
Corporate Governance

February 2023
Inabata & Co., Ltd.

Topics

- In May 2022, revised final-year (FY03/24) targets for the current medium-term management plan
- In June 2022, transitioned to a company with Audit & Supervisory Committee; independent outside directors make up 55% of the Board
- Reduction in strategic shareholdings proceeding in line with plan
- Identified materiality issues; slated to set performance indicators, targets, and plans in FY2023
- Implemented measures to mitigate climate change; will foster disclosure of information based on the TCFD recommendations

1. Company Overview and Medium-Term Management Plan ... P 3
2. Shareholder Return Policy ... P 13
3. Corporate Governance ... P 15
4. Sustainability ... P 26

Company Overview and Medium-Term Management Plan

About Inabata:

1. Founded in 1890

The Company was founded in Kyoto in 1890 as an importer of dyestuffs. The business was later expanded with a focus on chemicals.



Inabata Dye Shop (Nishijin, Kyoto)

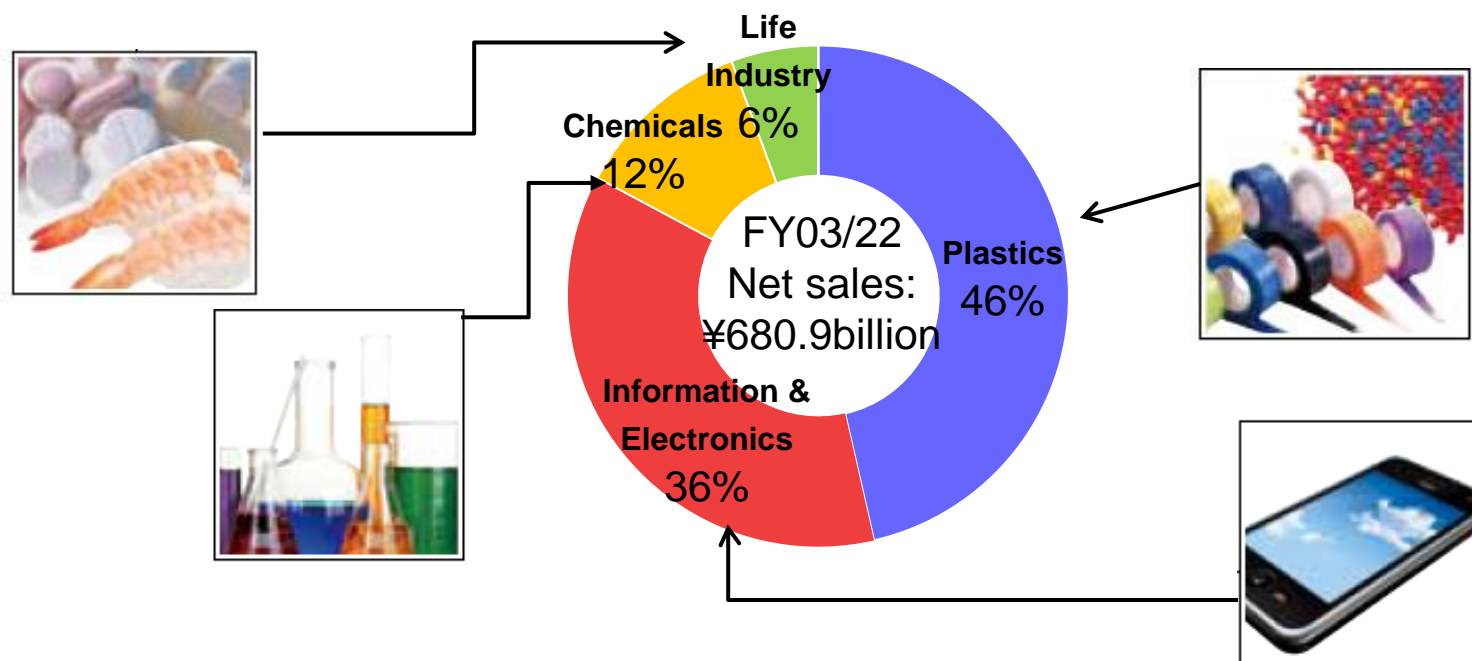
2. A globally expanding, multifaceted trading company

The company operates at 60 locations across 18 countries. Business functions include market development, manufacturing and processing, logistics, and finance. Our plans and proposals are based on specialized expertise and knowledge of products and markets.

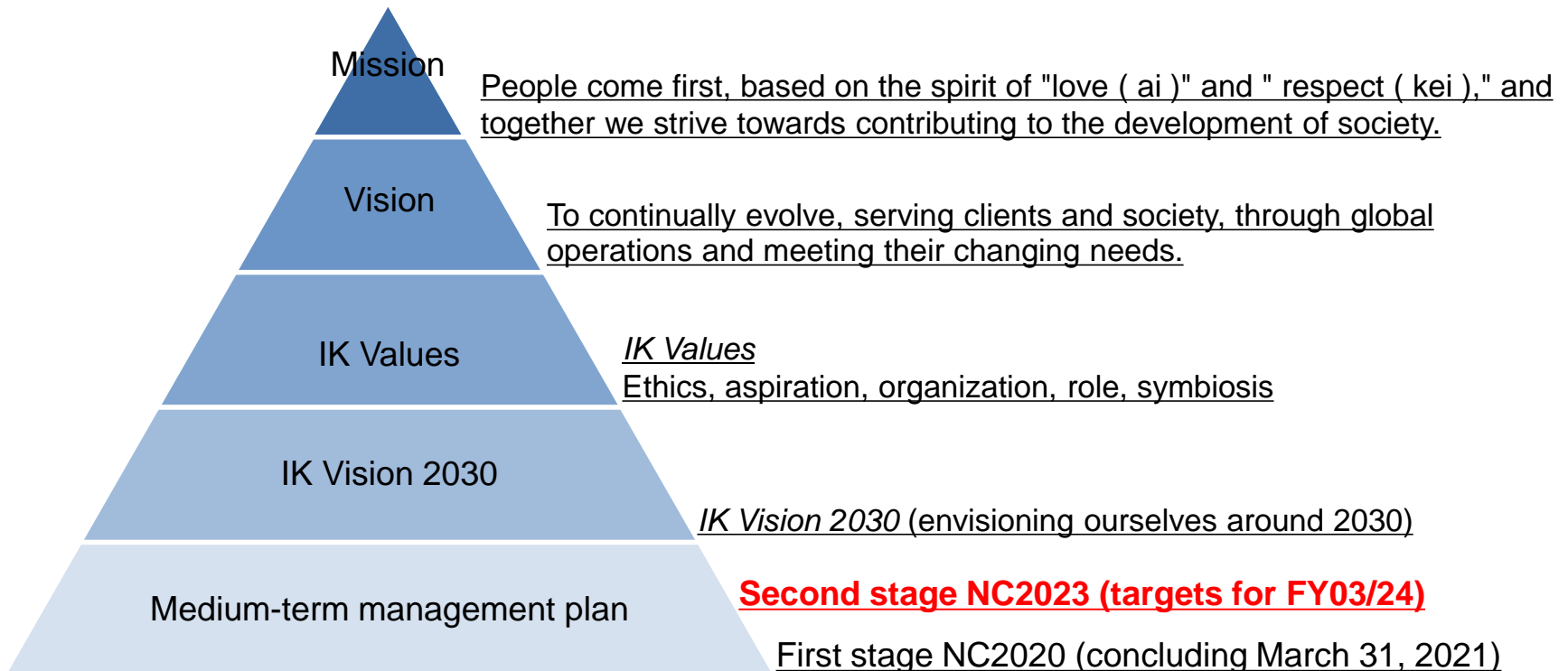


3. Four business segments

We operate in four segments: Information & Electronics, Chemicals, Life Industry, and Plastics.



- Second-stage medium-term management plan on the way to our long-term vision, *IK Vision 2030*



- Inabata's aspirations for itself in around 2030

Reach consolidated net sales of **¥1 trillion**

Further enhancing multifaceted capabilities (such as manufacturing, logistics, and finance) in addition to trading

At least **one-third** of business from segments other than Information & Electronics and Plastics

Overseas business
70% or more

[Formulated May 2017]

Quantitative Targets of NC2023



Results in the first year of the plan exceeded goals for the final year in terms of both sales and profit, so goals and performance indicators for the final year were adjusted upward based on the business environment and future outlook.

Numerical goals and performance indicators	NC2023 FY03/2024 Initial goals		NC2023 FY03/2024 Revised goals
Net sales	¥670.0 billion		¥800.0 billion
Operating profit	¥16.5 billion		¥20.5 billion
Ordinary profit	¥17.0 billion		¥21.5 billion
Profit attributable to owners of parent	¥16.0 billion		¥22.5 billion
ROE	8% or more		10% or more
Net debt/equity ratio	0.3x or less		0.5x or less
Equity ratio	50% or more		Approximately 40–50%
Exchange rate	USD1=¥105.00		USD1=¥120.00

Note: May 2022 disclosure

: Net D/E ratio = (interest-bearing debt – cash and deposits) / equity capital

Key Initiatives for *NC2023*



- No change was made to the six Key Initiatives; Inabata will continue working on them.

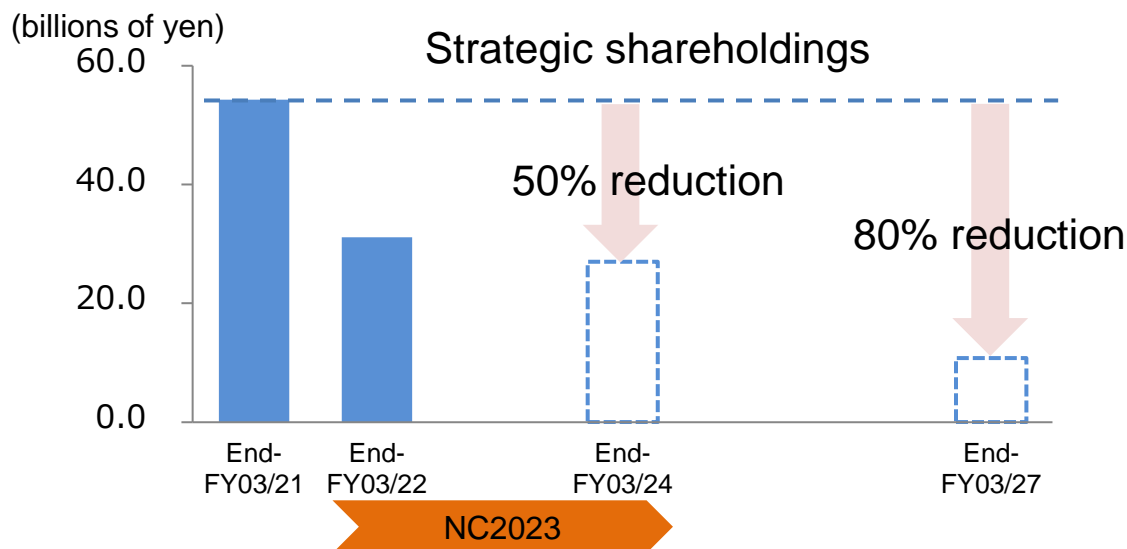
Key Initiatives for NC2023

- 1. Further development of core businesses and horizontal expansion into growth sectors**
- 2. Multi-faceted approach to markets with potential for future growth and steady monetization efforts**
- 3. Intensification of investment targeting future growth**
- 4. Further improvement of global management information infrastructure**
- 5. Continuous review of assets and further improvement of capital and asset efficiency**
- 6. Enhancement of human capital utilization efforts**

In addition to the policy covering the three years of NC2023, added a longer-term policy covering years after that

- Reduce the balance of strategic shareholdings at the end of March 2021 by half during the three years of NC2023
- Further reduce strategic shareholdings in the medium to long term, cutting the balance of strategic shareholdings at the end of March 2021 by about 80% in the next five years (by the end of March 2027)

→ Funds procured from the sale of strategic shareholdings are in principle allocated to shareholder returns and growth investment



Sales of strategically held shares	
FY03/17	¥4,549 million
FY03/18	¥9,017 million
FY03/19	¥5,298 million
FY03/20	¥3,026 million
FY03/21	¥2,944 million
FY03/22	¥9,367 million
FY03/23*	¥7,719 million

* As of December 31, 2022

Notes: The balance of strategic shareholdings in the figure above is the total of the Company's shareholdings in listed companies in Japan. Strategic shareholding balances have been calculated using fiscal year-end stock prices.

3. Intensification of investment targeting future growth

- We will consider investing in the following sectors and fields to achieve expansion in the trading business.

Segment	Key Initiatives
Information & Electronics	<ul style="list-style-type: none"> • Batteries and other elements of renewable energy
Life industry	<ul style="list-style-type: none"> • Upstream and downstream domains associated with food products and agriculture (especially processing functions) • Regenerative medicine and other growth areas
Plastics	<ul style="list-style-type: none"> • Pursue manufacturing functions with the aim of achieving enrichment in the automotive sector • Automation and labor saving in manufacturing divisions for compounds, etc.
Chemicals	<ul style="list-style-type: none"> • Mobility sector

Basic Policy on Shareholder Return

During NC2023

■ Progressive dividends

We will ensure that dividend per share does not decline year on year by continually increasing our dividends

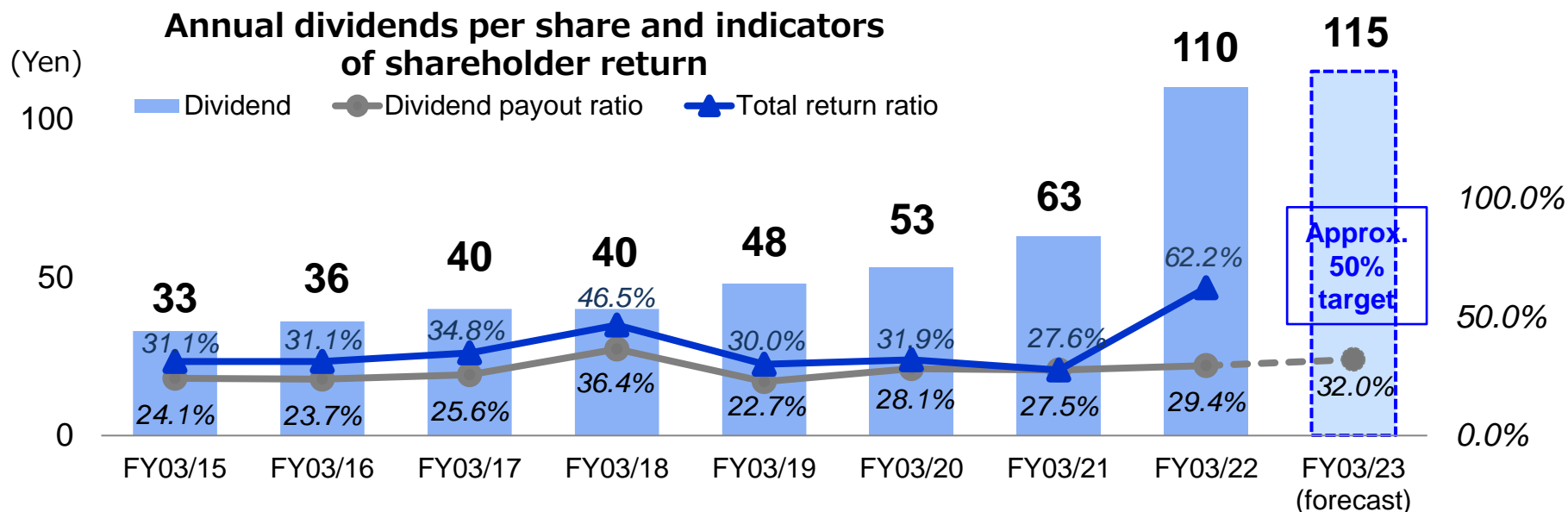
■ Target total return ratio of around 50%

However, in fiscal years when the Company has recorded a considerable amount of cash inflows from the sale of strategically held shares, instead of being strictly bounded by the target total return ratio, the Company will return profits to shareholders after comprehensive consideration of various factors including future funding needs, financial position, stock price, and market conditions.

NC2023 Returning Profits to Shareholders



- As planned, we expect to issue dividends of ¥115 per share for FY03/23 (interim dividend of ¥50 per share and a year-end dividend of ¥65 per share).
- We repurchased and canceled treasury shares to improve capital efficiency.



Treasury shares	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23*	
Acquisition amount	604	707	891	679	936	425	-	7,499	1,478	(Millions of yen)
No. of shares acquired	600	600	600	400	600	300	-	3,085	600	(Thousands of shares)
No. of shares cancelled	1,660	-	-	-	-	-	-	2,700	3,685	(Thousands of shares)

Note: February 8, 2023 disclosure

Acquisition of treasury shares up to 1,200,000 shares for maximum purchase price of ¥4 billion, between February 10–July 31, 2023

* Amounts current as of December 31, 2022

Corporate Governance

A strong corporate governance foundation is essential to achieving our Mission and Vision

→Continue revamping and strengthening the governance structure

[Mission]

People come first, based on the spirit of “love (ai)” and “respect (kei)” and together we strive towards contributing to the development of society.

[Vision]

To continually evolve, serving clients and society, through global operations and meeting their changing needs.

June 2022

Transition to Company with Audit and Supervisory Committee
Transition to monitoring-type Board of Directors where independent outside directors account for more than half

Directors (excluding audit and supervisory committee members)

7 persons



Outside

Directors (audit and supervisory committee members)

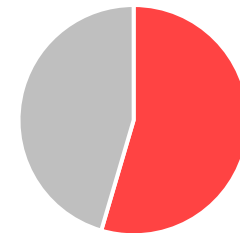
4 persons



Outside

Ratio of independent outside directors

55% (6 out of 11)



Experience and expected roles of directors



In light of our mission, aspirations, long-term vision IK Vision 2030, and medium-term management plan NC2023, we, as a global business operator, have identified skills necessary to build a framework to enable the Board of Directors to fulfill their roles of decision making and supervision of business execution, and created a skills matrix as below.

Name	Business strategy										
	Global management	Information & Electronics	Plastics	Chemicals / Life Industry	Finance & accounting	Legal & risk management	HR & labor	IT & digital	Internal controls & audits	ESG	
Directors	Katsutaro Inabata	●		●	●			●	●	●	●
	Toyohiro Akao		●		●						
	Kenichi Yokota					●	●	●	●	●	●
	Masahiro Sugiyama		●	●	●						
	Kenji Ohno						●			●	●
	Kiyoshi Sato*	●									
	Takako Hagiwara*							●			●
Directors (Audit and Supervisory Committee Members)	Kenji Hamashima*	●				●					
	Satoshi Tamai*					●				●	
	Minoru Sanari*						●				
	Tomokazu Fujisawa*									●	

Note: Those marked with * are independent outside directors.

Composition of Board of Directors (Outside Directors)

- Two outside directors who are not audit and supervisory committee members

We aim to enhance supervisory functions and increase corporate value by taking advantage of the outside directors' extensive experience and wide-ranging insight into company business.



Kiyoshi Sato*

[Lead outside director/Chair of Nominating and Remuneration Committee](#)

Background

Former President and CEO - Tokyo Electron Ltd.

Current Director (Outside) – Shibaura Machine Co., Ltd. and Mazda Motor Corp.

Reasons for appointment

Mr. Sato has extensive experience in global business operations as top management of a leading producer of manufacturing equipment for semiconductors and flat panel displays.



Takako Hagiwara*

[Nominating and Remuneration Committee Member](#)

Background

Current Representative Director, DDD Corp.

Current Outside Director, Twinbird Corp.

Current Outside Director, NEC Capital Solutions Ltd.

Reasons for appointment

Ms. Hagiwara has extensive experience as a member of top management in charge of HR at a major electronics manufacturer that operates multiples businesses globally.

(*) Mr. Kiyoshi Sato and Ms. Takako Hagiwara are registered as independent outside officers with the TSE.

Composition of Board of Directors (Outside Directors)

- Four outside directors who are audit and supervisory committee members



Kenji Hamashima*

[Head audit and supervisory committee / Nominating and Remuneration Committee member](#)

Background

Former President and Chief Executive Officer – Ushio Inc.

Reasons for appointment

Mr. Hamashima has extensive experience in global business operations as top management of a manufacturer handling applied optics products and industrial machinery.



Satoshi Tamai*

Background

Current Representative, Satoshi Tamai certified Public Accountant Office
Current Outside Auditor, Toho Lamac Co., Ltd., PC Dept Corp.

Reasons for appointment

Mr. Tamai has extensive experience as a representative partner at a major Japanese auditing corporation, and as an outside auditor at multiple companies.



Minoru Sanari*

Background

Former Executive Officer, Tokyo Gas Co., Ltd.
Current Senior Adviser, Tokyo Gas Co., Ltd.

Reasons for appointment

As an attorney at Japan's largest city gas company, Mr. Sanari has specialized knowledge and extensive experience in corporate legal affairs and governance.



Tomokazu Fujisawa*

Background

Former Director, Audit & Supervisory Committee Member, Astellas Parma Inc.

Reasons for appointment

Mr. Fujisawa has experience in auditing operations and at overseas subsidiaries for a global pharmaceutical company, as well as extensive experience as a director and member of the Audit & Supervisory Committee.

(*) Mr. Kenji Hamashima, Mr. Satoshi Tamai, Mr. Minoru Sanari and Mr. Tomokazu Fujisawa are registered as independent outside officers with the TSE.

[Nominating and Remuneration Committee] (Voluntary)

Established in 2015

Ensures objectivity, fairness and transparency with respect to appointing senior management, nominating director and executive officer candidates, and making decisions on director remuneration

Independent outside directors are key members

- Chairperson : lead independent outside director
- Current membership: 3 independent outside directors and 1 internal director
- Number of times held: FY03/2022 12 times

Objective - To increase corporate value by enhancing the effectiveness and transparency of the Board of Directors; evaluation of the Board began in 2015

■ FY03/2021

Conducted third-party evaluations of all directors and Audit & Supervisory Board members through questionnaires and interviews

■ FY03/2022

Performed a self-evaluation of all directors and Audit & Supervisory Board members using a survey format

■ FY03/2023

Self-evaluation of all directors using questionnaires currently underway
⇒ Plans to disclose results of the evaluation and measures to be taken in April 2023

FY03/2022 (self-evaluation)

Summary of evaluation

- The composition and operating status of the Board received high marks overall.
- Open and lively discussions were confirmed.
- Outside officers (directors and auditors) made contributions.
- There was sufficient reporting on the status of dialogues with investors and shareholders

Improvements based on issues raised in third-party evaluations in FY03/2021

- Conducted free discussions outside of the Board of Directors, to promote debate on medium to long-term issues such as diversity and sustainability
- Established a new company-wide Business Planning Office to strengthen company-wide, cross-sectional functions
- As part of an ongoing review of the composition of the Board of Directors, decided on a transition to a company with Audit and Supervisory Committee

Issues to be considered in the future

- Further discussions on succession planning and sustainability
- Provision of sufficient information by the Nominating and Remuneration Committee to the Board of Directors
- Improvement in communication among outside directors which had been inadequate due to the impact from the COVID-19 pandemic
- Further enrich communicating information to capital market

■ Remuneration for directors who are not audit and supervisory committee members

(1) Fixed remuneration*

(2) Performance-based remuneration:

Calculated by multiplying the fixed remuneration for each position in (1) by a coefficient for:

- Profit before income taxes and non-controlling interests (excluding gains on sales of certain strategically held shares)
- ROIC (return on invested capital)
- Each level of ESG scores from multiple external evaluation organizations (FTSE Russell and MSCI)

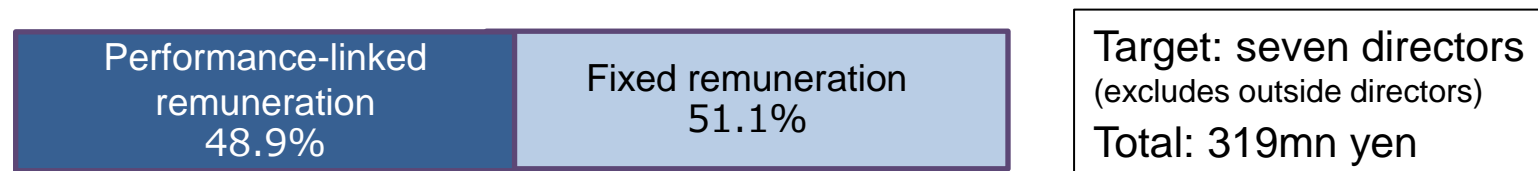
(3) Board Benefit Trust (BBT)

Introduced in June 2018 to enhance motivation to contribute to medium- to long-term expansion in corporate value

■ Remuneration for directors who are audit and supervisory committee members

(1) Fixed remuneration only

Ratio of performance-linked remuneration and fixed remuneration in FY03/2022



* Remuneration for directors who are not executive directors is fixed remuneration only

Major Business Risks

The 11 risks outlined in the matrix below are considered significant risks the Group is facing. The matrix maps out the risks in terms of their potential impact on business performance and the possibility of occurrence, taking into consideration the results of risk evaluation analysis and management's response to risk awareness in the Board Effectiveness Assessment conducted in FY03/22.

Impact on business performance	Huge		<ul style="list-style-type: none"> • Credit risk of business partners • Potential risks of overseas activities • Risk related to business investment 		
	Medium	<ul style="list-style-type: none"> • Risk related to business restructuring • Environment-related risks 	<ul style="list-style-type: none"> • Risk of fluctuations in product markets • Risk of natural and other disasters 	<ul style="list-style-type: none"> • Risk of fluctuations in foreign exchange rate 	
	Small	<ul style="list-style-type: none"> • Risk related to laws and Regulations • Risk of fluctuations in retirement benefit obligation 		<ul style="list-style-type: none"> • Risk of decline in value of securities held 	
		Low	Medium	High	Possibility of occurrence

• Business Continuity Plan (BCP)

Since 2018, Inabata has promoted the formulation and adoption of BCP at major business bases, including group companies in Japan and overseas.

Sustainability

- We will push forward with sustainability management in accordance with our corporate group's mission, which emphasizes respect for humankind.

October 2021	Established Sustainability Committee Chaired by the Company president; all directors, including those from outside the Company, participate in the Committee as a member or observer
November 2021	Formulated the Inabata Group Sustainability Basic Policy and the Code of Conduct
April 2022	Signed UN Global Compact (UNGC)
June 2022	Announced “2050 Carbon Neutrality Declaration*” Defined materiality issues Began disclosures in accordance with TCFD recommendations

* Targets the amount of internal emissions(Scope 1 and 2)

- We have identified priority issues with impact on our pursuit of sustainable growth (June 2022).

- **Materiality identification process**

STEP1 List social issues

Refer to international guidelines (GRI, SASB, SDGs, ISO 26000, UNGC10 principles, etc.)

Refer to external evaluations and requests (various ESG surveys such as FTSE and MSCI, investor requests, etc.)

STEP 2 Extract issues and evaluate importance

The Sustainability Committee Secretariat and Sustainability Promotion Members narrow down issues and evaluate their importance

The Sustainability Committee deliberates on tentatively identified materiality

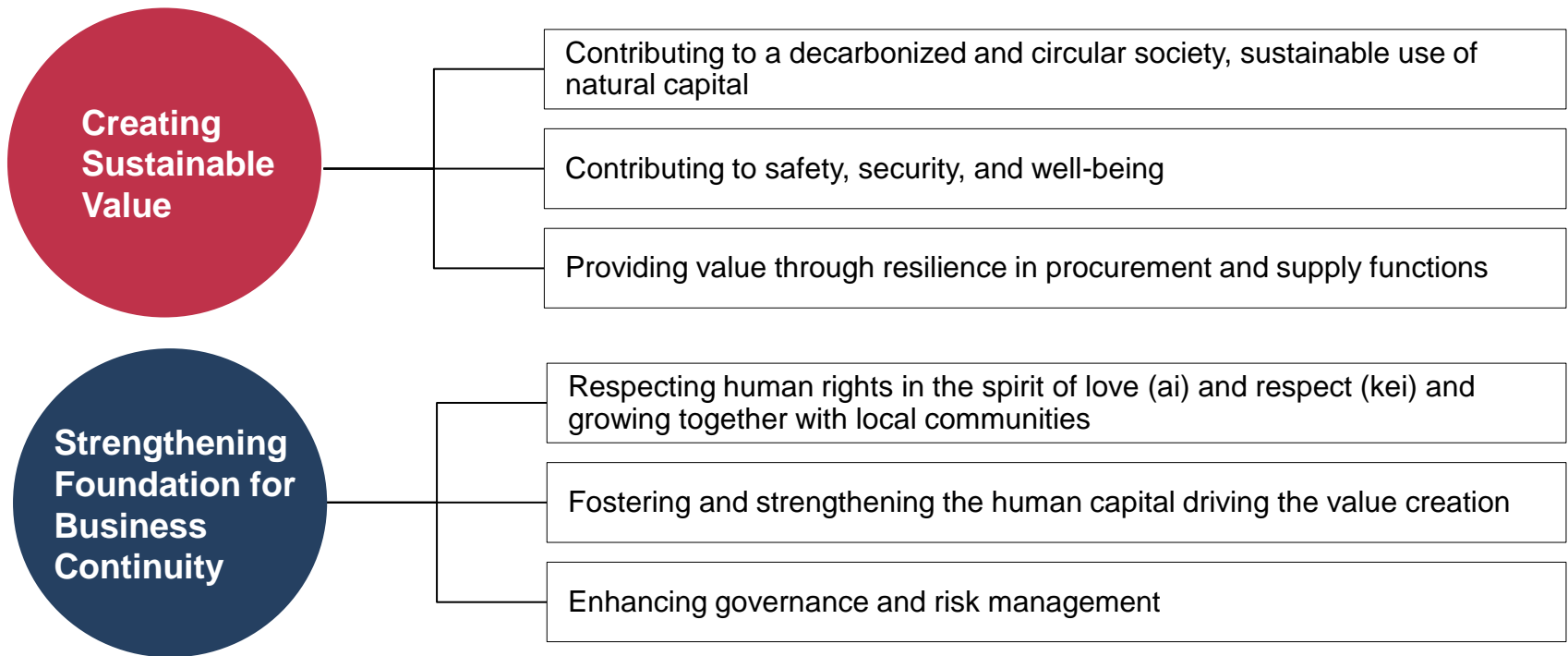
STEP 3 Verify validity from an external perspective

Hold stakeholder dialogues with external experts

STEP 4 Management makes decision

The Sustainability Committee discusses and decides on candidate materiality based on external opinions

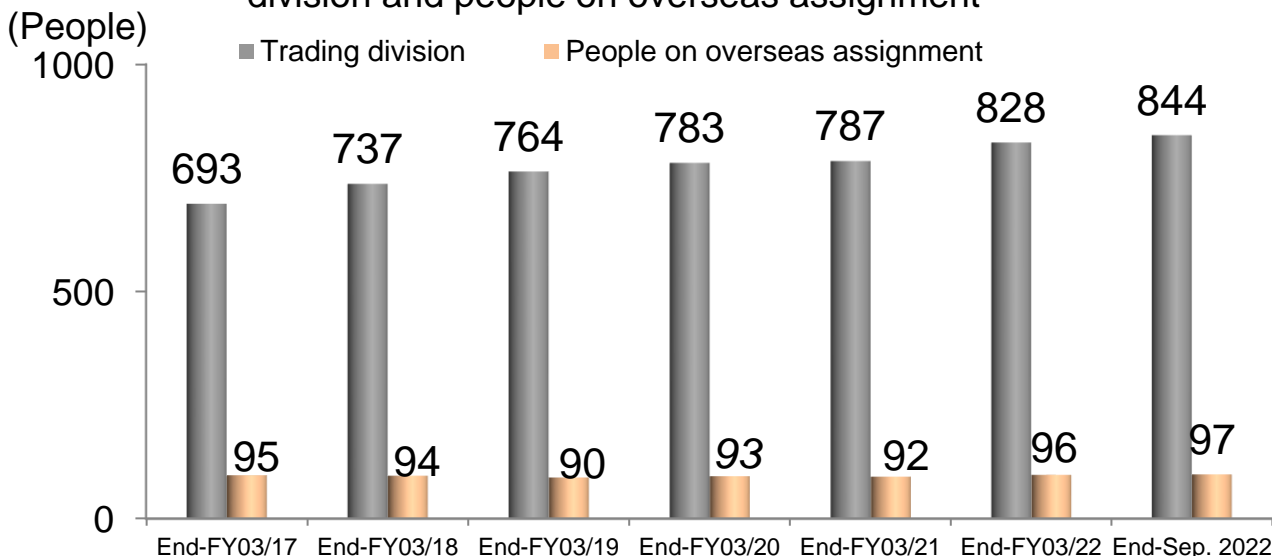
■ Inabata Group Materiality



Our strengths lie in our human resources and information

- We established the Global Human Resources Management Department in January 2022. Moving forward, we will intensify our focus on the centralized management and development of global human resources.
- Promoted diversity (encouraging active participation from women and supporting prosperous activity among the elderly).
- Established a human rights policy. Regarding human rights due diligence, we are identifying priority human rights issues.

Number of overseas personnel in the trading division and people on overseas assignment



Notes: The number of people on overseas assignment is as of the first day of the following month.



Employees at Inabata France

Fostering and Strengthening Human Capital



Identifying issues through engagement surveys to increase HR capabilities, the source of value creation

- ✓ In HR systems and training, which were issues in FY2021, further enhanced internal recruitment, career development support system, training for managers, and also introduced a video learning support system

		April 2021	May 2022	Trend
Number of employees surveyed	Total (Inabata & Co., Ltd. / Main overseas trading companies)	1,400 (587/813)	1,697 (708/989)	↗
Response rate	Total	49%	73%	↗
Main items*	【Engagement】 I am satisfied with the work I am doing at Inabata now	70%	73%	↗
	【Relationship with superiors】 I have the necessary collaboration with my supervisor at work	75%	80%	↗
	【Organizational culture】 When a problem occurs in the course of my duties, my supervisor and the people around me provide appropriate support	83%	85%	↗
	【Corporate philosophy】 I can relate to Inabata's philosophy, vision and management policies, and I want to participate in achieving them	70%	73%	↗
	【Human resources system and benefits】 Inabata's salary standards are satisfactory, compared to other companies in the same industry	59%	55%	↘
	【Human resources system and training】 Inabata supports employee training to improve their skills	41%	48%	↗
	【WLB (work-life balance)】 Overtime is kept to a level that is acceptable for me	64%	69%	↗

*Note: The percentage of respondents who chose either (5) Strongly agree or (4) Agree on a five-point Likert scale.

- Identified as a priority issue (materiality) “Contributing to a decarbonized and circular society”
- June 2022 Announced “2050 Carbon Neutrality Declaration*”
- June 2022 Began disclosures in accordance with TCFD recommendations

<Results of impact assessment>

- While there are some financial risks associated with climate change, they are not as significant as to disrupt business
- For trading companies, the greater changes in the external environment, the higher an increase in the customer needs they lead to. Therefore, business opportunities, rather than risks, could have greater impact on the Company’s future growth.
- By business category, climate change has had characteristic effects on the renewable energy-related and food (e.g., agriculture and marine products) businesses

⇒ Scenario analysis, Scope 1 and 3 calculations, and short- and medium-term targets will be released in FY2023

Products that Reduce Environmental Impact

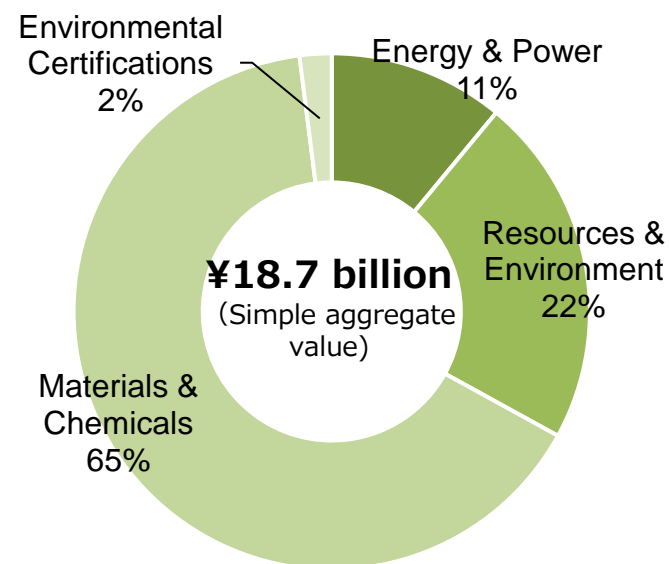


Expand sales of products that reduce environmental impact, as part of “Multi-faceted approach to markets with potential for future growth and steady monetization efforts,” a key initiative in NC2023

Environmental impact reduction product fields

Field	Main contents
Energy & Power	Renewable energy, Alternative fuels, etc.
Resources & Environment	Sustainable raw materials, Recycling, etc.
Materials & Chemicals	Low-carbon materials, EV・/battery materials, etc.
Agriculture & Food	Food waste reduction, Soil improvement, etc.
Transportation & Logistics	EV charging, Green logistics, etc.
Environmental certifications	FSC, MSC, ASC, etc.

FY2021: Sales for environmental impact reduction products



Scope: Inabata Group (worldwide consolidated)
 *FY2021: No results for “Agriculture & Food” and “Transportation & Logistics”

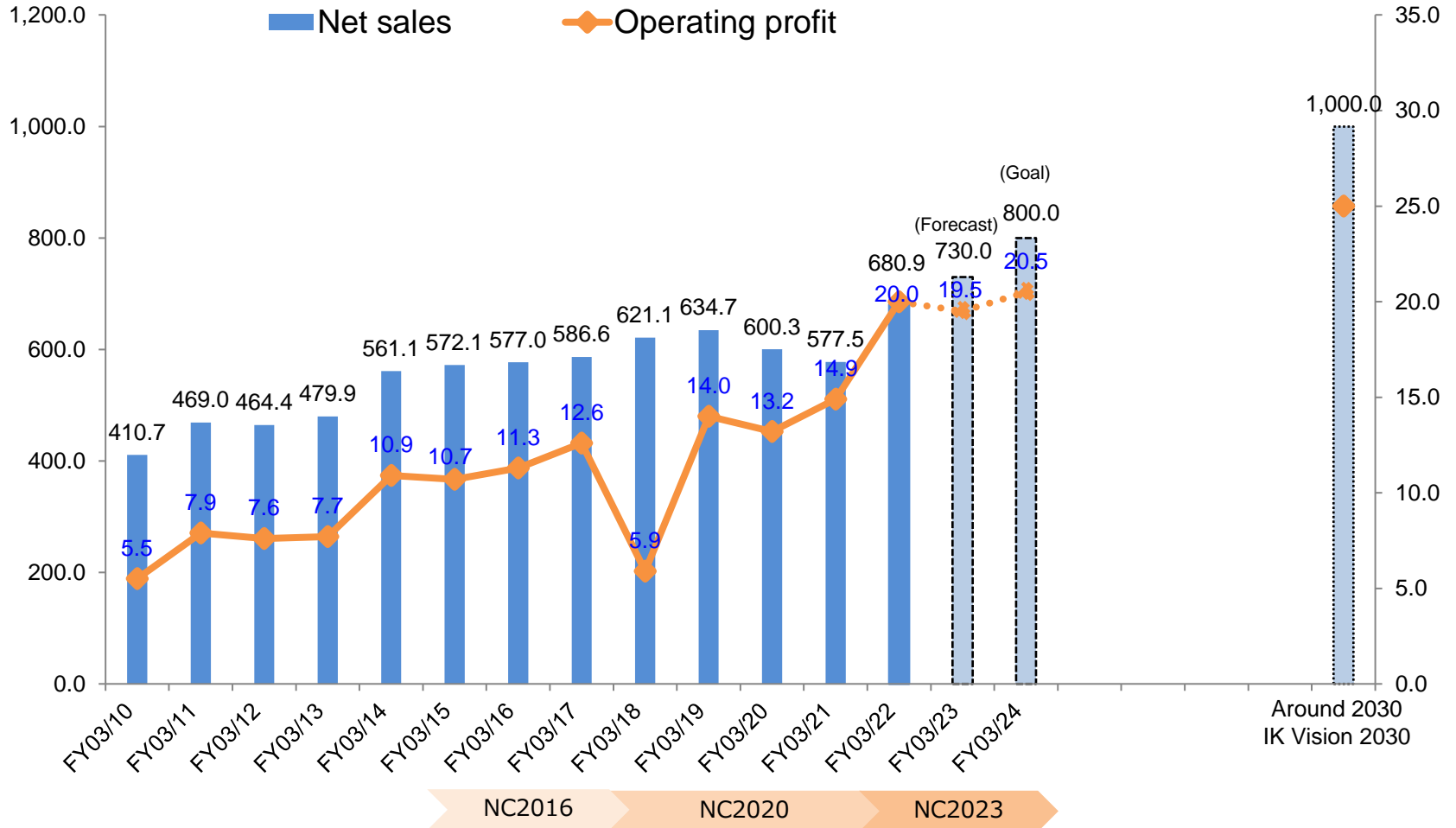
Forest Stewardship Council: FSC certification ensures that products come from responsibly managed forests and recycled resources.
 Marine Stewardship Council: MSC certification ensures that marine products obtained through sustainable fishing.
 Aquaculture Stewardship Council: ASC certification ensures that marine products produced through sustainable farming.

Reference: Net Sales and Operating Profit



(Net sales: Billions of yen)

(Operating profit: Billions of yen)



Notes: Inabata has adopted Accounting Standard for Revenue Recognition (ASBJ Statement No. 29) effective from FY03/22.
Recorded allowance for doubtful accounts at a European subsidiary in FY03/18: Full Year: ¥6.65 billion.

1. Global management

We are developing our business globally, and in particular, our long-term vision IK Vision 2030 envisages increasing the ratio of our business conducted overseas to 70% or more. From this perspective, we believe that it is extremely useful to appoint people with knowledge of global corporate management to the Board of Directors in order to promote our future growth. For this reason, when inviting outside directors, we take particular care to ensure that their experience includes top management of companies with global operations, or equivalent experience. The “global management” item in the skills matrix is based on the presence or absence of top management or equivalent experience at companies with global operations.

2. Business strategy

In managing a specialized trading company such as ours, first and foremost, executives must have in-depth expertise and experience in each business field. In particular, it is extremely important for executive directors to have broad knowledge, experience, and personal connections in each of our business fields—Information & Electronics, Plastics, Chemicals, and the Life Industry—in order to develop a trading company business like ours. When appointing executive directors, we consider the balance of those with knowledge in these business fields.

3. Finance & accounting

The importance of financial strategy (corporate finance) in corporate management goes without saying. We believe that it is necessary for some executive directors to be in charge of financial strategy, and to spearhead initiatives to enhance corporate value through various dialogues with investors. In addition, in order to strengthen the supervisory function over business execution, we believe that it is useful to ensure that directors who are familiar with finance and accounting are included on the Audit and Supervisory Committee.

4. Legal & risk management

As a company with a wide range of global operations, we are exposed to a variety of risks, including credit risks of our business partners, risks associated with business investments, country risks associated with overseas operations, currency exchange risks, and commodity market fluctuation risks. Therefore, risk management is extremely important for management. We are committed to management that emphasizes compliance above all else, and in order to strengthen the supervisory function over business execution, we believe that it is useful to always have directors who are familiar with the law as members of the Audit and Supervisory Committee.

5. HR & labor

For a trading company such as Inabata, human resources are our greatest asset, and human resource development is an important management issue over the medium to long term. In our medium-term business plan, the NC2023, we are working to improve our initiatives for training global human resources, further enhancing our systems to increase diversity, boosting employee engagement, and reforming work styles. From this perspective, we believe that it is desirable to have directors with experience and skills in human resources and labor affairs, and we place importance on these perspectives when inviting outside directors.

6. IT & digital

Knowledge of IT and digital technology is indispensable for promoting digital transformation (DX). In addition, threats to information security are increasing year by year, and we believe that IT and digital skills are necessary to strengthen our countermeasures against such threats.

7. Internal controls & audits

In June 2022, we transitioned to a company with an audit and supervisory committee, with the aim of speeding up management decision-making and strengthening the supervisory function of business execution. A company with an audit and supervisory committee must effectively utilize the company's internal control system and conduct systematic audits. From this perspective, we believe it is essential that the directors who are members of the Audit and Supervisory Committee include persons with expertise and experience in internal control and auditing.

8. ESG

We established the Sustainability Committee in October 2021, and regard the promotion of sustainability as an important management issue. We also consider the improvement of external ESG assessments to be an important issue. From this perspective, we believe that it is necessary to include persons with knowledge of sustainability and ESG in corporate management on the Board of Directors, and we take these points into consideration when inviting outside directors.

□ IR-related inquiries:

IR Department, Financial Management Office
Inabata & Co., Ltd.
E-mail: inabata-ir@inabata.com

◆Cautionary note regarding forward-looking statements

The data and future predictions contained in this document are forward-looking statements, based on information available and judgments applicable at the time of the document's release. The data and forecasts contained herein may include elements that are subject to change. This document and its contents are no guarantee of future performance.

◆Presentation of numerical figures

Figures in this document presented in millions and billions of yen have been rounded down. Consequently, certain discrepancies may exist between individual values and total values, or values showing changes between sets of data.