Translation

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CORPORATE GOVERNANCE

Last Updated: June 24, 2016

Inabata & Co., Ltd.
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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

As of November 11, 2015, the Company was not yet implementing the principles below, but it has now taken the following action to implement each of these principles.

[Principle 1-2] Exercising rights at general meetings of shareholders
Supplementary Principle 1-2-4 (English translations of notices of convocation of general meeting of shareholders)
The Company prepared an English translation of the summary of the Notice of Convocation of the 155th Ordinary General Meeting of Shareholders and posted it on its English website, as well as on websites of Japan Exchange Group, Inc. and the platform for electronic voting.

[Principle 2-2] Drafting and implementation of code of conduct
Supplementary Principle 2-2-1 (Report to meetings of the board of directors of implementation of code of conduct)
The Company stipulated in its regulations for the board of directors that a report regarding the extent to which the Company's code of conduct ("IK Values") is known and implemented throughout the Company should be included in the business execution report of the director in charge of human resources at least once a year. The director in charge made such a report to the board of directors' meeting held in April 2016.

[Principle 2-3] Sustainability issues, including social and environmental matters
Supplementary Principle 2-3-1 (Report to meetings of the board of directors of response to sustainability issues including social and environmental matters)
The Company stipulated in its regulations for the board of directors that a report regarding its measures related to ISO14001 certification should be included in the business execution report of the director in charge of ISO certification at least once a year. The director in charge made such a report to the board of directors' meeting held in January 2016.

[Principle 3-1. Enhancement of information disclosure]
(v) The reasons for each election and appointment of candidates for directors and audit & supervisory board members, which the board of directors makes based on Principle 3-1 (iv), were included in the Notice of Convocation of the 155th Ordinary General Meeting of Shareholders.

[Principle 4-11. Prerequisite for securing viability of the board of directors and the audit & supervisory board]
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, in the fiscal year ended March 2016, utilizing an outside consultant.

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

[Principle 1-1] Securing the rights of shareholders
Supplementary Principle 1-1-1 (Examination at meetings of the board of directors of results of analysis of reasons for votes cast against proposals at a general meeting of shareholders)

[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 meetings of the board of directors. 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 audit & supervisory board members.

Regarding any transaction with major shareholders, the Company determines a price and other terms and conditions in consideration of 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 Corporate Principle 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 audit & supervisory board members, 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 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 audit & supervisory board members and elects them in accordance with the criteria.

(v) The reasons for each election and appointment of candidates for directors and audit & supervisory board members, based on which the board of directors makes in accordance with the principle mentioned in (iv) above, are included in notices of convocation of general meeting of shareholders.

[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 meetings of the board of directors 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 audit & supervisory board]

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 an audit & supervisory board member of another company. The Company shall obtain the approval of the audit & supervisory board when an internal audit & supervisory board member of the Company serves concurrently as a director or an audit & supervisory board member of another company.

In electing an outside director or an outside audit & supervisory board member, 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 audit & supervisory board members hold in securities reports, etc.

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, in the fiscal year ended March 2016, utilizing an outside consultant. An outline of the self-evaluation is posted on the Company’s website (http://www.inabata.co.jp/english/governance/pdf/evaluatio201601_en.pdf). Going forward, the

Company's policy will be to consider action plans based on the evaluation results and to continuously implement such evaluation of the board of directors.

[Principle 4-14. Training of directors and audit & supervisory board members]

Supplementary Principle 4-14-2

When an internal director and an internal audit & supervisory board member 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/audit & supervisory board member. For outside directors and outside audit & supervisory board members, 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 audit & supervisory board members 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 audit & supervisory board member 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 Financial Management Office which serves as a contact point for shareholders and investors.
- 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 Financial Management Office, 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

- The Company stipulated in its regulations for the board of directors that a report regarding shareholder opinions and concerns ascertained through dialog with shareholders should be included in the business execution report of the director in charge of IR at least once a year.

(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 Co., Ltd.	13,836,000	21.79
Japan Trustee Services Bank, Ltd. (Trust account)	4,040,400	6.36
JP Morgan Chase Bank 380684	3,004,500	4.73
The Master Trust Bank of Japan, Ltd. (Trust account)	2,305,100	3.63
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	1,357,500	2.14
Japan Trustee Services Bank, Ltd. (Trust account 9)	1,356,700	2.14
Katsuo Inabata	1,161,400	1.83
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 Update

Treasury shares held by the Company (1,209,948 shares) are omitted from the above table.

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 audit & supervisory board

[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/audit & supervisory board member
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/audit & supervisory board members 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	○	—	Mitsunori Takahagi has served as president and representative director of Japan Energy Corp., 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 senior executive advisor to JX Holdings, Inc. 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. As he possesses abundant experience 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. 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.
Yoshimasa Takao		—	Yoshimasa Takao has served as representative director and senior managing executive officer, representative director and executive vice president, and executive deputy chairman of Sumitomo Chemical Co., Ltd. He currently serves as advisor of the same company. 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. 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.
Katsumi Nakamura	○	—	Katsumi Nakamura has served as executive vice president of Renault S.A.S. (France), as director of Nissan Motor Co., Ltd., and as director and chairman of the board of Calsonic Kansei Corp. He currently serves as chairman of Calsonic Kansei Corp. 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. 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. 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.

Voluntary establishment of committee(s) corresponding to nominating committee or remuneration committee	Established

Committees voluntarily established, composition, and chairperson's attributes

	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

Supplementary explanation Update

When the board of directors elects senior executives and appoints candidates for directors and audit & supervisory board members, 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.

[Audit & supervisory board members]

Establishment of audit & supervisory board	Established
Maximum number of audit & supervisory board members stipulated in articles of incorporation	No limit on the number of audit & supervisory board members
Number of audit & supervisory board members	4 audit & supervisory board members

Cooperation among audit & supervisory board members, accounting auditor and the internal audit

Audit & supervisory board members, 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 audit & supervisory board members	Appointed
Number of outside audit & supervisory board members	3 audit & supervisory board members
Number of independent officers designated from among outside audit & supervisory board members	3 officers

Outside audit & supervisory board members' relationship with the Company (1) Update

Name	Attribute	Relationship with the Company (*)												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Shuichi Suzuki	Attorney													
Yoshitaka Takahashi	From another company													
Shinji Morimoto	Certified public accountant													

* Categories for relationship with the Company
* "○" when the audit & supervisory board member presently falls or has recently fallen under the category; "△" when the audit & supervisory board member fell under the category in the past
* "●" when a close relative of the audit & supervisory board member presently falls or has recently fallen under the category; "▲"when a close relative of the audit & supervisory board member 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 Audit & supervisory board member 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 audit & supervisory board member himself/herself only)
k Executive of a company, with which outside directors/audit & supervisory board members are mutually appointed (the outside audit & supervisory board member himself/herself only)
l Executive of a company or organization that receives a donation from the Company (the outside audit & supervisory board member himself/herself only)
m Others

Outside audit & supervisory board members' relationship with the Company (2) Update

Name	Designation as independent officer	Supplementary explanation of the relationship	Reasons for appointment
Shuichi Suzuki	○	—	Shuichi Suzuki is an attorney, and the Company appoints him as outside audit & supervisory board member for the purpose of conducting an objective, proactive and fair audit from the perspective of a professional. 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.
Yoshitaka Takahashi	○	—	Yoshitaka Takahashi has served as an audit & supervisory board member of a listed company, and the Company appoints him as outside audit & supervisory board member for the purpose of conducting an objective, proactive and fair audit by utilizing his abundant experience and broad views. 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.
Shinji Morimoto	○	—	Shinji Morimoto is a certified public accountant, and the Company appoints him as outside audit & supervisory board member for the purpose of conducting an objective, proactive and fair audit from the perspective of a professional. 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.

[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 Performance-linked remuneration system

Supplementary explanation

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

Supplementary explanation Update

Total remuneration paid to directors during the previous fiscal year of the Company (from April 1, 2015 to March 31, 2016) is 282 million yen.

Policy on determining remuneration amounts and calculation methods 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 audit & supervisory board members)]

Corporate Secretariat Department of General Affairs Office is responsible for supporting outside directors and outside audit & supervisory board members 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 10 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 audit & supervisory board members, 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.

[Audit & supervisory board members]

The Company adopts an audit & supervisory board member system. The audit & supervisory board consists of four audit & supervisory board members and conducts an audit of the decision-making of the board of directors and business execution of directors.

Of the audit & supervisory board members, three are outside audit & supervisory board members. Outside audit & supervisory board members, 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 audit & supervisory board members are described in sections titled "Cooperation among audit & supervisory board members, accounting auditor and the internal audit," "Appointment of outside audit & supervisory board members," and "Supporting system for outside directors (outside audit & supervisory board members)" within this report.

[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 2016 are Katsumi Hashimoto (designated limited partner), Masaya Kuze (designated limited partner) and Kazushi Chiba (designated limited partner). There are five certified public accountants and six 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 75 million yen and all other fees (less consumption tax) total 0 million yen.

3. Reasons for adoption of current corporate governance system Update

The Company believes that the most suitable corporate governance system has been established by adopting a system of audit by audit & supervisory board members including multiple outside audit & supervisory board members possessing a high degree of expertise and independence on decision making from the meetings of the board of directors attended by several 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 of convocation approximately three weeks prior to the date of a general meeting of shareholders. On June 2, 2016, the Company sent the Notice of Convocation of the 155th Ordinary General Meeting of Shareholders held on June 23, 2016.
Scheduling general meeting of shareholders avoiding the peak day	The Company avoids the peak day when setting a date for its general meeting of shareholders to allow constructive dialog with shareholders by enabling a greater number to attend the meeting.
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.
Providing notice of convocation (summary) in English	The Company prepared an English translation of the summary of the Notice of Convocation of the 155th Ordinary General Meeting of Shareholders and posted on its English website (http://www.inabata.co.jp/english/investor/pdf/notification_en_160624.pdf), as well as on the websites of Japan Exchange Group, Inc. and the platform for electronic voting, on May 25, 2016.
Others	Prior to the sending of the Notice of Convocation of the 155th Ordinary General Meeting of Shareholders on June 2, 2016, the Company posted it on its Japanese website (http://www.inabata.co.jp/investor/pdf/notification_160624.pdf), as well as on the websites of Japan Exchange Group, Inc. and the platform for electronic voting, on May 25, 2016.

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 has posted it on its website (http://www.inabata.co.jp/english/company/csr/compliance/).	
Regular investor briefings for individual investors	The Company provided one briefing on company information for the fiscal year ended March 2016.	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 United States, and Asia.	Established
Posting of IR materials on website	The Company posts IR materials on its website (http://www.inabata.co.jp/english/investor/index.html) 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	IR Department of 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 is posted on its website (http://www.inabata.co.jp/english/company/csr/compliance/).

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 meetings of the board of directors 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) Corporate Principle, Management Philosophy/Mission, Vision, and IK Values shall be established.
   (2) Directors or executive officers shall be appointed as persons in charge of internal control and the Internal Control Committee shall be established.
   (3) Directors or executive officers shall be appointed as persons in charge of compliance and the Compliance Committee shall be established.
   (4) Directors or executive officers shall be appointed as persons in charge of internal audits and 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 audit & supervisory board members in a timely manner.
   (8) An audit & supervisory board member 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 meetings of the board of directors, 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 meetings of the board of directors 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 audit & supervisory board members 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 meetings of the board of directors (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 audit & supervisory board members' duties

Upon a request from an audit & supervisory board member 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 an audit & supervisory board member shall perform his/her duties under the direction of the audit & supervisory board member.
   (2) Appointment, transfer, personnel evaluation, wages, disciplinary action of the employee assisting an audit & supervisory board member shall be determined after obtaining the approval of the audit & supervisory board (or if the audit & supervisory board has nominated a specified audit & supervisory board member, the said audit & supervisory board member).
   (3) When selecting the employee assisting an audit & supervisory board member, 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 an audit & supervisory board member.

7. System for report to audit & supervisory board members

To provide a system for reporting to audit & supervisory board members, 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 audit & supervisory board members 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 audit & supervisory board members or audit & supervisory board 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 audit & supervisory board 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 audit & supervisory board members 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 an audit & supervisory board member disadvantageously because of such action.

8. Other systems to ensure that audits by audit & supervisory board members are conducted effectively
(1) The representative director shall hold meetings with audit & supervisory board members 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 audit & supervisory board member and important issues concerning audits.
(2) When an audit & supervisory board member 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 audit & supervisory board member's execution of duties.

(Outline of operational status of internal control system)

The Company operates its internal control system as detailed below in accordance with its basic policy on development and improvement of the internal control system.

1. System to ensure that performance of duties by directors and employees complies with laws and regulations as well as the articles of incorporation

The Company has taken steps to ensure that it can rapidly become aware of information relating to compliance and deal with it, setting up subcommittees (for compliance, information security, personal information protection, and prevention of recurrence) within the Compliance Committee chaired by the president. In addition, the Company has set up a corporate ethics helpline (an internal whistle blowing system) incorporating a system for reporting violations to an external attorney.

Furthermore, the Company has established principles including Inabata Declaration of Compliance and the compliance guideline and conducts related initiatives on a company-wide basis. At the same time, it works to enhance its internal control, having set up the Internal Control Committee to establish, maintain, and promote the internal control system. It has also taken steps to ensure that assessments and operational audits of internal control are conducted by the Internal Audit Office, that internal control is conducted to a higher standard, and that corporate governance requirements are observed at all times.

2. System to store and manage information on performance of duties by directors of the Company

With regard to performance of duties by directors, related reports are made at the meetings of the board of directors, and the contents are recorded in the meeting minutes. The minutes of meetings of the board of directors and other records concerning the performance of duties are properly stored and managed in accordance with the rules for document management and their detailed provisions.

3. System including rules for management of the risk of loss of the Company

With regard to the risk of loss, the Company has set up subcommittees (for compliance, information security, personal information protection, and prevention of recurrence) within the Compliance Committee, and has also set up a corporate ethics helpline (an internal whistle blowing system). In addition, rules for the management of each risk are established and appropriately implemented by Risk Management Office, Business Process Management Office, Financial Management Office, and General Affairs Office.

4. System to ensure that duties are performed efficiently by directors of the Company

The board of directors comprises nine directors, including three outside directors, and it met 16 times during the fiscal year ended March 31, 2016. The *keiei kaigi* (advisory panel on various systems) and the *shinsa kaigi* (organization which reviews credit and individual important cases), consisting of full-time directors and audit & supervisory board members, discuss important matters relating to the Company's management policies and strategies first, and following their deliberations, the board of directors makes decisions on the performance of duties.

The Company has set rules and regulations on decision-making authority, such as rules for request for approval and regulations on divisional decision-making, to promote efficiency in directors' performance of their duties by delegating authority.

5. System to ensure appropriateness of operations of the Group

The Group's subsidiaries 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, subsidiaries seek permission from the Company and receive approval before executing important matters.

While directors and employees of the Company are dispatched to subsidiaries as senior officers, Financial Management Office supervises and provides guidance. Internal audits including audits of internal control are conducted throughout the entire Group, including subsidiaries.

Subsidiaries have been made aware of the Company's corporate ethics helpline (the internal whistle blowing system), enabling whistle-blowing from subsidiaries to the Company.

6. System relating to employees assisting audit & supervisory board members' duties

The Company does not currently have any employee directly assisting audit & supervisory board members, but a system has been established whereby personnel at each division offer support as necessary, in order to meet the needs of audit & supervisory board members to perform their duties.

7. System for report to audit & supervisory board members

The Company has established rules on reports to audit & supervisory board members, which it implements appropriately.

Audit & supervisory board members work to gather information, communicating with directors, executive officers, Internal Audit Office, and other employees. They attend important meetings, including meetings of the board of directors, the *keiei kaigi* (advisory panel on various systems), and the *shinsa kaigi* (organization which reviews credit and individual important cases), and receive reports from directors, executive officers, employees, and others regarding the performance of their duties, requesting explanations as necessary. With regard to subsidiaries, the Company's audit & supervisory board members also communicate and exchange information with their directors, audit & supervisory board members, and others, receiving business reports from subsidiaries as necessary.

The department in charge of the Company's corporate ethics helpline (the internal whistle blowing system) reports to the audit &

supervisory board members regarding contact or requests for advice received via the helpline.

8. Other systems to ensure that audits by audit & supervisory board members are conducted effectively
The representative director holds meetings on a regular basis with all audit & supervisory board members, including outside audit & supervisory board members, to exchange opinions.
The Company reimburses audit & supervisory board members if they claim for reimbursement of costs required for performance of their 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 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 Inabata Declaration of Compliance, 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 Inabata Declaration of Compliance 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.
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 Metropolitan Police Department and Tokuboren (association of special violence prevention measures) under the authority of Metropolitan Police Department .
Inabata Declaration of Compliance 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 Update

1. Basic policy on party that controls decisions on financial and business policies of Inabata & Co., Ltd. (the "Company")

When a specific party tries to make a large-scale purchase whose purpose is to acquire shares of the Company that give 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 the 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 know-how, abundant experience and a sufficient understanding of relations built with customers/employees and business partners (stakeholders) at home and abroad are essential. If a party that 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 decision within a short time on whether the proposed purchase price 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 keep 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 where the acquisition of the Company's shares that give a buyer the power to influence decisions on financial and business policies of the Company is intended, 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 commence 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 Purchases").

Of large-scale purchases, there may be one whose obvious purpose is misuse and that would consequently cause irreparable harm to the Company and thus significantly undermine the interests 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 Purchases.

2. Effective utilization of assets, formulation of appropriate corporate group and other special efforts contributing to realization of basic policy

(1) Implementation of key strategies

The Company is making efforts to implement the six key strategies listed below (i) to achieve the goals in the three-year mid-term business plan "New Challenge 2016," whose final year is the fiscal year ending March 31, 2017, (ii) to further strengthen the revenue base and (iii) to enhance the Company's corporate value.

(a) Further broadening and deepening of overseas business
(b) Focusing on markets and untapped fields with potential for growth
(c) Laying and enhancing the infrastructure for global management
(d) Investing for future growth
(e) Further improving capital / asset efficiency and enhancing financial standing
(f) Continued fostering of global human resources

(2) Measures to enhance corporate governance

In order to clearly define the management responsibilities towards the shareholders of the Company and assure the management's capability to swiftly and appropriately respond to changes in the management environment, the Company has set the term of office of the directors to one year.

Moreover, in order to ensure transparency and fairness of management and to enhance the function of supervision of the board of directors, the Company appoints multiple numbers of outside directors who are highly independent, and, in October 2015, conducted an evaluation of the board of directors (self-evaluation) for the purpose of enhancing the effectiveness and transparency of the board of directors.

(3) Shareholder return policy

Shareholder return is one of the highest priorities among the Company's policies. Effective the fiscal year ending March 31, 2015, the Company's policy on dividends has been changed with a view to placing an even greater emphasis on returning profits to shareholders and carrying out shareholder returns with more clarity.

Specifically, the Company will target a total return ratio (*) that is mainly in the range of approximately 30% to 35%, and determine it based on comprehensive judgments that take into account such considerations as medium- and long-term investment for future enhancement of corporate value.

(*) Total return ratio = (amount of dividends + amount of treasury shares acquired) ÷ consolidated net income x 100

3. Measures to prevent control by inappropriate parties of decisions on financial and business policies of Company in light of basic policy

(1) Outline of measures to prevent control by inappropriate parties of decisions on financial and business policies of Company in light of basic policy

As a measure, in accordance with the basic policy described in 1 above, to prevent control by inappropriate parties of decisions on financial and business policies of the Company, the Company established the Rules for Large-Scale Purchases, which are applicable to purchases of share certificates, etc., of the Company for the purpose of making the ratio of voting rights of a certain shareholder group 20% or higher or purchases of share certificates, etc., of the Company that results in the ratio of voting rights of a certain shareholder group being 20% or higher (in either case, excluding a purchase that the board of directors of the Company approves in advance, regardless of specific methods of purchase, including market trades and tender offers; such purchases are hereinafter referred to as a "Large-Scale Purchases", while such buyers are called a "Large-Scale Buyers"), and stipulates a policy on how to handle cases with which a Large-Scale Buyer must comply with the rules and the measures to be taken in the case where a Large-Scale Buyer does not comply (hereinafter referred to as the "Policy on Handling of Large-Scale Purchases").

(2) Policy on Handling of Large-Scale Purchases is in accord with basic policy, does not undermine common interests of

shareholders and does not aim to maintain position of Company officers and reasons therefor

(i) Policy on Handling of Large-Scale Purchases is in accord with basic policy

The Policy on Handling of Large-Scale Purchases stipulates, among other things, details of the Rules for Large-Scale Purchases, the policy of how to handle a case of an actual Large-Scale Purchase, establishment of the Independent Committee and effects on shareholders and investors.

The Policy on Handling of Large-Scale Purchases 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 allows the commencement of 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 on Handling of Large-Scale Purchases stipulates that when the Rules for Large-Scale Purchases are followed but the board of directors of the Company determines that 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 Purchases is designed to align with the idea of the basic policy on control over the Company.

(ii) Policy on Handling of Large-Scale Purchases does not undermine 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 Purchases is designed in line with the idea of such 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 alternative proposal. We believe that the Policy on Handling of Large-Scale Purchases contributes to the common interests of shareholders of the Company rather than undermining it.

Furthermore, the Policy on Handling of Large-Scale Purchases is valid (until the conclusion of the first meeting of the board of directors of the Company to be held by July 31, 2019, following the 158th Ordinary General Meeting of Shareholders scheduled to be held in June 2019) for three years, and its effectuation and extension require the approval of the shareholders of the Company. The Policy on Handling of Large-Scale Purchases 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 on Handling of Large-Scale Purchases before its expiration date. The Policy on Handling of Large-Scale Purchases is not a dead-hand type of takeover defense measure (i.e., an anti-takeover measure that 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 that takes time to stop as members of the board of directors cannot be replaced simultaneously). These guarantee that the Policy of Handling of Large-Scale Purchases does not undermine the common interests of shareholders of the Company.

(iii) Policy on Handling of Large-Scale Purchases does not aim to maintain position of Company officers

The Policy on Handling of Large-Scale Purchases is based on the fundamental principle that whether to accept a Large-Scale Purchase should be left to the decision of shareholders of the Company, where the board of directors may request compliance with the Rules for Large-Scale Purchases and invoke countermeasures, in order to protect the interests of all shareholders of the Company. The Policy on Handling of Large-Scale Purchases prescribes, in advance and in detail, the cases where the board of directors determines to take countermeasures, and whether countermeasures will be taken by the board of directors will be determined pursuant to the Policy on Handling of Large-Scale Purchases.

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 with the Independent Committee consisting of members who are independent of the management team engaged in the business of the Company, and honor recommendations from such Independent 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 Purchases 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 Purchases 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

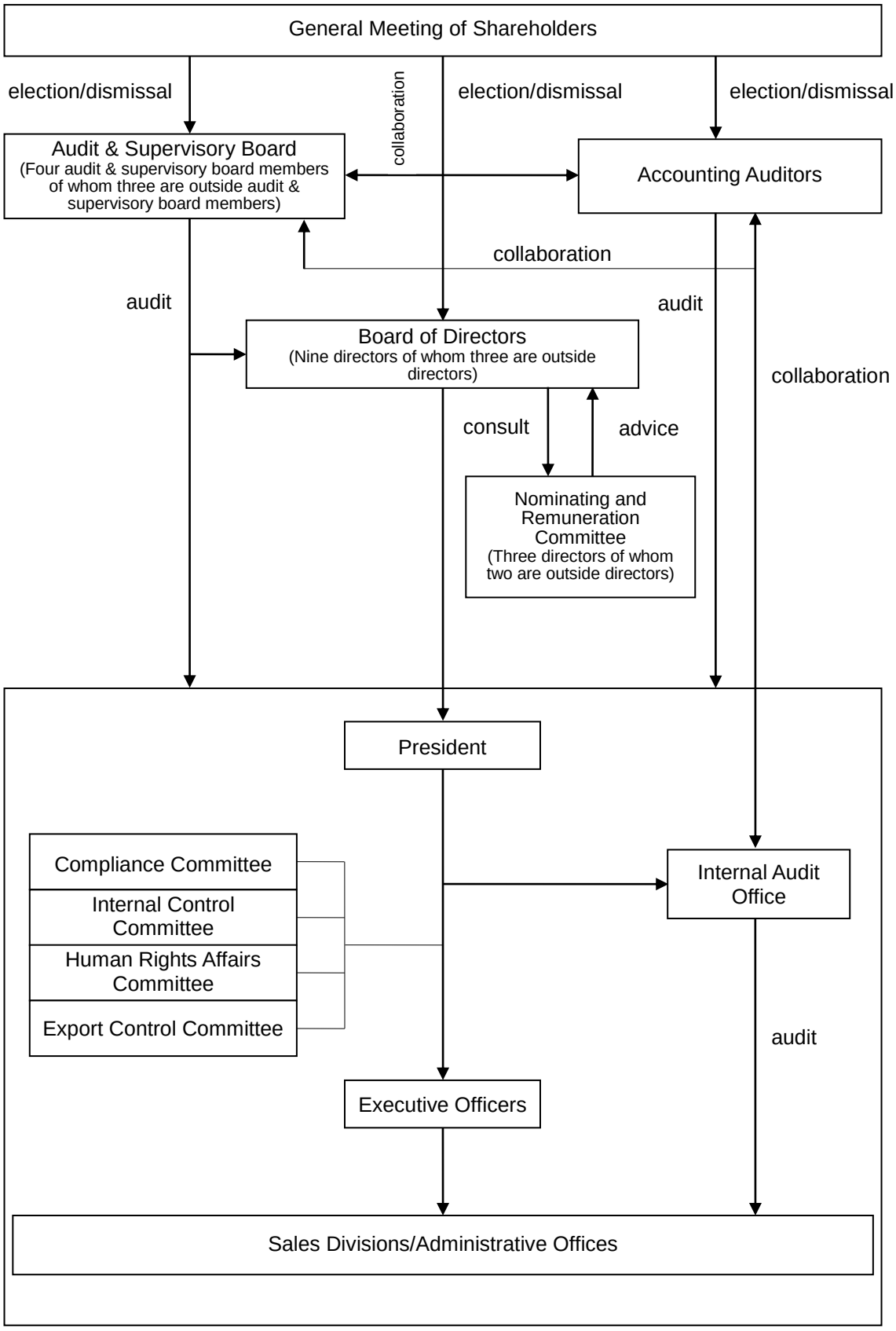
The Company discloses matters required by law and company information to stakeholders, including shareholders and investors, on a timely basis via its website and other means of communication including various printed materials. The means for information communication are as follows.

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 Financial Management Office discloses information.

2. Check function of internal system for timely disclosure

Legal Department of Risk Management Office (office in charge), General Affairs Office and 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*, Legal Department of Risk Management Office (office in charge) and 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.

