate governance as its basic policy from the perspective of maintaining healthy corporate management and improving transparency as well as efficiency of operations, supported by the view that sustainable improvement of corporate value is important to all stakeholders.

(iii) Considering the financial results of the Company, the Board of Directors determines remuneration of directors within the total remuneration approved at a General Meeting of Shareholders, in a way that it is linked to consolidated income before income taxes and minority interests. The “Nominating and Remuneration Committee” which mainly consists of independent outside directors, first reviews the details before the Board of Directors makes the decision. The Board of Directors works to ensure objectiveness, fairness and transparency by giving sufficient respect to its opinions.

(iv) When the Board of Directors elects executives and appoints candidates for directors and corporate auditors, the “Nominating and Remuneration Committee” which mainly consists of independent outside directors, take measures, for instance, such as interviewing candidates, to examine credentials and aptitude which would contribute to the improvement of corporate value in the medium and long term and to ensure the objectivity and fairness of any decision the Board of Directors makes. The Company has the “Criteria for Independence of Outside Officers” independently in place for the election of outside directors and outside corporate auditors and elects them in accordance with these Criteria.

[Principle 4-1. Roles and Responsibilities of the Board of Directors (1)]

Supplementary Principle 4-1-1

The Board of Directors makes decisions about important matters stipulated by laws and regulations, the Articles of Incorporation and the Regulations for the Board of Directors such as basic management policies including formulation of a management plan, preparation of an annual budget, and election of executive officers. Matters for resolution and matters to be reported at the Board of Directors' meetings are specifically stipulated in the Regulations for the Board of Directors.

[Principle 4-8. Effective Utilization of Independent Outside Directors]

Of nine incumbent directors of the Company, two are independent outside directors.

[Principle 4-9. Criteria for Independence and Qualification of Independent Outside Directors]

The Company has the “Criteria for Independence of Outside Officers” independently in place and posts them on its website (<http://www.inabata.co.jp/english/governance/pdf/independence.pdf>). In electing an outside director, the Company aims to appoint a candidate who has abundant experience and knowledge of corporate management, the ability to oversee decision-making and business execution of the Board of Directors of the Company conducting businesses on a global basis, and the ability to provide appropriate advice from an objective perspective.

[Principle 4-11. Prerequisite for Securing Viability of the Board of Directors and the Board of Corporate Auditors]

Supplementary Principle 4-11-1

The Company adopts an executive officer system and positions the Board of Directors as the decision-making body of management policies and strategies of the Company. The Company works to secure a reasonable number of directors in the Board of Directors to enable swift decision-making. There are nine incumbent directors (six internal directors and three outside directors), of whom two are independent outside directors. In electing a new candidate for director, the Board of Directors makes a decision after discussion by the “Nominating and Remuneration Committee” while considering the knowledge, experience and views of each candidate.

Supplementary Principle 4-11-2

The Company shall obtain the approval of the Board of Directors in accordance with the Regulations for the Board of Directors when an internal director of the Company serves concurrently as a director or a corporate auditor of another company. The Company shall obtain the approval of the Board of Corporate Auditors when an internal corporate auditor of the Company serves concurrently as a director or a corporate auditor of another company.

In electing an outside director or an outside corporate auditor, the Company checks concurrent positions each candidate holds and focuses on whether it is realistically possible for each candidate to perform the functions and duties required as an outside officer of the Company.

The Company discloses the status of significant concurrent positions directors and corporate auditors hold in securities reports, etc.

[Principle 4-14. Training of Directors and Corporate Auditors]

Supplementary Principle 4-14-2

When an internal director and an internal corporate auditor assume their posts, the Company provides opportunities to them to understand the legal obligations and roles and responsibilities that they are required to follow as director/corporate auditor. For outside directors and outside corporate auditors, the Company provides opportunities to them to have meetings with general managers of each internal division or office and for overseas visits/site visits as appropriate so that they can fully understand the businesses of the Group.

The Company provides opportunities to directors and corporate auditors for training after they assume their posts so that they can acquire the required knowledge and further understand their roles and responsibilities. The Company reimburses any director or corporate auditor for any required expenses for training.

[Principle 5-1. Policy on Constructive Dialog with Shareholders]

The Company actively holds a dialog with shareholders and investors to contribute to sustainable growth of the Company and improvement of the medium- and long-term corporate value.

The policy on development of a system which facilitates a constructive dialog with shareholders and investors and relevant efforts are as follows:

(1) IR System

- Under the IR system of the Company, the President serves as the responsible person, and the director in charge of Financial Management Office serves as a director in charge of IR. In principle, the President and the director in charge of IR lead a dialog with shareholders and investors.
- There is a section dedicated to IR (IR Department) within the Financial Management Office which serves as a contact point for shareholders and investors.
- The IR Department has a system in place for the collection/analysis of various management information and timely and adequate information provision by collaborating with relevant divisions such as the Financial Management Office, the General

Affairs Office and sales divisions.

(2) IR Activities

- The Company handles requests for individual meetings in a positive manner to a reasonable extent.
- The Company holds a briefing on financial results twice a year to explain the progress of the mid-term business plan and overview of financial results.
- The Company creates an occasion for a dialog with individual shareholders and investors through participation in IR events, etc.
- The Company actively works to provide information through its website, company brochure, shareholder news and notices of General Meeting of Shareholders and so forth.
- The Company creates opportunities for dialog with shareholders and investors abroad by holding IR events overseas.

(3) Feedback

- For matters for which feedback seems necessary in a dialog, the director in charge of IR reports them to the Board of Directors to share and use them as reference.

(4) Management of Insider Information

- The Company carries out thorough control of insider information in accordance with the "Rules for Information Disclosure," one of the internal rules. In addition, the Company establishes a period between the day after each quarterly closing date and the announcement date as a silent period.

(5) Understanding of Shareholder Structure

- The Company conducts shareholder identification twice a year in principle to understand the holding of the Company's shares by substantial shareholders.

## 2. Capital Structure

Foreign Shareholding Ratio          From 20% to less than 30%

### [Status of Major Shareholders] Update

Name / Company Name	Number of Shares Owned	Percentage (%)
Sumitomo Chemical Company, Limited	13,836,000	21.79
Japan Trustee Services Bank, Ltd. (Trust Account)	3,963,900	6.24
JP MORGAN CHASE BANK 385093	3,191,400	5.03
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,298,100	3.62
Mizuho Trust & Banking Co., Ltd. Employee Pension Trust (Mizuho Bank account), Re-trust Trustees, Trust & Custody Services Bank, Ltd.	1,736,000	2.73
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	1,346,200	2.12
Katsuo Inabata	1,161,400	1.83
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,119,000	1.76
Mizuho Bank, Ltd.	1,114,900	1.76
Maruishi Chemical Trading Co., Ltd.	961,600	1.51

Controlling Shareholder (except for Parent Company)          \_\_\_\_\_

Parent Company                          N/A

Supplementary Explanation

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## 3. Corporate Attributes

Listed Stock Market and Market Section          First Section of the Tokyo Stock Exchange

Fiscal Year-End                                  March

Type of Business                                  Wholesale trade

Number of Employees (consolidated) as of the End of the Previous Fiscal Year          1,000 or more

Net sales (consolidated) for the Previous Fiscal Year          From ¥100 billion to less than ¥1 trillion

Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year          From 10 to less than 50

## 4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

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## 5. Other Special Circumstances which may have Material Impact on Corporate Governance

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## II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

### 1. Organizational Composition and Operation

Organization Form    Company with Board of Corporate Auditors

#### [Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	14 directors
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	President
Number of Directors	9 directors
Appointment of Outside Directors	Appointed
Number of Outside Directors	3 directors
Number of Independent Officers Designated from among Outside Directors	2 directors

#### Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company (*)										
		a	b	c	d	e	f	g	h	i	j	k
Mitsunori Takahagi	From another company											
Yoshimasa Takao	From another company											
Katsumi Nakamura	From another company											

- \* Categories for "Relationship with the Company"
- \* "○" when the director presently falls or has recently fallen under the category; "△" when the director fell under the category in the past
- \* "●" when a close relative of the director presently falls or has recently fallen under the category; "▲" when a close relative of the director fell under the category in the past
- a Executive (meaning a person who executes business; hereinafter, the same) of the Company or its subsidiaries
- b Executive or non-executive director of a parent company of the Company
- c Executive of a fellow subsidiary company of the Company
- d A party whose major client or supplier is the Company or an executive thereof
- e Major client or supplier of the Company or an executive thereof
- f Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company in addition to remuneration as a director/corporate auditor
- g Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a corporation)
- h Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the outside director himself/herself only)
- i Executive of a company, with which outside directors/corporate auditors are mutually appointed (the outside director himself/herself only)
- j Executive of a company or organization that receives a donation from the Company (the outside director himself/herself only)
- k Others

#### Outside Directors' Relationship with the Company (2) Update

Name	Designation as Independent Officer	Supplementary Explanation of the Relationship	Reasons for Appointment
Mitsunori Takahagi	○	—	<p>Mitsunori Takahagi has served as President and Representative Director of Japan Energy Corporation, President and Representative Director of Nippon Mining Holdings, Inc., and President and Representative Director, and President and Executive Officer of JX Holdings, Inc. Currently he serves as Counselor to JX Holdings, Inc.</p> <p>In electing an outside director, the Company aims to appoint a candidate who has abundant experience and knowledge of corporate management, the ability to oversee the decision-making and business execution of the Board of Directors of the Company, which conducts business on a global basis, and is capable of providing appropriate advice from an objective perspective.</p> <p style="text-align: right;">As he possesses abundant experience</p>

			<p>as a senior executive in a leading company in the energy, resources, and materials industry, the Company considers him suitably qualified and appoints him as outside director.</p> <p>As he satisfies the requirements of the independence standards stipulated by the Tokyo Stock Exchange as well as the "Criteria for Independence of Outside Officers" separately established by the Company, the Company appoints him as independent officer.</p>
Yoshimasa Takao		—	<p>Yoshimasa Takao has served as Representative Director and Senior Managing Executive Officer of Sumitomo Chemical Co., Ltd. and Representative Director, Vice President, and Executive Officer of the same company.</p> <p>He currently serves as Executive Deputy Chairman of the same company.</p> <p>In electing an outside director, the Company aims to appoint a candidate who has abundant experience and knowledge of corporate management, the ability to oversee the decision-making and business execution of the Board of Directors of the Company, which conducts business on a global basis, and is capable of providing appropriate advice from an objective perspective.</p> <p>As he possesses abundant experience as a senior executive of a general chemicals manufacturer and holds extensive knowledge of the chemicals industry, the Company considers him suitably qualified and appoints him as outside director.</p>
Katsumi Nakamura	○	—	<p>Katsumi Nakamura has served as Vice President of Renault (France) and as Director of NISSAN MORTOR CO., LTD. He currently serves as Chairman of the Board of Calsonic Kansei Corporation.</p> <p>In electing an outside director, the Company aims to appoint a candidate who has abundant experience and knowledge of corporate management, the ability to oversee the decision-making and business execution of the Board of Directors of the Company, which conducts business on a global basis, and is capable of providing appropriate advice from an objective perspective.</p> <p>As he has abundant experience as a senior executive of large global corporations, the Company considers him suitably qualified and appoints him as outside director.</p> <p>As he satisfies the requirements of the independence standards stipulated by the Tokyo Stock Exchange as well as the "Criteria for Independence of Outside Officers" separately established by the Company, the Company appoints him as independent officer.</p>

Voluntary Establishment of Committee(s)  
Corresponding to Nominating Committee or  
Remuneration Committee [Update](#)

Established

Committees Voluntarily Established, Composition, and Chairperson's Attributes [Update](#)

	Committee's Name	All Committee Members	Full-time Members	Internal Directors	Outside Directors	Outside Experts	Other	Chairperson
Committee Corresponding to Nominating Committee	Nominating and Remuneration Committee	3	0	1	2	0	0	Internal Director
Committee Corresponding to Remuneration Committee	Nominating and Remuneration Committee	3	0	1	2	0	0	Internal Director

When the Board of Directors elects senior executives and appoints candidates for directors and corporate auditors, the "Nominating and Remuneration Committee" which mainly consists of independent outside directors takes measures, for instance, such as interviewing candidates, to examine credentials and aptitude which would contribute to the improvement of corporate value in the medium and long term. The Board of Directors also reviews these matters in determining the remuneration of directors.

The Board of Directors works to ensure objectiveness, fairness and transparency by giving sufficient respect to its opinions.

### [Corporate Auditors]

Establishment of Board of Corporate Auditors	Established
Maximum Number of Corporate Auditors Stipulated in Articles of Incorporation	No limit on the number of corporate auditors
Number of Corporate Auditors	4 corporate auditors

### Cooperation among Corporate Auditors, Accounting Auditor and the Internal Audit

Corporate auditors, the accounting auditor and the Internal Audit Office collaborate with one another on a regular basis through reporting of audit results and consultation.

Appointment of Outside Corporate Auditors	Appointed
Number of Outside Corporate Auditors	3 auditors
Number of Independent Officers Designated from among Outside Corporate Auditors	3 officers

### Outside Corporate Auditors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company (*)													
		a	b	c	d	e	f	g	h	i	j	k	l	m	
Shuichi Suzuki	Attorney														
Yasuji Matsuyama	Certified Public Accountant														
Yoshitaka Takahashi	From another company														

\* Categories for "Relationship with the Company"

\* "○" when the corporate auditor presently falls or has recently fallen under the category; "△" when the corporate auditor fell under the category in the past

\* "●" when a close relative of the corporate auditor presently falls or has recently fallen under the category; "▲" when a close relative of the corporate auditor fell under the category in the past

a Executive (meaning a person who executes business; hereinafter, the same) of the Company or its subsidiaries

b Non-executive director or accounting advisor of the Company or its subsidiaries

c Executive or non-executive director of a parent company of the Company

d Corporate auditor of a parent company of the Company

e Executive of a fellow subsidiary company of the Company

f A party whose major client or supplier is the Company or an executive thereof

g Major client or supplier of the Company or an executive thereof

h Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company in addition to remuneration as a director/company auditor

i Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a corporation)

j Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the outside corporate auditor himself/herself only)

k Executive of a company, with which outside directors/corporate auditors are mutually appointed (the outside corporate auditor himself/herself only)

l Executive of a company or organization that receives a donation from the Company (the outside corporate auditor himself/herself only)

m Others

Outside Corporate Auditors' Relationship with the Company (2) **Update**

Name	Designation as Independent Officer	Supplementary Explanation of the Relationship	Reasons for Appointment
Shuichi Suzuki	○	—	<p>Shuichi Suzuki is an attorney, and the Company appoints him as outside corporate auditor for the purpose of conducting an objective, proactive and fair audit from the perspective of a professional.</p> <p>As he satisfies the requirements of the independence standards stipulated by the Tokyo Stock Exchange as well as the "Criteria for Independence of Outside Officers" separately established by the Company, the Company appoints him as independent officer.</p>
Yasuji Matsuyama	○	—	<p>Yasuji Matsuyama is a certified public accountant, and the Company appoints him as outside corporate auditor for the purpose of conducting an objective, proactive and fair audit from the perspective of a professional.</p> <p>As he satisfies the requirements of the independence standards stipulated by the Tokyo Stock Exchange as well as the "Criteria for Independence of Outside Officers" separately established by the Company, the Company appoints him as independent officer.</p>
Yoshitaka Takahashi	○	—	<p>Yoshitaka Takahashi has served as a corporate auditor of a listed company, and the Company appoints him as outside corporate auditor for the purpose of conducting an objective, proactive and fair audit by utilizing his abundant experience and broad views.</p> <p>As he satisfies the requirements of the independence standards stipulated by the Tokyo Stock Exchange as well as the "Criteria for Independence of Outside Officers" separately established by the Company, the Company appoints him as independent officer.</p>

**[Independent Officers]**

Number of Independent Officers          5 officers

Other Matters Related to Independent Officers

The Company designates all outside officers who satisfy the requirements of independent officers as such.

**[Incentives]**

Incentive Policies for Directors **Update**          Performance-linked remuneration system

Supplementary Explanation **Update**

Considering the financial results of the Company, the Board of Directors determines remuneration of directors within the total remuneration approved at a General Meeting of Shareholders, in a way that it is linked to consolidated income before income taxes and minority interests .

Recipients of Stock Options

Supplementary Explanation

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**[Director Remuneration]**

Disclosure of Individual Directors' Remuneration          No disclosure of individual remuneration

Total remuneration paid to directors during the previous fiscal year of the Company (from April 1, 2014 to March 31, 2015) is 312 million yen.

Policy on Determining Remuneration  
Amounts and Calculation Methods **Update** Established

#### Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

By considering the financial results of the Company The Board of Directors determines remuneration of directors within the total remuneration approved at a General Meeting of Shareholders, in a way that it is linked to consolidated income before income taxes and minority interests.

### [Supporting System for Outside Directors (Outside Corporate Auditors)]

The Corporate Secretariat Department of the General Affairs Office is responsible for supporting outside directors and outside corporate auditors and handles administrative communications, etc.

### 2. Matters on Functions of Business Execution, Auditing, Oversight, Nominating and Remuneration Decisions (Overview of Current Corporate Governance System) **Update**

#### [Board of Directors]

The Board of Directors, as the decision-making body of management policies and strategies of the Company, currently consists of nine directors and performs its decision-making function for corporate management by holding a regular monthly meeting and ad hoc meetings.

The Company adopts an executive officer system. This is to improve the efficiency of corporate management and the speed of decision-making by clearly separating directors as members of the Board of Directors performing the decision-making function for corporate management from executive officers performing the business execution function and enhancing/activating each function, in order to swiftly and appropriately respond to changes in the management environment. Currently, there are 12 executive officers of whom six serve concurrently as directors.

Of the directors, three are outside directors. Outside directors, with their abundant experience and broad views as top executives, oversee the decision-making of the Board of Directors and business execution by executive officers and provide expert opinions from an objective standpoint.

#### [Nominating and Remuneration Committee]

The "Nominating and Remuneration Committee" which mainly consists of independent outside directors is currently made up of two independent outside directors and one internal director.

When the Board of Directors elects executives and appoints candidates for directors and corporate auditors, the "Nominating and Remuneration Committee" takes measures, for instance, such as interviewing candidates, to examine credentials and aptitude which would contribute to the improvement of corporate value in the medium and long term. The Board of Directors reviews these matters in determining the remuneration of directors.

The Board of Directors works to ensure objectiveness, fairness and transparency by giving sufficient respect to its opinions.

#### [Corporate Auditors]

The Company adopts a corporate auditor system. The Board of Corporate Auditors consists of four corporate auditors and conducts an audit of the decision-making of the Board of Directors and business execution of directors.

Of the corporate auditors, three are outside corporate auditors. Outside corporate auditors, with their expertise in finance, accounting and law, etc. and possessing a high degree of independence, oversee decision-making of the Board of Directors and directors' execution of duties. Specific efforts for enhancement of the functions of corporate auditors are described in "Cooperation among Corporate Auditors, Accounting Auditor and the Internal Audit," "Appointment of Outside Auditors," and "Supporting System for Outside Directors (Outside Corporate Auditors)."

#### [Accounting Auditor]

The accounting auditor of the Company is KPMG AZSA LLC. Certified public accountants who performed account closing operations for the fiscal year ended March 2015 are Koichi Inoue (designated limited partner), Katsumi Hashimoto (designated limited partner) and Masaya Kuze (designated limited partner). There are eight certified public accountants and eight staff members serving as assistants for audit work. Fees (less consumption tax) for the work stipulated by Article 2, Paragraph 1 of the Certified Public Accountants Act (Act No. 103 of 1948) paid to KPMG AZSA LLC total 76 million yen and all other fees (less consumption tax) total 0 million yen.

### 3. Reasons for Adoption of Current Corporate Governance System

The Company believes that the most suitable corporate governance system has been established by adopting a system of audit by corporate auditors including several outside corporate auditors possessing a high degree of expertise and independence on decision making from the Board of Directors' meetings attended by outside directors, who have broad views and expertise, as well as business execution of executive officers.



### III. Implementation of Measures for Shareholders and Other Stakeholders

#### 1. Measures to Vitalize the General Meeting of Shareholders and Smooth Exercise of Voting Rights

Update

##### Supplementary Explanation

Early Notification of General Meeting of Shareholders	The Company annually sends a notice approximately three weeks prior to the date of a General Meeting of Shareholders. On June 2, 2015, the Company sent a notice of the 154th Ordinary General Meeting of Shareholders held on June 24, 2015.
Allowing Electronic Exercise of Voting Rights	Voting rights of the Company may be exercised via the Internet through computer or mobile phone.
Efforts for Improvement of Environment for Exercise of Voting Rights by Institutional Investors such as Participation in the Platform for Electronic Exercise of Voting Rights	The platform for electronic exercise of voting rights for institutional investors managed by Investors Communications Japan, Inc. is available.
Others	Prior to the sending of a notice of the General Meeting of Shareholders on June 2, 2015, the Company posted it on its Japanese website ( <a href="http://www.inabata.co.jp/investor/pdf/notification_150624.pdf">http://www.inabata.co.jp/investor/pdf/notification_150624.pdf</a> ) on May 29, 2015.

#### 2. IR Activities

Update

##### Supplementary Explanation

Explanation by Representative

Preparation and Announcement of Disclosure Policy	The Company has a policy on information disclosure in place and is posted it on its website ( <a href="http://www.inabata.co.jp/english/company/csr/compliance/">http://www.inabata.co.jp/english/company/csr/compliance/</a> ).	
Regular Investor Briefings for Individual Investors	The Company provided one briefing on company information for the fiscal year ended March 2015.	Not Established
Regular Investor Briefings for Analysts and Institutional Investors	The Company provides financial results meetings for analysts and institutional investors twice a year in the second quarter and at fiscal year end.	Established
Regular Investor Briefings for Overseas Investors	The Company holds individual meetings on site for overseas investors in Europe, the US, and Asia.	Established
Posting of IR Materials on Website	The Company posts IR materials on its website ( <a href="http://www.inabata.co.jp/english/investor/index.html">http://www.inabata.co.jp/english/investor/index.html</a> ) such as financial results, information subject to timely disclosure other than financial results, operation overview/shareholder news, securities reports, semiannual reports, quarterly reports, and company brochure.	
Establishment of Department and/or Person in Charge of IR	The IR Department of the Financial Management Office is in charge of IR at the Company.	

#### 3. Measures to Ensure Due Respect for Stakeholders

##### Supplementary Explanation

Formulation of Policies for Provision of Information to Stakeholders	The Company has a policy on information disclosure in place and has posted it on its website ( <a href="http://www.inabata.co.jp/english/company/csr/compliance/">http://www.inabata.co.jp/english/company/csr/compliance/</a> ).
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## IV. Matters Related to Internal Control System

### 1. Basic Views on Internal Control System and the Progress of System Development Update

(Basic Views on Internal Control System and the Progress of System Development)

At the Board of Directors' meeting held on April 30, 2015, the Basic Policy on Development and Improvement of the Internal Control System was partially revised based on the Companies Act and the Ordinance for Enforcement of the Companies Act which took effect on May 1, 2015, and a resolution was passed for the following items.

1. System to Ensure that Performance of Duties by Directors and Employees Complies with Laws and Regulations as well as the Articles of Incorporation

- (1) "Company's motto," "Mission," "Vision," and "IK Values" shall be established.
- (2) Directors or executive officers shall be appointed as persons in charge of internal control and an Internal Control Committee shall be established.
- (3) Directors or executive officers shall be appointed as persons in charge of compliance and a Compliance Committee shall be established.
- (4) Directors or executive officers shall be appointed as persons in charge of internal audits and an Internal Audit Office shall be established.
- (5) Directors or executive officers shall be appointed as persons in charge of personal information protection and a system to ensure compliance with the Act on the Protection of Personal Information shall be established.
- (6) An internal whistle blowing system shall be established, reports shall be received on incidents of violations of compliance, and a system to protect internal whistle blowers shall be established.
- (7) A director who has discovered an incident of a violation of compliance shall report to other directors and corporate auditors in a timely manner.
- (8) A corporate auditor who has recognized problems with the operation of compliance system or internal whistle blowing system shall state opinions and request improvements.
- (9) Matters relating to office regulations and disciplinary action shall be established in the Rules of Employment, and measures shall be taken to ensure the execution of duties by employees comply with laws and regulations and the Articles of Incorporation.

2. System to Store and Manage Information on Performance of Duties by Directors of the Company

For performance of duties by directors, reports are made at the Board of Directors' meeting, and the contents are recorded in the minutes of such meeting, which are properly stored and managed. Moreover, other records concerning the performance of duties are properly stored and managed in accordance with the Rules for Document Management.

3. System Including Rules for Management of the Risk of Loss of the Company

For the risk of loss of the Company, the rules for the management of each risk (including systems) are established and appropriately implemented by the office in charge of supervising matters relating to the risk of loss for each risk category (risks such as finance, legal affairs, environment, quality, credit and natural disaster, etc.).

4. System to Ensure that Duties are Performed Efficiently by Directors of the Company

- (1) The Board of Directors' meetings will be held regularly, in principle once a month and ad hoc meetings shall be held as necessary.
- (2) The Keiei Kaigi(advisory panel on various systems) and The Shinsa Kaigi (organization which reviews credit and individual important cases) consisting of directors and corporate auditors discuss important matters for the Company's management policies and strategies prior to submitting such matters to the Board of Directors.
- (3) The omission of resolutions at the Board of Directors' meeting (approval by documents) is provided for in the Articles of Incorporation to promote efficiency.
- (4) Decision criteria are established to promote efficiency of performance of duties by directors by delegating authority.

5. System to Ensure Appropriateness of Operations of Inabata Group(the Group)

- (1) Efforts shall be taken for all officers and employees of the Group to familiarize themselves with "Corporate Principle," "Management Philosophy ;Mission," "Vision," and "IK Values" of the Company.
- (2) Directors and employees of the Company shall be dispatched to subsidiaries as necessary as officers.
- (3) Subsidiaries shall be under obligation to report sales results, financial position and other important information to the Company on a regular basis in accordance with the Rules for Group Company Management. Moreover, concerning important matters arising at subsidiaries, subsidiaries shall be under obligation to seek permission from the Company beforehand and receive approval for the matter.
- (4) An organization to oversee subsidiaries shall be established, and such organization shall have a system established to supervise and guide the subsidiaries' management.
- (5) Internal audits of the subsidiaries shall be conducted in accordance with the Rules for Internal Audits.
- (6) The internal whistle blowing system of the Company shall have a system established to enable whistle-blowing by officers or employees of subsidiaries.

6. System Relating to Employees Assisting Corporate Auditors' Duties

Upon a request from a corporate auditor for the Company to place an employee to assist with his/her duties, internal rules containing the following content shall be established and an appropriate appointee who is independent from directors shall be appointed.

- (1) An employee assisting a corporate auditor shall perform his/her duties under the direction of the corporate auditor.
- (2) Appointment, transfer, personnel evaluation, wages, disciplinary action of the employee assisting a corporate auditor shall be determined after obtaining the approval of the Board of Corporate Auditors (or if the Board of Corporate Auditors has nominated a specified corporate auditor, the said corporate auditor).
- (3) When selecting the employee assisting a corporate auditor, ample consideration shall be given to that employee's experience, knowledge and leverage, taking into account the important role that constitutes one part of the audit function.
- (4) The directors and employees shall not unreasonably restrict the execution of duties of the employee assisting a corporate auditor.

7. System for Report to Corporate Auditors

To provide a system for reporting to corporate auditors, internal company rules providing for the following content will be established and appropriately put into operation.

- (1) Officers and employees of the Group shall make prompt and appropriate reports when the Company's corporate auditors have requested a report on matters relating to the execution of business.
- (2) Officers and employees of the Group shall provide reports to the Company's corporate auditors or Board of Corporate Auditors whenever deemed appropriate when the Group has incurred significant loss or is at risk thereof.
- (3) Departments inside the Group that have the management responsibility for internal audits, compliance, risk management, subsidiary management, and so forth shall conduct report meetings at the Board of Corporate Auditors on a regular basis or as

deemed necessary.

- (4) The department in charge of the internal whistle blowing system of the Company shall report to the Company's corporate auditors on a regular basis on the status of whistle-blowing incidents from officers or employees of the Group.
  - (5) Officers and employees of the Group shall be forbidden from treating a person who reported information to a corporate auditor disadvantageously because of such action.
8. Other Systems to Ensure that Audits by Corporate Auditors are Conducted Effectively
- (1) The representative director shall hold meetings with corporate auditors on a regular basis, and at such meetings, opinions shall be exchanged on management policies, issues that require the Company's action, major risks surrounding the Company, the status of establishment and operation of internal controls in the Group, the provision of environments for audits by the corporate auditor and important issues concerning audits.
  - (2) When a corporate auditor requests the assistance of a lawyer, certified accountant or other outside professional to assist in the execution of his/her duties, or claims for the cost required to commission investigations, appraisals, or other professional services, the Company shall not be in a position to refuse these requests except in cases when the costs related to the aforesaid claims are deemed not to be necessary for the corporate auditor's execution of duties.

(Status of Development and Improvement of Risk Management System)

Of risks which may affect the Company, credit risk of business partners and risk for legal regulations are monitored and overseen by the Risk Management Office. In order to avoid risk for legal regulations, the Company appropriately receives advice from six lawyers with whom the Company signs an advisory contract.

## 2. Basic Views on Eliminating Anti-Social Groups and the Progress of Related Efforts

In the "Declaration of Compliance Inabata & Co., Ltd.," the Company declares that "We never give in to antisocial groups, we refuse unreasonable demands and avoid easy monetary compromises." In addition, in order to work on the elimination of anti-social groups on a company-wide basis, the Company posts the "Declaration of Compliance Inabata & Co., Ltd." as well as the Compliance Guideline on its internal website and holds training sessions on compliance to keep officers and employees of the Company informed about the importance of eliminating anti-social groups.

The General Affairs Department of General Affairs Office is in charge of handling responses to anti-social groups and a manual is established to respond to a situation. In addition, the Company collects information on anti-social groups in collaboration with the anti-organized crime section of the Metropolitan Police Department and Tokuboren (association of special violence prevention measures) under the authority of the Metropolitan Police Department .

The "Declaration of Compliance Inabata & Co., Ltd." is available on its website (<http://www.inabata.co.jp/english/company/csr/compliance/>).

## V. Other

### 1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures      Established

#### Supplementary Explanation

##### 1. Basic Policy on Party Which Controls Decisions on Financial and Business Policies of the Company

When a specified party tries to make a large-scale purchase whose purpose is to acquire shares of the Company which gives such buyer the power to influence decisions on financial and business policies of the Company, the Company believes the decision of whether to sell shares should be left to the judgment of shareholders of the Company.

However, the Company as a group has 55 subsidiaries and 13 associates at home and abroad across Japan, Southeast Asia, Northeast Asia, the Americas and Europe, operating a wide variety of businesses mainly consisting of manufacturing and sale of products in areas such as IT & Electronics, Chemicals, Life Industry, Plastics, Housing & Eco Materials and others. For the management of the Company, extensive knowhow, abundant experience and the sufficient understanding of relations built with customers/employees and business partners (stakeholders) at home and abroad are essential. If a party which controls decisions on financial and business policies of the Company lacks sufficient understanding of these matters, shareholder value that can be realized in the future may be undermined.

When a large-scale purchase is suddenly made, it is essential that both the buyer and the Board of Directors of the Company provide adequate and sufficient information so that shareholders can make a proper judgment within a short time on whether the price of acquisition of the Company's shares proposed by the buyer is reasonable. Furthermore, even for shareholders who consider continuing to hold the Company's shares, details of the management policy and business plans such buyer considers when participating in the management of the Company (effect of such large-scale purchase on the Company, policy on relations with stakeholders of the Company such as employees, affiliates, customers and business partners) are important information in making a decision on whether to retain such shares. Similarly, the Company believes the opinion of the Board of Directors on such large-scale purchases is also important information for shareholders of the Company for making a decision.

Accordingly, for a large-scale purchase whose purpose is to acquire the Company's shares which gives a buyer the power to influence decisions on financial and business policies of the Company, the Company believes such buyer should, to support the judgment of shareholders, provide necessary and sufficient information on such purchase to the Board of Directors of the Company in advance and begin such purchase only after a certain evaluation period in accordance with certain rules established and disclosed in advance by the Company (hereinafter called the "Rules for Large-Scale Purchase").

Of large-scale purchases, there may be one whose obvious purpose is misuse and which would consequently cause irreparable damage to the Company and thus significantly undermine the benefit of all shareholders of the Company. The Company believes it is necessary for the protection of the interests of all shareholders of the Company that the Board of Directors takes appropriate measures against such purchase in accordance with the Rules for Large-Scale Purchase. As of March 31, 2015, Sumitomo Chemical Co., Ltd. is the largest shareholder of the Company, owning 21.79% of the issued shares. Since the Company became the general distributor in Japan of pharmaceutical products manufactured by Sumitomo Chemical Co., Ltd. in July 1944, the Company has maintained good relations with Sumitomo Chemical Co., Ltd. However, given the fact that the shareholder structure may change with a potential increase in liquidity of the Company's shares due to share transfer by shareholders and that the shareholding ratio of Sumitomo Chemical Co., Ltd. may decrease as a result of new financing from capital markets for future business expansion, it is possible that a large-scale purchase which undermines the benefit of all shareholders of the Company (defined below) may be made.

##### 2. Effective Utilization of Assets, Formulation of Appropriate Corporate Group and Special Efforts Contributing to Realization of Other Basic Policies

As special efforts contributing to realization of the Basic Policy mentioned in 1. above, the Company works on the following efforts.

- (1) Further expansion and deepening of overseas businesses
- (2) Focus on markets with growth potential and undeveloped areas
- (3) Development and expansion of infrastructure for global operation
- (4) Investment for future growth
- (5) Further pursuit of efficiency of fund operations/asset efficiency and enhancement of financial standing
- (6) Continuous development of global human resources

As the above-mentioned efforts are intended to improve the Group's market value and thus reduce the risk of the emergence of a large-scale buyer (defined below) which would significantly undermine the interests of all shareholders of the Company, the Company believes they are in keeping with the Basic Policy on control over the Company described above. As such efforts are intended to improve the Group's value, it is clear that they do not undermine the common interests of shareholders of the Company and do not aim to maintain the position of officers of the Company.

##### 3. Efforts to Prevent Control by Inappropriate Parties of Decisions on Financial and Business Policies of the Company According to the Basic Policy

- (1) Details of Efforts to Prevent Control by Inappropriate Parties on Decisions on Financial and Business Policies of the Company According to the Basic Policy

As efforts to prevent control by inappropriate parties over decisions on financial and business policies of the Company, according to the Basic Policy as mentioned in 1. above, the Company has established the Rules for Large-Scale Purchase applicable to a purchase of share certificates of the Company for the purpose of making the ratio of voting rights of a certain shareholder group 20% or higher, or to a purchase of share certificates of the Company which results in a ratio of voting rights of a certain shareholder group of 20% or higher (in either case, excluding a purchase the Board of Directors of the Company approves in advance, regardless of specific methods of purchase, such as market trade or tender offer; such purchase is hereinafter called a "large-scale purchase" while such buyer is called a "large-scale buyer") and stipulates a policy on how to handle cases where a large-scale buyer complies with the rules and where a large-scale buyer does not comply (hereinafter called the "Policy on Handling of Large-Scale Purchase").

- (2) Fact that the Policy on Handling of Large-Scale Purchase is in accord with the Basic Policy, Does Not Undermine the Common Interests of Shareholders and Does Not Aim to Maintain the Position of Company Officers and Reasons Thereof

###### i. Fact that the Policy on Handling of Large-Scale Purchase Keeps with the Basic Policy

The Policy on Handling of Large-Scale Purchase stipulates details of the Rules for Large-Scale Purchase, the policy of how to handle a case of actual large-scale purchase, establishment of an independent committee and effects on shareholders and investors, etc.

The Policy on Handling of Large-Scale Purchase requires a large-scale buyer to provide necessary and sufficient information on a large-scale purchase to the Board of Directors of the Company in advance and start such purchase only after a certain evaluation period, and specifies that the Board of Directors of the Company would take appropriate countermeasures against a large-scale buyer who fails to comply with these rules.

In addition, the Policy stipulates that when the Rules for Large-Scale Purchase are followed but the Board of Directors of the Company considers a large-scale purchase made by a large-scale buyer significantly undermines the interests of all shareholders of the Company, the Board of Directors of the Company may take appropriate countermeasures against such large-scale buyer in order

to protect the interests of all shareholders of the Company.

As such, the Policy on Handling of Large-Scale Purchase is designed in keeping with the idea of the Basic Policy on control over the Company.

ii. Fact that the Policy on Handling of Large-Scale Purchase Does Not Undermine the Common Interests of Shareholders

As mentioned in 1. above, the Basic Policy on control over the Company is based on the premise that the common interests of shareholders of the Company is respected. The Policy on Handling of Large-Scale Purchase is designed in line with the idea of the Basic Policy on control over the Company and aims to provide information necessary for shareholders of the Company to decide whether to accept a large-scale purchase, offer opinions of the Board of Directors of the Company and guarantee an opportunity to receive an alternate proposal. The Company believes that the Policy on Handling of Large-Scale Purchase contributes to the common interests of shareholders of the Company rather than undermining it.

Furthermore, the Policy on Handling of Large-Scale Purchase is valid for three years, and its effectuation and extension require the approval of the shareholders of the Company. The Policy expires if its extension is not approved at a General Meeting of Shareholders, and a General Meeting of Shareholders of the Company or the Board of Directors consisting of directors elected by a General Meeting of Shareholders may abolish the Policy before its expiration date. The Policy on Handling of Large-Scale Purchase is not a dead-hand type of takeover defense measure (i.e., an anti-takeover measure which cannot be stopped even when a majority of members of the Board of Directors are replaced) or a slow-hand type of takeover defense measure (i.e., an anti-takeover measure which takes time to stop as members of the Board of Directors cannot be replaced simultaneously). These guarantee that the Policy on Handling of Large-Scale Purchase does not undermine the common interests of shareholders of the Company.

iii. Fact that the Policy on Handling of Large-Scale Purchase Does Not Aim to Maintain the Position of Company Officers

The Policy on Handling of Large-Scale Purchase is based on the fundamental principle that whether to accept a large-scale purchase should be left up to judgment of shareholders of the Company, requests compliance with the Rules for Large-Scale Purchase and invokes countermeasures, in order to protect the interests of all shareholders of the Company. The Policy on Handling of Large-Scale Purchase discloses in advance and in detail a case where the Board of Directors of the Company invokes countermeasures, and such countermeasures are exercised by the Board of Directors of the Company in accordance with the rules of the Policy.

When the Board of Directors of the Company assesses, examines and forms its opinions of a large-scale purchase, submits an alternative proposal, negotiates with a large-scale buyer or invokes countermeasures, the Board of Directors shall take advice from independent outside experts, consult the independent committee consisting of members who are independent of the management team engaged in the business execution of the Company, and respect recommendations from this committee to the extent possible. In addition, when recommendations are issued by the independent committee in invoking countermeasures against a large-scale purchase, the Company shall confirm the intention of the Company's shareholders concerning whether to invoke such countermeasures. As such, the Policy on Handling of Large-Scale Purchase includes procedures to ensure proper management by the Board of Directors of the Company.

Based on the above-mentioned overview, it is clear that the Policy on Handling of Large-Scale Purchase does not aim to maintain the position of officers of the Company.

## 2. Other Matters Related to Corporate Governance System

The Company received ISO14001 certification in June 2000 and ISO9001 certification in April 2005 to improve customer satisfaction. The Company consolidated the management system of ISO14001 and ISO9001 in November 2005 to ensure more efficient and effective operation and works to maintain and manage it.

In addition to improvement of customer satisfaction, the Company has made efforts on a company-wide basis for BPR (Business Process Reengineering) activities which fundamentally review and redesign all business processes of the Company in order to dramatically reinforce the risk management capabilities and improve efficiency of operations.

From now on, the Company will work to develop and enhance the corporate governance system in order to improve satisfaction of all stakeholders through establishment, maintenance and improvement of the internal control system responding to the internal control reporting system based on the Companies Act and the Financial Instruments and Exchange Act.

(Overview of Timely Disclosure System)

### 1. Internal System for Timely Disclosure of Company Information

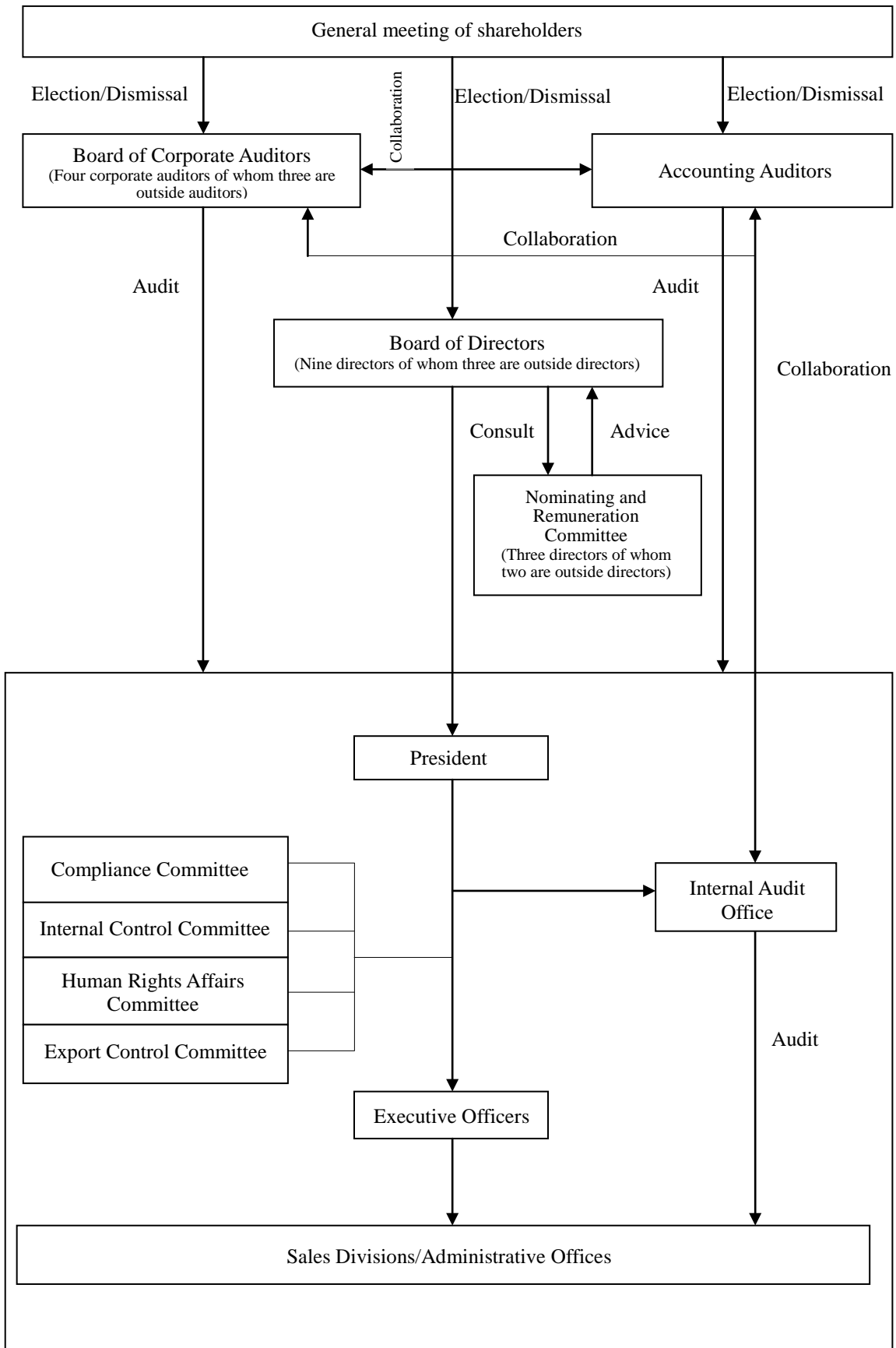
The Company discloses matters required by law and company information to stakeholders, including shareholders and investors, on a timely basis via its website and other means of communication including various printed materials. The means for information communication are as follows.

The Financial Management Office collects requests for approval (matters presented based on the Rules for Request for Approval) presented by each division (including subsidiaries), matters presented and approved by the Shinsa Kaigi (organization which reviews credit and individual important cases) and the Keiei Kaigi (advisory panel on various systems) and significant facts reported by various reports, and determines whether such items are subject to disclosure. When such items are subject to disclosure, the person responsible for information disclosure formulates a plan for the disclosure statement. Subsequently, the President submits an original proposal of disclosure statement to the Board of Directors, the approval body, to obtain approval, and then the Financial Management Office discloses information.

### 2. Check Function of Internal System for Timely Disclosure

The Legal Department of Risk Management Office (office in charge), the General Affairs Office and the Financial Management Office (main consulted parties) check requests for approval and reports presented, and verify their accuracy. For matters presented to the Shinsa Kaigi and the Keiei Kaigi, the Legal Department of Risk Management Office (office in charge) and the General Affairs Office, as well as the Shinsa Kaigi and the Keiei Kaigi check the accuracy.

The chart of the corporate governance system of the Company is as below.



The chart of the timely disclosure system of the Company is as below.

