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Applicability of report

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This report was prepared based on the business activities of INOAC Corporation during FY 2022 (January 1-December 31, 2022). * Also includes some information from FY 2021 and before, and from FY 2023.

Applicable scope Focusing on the business activities of INOAC Corporation on a non-consolidated basis, including certain domestic and overseas companies of the INOAC Group. Year & month November 2023

Guidelines for reference O GRI Standards for sustainability reporting 2016/2018/2019/2020

[Inquiries]

Today we have developed into a conglomerate,

Corporate Philosophy

Creating a beautiful forest,

In our efforts to enrich people's lives, we at INOAC have specialized in not only a single business,

but we have cultivated four business "seedlings"-polyurethane, rubber, plastics, and composite materials.

comprised of many trees

supplying diverse products and services, thereby contributing to society.

of varying character.

たれ イノアック コーポレーション

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INOAC Group History

Expanded as a leading company in foaming technologies for comfortable life and a sustainable society

Since our founding in 1926, we established ourselves as Japan's first-ever producer of polyurethane foam and have gone on to create an extensive range of products and services that make people's lives better and more comfortable. The growth of INOAC is also a history of development. For the sake of people and the planet, we continue challenging ourselves to generate an abundance of new usage applications, while focusing particularly in recent years on consistently conducting environmentally-conscious development.



Our products

Right there beside you, making your everyday life better Now and into the future

In everything from household consumer products, nursing care products, and everyday IT devices, to industrial machinery used in production plants. Also in housing and construction materials, and at civil engineering worksites. Even in cars and other means of transport, and in infrastructure facilities. INOAC materials come in many different forms. They can be found in every aspect of the neighborhoods that surround us, adding comfort to our everyday fives in values fields.

Wheelchair tires Incombustible thermal insulator Printer Food travs Kitchen Ink absorbers rollers Vibration dampers sponges Computer chassis Joint filler in house walls for attache cases LCD back Interior parts cushions for automotive Motorcycle & bicycle tires Bicycle seat pads Exterior parts for automotive Water-stop materials for waterproof mobile devices Packaging materials Sofas 1111 1111 Insoles Bedding Cosmetic Cosmetic puffs bottles Industrial ducts 0 Yoga mats Wheels of loading carts Sports bra Storage mediums cups

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Introduction

Nursing care products

Drone propellers

Heat radiation materials in electronic equipment

Covers for farming

equipment

Crawler

pads

Committed to comprehensively addressing sustainability-mindedness and other social changes ourselves, based on the consistent importance of the manufacturing site

PROFILE

Mar 1985	Joined Inoue MTP Co., Ltd. (now INOAC Corporation)
Feb 1991	Assigned to North America
Feb 2004	General Manager of the Technology Department, Automotive-related Products Division
Oct 2007	General Manager of Quality Assurance Division, Automotive-related Products Division
Oct 2008	President, Tohoku INOAC Co., Ltd.
May 2011	Automotive-related Products Division Supervisor (stationed in Thailand)
Feb 2015	Managing Director & General Manager of Automotive-related Products Division
Apr 2018	Director
Apr 2019	Managing Director
Apr 2022	President & COO (Current)



Yasuhi Nomura President & COO INOAC Corporation

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04

Confronting new cost increases

Starting in 2020, the COVID-19 pandemic has been inflicting tremendous damage on social and economic activities in Japan and throughout the world. Intensified demand for certain supplies and materials, chaos in supply chains, and other factors have given rise to severe inflation, significantly impacting the procurement environment for companies and the lives of everyday citizens.

Social activities have been returning to normal as the virus was reclassified in Japan from class 2 to class 5 in May 2023, among other changes that have been taking place. While raw materials prices have been stable or in some cases even slightly decreased, our concerns in terms of costs have been fueled by skyrocketing energy costs, rising labor costs and personnel shortages, and rising logistics costs. These have been major hindrances to our business operations.

When confronted with high raw materials costs, we tried out various ways to minimize the impact such as searching for more affordable materials and reducing material loss in our production processes. Approaches such as these are of course effective, but we will probably need to take more drastic action to address the wide-ranging cost increases that we now face, including energy, labor, and logistics costs.

Digitalization to enhance the intrinsic value of manufacturing

Fundamental to the manufacturing business is how well the balancing act of *buy*, *make*, and *sell* can be executed. The skill and strength with which you execute the *make* function is particularly decisive in terms of adding value that generates profit. While there may be various approaches we could take to digitalization, what we emphasize most is digitalization that bolsters the *make* function, which is a profit center.

For example, we prioritize digitalization that contributes to better productivity and quality. This includes functionality to communicate and store production status-related information such as defect rates and lot sizes in real time, alerts for when something abnormal occurs or there are signs that one could occur, and support functions that help to identify causes with high accuracy. While there are points such as cost effectiveness to take into consideration, we are fundamentally inclined toward incorporating digitalization.

As it becomes more difficult to secure engineers, there is also plenty of room to leverage DX in development activities as well, including in compounding which is our core technology. Trial and error is essential in fields such as these. For instance, until now we have been trying out 10 types of patterns and evaluating them. If we can use the power of AI to reduce these to three patterns for real experiments, that could significantly cut down on lead time and boost operational efficiency.



For EVs which are considered to have far fewer components that gasoline cars, Chinese and American manufacturers are completing development phases in six months that take Japanese manufacturers of finished cars around two years, in some case even three or four. They are turning these out at the same general pace as new smartphone models come out. As a result, Japanese suppliers like us are being criticized as slow. If we ourselves do not address this situation urgently as a priority matter, we may get left behind by the global competition. I think digitalization shows promise as a means to bridge this gap.

Head Office's role is to support true localization that swiftly addresses each community's needs

In terms of the differences between car development in the US, China, and Japan, there is no major divergence in what is being done or the procedures being performed. The overwhelming difference lies in the sense of speed.

Catching up to this sense of speed will require us to establish development organizations in each region. We will expand our R&D center in the US. We will also establish an R&D center in China where we will conduct development in ways that are particular to China (see p.17). Materials manufacturers have now clustered in South Korea and China, so we will establish development locations in each region and perform development locally. If we can engage in development with our Global Technical Division in Japan playing the leading role and coordinating development activities with overseas locations, we will make proposals to customers in those respective regions and aim to have them use what we propose.

Mattresses are one of the consumer products that we produce, and the ideal softness and texture sought in a mattress completely differs from country to country. Countries such as those in Southeast Asia where people used to sleep on bamboo rugs and mats want softer mattresses, while Japan prefers mattresses that are relatively hard. This truly reflects the differences in lifestyles between countries and regions. Since needs vary by market, it is important that development is done on per-region basis.

For that reason, our thought process as management will also need to change. In the past, the primary role of people on the Japan side had been to facilitate technical transfers—in other words, to bring technology from Japan to overseas locations, establishing and instilling it there. However, local people will now need to handle the management in order for us to achieve true localization.

Not long ago, when I spoke to an old acquaintance from another country who had been handling local management, he told me, "You really should think a bit more carefully about the Japanese people you're sending over from Head Office." This is someone I knew well, so when I told him, "You're quite the authority now, aren't you?" he replied, "That's right. We've grown too, you know." The more I think about it, I realize he was right.

Rather than just being technicians, or just handling sales, or doing nothing more than overseeing improvements in manufacturing, the role of our Japanese expat staff is to have the discretion to formulate and execute business strategies on their own, and work alongside local management personnel to help them acquire knowledge as managers as well as management capabilities that mirror INOAC's distinctive philosophy and policies. Those are the duties of the role.

How many such high-level individuals do we currently have in the company? The number would fall well short of the number of overseas business locations that need them. If we were to raise the bar that high, it would place a heavy burden on our expats themselves. For that reason, we are dedicating efforts to our Trainee System. This is a mechanism to assign young employees in their 20s to work temporarily overseas for period of a year without any particular responsibilities, other than to build experience working together with the local people and experiencing the local culture.

This system also functions to determine whether the trainee is more suited to management or to becoming a specialist, while also helping the person realize what sort of skills and qualities they need to cultivate to that end and utilizing that for their development going forward. The only country assignment we currently offer in the system is the US, but I would like to expand the range of locations in order to provide opportunities for personnel who will handle management responsibilities to challenge themselves at supervisory roles and grow our ranks of personnel capable of driving localization effectively.

Business development with sustainability at its core

Many debates on the theme of "sustainability, environmental, and ecological technologies" took place at the International PU Forum 2023. This may be partly influenced by the EU's regulations on polyurethane waste, but the overall trend is focusing on efforts to pursue carbon neutrality.

Recycling until now has mainly been material recycling, involving collection, then crushing and solidifying again for reuse. Of course, this is insufficient on its own. In recent years, the process of chemical recycling to turn the collected items back into raw materials has been in the spotlight. This is not



necessarily new technologically, but we are working on verifications at the laboratory level, and we also plan to have scaled-up facilities go into operation before the end of this fiscal year. Hopefully, we can accumulate additional data and also roll it out to other plants (see p.13).

We have carbon recycling in our sights as the next evolution after that. Rather than foaming agent, we use carbon dioxide to manufacture polyurethane. "Maybe we could perform some processes without discharging any CO₂ from our plants by recovering and reusing the carbon dioxide emitted during foaming." We are working on R&D with objectives such as these, and we are getting close to achieving them.

I would like us to go about reducing our environmental footprint by putting into practice and refining the three initiatives of materials recycling, chemical recycling, and carbon recycling.

In terms of sustainability, consideration for human rights and related actions throughout the entire supply chain will be an extremely important topic in conducting global business. We must also express our own thoughts on the topic, compile global procurement policies, and promote the same considerations for human rights as our own to all business operators involved in our supply chain, including for work environments, as we engage in these efforts together with them.

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First I think it is important that we disclose to our stakeholders our company's own stance and thoughts on respecting human rights. In this report, we have published "Our Approach to Respecting Human Rights" (see p.21). In line with Our Approach to Respecting Human Rights, I am spreading the message internally that I am taking the initiative myself to instill the spirit of commitment to respecting human rights. Going forward, we plan to advance effective initiatives based on this approach.

In our efforts for the Hakuba Circular Vision project in the village of Hakuba, we are working cooperatively with groups including local autonomous organizations, educational institutions, and government agencies to create models for resolving social issues in the local community from the standpoints of technology, activity (recreation), nature, and the economy. Since needs also vary in each field domestically, through trial and error I would like to try building an ecosystem that can be horizontally rolled out to other regions as well (see p.10).

Communication that helps to boost our business value

In closing, I would like to share my thoughts on

communication, which I consider to be most vital to management.

Fundamentally, it is important to have mutual understanding—in other words, understanding the other person and them understanding you. However, the more that your employees and business locations increase in number, the more difficult it becomes to communicate directly through face-to-face conversation. In such situations, we need a culture of being interested in learning about what the company is doing and what other coworkers are doing, and recognizing the value of those efforts. If we can develop such a culture, it would be tremendously beneficial for us.

Our company also gives interviews to interested members of the media, and these often end up as articles in newspapers and magazines. In addition to people outside the company, this also gives employees in other departments that are not directly related an opportunity to realize, "wow, this product from my company is gaining recognition." That is also something that happens.

While that has value in and of itself, it is not something we can count on. Even without such opportunities to learn through the media, our employees can know that those who have come together under the INOAC name, in various locations and departments in charge, are engaged in activities that deliver value to society and to our customers.

If we can get to the point where our people learn about these efforts and recognize each other while at the same time striving to keep the pace themselves, I think it could drive the value of our company even higher. As we move forward, I will be dedicating my own efforts to this type of internal communication and internal branding.