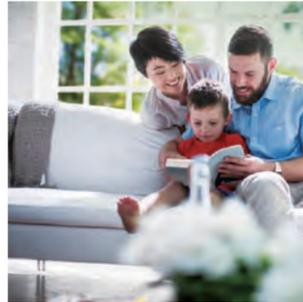




# Enriching homes around the world



## 2019 Integrated Report

Feb. 21, 2018 – Feb. 20, 2019



### NITORI Holdings Co., Ltd.

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## Achieving Our Mission Statement on the World Stage

Since our founding in 1967, NITORI has continued to grow while sharing our mission to enrich homes around the world with each and every employee so that it may serve as a foundation for our business activities. We have also set a goal to establish 3,000 stores and reach ¥3 trillion in sales by 2032 as our long-term vision for achieving our mission statement. We will continue to evolve our unique business model of one-stop manufacturing, distribution, IT and retail sales in the field of furniture and home décor to contribute to the enrichment of people's homes, as we expand our endeavors across the globe.



**Mission Statement**  
To provide the foundation of prosperous home living to the global community.

Vision 2032  
**3,000** stores    Net Sales ¥ **3** trillion

Vision 2022  
**1,000** stores    Net Sales ¥ **1** trillion



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**Editing Policy**

We have issued the 2019 Integrated Report to report on our activities that work toward achieving NITORI's mission and to promote communication with the society. In this report, we have included special features on our current focal point, the Japan-China Joint Project to strengthen global business, and our human resources development initiatives. In addition, we also report on our strategy and business model based on our long-term vision, specific examples of value creation, and our efforts to strengthen the operating foundations.

**Fiscal year**  
 February 21st to February 20th of the following year

**Target scope**  
 We set as many domestic and foreign NITORI Group companies subject to consolidated financial statements as possible as the target of our reporting. However, depending on the item, the reporting target may differ.

**Target period**  
 February 21, 2018 to February 20, 2019  
 In this report, the fiscal year ending February 20, 2019 is referred to as fiscal 2018 or FY2018.  
 The Activity Report also includes some recent content.

**The significance of this report**



**Disclaimer Regarding Forward-Looking Statements**

This report contains future plans, strategies and forecasts, and forward-looking statements regarding the business performance of NITORI Holdings and affiliated companies. These statements are not historical facts. These forward-looking statements are based on the current assumptions and beliefs of NITORI Holdings in light of currently available information. In addition, these statements contain risks and uncertainties related to economic trends, personal consumption, market demand and supply, taxation systems, and other systems. Therefore, please note that the actual business performance of NITORI Holdings and our group companies may differ from our forecasts.

**PART**  
**1**

**Strengths and Growth Strategy**

The reverse approach to manufacturing and distribution from the perspective of user and buyer—NITORI uses this strength to create the value of “offering the unexpected.”  
 In addition, the evolution of our unique business model that integrates manufacturing, distribution, IT, and retail sales, is the source of NITORI's growth rendering our immense vision.

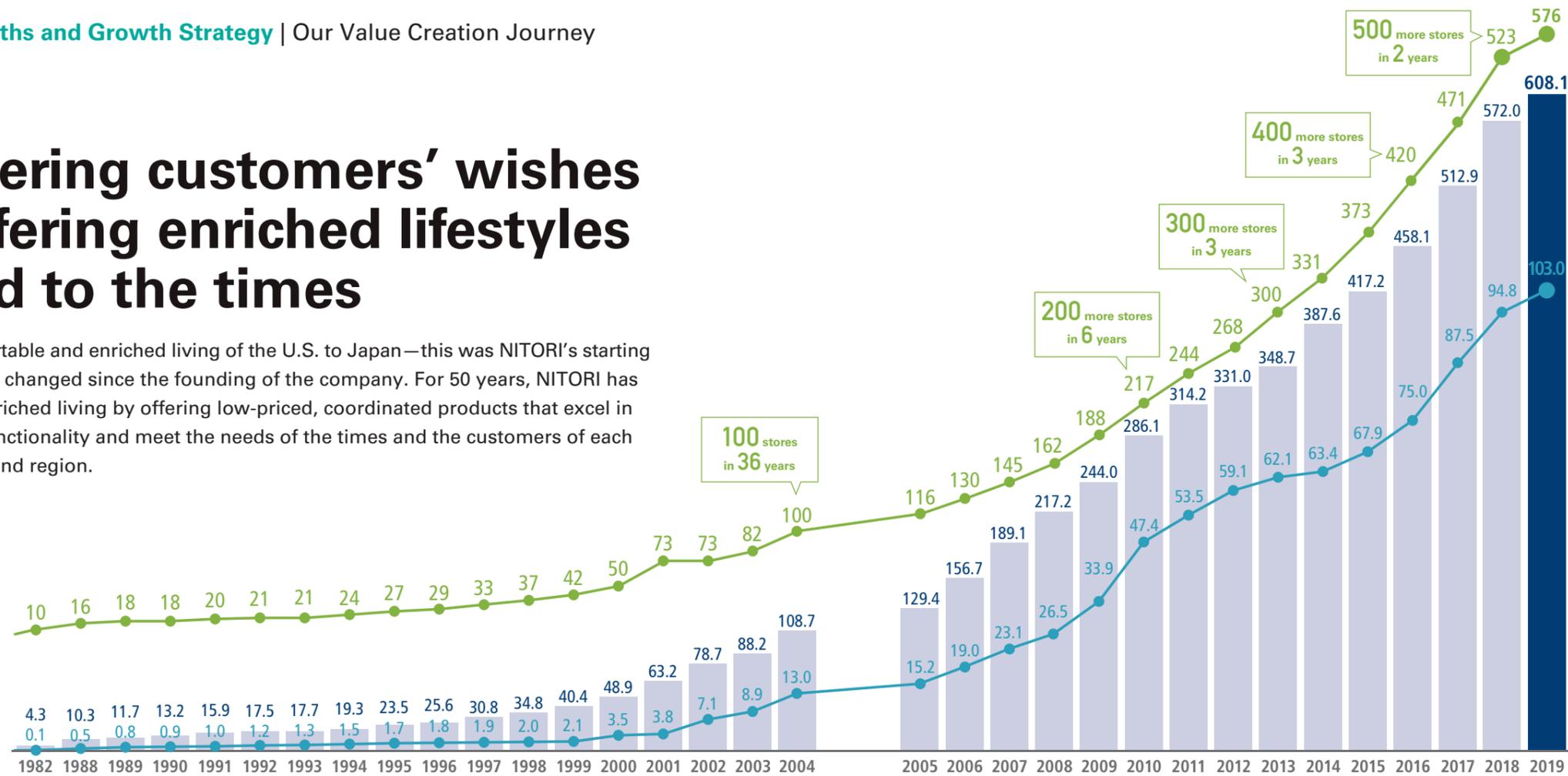


# Discovering customers' wishes and offering enriched lifestyles tailored to the times

To bring the comfortable and enriched living of the U.S. to Japan—this was NITORI's starting point and it has not changed since the founding of the company. For 50 years, NITORI has created value in enriched living by offering low-priced, coordinated products that excel in both quality and functionality and meet the needs of the times and the customers of each particular country and region.

■ Net sales (billions of yen)  
● Ordinary income (billions of yen)  
● Number of stores

Note: Numeric figures are from the financial statement announcement



Achieved growth for **32** consecutive years  
Growth from FY1987-FY2018

Number of stores increased **36-fold**  
16 → 576

Net sales increased **59-fold**  
¥10.3B → ¥608.1B

Ordinary income increased **206-fold**  
¥0.5B → ¥103.0B

Ratio of ordinary income to net sales increased **11.7%**  
5.2% → 16.9%



## Value offered throughout the times

**"To bring America's enriched lifestyles to Japan." —this was our starting point.**

The observation tour of America in 1972, had a major influence on NITORI. There were stores that supported a luxurious every day lifestyle, offering customer-oriented products at overwhelming low prices that were in lineups unified in quality, color, and style—this was the starting point of NITORI.



**Pioneer of the now widely accepted "One-room coordinated interior design."**

We stopped displaying products by type, which is the conventional method, and set up model rooms representing life scenes for each room of the house, such as the living/dining room, bedroom, and kid's room. Before any other company, we were creating sales floors where customers could experience coordinated living spaces.



**Achieving lower prices for expensive items with product development from the customer's perspective.**

Feather comforters once cost more than ¥100,000. By reevaluating raw materials, NITORI was able to cut the price to under ¥10,000 while still maintaining its quality. In the same way, we have contributed to lower prices for furniture, such as sofas and beds, as well as randsels (school bags).



**Implementing price cuts even during recessions with affordability that has value.**

In 2008, when oil prices skyrocketed, many companies also resorted to raising the prices of their products, but that is when NITORI made its Price Cut Declaration. It was our desire to give back to customers precisely because the economy was experiencing a recession. More than 5,000 items were cut in price by 20% on average until 2012, garnering great support from our customers.



**Balancing economic and environmental value with more efficient manufacturing and logistics.**

NITORI is making efforts to balance economic and environmental value by pursuing more efficient manufacturing and logistics with methods such as mattress compression technology which leads to smaller package sizes and better container loading efficiency.



**Pursuing higher functionality in daily expendables extending to their materials.**

NITORI is making efforts to balance economics and environmental value by pursuing more efficient manufacturing and logistics methods such as mattress compression technology that improves container loading efficiency by compressing the packing size of products.



# Creating new value for society with our customer-oriented business model

Utilizing our strong foundation in human resources and network of global partner companies within the Group, we have built every function required for a manufacturing-distribution-IT-retail sales business. In order to continue creating value that “offers the unexpected,” we will remain committed to evolving our customer-oriented business model.



## Value Creation Flow

### Sales (Stores)

Creating stores that are easy to visit and easy to shop at



We are making efforts to create attractive sales floors and improve our level of customer service so that customers can enjoy their shopping experience. We have introduced digital catalogs and 3-D simulators so that we can make better suggestions for our customers.

### Sales (E-commerce)

Proposing more convenient ways to shop



We are proposing more convenient ways to shop to better suit customers' lifestyles, such as the NITORI app and our service that allows customers to pick up orders they made online at our stores. We are promoting digital marketing and endeavoring to create convenient and comfortable services.

### Product Planning

Product planning that creates customer satisfaction



We investigate and analyze products from the perspective of those using and purchasing them. Our Merchandising Department staff members travel to each region to study trends in addition to conducting thorough market research, and we are developing original products in our pursuit of comfortable lifestyles for our customers.

### Product Development

Proposing interior coordination to enrich lifestyles



We develop products with unified colors, designs, and styles from scratch, so that our customers can easily enjoy total coordination in line with their preferences. We are providing society with guidance for a new lifestyle that coordinates naturally.

### Raw Material Procurement

Sourcing that expands across the globe



In order to achieve low prices and adequate quality, we promote vertical merchandising that extends all the way back to our raw materials. We actually visit the sites ourselves to gather information on production localities and conduct negotiations and contract with suppliers directly.

### Manufacturing

Building a solid production system with our own and collaborating factories



NITORI provides direction and management for all manufacturing processes of the products we manufacture, even at partner factories. In addition, we have our own factories where we are enhancing our manufacturing functions. This production system is the cornerstone of NITORI's unique ability to develop products with quality and functionality.

### Trade

Building our own customs clearance system



By conducting all tasks related to importing, including applications, permits, approvals, and contracts, internally we are able to significantly cut costs, and at the same time we are establishing a system that ensures the smooth supply of products to domestic distribution centers.

### Logistics

One of the largest domestic distribution networks



We have built our own distribution network from the import of products to their delivery to customers. We are pioneers in implementing the most cutting-edge technology, such as the robot storage system and devanning assist machine, to achieve greater work efficiency and lower costs.

## Foundation for creating value

Developing and providing low cost products with high quality and functionality that are also easy to coordinate. At NITORI we are focusing on strengthening our product supply foundation made up of the human resources who support unique value creation, our product quality control organization, and our partnership with suppliers, as well as our corporate governance system.

### Turning adversity into opportunity since our inception

The fiscal 2018 marked 32 years of consecutive revenue and profit growth for NITORI. This would not have been possible without our customers purchasing our products, the shareholders, investors, and financial institutions who provide financial support, the many people who have cooperated with us in opening our stores, the stakeholders, and of course the Group employees and stakeholders who work so hard every day to achieve our corporate mission statement and vision. I wish to express my heartfelt appreciation to all of you.

I predict that the world's economic situation will gradually worsen. The economy is still booming in the United States, which has the greatest influence over global economic trends, but housing demand, which is a leading indicator of economic health, is starting to decline, and employment is expected to worsen by the end of the year. In addition, interest rates have been cut. The Japanese economy has also taken a downward turn since last year, and I think we will enter a period of global recession for the next three, possibly four years.

As the economy recedes and the market shrinks, the so-called oligopoly advances. In other words, market shrinkage is also a chance to increase our share of the market.

## NITORI continues to evolve with our eyes on the long-term future

### Akio Nitori

Representative Director & Chairperson  
(Chief Executive Officer)  
NITORI Holdings Co., Ltd.

In fact, NITORI has increased our share of the market with concentrated investment when the economic bubble collapsed and during the Lehman Shock. From that perspective, the oncoming economic recession is an opportunity for us because as the economy falls, construction and land prices also drop. Therefore, even if we build new stores at our own expense, they will be profitable. We will take advantage of this opportunity to achieve further growth and an expanded market share.

### Working backwards from our 2032 Vision, what do we need to do now?

At NITORI, we are currently promoting our second 30-year plan, which aims to achieve 3,000 stores and ¥3 trillion in sales by 2032, but there are several issues that stand in the way of achieving that goal. The first is increasing the ratio of coordinated products. In order to completely differentiate ourselves and stay ahead of our competitors who are catching up in price and quality, it is the added value in our product lineup of being able to enjoy total coordination in interior decoration that gives us the upper hand. It was for this reason that we actively promoted organizational restructuring in fiscal 2018, and we will continue to accelerate efforts with the goal of increasing coordinated products by 10% every year.

Expanding our overseas business is also a prerequisite. In addition to advancing our Chinese business expansion project (see p. 18) in China's giant market, we have established a dedicated department to deal with M&A of overseas corporations, and we have begun investigating target companies mainly in the housing industry in countries in Southeast Asia as well as China, Taiwan, and the U.S. When the recession comes, reasonably priced properties should increase, so we will keep a close eye on the situation as we proceed.

Investment in IT is also critical. Currently, we are investing several billion yen in renovating our core system, and we plan to build a globally integrated system over the next three to four years.

Seeing adversity  
as opportunity  
As we move onto the  
next stage of growth

Finally, the area we must focus on most is our human resources, which will become the foundation for our corporate growth. In addition to actively hiring and training IT personnel, we must also maintain our efforts at promoting diversity. The number of female employees who continue working after marriage and having children is steadily increasing, but if we consider that most of NITORI's customers are women, we must further increase the percentage of women in the Planning and Development divisions. In addition, we will accelerate training of employees who are able to speak English, Chinese, or other foreign languages combined with planning and management skills as we look to global expansion.

### The driving force behind growth is our aspiration to provide enriched lifestyles

My aim is to create a company where each and every employee is able to self-actualize. A company where you can do what you want and receive a satisfying income. A continuously growing company with a future. A company where the employees are also constantly growing and feel that there is a possibility that they might someday be able to be president themselves. How can I create such a company? This is something I think about constantly.

As part of our employee training at NITORI, we take all of our second-year employees to the U.S. for an observation tour. Our aim in doing this is to give each employee something to aspire to. When I first visited America more than 40 years ago, I was shocked by the wealth I saw there. I was driven by the strong desire to bring this kind of lifestyle to Japan. This was the beginning of NITORI's aspiration to enrich homes around the world.

NITORI has always been working to make that aspiration a reality, and we will continue to move forward at full speed with an eye to what lies 10 years, 20 years, and even further into the future. I wish to thank all of our stakeholders for their continued support in our endeavors.

# Implementing NITORI-wide reforms oriented toward globalization and business expansion.

**Toshiyuki Shirai**  
Representative Director &  
Chief Operating Officer (COO)  
NITORI Holdings Co., Ltd.



## Summary of Results for Fiscal 2018

### Achieved 32 consecutive years of growth, even under harsh conditions

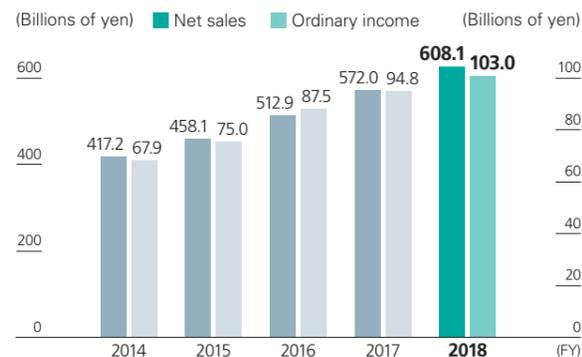
The business environment in the furniture and interior decorating industry continued to be harsh in fiscal 2018 due to intensifying sales competition across industries and the rising cost of distribution.

Amid this environment, sales were strong driven by seasonal bedding products, functional curtains and other window coverings, and bedroom furniture. In terms of selling, general and administrative expenses, increased

store openings in urban areas meant higher rents and average wages, and the soaring labor costs in the logistics industry in turn meant increased shipping and delivery expenses. Despite this, the sales ratio compared to last fiscal year only dropped 0.8%, generally performing as expected.

As a result, the consolidated financial results for fiscal 2018 are net sales of 608.131 billion yen (up 6.3% year on year), operating income of 100.779 billion yen (up 7.9%), and ordinary income of 103.053 billion yen (up 8.6%) achieving 32 consecutive years of increased sales and profits.

#### Net sales / Ordinary income



Coordinated products

## Measures and Initiatives in Fiscal 2018

### Launching group-wide projects geared toward establishing a global chain

Our group has put three priority policies in place to achieve our medium- to long-term vision of establishing 1,000 stores by 2022 and 3,000 stores by 2032.

- (1) Establish a Group growth trajectory and new endeavors
- (2) Provide a comfortable lifestyle via our merchandise, stores and services
- (3) Rebuild the company organization to sustain a global chain store system

In order to achieve this, we launched and promoted several group-wide projects in fiscal 2018.

### Globalization and Business Expansion



(1) Towards “establishing a Group growth trajectory and new endeavors,” we launched the Japan-China Joint Project for strengthening global business in December 2018. We believe the success of this project will lead to overseas business growth, and in turn, holds the key to our Group’s medium- to long-term growth. (see p. 18)

In terms of overseas store development, we opened a store in the large-scale shopping center, Ontario Mills, located in California in May 2018. In addition, we opened 4 stores in Taiwan and 13 stores in China, for a total of 18 new stores. As a result, we now have 31 stores in Taiwan, 3 stores in the U.S., and 37 stores in China, making 71 stores in total.

In addition, to cope with the increasing volume of items, we established Taicang DC in Jiangsu, China which occupies the largest land area of any property in our Group. It not only serves as our Chinese headquarters, but it also acts as the distribution base linking our network of stores in Taiwan and Japan to production and procurement factories. Within Japan, we opened Sendai DC in Miyagi Prefecture and Goka DC in Ibaraki Prefecture in November 2018 to reduce lead-time and deal with

the increasingly large flow of products across the wide region in addition to further improving distribution quality.

(2) “To provide a comfortable lifestyle via our merchandise, stores, and services,” we implemented efforts to further improve quality and expand the product lineup of our N Cool series, which uses materials that are cool to the touch and our N Warm series, which uses moisture-absorbing, heat-generating materials. As a result, the number of recorded sales significantly exceeded the number from the previous fiscal year. Moreover, our N Click™ series, which can be easily assembled in a short time without using tools or screws, has received a lot of attention as a new product in the market.

In terms of domestic store development, we actively opened stores with low market area populations. We gave the logo and signs of our Deco Home business a makeover and recreated the sales floor with product displays and renderings that differ greatly from the conventional set up accelerating the opening of stores that are clearly different from NITORI. As a result, the number of stores in Japan increased by 38 for a total of 505 stores.

On the customer service front, we promoted One to One Marketing, which is marketing optimized for each individual customer’s preferences and attributes. For our corporate customers, we opened our largest NITORI BUSINESS Showroom on the 9th floor of the NITORI Shibuya Koen-dori store.

(3) We established the Global Merchandising Division in October 2018 to “rebuild the company organization to sustain a global chain store system.” The Division is making efforts to lower costs and stabilize quality by consolidating raw materials and reduce distribution costs by making package sizes more compact and changing packaging materials. In addition, the functions of the Product Quality Control & Improvement Office have been transferred to NITORI Holdings for the greater globalization of product development and sales management. Reorganization is now complete as of the end of fiscal 2018, and we plan on operating under the new organization from the beginning of fiscal 2019. As the supervisory organization over the quality control departments in each country and region, we are promoting group-wide management and structural reforms.

In addition, as part of our organizational development, we have created a Human Resource Management Platform to train our workforce (see p. 34). This platform provides an education environment in line with employees’ career intentions contributing to the creation of an organization that boasts a wealth of elite employees who can carry the responsibilities of our Group and its diverse businesses.

Measures and Initiatives for Fiscal 2019

Promoting new customer development and structural reform

We have decided upon the following five priority issues shown in the table below, based on the three priority policies geared toward achieving the medium- to long-term vision for the fiscal 2019. We will incorporate these issues in specific measures in each Group company and division and implement them across the entire company.

Within Japan, there is a lot of room for the sustainable expansion of customers in areas where our Group has yet to open a sufficient number of stores: market areas with low populations. In order to increase customers in these areas, we must create stores where many customers want to visit repeatedly. That is what “① sustainable customer expansion through the pursuit of the customer’s perspective” means. We will promote the following measures in order to achieve that goal.

- **Store network optimization:** Improve customer convenience by reexamining existing formats and suitably positioning each store format
- **Fusion of online and offline:** Promote an O2O strategy
- **Enhancement of system infrastructure:** Development of an information system to gather and analyze customer needs and a personnel system
- **Product development and services in line with needs**
- **Communication enhancement:** Implement advertising and sales promotion measures to meet differing needs based on region and promote One to One Marketing to meet individual needs

“③ Establishing an overseas sales business profit model” is an important management issue that determines the medium- to long-term growth of the Group. Our Taiwan

business was profitable from its sixth year in business in fiscal 2012. As our China business is now heading into its fifth year, a major theme will be how we will make it profitable. In the Japan-China Joint Project for strengthening global business mentioned earlier, we have identified a number of issues related to business in China, such as store operation, human resource development, and product supply systems, and we are working on drafting and implementing solutions to these issues.

The measure that supports to resolving issues ① to ④ is “⑤ organizational and human resource development reform.” Until now, our Group has implemented a transfer system that allowed employees to experience a variety of occupations making efforts to train a workforce that would be prepared to take on the “manufacturing, distribution, IT, retail” business model. However, due to recent changes in the internal and external environments, we now find ourselves in need of employees with expertise in unconventional areas such as ICT or those with international work experience, as well as people who possess new knowledge and technology. In addition to the new system of education we are creating using the Human Resources Management Platform, we plan to achieve the centralized management and visibility of human resources information and use it to optimize the placement and assignment of employees in fiscal 2019.

Our policy for fiscal 2019 is to establish the methods to revolutionize these tasks, the procedures for systematization, and the know-how to adapt them to new businesses, countries, and regions to aid in our future globalization. By steadily implementing and executing these measures, our performance goal for fiscal 2019 is to increase profits and sales for a 33rd consecutive year with consolidated net sales of 643 billion yen and consolidated ordinary income of 106 billion yen.

Priority Issues for Fiscal 2019

|  |   |
|--|---|
| ① Sustainable customer expansion through the pursuit of the customer’s perspective | We will promote measures from the five perspectives of “store network optimization,” “fusion of online and offline,” “enhancement of system infrastructure,” “product development and services in line with needs,” and “communication enhancement.”                  |
| ② Business area expansion strategy   | We will cultivate and strengthen second and third business pillars to support the growth of our domestic businesses, such as Deco Home and our corporate and renovation business.   |
| ③ Establishment of an overseas sales business profit model                         | Launch a company-wide project to establish a profit model geared toward overseas business expansion and create a business strategy for global business development.   |
| ④ Task and system reform   | Renew our core system so that it is able to adapt to expanding and changing business domains, while at the same time analyzing the various issues within our Group and promoting reform from the perspective of standardization, simplification, and differentiation. |
| ⑤ Organizational and human resource development reform                             | In addition to redesigning the division of duties, responsibilities, and authority as a globalized organization, we will make efforts to acquire and train highly specialized personnel.  |

For a Sustainable Society

Strengthen management as a global corporation that prioritizes ESG

Our Group has worked to manage in a manner that balances environmental and economic balance.

In terms of the environment, we established Thai Negoro Co., Ltd. as a wholly owned subsidiary in May 2018. The company manufactures carpets made mainly from recycled polyester derived from plastic bottles reinforcing the creation of products that are more environmentally friendly.

As for the social aspect, we will continue to focus on improving the safety and quality of our products in order to embody our motto of “offering the unexpected.” We seek to be a company trusted by the people in every country and region where we have businesses, and in addition to making social contributions through our business, we are promoting cultural, educational, and regional development activities. In 2018, we supported the victims of the major flooding in western Japan and the Hokkaido Eastern Iburi earthquake by donating NITORI mattresses and beddings.

Regarding governance, as we work to globalize our Group businesses, and in particular our sales business, we aim to strengthen control over the entire Group, including overseas business, strengthen our risk management system, and we are working on building and operating systems of compliance and internal auditing. In addition to our Group’s Audit & Supervisory Committee’s independent external directors Kazuhiko Takeshima (former Chairman of the Japan Fair Trade Commission), Kazuhiro Suzuki (former Superintending Prosecutor of the Fukuoka High Public Prosecutors Office), and Tsuneyoshi Tatsuoka (former Vice-Minister of Economy, Trade and Industry), in May 2019, Takaharu Ando (former Commissioner General of National Police Agency) was reappointed to the Nomination & Compensation Committee and Sadayuki Sakakibara (former Chairman of the Japan Business Federation) was newly appointed. With their abundance of experience and sharp insight, they are contributing to improving the soundness and transparency of our management.

Our Group will continue to further strengthen our efforts from an ESG standpoint and push forward to realize our aspiration of enriching homes around the world carrying out our contributions to society.

Message to Shareholders and Investors

For sustainable growth and medium- to long-term corporate value improvement

Our Group endeavors to voluntarily disclose necessary and sufficient information in a timely and appropriate manner in accordance with the Companies Act, Financial Instruments and Exchange Act, the rules of the stock exchange, and other applicable laws and regulations regarding disclosure and IR. In addition, we recognize that constructive dialogue with our shareholders is essential for our Group’s sustainable growth and to improve our corporate value, and we will continue to maintain a system to promote such dialogue.

In fiscal 2018, we implemented reforms geared toward medium- to long-term growth, such as launching projects to accelerate the development of global business, creating a system for human resource development, and strengthening our system of governance. I believe that one day we will look back on these reforms as a major milestone for our Group. In the fiscal 2019, we will push forward with Group-wide reforms to achieve our medium- to long-term vision and execute strategies to enhance growth and value.

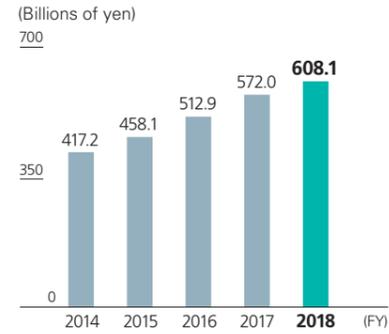
We will continue to meet the expectations of all our stakeholders, our shareholders, and investors. We ask for your continued understanding and support.



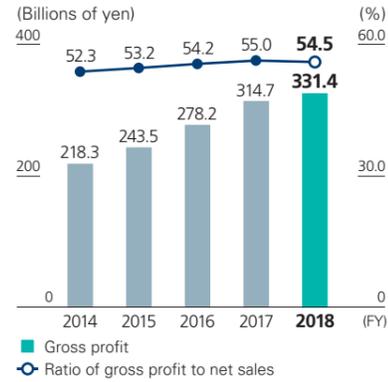
Financial results briefing for fiscal 2018

## Financial data

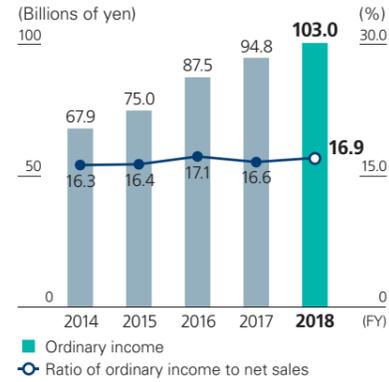
### Net sales



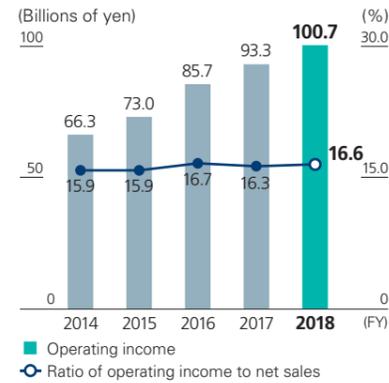
### Gross profit/Ratio of gross profit to net sales



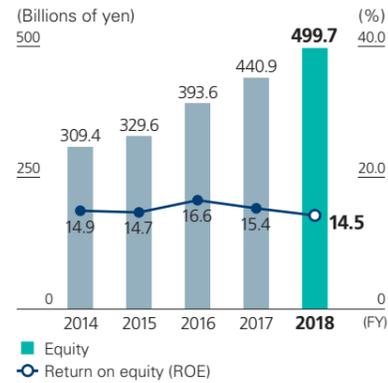
### Ordinary income/Ratio of ordinary income to net sales



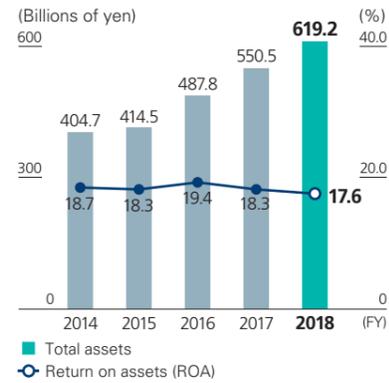
### Operating income/Ratio of operating income to net sales



### Equity/Return on equity (ROE)

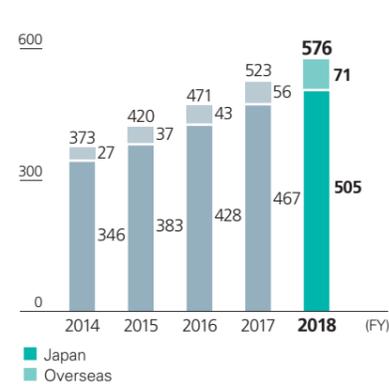


### Total assets/Return on assets (ROA)

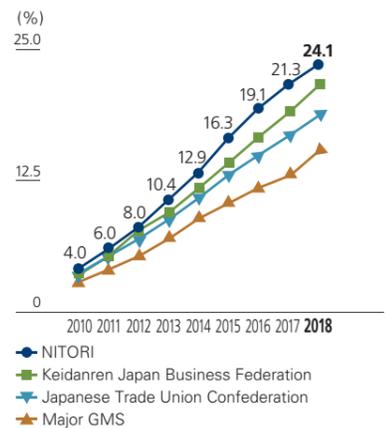


## Non-Financial data

### Number of stores



### Wage revision rate



### Women in management positions



## PART 2

# Evolving NITORI

To provide value to our customers around the world, NITORI is evolving the global supply chain built upon our unique business model. NITORI continues to carry on our corporate culture of refusing to accept the status quo and innovate.



# Laying the Groundwork to Achieve our 2032 Vision

Refining our unique business model in China and restructuring for global expansion.



**Fumiaki Matsumoto**  
Executive Officer & Vice President



## 4 Priority Issues

**Human Resource Development**  
Establish a short-term training program for the staff members in stores and the Merchandising division.

**Product Development Promotion**  
With the cooperation of the Global Merchandising Division, we promote global standardization and localization that meets the needs of each locality.

**Improving Store Attractiveness**  
Improve the attractiveness of stores with product lineups that meet the needs of the area both business-wise and community-wise, easy-to-understand sales floor layouts, and impactful displays.

**Supply System Establishment**  
Implement the cutting-edge logistics system and supply and inventory management system established in Japan to ensure proper store inventory.

### Restructuring the business promotion system in China's giant market

The Japan-China Joint Project started in December 2018 to strengthen our global business. The main aim of this joint project, comprised of 50 Japanese and Chinese staff members, is to restructure the system of business promotion in China.

Business in China is NITORI's main pillar in global business development. Since we opened the Wuhan Star City Store in Hubei Province in October 2014, NITORI has continued to take a proactive approach in opening stores throughout the country, and as of February 20, 2019, we have opened 37 stores in Mainland China. In addition to the fact that the scale of China's furniture and interior design market is 13 trillion yen, which is four times that of Japan, there are no other stores like NITORI offering a broad range of products that includes everything from furniture to interior decorations in one place. In other words, the market is yet undeveloped, much like the situation in Japan that allowed NITORI to achieve rapid growth.

While there are many big opportunities like this that await, China is a fierce market with competitive battles

being fought daily. In order to survive in this competitive environment where new forces are constantly emerging and changes take place at a dizzying pace, NITORI must develop a system that allows us to fully demonstrate the strengths we have amassed in Japan.

### The attraction of "offering the unexpected," even in China

During these last five years of rapid expansion, there was one issue in the China business that became very apparent. This issue was the fact that we were not fully utilizing the unique business know-how that NITORI has amassed and refined over many years in Japan and applying it to China. To remedy this, the project identifies issues under specific themes, such as product development, sales floor creation, supply chain and inventory management, and store manager and buyer training, etc., and works on improvement measures. What is important in doing this, is not simply transferring and applying the expertise acquired in Japan to the situation in China, but using NITORI's strengths cultivated in Japan as a base to create the attraction of "offering the unexpected" in China with a proper understanding of the

local environment and market needs. This is the real reason behind the Joint Project that our Japanese and Chinese staff members have embarked upon.

### Promoting clarification and standardization of business know-how

In fact, this project has a major aim that goes beyond strengthening our business in China. That is promoting the clarification and standardization of our business know-how with the expectation of future global business development.

In the 2032 Vision of 3,000 stores and ¥3 trillion in sales that NITORI has set forth, we are aiming for global business development not only in China, but throughout the entire world. In order to do so, it is important that we are steadfast in conveying to the staff in these new countries the business know-how we have cultivated in order to create and adapt our unique "manufacturing, distribution, IT, retail" business model in the markets where we are advancing. Using this project to organize, clarify, and standardize the knowledge and know-how that have been handed down to us as knowledge through experience, will be a powerful weapon as we continue to expand globally.

### Progress aiming to become a truly global company

Remodeling our store in Qibao, Shanghai in August 2019, was one accomplishment of this project. We renovated everything from operations to sales floor creation, to the product supply system, using NITORI's know-how, and positioned this store as the new standard in the China business where we plan on remodeling all our stores throughout the country.

Meanwhile, the project itself will be transplanted into each organization as a globalization function in fiscal 2019. "Standardization from a global perspective" and "localization according to each country and region's needs" are issues that should be tackled as a regular part of the tasks engaged in by the divisions responsible for the various functions of corporate activities. After March 2020, we will promote efforts in various divisions, such as Human Resources, Legal, Merchandise Planning, Store Development, and Logistics, based on the issues and improvement measures clarified through this project, and we will continue evolving as we aim to become a truly global company.

Number of stores (As of February 20, 2019)

**505** Stores

# Creating stores with repeat visitors by introducing new products and services



Sales (Domestic)



As we continue to open more stores, we have worked to establish a new system of operation to ensure that all stores provide the same level of service. In our Deco Home business, we are promoting a differentiation with NITORI and expanding store development with a new logomark and design. We will continue to provide customers with a space that allows them to do their shopping more conveniently and with more fun.

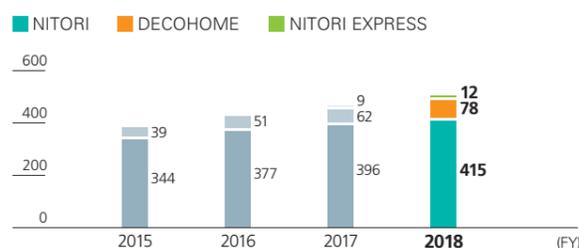
**Mitsuyoshi Kubota** General Manager, Store Operations Division

## To become a trusted store in every community in Japan

Against the backdrop of commoditization of products and uniformity of service and with the intensifying competition in the furniture and interior design industry, only the companies that truly have support from their customers can survive. In order for us to survive under such circumstances, properly conveying and providing our strengths, such as our product capabilities, ability to suggest coordinated designs, and national network of stores, to customers in each region is an essential prerequisite for earning customer support. In addition to creating sales floors that make it easy for customers to coordinate products and purchase them, we are working on enhancing our ability to make suggestions to customers with measures such as holding coordination contests within the company. By holding events such as "Fun Week" and other promotional activities for our customers based on company-wide sales plans, we are also putting efforts into creating stores people will want to visit again and again.

Furthermore, at NITORI, in order to make life more convenient, comfortable, and enriched for all people in all regions throughout the country, we are opening stores in areas with populations of fewer than 100,000 on the one hand, and on the other we are opening small-format Deco Home and NITORI EXPRESS stores mainly in urban areas. These active efforts to open more stores resulted in additional 38 stores in Japan during fiscal 2018 for a total of 505 stores. We will continue to strengthen our product lineup and services in our stores and aim to increase the frequency of customer store visits and at the same time further improve profitability.

### Number of stores in Japan



## Promoting the creation of standards for a new operation system

As we continue opening stores and expanding our store network, in order to meet the expectations of customers in the community and provide the same level of reliable service at all of our stores, we must reexamine the operation system that has been in place until now. Though it is good that the number of stores is increasing, that also means that stores are further diversifying in scale and business region, which can create issues in our existing system of operation. To overcome the issues that are raised as we grow, we will make efforts to establish a new low-cost operation system so that we can continue to "offer the



Interior design consultation corner



Self-service cash register

Self-service ordering device

## Strengthening and expanding the Deco Home business as a business that can co-exist with NITORI

The compact home furnishings store, Deco Home, whose concept is "a store you can drop in on daily," operates as a separate, independent entity from NITORI with a large lineup of popular basic items concentrating on necessities for the home. They also develop trendier or more seasonal items such as interior novelty items popular with women living on their own.

Since its inception in 2011, the number of Deco Home stores has steadily increased and the total number of stores in shopping centers around the country in mainly urban areas is 78, as of February 20, 2019. Deco Home Store Tressa Yokohama opened in March 2018, and the stores that have opened since, use the new store logomark and design. We plan to accelerate the development of Deco Home original products and further clarify the differences

unexpected" just as we always have.

In February 2019, we completely refurbished the NITORI Niiza store and positioned it as the standard for the new operation system. Under the concept of evolutionizing the sales floors and shopping experience, we have installed display corners coordinated in different styles and established a new interior design consultation corner where interior design advisors can suggest coordinated plans ideally suited to each customer. In addition to reorganizing our kids & baby products, RTA, and other furniture sales floors, in terms of service, we introduced EC-guidance POP displays and a digital catalog to complement the product lineup, along with 3-D simulated customer service, self-service ordering devices, and self-service cash registers to maintain the level of service we offer while reducing costs.



**Keigo Kamada**  
Task Improvement Section,  
Store Operations Division

## Using mobile devices to improve customer service quality and work style reforms.

At NITORI, employees carry mobile devices they can use to check inventory, product information, when the delivery is expected, and make product orders, so that they may deal with customer inquiries as smoothly as possible. As the distance employees have to move is reduced, the time customers have to wait is also reduced, leading to improved quality of customer service. In addition, we can track and manage employees' overtime hours and work intervals in real time, which we can use to bring about work-style reforms.

with the NITORI brand in our aim to establish a business model that can co-exist with NITORI, even in the same shopping malls.



Deco Home, Bell Mall Utsunomiya store

Number of stores (As of February 20, 2019)

**71** Stores

# Using NITORI's strengths to create stores suited to localities



Sales (Overseas)

NITORI is currently opening stores in Taiwan, the U.S., and China. In addition to promoting vertical merchandising in cooperation with the Global Merchandising and other divisions, we are working on developing stores that are suited to their localities to improve productivity and recognition of the NITORI brand. We will continue our endeavors geared toward our aspiration to provide people around the world with enriched lifestyles.

**Yuichi Kazeharu** Managing Executive Officer, General Manager, NITORI China Sales

## Promoting product standardization and transfer-based education to strengthen our business foundation and venture into new business formats

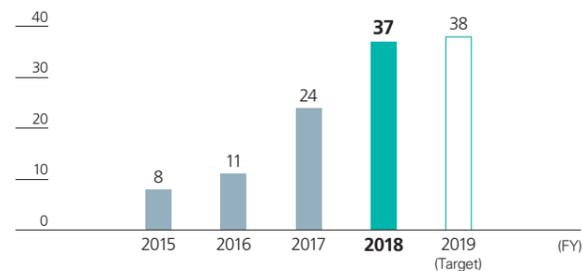
NITORI has significantly increased our stores in the Chinese market over the last five years and our performance has grown steadily. Meanwhile, slower performance in existing stores and soaring logistic expenses are some of the issues that have emerged.

To achieve the 2032 Vision that NITORI has set forth, further growth of our China business is essential. In order to do so, we have positioned fiscal 2019 as the year we solidify the foundation of our China business and venture into new business formats, and our policy is to try new experiments and endeavors based on cooperation with the Japan-China Joint Project to strengthen global business (see p. 18).

First, we will promote transfer-based education (see p. 36) in China. Currently, approximately 70% of our

employees at the China Division have no experience in the sales field. We will implement relocations in order to promote improvements from the sales field perspective. In addition, in order to expand total coordination suggestions like what we provide in Japan, we will promote merchandising measures that aim to standardize approximately 70% of products with Japan. Furthermore, we are developing an experimental "N Sleep Store," which are dedicated bed and bedding stores in major cities mainly in the Shanghai area as a business format that offers high sales per square foot of the sales floor.

Number of stores in China



## Renewing the format with the first store in four years, and evolving into a business format where we can better demonstrate our strengths

We have been promoting the development of our Aki-Home brand in the U.S. since we first entered the market in 2013. In fiscal 2018, we opened the first store in four years in Ontario Mills, located in southern California. This shopping mall is among the top 10 customer-attracting malls in the major consumer area of southern California, and it is also conveniently located next to the furniture district.

The sales floor space at Ontario Mills is approximately 1.5 times the size of existing stores. The differences from the conventional format include how the furniture floor is laid out, how its displays are presented, and the storefront design emphasizing coordination. The new format was developed through market surveys conducted jointly by people from our headquarters and local staff members in the U.S., who then held lengthy discussions. We were able to utilize the strengths of our NITORI stores in Japan to provide a unique shopping experience that surpasses competing stores in the U.S.

Since the store opened in May 2018, the number of visitors remains high at about five times that of existing stores in the U.S. The large number of people who stop to



take photos in the store while they shop and other aspects of creating an attractive sales floor contribute to improving the brand recognition of Aki-Home. Using this store as a model case, we will continue to expand the number of stores where we can demonstrate the strengths of the NITORI Group, such as product appeal and the ability to suggest coordinated items, to further increase our presence in the U.S. market.

## Further strengthening the NITORI brand with store renovations and new store openings

The number of customers who made purchases in fiscal 2018 in Taiwan is only about 9% of the total population, and



the average spending per customer is roughly half of what it is in Japan. However, local recognition is increasing every year, and in the field of furniture and interior design, customers mention NITORI as their first or second choice\* when asked to recall a store name.

Currently, in the Taiwan business, in addition to promoting the standardization of products in coordination with the Global Merchandising Division, we are reexamining what products the Taiwan market truly needs, reviewing product categories, and reducing/expanding our product line in each category. Furthermore, to raise our brand image as a global corporation, we will promote the common usage of TV commercials with Japan.

It has been twelve years since we first entered the Taiwanese market and the number of stores that have been open for several years is increasing. This is why we are gradually renovating stores, starting with flagship stores in each region where the renovations will have a big impact. Regarding the opening of new stores, we are strengthening our approach to shopping centers and department stores, where we have not opened stores thus far, in addition to expanding the number of stores while experimentally opening small stores including dedicated home fashion stores of 495 m<sup>2</sup> or less.

\*Fiscal 2018 survey conducted in-house

Number of NITORI App Members  
(As of February 20, 2019)

Approx.  
**3.5**  
million people

## Enhancing sales channels to make NITORI even more convenient



We are fusing stores (offline) and EC (online) and introducing One to One Marketing based on each customer's purchasing history to focus our efforts on providing new services. Our customer-focused business is evolving utilizing the strength of our nationwide store and logistics networks to provide a convenient and comfortable shopping experience to as many customers as possible.

**Noriaki Miyairi** Manager, O2O Promotion Office

Sales  
(O2O Online Sales)

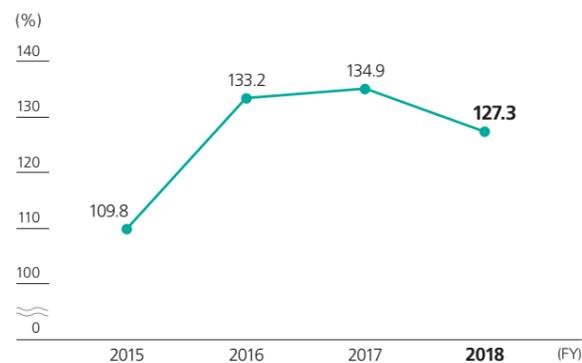
### Steadily expanding our online sales business using the strength of our product capabilities and store and logistics networks

Though stagnating personal spending continues to be an issue of concern domestically, the e-commerce market continues to display rapid growth. Even in the field of furniture and home décor, companies with various backgrounds are entering the EC business and competition is intensifying. Amid this situation, our EC site, NITORI-net was able to steadily increase its sales in fiscal 2018 due to the expansion of online limited products, web content improvement, and enhanced recommendations. As a result, sales in the online business increased by 27.3% over the previous year to 38.9 billion yen displaying growth at a pace faster than that of the store business.

One of the greatest strengths supporting performance growth is our products. NITORI-net offers an extensive lineup of original products that cannot be purchased anywhere else,

including high-performance products, such as N Warm and N Cool. In addition, one of our major advantages is our ability to provide e-commerce customers with the same services found in stores by utilizing our nationwide network of stores and our distribution network. When selling furniture in particular, delivery and installation demand careful attention. The trust we have achieved by providing high-quality in-store service instills trust in our e-commerce customers.

#### Year-on-year comparison of mail order net sales



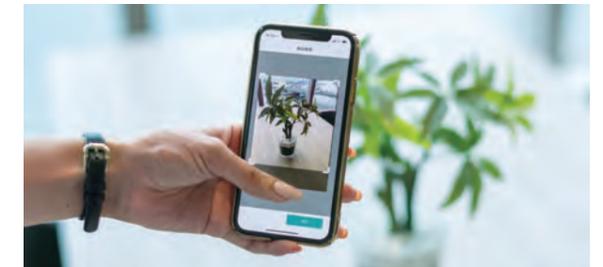
### Strengthening the store and EC fusion centered around the newly established O2O Promotion Office

According to a survey we conducted in 2018, more than two-thirds of our customers who make in-store purchases look up products online beforehand and more than two-thirds of customers who make purchases from our e-commerce website go to see the products in stores beforehand. This means that many of our customers already use both NITORI stores and the e-commerce website flexibly to suit their needs. Considering this situation, NITORI has been working to create convenient and comfortable services that are a fusion of highly integrated stores (offline) and EC (online). For example, the NITORI app for smartphones is equipped with the Tebura de Shopping (meaning empty-handed shopping) function that can read barcodes on products in stores and automatically create a shopping list linked to the EC site. Customers can select "order online" or "order in-store" and can even make arrangements for delivery without having to carry their purchases around store.

In order to further strengthen these collaborative services between stores and our EC site, in August 2018, we raised the status of the conventional O2O Project to O2O Promotion Office. Since its inception, the O2O Promotion Office has been promoting a variety of activities such as the introduction of the One to One Marketing System, renewing the digital catalog, establishing a purchasing analysis organization, and in fiscal 2019, we are focusing on further strengthening the EC site functions and improving the convenience of the NITORI app. For example, the NITORI app is equipped with an image search function, which allows users to use photos of items they find around town or on the internet to search for similar

products. Also, the in-store product locator function allows customers to search for the products they are looking for themselves providing a more convenient and comfortable shopping experience.

#### Image search function (reference image)



**Takamasa Okamoto**  
New Service Development Group,  
O2O Promotion Office

#### Seamlessly linking stores and EC to develop initiatives that improve customer experiences.

In recent years, customers who refer to images on social media and interior design sites when considering purchases are increasing. The image search function on the NITORI app will search NITORI-net for the same or similar item to what you are looking for, just by taking a picture of the item. From there, customers can check on the product's store inventory or delivery date, or simply purchase it on NITORI-net right then. We will continue meeting our customers' needs as they change along with the times.

### Promotion to make suggestions optimized for each individual customer

The O2O Promotion Office will take the lead in further enhancing our product lineup on NITORI-net, which includes expanding the selection of products that can only be purchased online. In addition, based on the analysis of sales trends obtained from the EC site and customer information, we can promote the creation of product lineups and sales floors that more accurately meet customer needs to increase sales and optimize inventory in brick and mortar stores.

Also, we are strengthening our advertising and promotions to align with the digitalization of society. With the optimal combination of online advertising, which effectively appeals to those with specific interests, and offline advertising, such as TV and newspaper ads that communicate information to a wide audience, we can

achieve more cost-effective promotions. We are also working on further popularizing the NITORI app in order to increase the repeat rate by making suggestions according to each individual customer's purchasing trends and lifestyle.

We will continue to evolve into the customer-centric business NITORI aims to become by communicating the optimal content through optimal channels at the optimal time through enhanced and expanded One to One Marketing based on each individual customer's data.

#### Digitalization of NITORI membership card



Items handled annually

10,000

# Enhancing product lineup to attract new customers



## Product Planning/Development



In addition to the low-priced brand that NITORI has always excelled at, we are now working on enhancing our medium-priced brand and products for kids and babies to cultivate a new customer base. We aim to enrich people's lifestyles by finding frustrations and inconveniences in life and promoting the creation of products that meet customers' various needs.

**Hiromi Abiko**

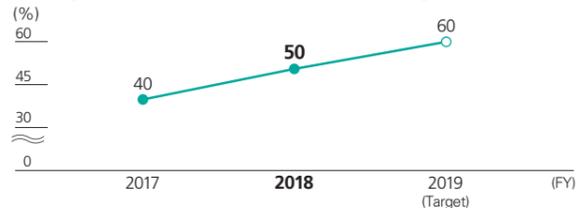
Managing Executive Officer, Coordinated Merchandise Planning, Global Merchandising Division and Planning Group Manager and Coordinated Product Planning Manager, Merchandising Division

## Meeting various lifestyle needs with product development based on thorough market research

In order to offer guidance toward a more luxurious and comfortable lifestyle, NITORI focuses on "offering the unexpected" at good quality and low prices, as well as completely coordinated interior design resulting in a style of living that brings harmony throughout the home.

When planning and developing products, those responsible for doing so will explore current trends by attending and observing exhibitions held in Europe and the U.S. and within Japan. They conduct thorough research from all angles such as surveying competitor trends, purchasing

### Composition ratio of coordinated products



behavior surveys, and home visits. This leads to the development of original products that offer guidance toward a more luxurious lifestyle. In addition, we are also focusing on developing sales floors that clearly and alluringly convey the value of the coordinated products we have developed.



**Machiko Taki**

Chief Buyer  
Kids & Babies Team  
Seasonal & Development Planning  
Planning Group,  
Merchandising Division

### Utilizing thorough market research and my own experience to develop products that enrich lifestyles.

In order to develop products from the perspective of the user and our customers who are making the purchases, we must thoroughly examine whether each function is really necessary to the product. I place great value on the various inconveniences we hear about from our customers and use my own experiences of frustration, to continue working on creating products that make life easy and convenient for our customers.

## Developing brands with wide price ranges to offer coherent interior coordination

As part of our coherent interior coordination initiative, we are placing particular emphasis on our DAY Value and & Style lines, two brands with different price ranges.

Our low-priced brand DAY Value has five styles: simple, natural, feminine, vintage, and Japanese. The product lineup whose design is tailored to function without any extra features can be easily incorporated as basic items in your lifestyle and makes it more fun to coordinate your home.

Meanwhile, & Style is a high performance, high quality

brand satisfying customers who are particular about their style. As the lineup is further enhanced in the future, we can meet a variety of customer needs by expanding our range of mid-priced products in addition to the low-priced range NITORI has always excelled at.



DAY Value (left) and & Style (right)

## Strengthening kids & baby products and electric appliance sales to attract new customers

In fiscal 2018, the number of stores carrying kids and baby products increased from 173 stores to 384 stores. This was in response to an increasing number of inquiries from customers as a result of information regarding NITORI's kids and baby products spreading on social media. The stroller

pad for babies using our functional N Cool material was particularly well received.

In addition, in December 2018 we promoted the development of large size electric appliances for our private label products packaged as an "appliance set" in a lineup that included a refrigerator/freezer and fully automated washing machine. This was well-received by customers as everything required to start a new chapter in life could be purchased at NITORI, even large appliances that once had to be purchased at appliance retail stores.

## High performance products that continue to evolve each season

NITORI's functional products continue to evolve each season with vertical merchandising that extends back to the raw materials. For example, the spring and summer bedding series N Cool, which feels cool to the touch as the part that touches the skin transfers the heat to the fabric, introduced more patterned items and color choices to enhance the line's coordination possibilities. In addition, the affordable N Cool Light bed pad priced at 999 yen, was developed for online sales only.

The autumn and winter bedding N Warm series achieves warm, smooth comfort by absorbing the moisture released by the body and turning it into heat with moisture absorbing exothermal material. In addition to releasing the N Warm Double Moist, which has an enhanced moisture retaining function over the popular N Warm Moist, we also released the N Warm Super, which has the added function of being warm as soon as you get into bed.

In October 2018, four products received the Good Design Award. This was the 6th consecutive year our products received this award. The N-CLICK™ box storage shelf, which was released the same month, was developed

in collaboration with Valinge Innovation (Headquartered in Sweden) and took four years to develop. It uses an assembly method that requires no screws or tools. It was highly evaluated for being easy to assemble and the fact that screws are not apparent on the furniture's surface, creating a quality that did not exist in storage shelves before. We will continue to develop high performance products to resolve the inconveniences in customers' lives.



N Cool (top photo) and N Warm (bottom photo)

Ba Ria-Vung Tau Mattress Factory  
Floorspace

400,000m<sup>2</sup>

## Promoting in-house production and supporting Group growth

### Manufacturing



At NITORI, we have always promoted vertical merchandising going back to raw materials, but the Global Merchandising Division, established in fiscal 2018 is taking the lead in the pursuit of further scale merits. In addition, in order to stably supply high quality products, we are promoting in-house production along with conducting M&A to achieve a stronger production system.

Masanori Takeda

Managing Director,  
General Manager Global Merchandising Division &  
General Manager Merchandising Division

### “Offering the unexpected” by ensuring quality and lowering manufacturing costs

At NITORI, in order to provide a stable supply of products that are both low-priced and high quality, we promote vertical merchandising that consistently and systematically extends from raw material procurement to the final finished product.

When selecting suppliers of raw materials, we are thorough in our checks to verify that they satisfy various quality, function, and cost requirements necessary to make products that meet our customer needs. We conduct negotiations with hundreds of manufacturers based on actual investigative visits to their factories and plants.

In addition, we aim to improve quality control and productivity in products produced overseas, and therefore provide local support for factories belonging to our suppliers in areas such as process management, quality inspection, and loss rate management. Regarding product categories that are in high demand in other countries as well as in Japan, we are actively seeking out new production centers suited to a global production system.

### Augmenting our overseas production system to support a stable supply of products

At NITORI, we are promoting in-house production in order to ensure a stable supply of high-quality products in view of our goal of 3,000 stores by 2032.

The Hanoi Factory in Vietnam established in expectation of global store expansion, manufactures kitchen cabinets, sofas, mattresses, and other products for



NITORI STUDIO

NITORI STUDIO, which serves as our core floor for furniture sales. Additionally, the factory built in Ba Ria-Vung Tau, Vietnam began operations in December 2017 and occupies a floorspace (400,000 m<sup>2</sup>) 2.5 times that of the Hanoi Factory. In fiscal 2018, the factory increased its productivity of bed mattresses and dining table sets to approximately 2,000 and 330 per day respectively.

Furthermore, we are promoting the establishment of an in-house production system for products that use fabrics such as curtains. We are building our curtain producing factory in Ba Ria-Vung Tau. Construction is expected to be completed in August 2020 and operations are scheduled to



Ba Ria-Vung Tau Factory

begin March 2021.

Regarding carpets and rugs, we added the Thai company Thai Negoro to our group through an M&A in May 2018. This company develops and manufactures carpets using recycled polyester cotton made from raw materials such as plastic bottles. The acquisition of this company further strengthened development and supply of environmentally conscious products that NITORI has been seeking to expand in recent years. In addition, as a new initiative, we have begun testing mixed shipments with local Thai companies to reduce costs and we have begun producing an abundant variation of carpets.



Hanoi Factory

### Establishment of a Global Merchandising Division to pursue further scale merits

NITORI’s craftsmanship continues to expand past the borders of countries and regions in order to introduce better products for our customers around the world. We must strengthen our product development system in order to utilize this global production system even more effectively and efficiently.

Currently at NITORI, we are planning and developing products in line with customer needs in each of the countries where we have stores (Japan, Taiwan, U.S. and China), but going forward we plan to proceed with product development from a global perspective while taking into

account the unique needs and different living habits in each country.

To that end, we have launched a Global Merchandising Division in fiscal 2018 to oversee the planning and development of products in each country. This Division will take the lead in working closely with the product planning and development divisions in each country, sharing information, promoting the collective procurement of raw materials and the standardization of parts and materials. It will also seek to improve product development efficiency, reduce production costs, and optimize inventory. In fiscal 2019, we are aiming for a global merchandise standardization rate of 70%\* in the pursuit of further scale merits.

\*The ratio of products sold in common in two or more countries.



Noriaki Hase  
Global Merchandising Division  
Merchandiser Group  
Home Fashion Soft Goods  
Merchandiser Manager

### Manufacturing from a global perspective supports NITORI’s further growth.

How we will use the product development capabilities that we cultivated with our unique NITORI business model moving forward globally is an issue for us. I believe our products that offer the unexpected, will receive public approval regardless of country, region, or custom. In order to embody our aspiration of providing people around the world with enriched lifestyles, we must organize what should be standardized and what should be differentiated, so that we can establish a framework for manufacturing suited to a truly global corporation.

Container volume handled annually

**175,000**  
TEU/year

## Achieving both improved shipping quality and reduced costs

### Trade/Logistics



At NITORI, where we import products from overseas and deliver it to stores and customers' homes around the country, we are establishing our own unique global logistics system. In order to deal with the continuously increasing volume of shipments, we have expanded our logistics bases with opening distribution centers such as Taicang DC in China. We are also focusing on human resource development introducing mobile training units with the aim of improving shipping quality.

**Akio Igarashi** Senior Executive Officer, Representative Director and President of Home Logistics Co., Ltd.

### Building a one-stop shipping system from overseas to customer homes across Japan

At NITORI we import approximately 90% of our raw materials and products from overseas. The total volume imported to Japan from 13 countries and 50 ports around the world annually is equivalent to 175,000 20-foot containers; one of the largest volumes imported to a single company in Japan. We are able to significantly reduce costs by undertaking all import related tasks within our Group. This also enables smooth product supply to our distribution centers around the country.

In addition, we have established three large scale overseas distribution centers in Taicang, China, Ho Chi Minh, Vietnam, and Taoyuan, Taiwan allowing us to provide the required number of items to the required location at the required time, resulting in optimized inventory and lowered costs. In particular, the Taicang DC, which began operating in October 2018, is the Group's largest distribution center, and is located with convenient access to both port and

#### Trade and Distribution Centers



highway. It functions as a global distribution center handling not only domestic Chinese logistics, but overseas trade distribution as well.

In addition, there are 11 distribution centers, 78 delivery centers (sales offices), and 11 shipping centers covering Japan so that we can quickly deliver our products to customers across the country. In November 2018, in response to the continuously increasing shipping needs in Eastern Japan, we established new distribution centers in Sendai, Miyagi and the town of Goka in Ibaraki Prefecture in order to maintain more efficient transportation.

We will continue to focus our efforts on optimizing

our supply chain from productions areas to stores and customer homes.



Taicang DC

### Actively implementing leading-edge technology to achieve lower costs and more efficient operations

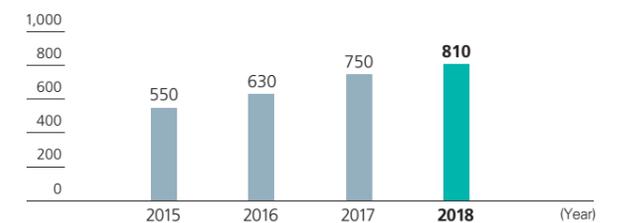
We have built one of Japan's largest distribution networks covering all 47 prefectures and 98% of the population undertaking more than 8.1 million deliveries annually from small novelty items to large furniture pieces. We introduced "AutoStore" at our East-Japan Ecommerce Fulfillment Center in February 2016, improving the efficiency of loading and unloading inventory by approximately five times. In addition, our delivery centers throughout the country use the latest traffic control systems employing GPS for more efficient product delivery.

Furthermore, we are considering the establishment

of new distribution hubs in order to carry out just in time deliveries from the customer's perspective and reviewing the positioning and functions of existing distribution centers. In addition, we are working to improve on-site productivity by introducing new technologies in order to curb soaring logistics costs.

#### Annual number of deliveries

(x 10,000 deliveries)



### Aiming for further quality improvement in the last mile of delivery

In recent years, we have been placing particular focus on the "last mile"—improving the quality of the final process of delivering products to our customers. To improve the service quality offered by the delivery team who deliver, assemble, and install products in customer homes, we have

established two training facilities, one in the east and one in the west, that recreate customer homes. In June 2019, we introduced the industry's first Mobile Training Unit, a vehicle for delivery training. In the form of a training truck, we visit roughly 140 partner shipping companies to teach delivery techniques and customer service skills, so that we are able to bring more joy to our customers.

These initiatives are improving delivery quality throughout the country, and at the same time, boosting the motivation of our delivery team.



**Ryohei Iwata**  
Manager  
Safety & Environmental Control Division  
Home Logistics Co., Ltd.

#### We are working on further improvement of our delivery quality and operational efficiency.

In order to improve our delivery quality, it is essential that we provide our delivery team with training. Until now, we used our training facilities in Osaka and Kanagawa Prefectures for training, but there was an issue with the burden it placed on delivery partner companies participating from faraway places. The Mobile Training Unit is a facility enabling training in any location throughout the country. By conducting more realistic delivery training we can achieve the same high standard of service across the country.

Corporate Sales Business Division and Interior Renovation Business Division

# 38 Locations

## Using NITORI's Acquired Strengths to Develop New Fields of Business

### Expanding Business



In November 2018, we strengthened the systematic cooperation between the Corporate Sales Business Division and the Interior Renovation Business Division with the purpose of energizing reciprocal marketing. We believe that cooperation between these two divisions is a big opportunity to expand business possibilities by strengthening proposal capabilities and expanding our customer base. We are focusing efforts on cultivating and strengthening our second and third core businesses to support NITORI's medium- to long-term growth.

**Nobuyuki Tomii** General Manager, Corporate Sales Business Division & Manager, Interior Renovation Business Division

### Corporate Sales and Interior Renovation Businesses continue to grow in double digits every year

Our corporate business is divided into five business categories: offices, commercial and educational facilities, medical and welfare facilities, accommodation facilities and living environments, and model rooms. In recent years, office projects have shown steady growth in addition to an increase in orders for large-scale projects, such as hotels and commercial facilities due to expanding inbound tourism. This has resulted in significant year-on-year growth of more than 20% for fiscal 2018.

In October 2018, we opened our largest BtoB showroom, the NITORI BUSINESS Shibuya Showroom in Shibuya, Tokyo, which tends to be a gathering place for information on the latest trends, further strengthening our ability to receive and disseminate information. We will continue aiming for the establishment of the NITORI BUSINESS brand by expanding product development and proposals that make use of the Group's infrastructure in our Corporate Sales Business Division.

### Strengthening the synergy between the Corporate Sales and Interior Renovation Businesses through cooperation

We are strengthening the cooperative system in place between NITORI Group's Corporate Sales and Interior

Renovation Business Divisions. Through cooperation between the eight Corporate Sales Business Division offices and 30 Interior Renovation Business Division offices, we are creating an environment where each business can concentrate on the optimum conditions for its own growth.

In addition, while we engage in BtoB projects, such as company housing, employee dormitories, and welfare facilities, we are aiming to capitalize on the know-how and interior coordination skills cultivated in the Interior Renovation Business for projects with extensive BtoC elements, and create a new synergy through the fusion of the two businesses.



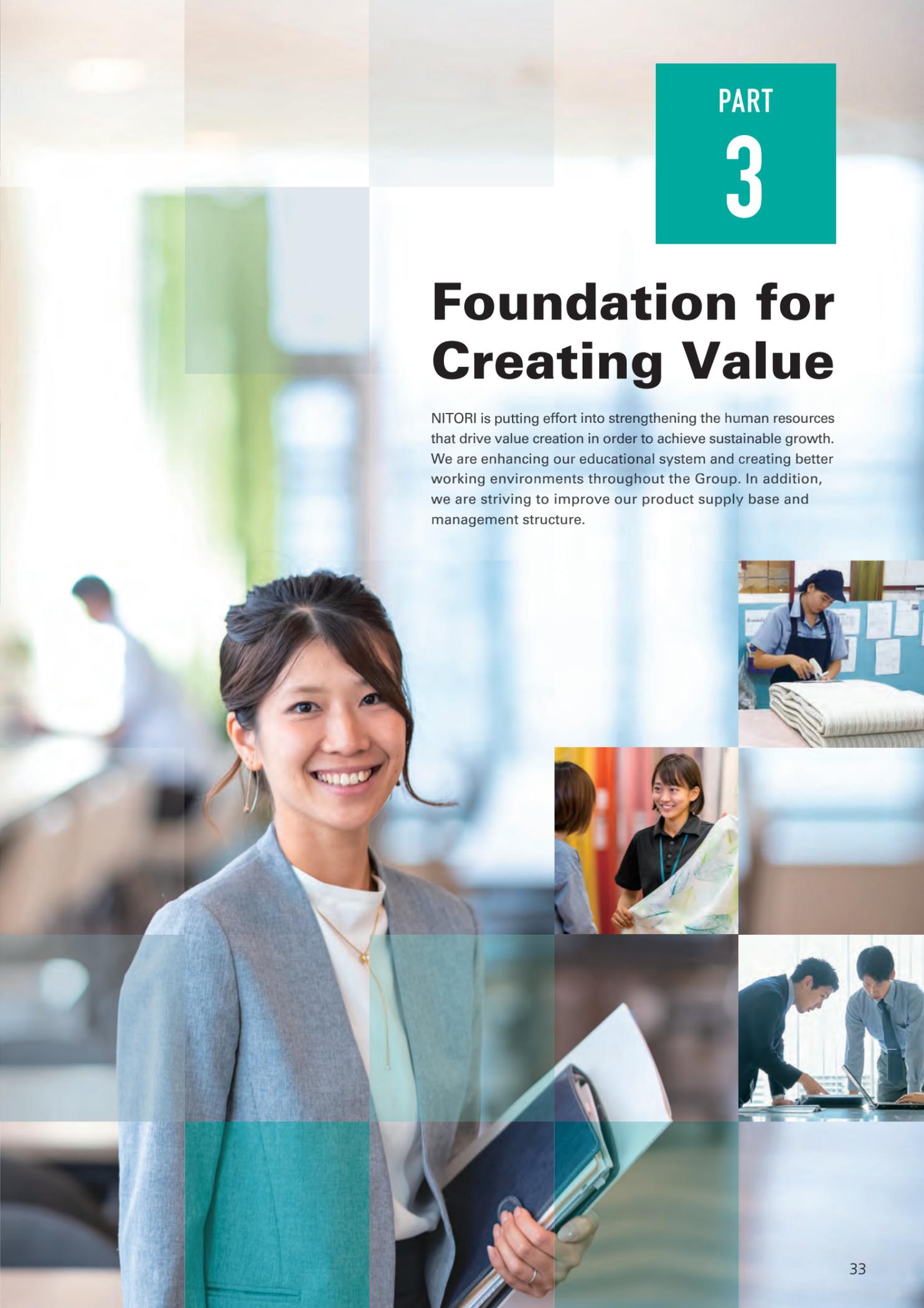
**Yuuji Okuwaki** Regional Area Manager Corporate Sales Business Division

### Expanding NITORI's possibilities by pioneering new businesses

Opening a showroom was a new venture for the Corporate Sales Business Division. Despite everything being new and having to find our way on how to deal with customers and teach employees about the new operation system, large numbers of people have come out to visit our showroom since day one. We will continue to actively promote the NITORI BUSINESS brand and aim for the further growth of the Corporate Sales Business Division.

## Foundation for Creating Value

NITORI is putting effort into strengthening the human resources that drive value creation in order to achieve sustainable growth. We are enhancing our educational system and creating better working environments throughout the Group. In addition, we are striving to improve our product supply base and management structure.



# Creating an Organization with a Wealth of Elites

NITORI continues to pursue business expansion. We are promoting human resource development to support our further evolution.



**Hiroyuki Nagashima**  
 Manager, Organization Development Office and Manager,  
 Human Resources Development Division

©Toshiaki Yano



## The NITORI University Concept

NITORI University offers various curriculums surrounding three themes, “core competence,” “technology,” and “global.” We aim to cultivate employees who can create new value by using NITORI’s two axes of “technology” and “global” to further enhance our unique strength in “core competence.”

### Cultivating employees who can create their own career paths

Based on the belief that human resources is the key to corporate growth, NITORI University is the name we use for the entire wide-ranging system of employee education at NITORI, and we are making efforts to expand its educational content. The employee core competence NITORI gives the most priority to is the ability to examine problems that have been discovered, and then accurately analyze and solve the problem by making the right judgement. The HR Division offers a variety of education systems to ensure that all employees acquire the ability to examine, analyze and judge.

Of the available programs, we are focusing on transfer-based education in particular, which fosters a long-term perspective in employees and supports career advancement. Our employees experience a variety of workplaces and occupations through work transfers every two to three years across the wide range of business areas in which NITORI operates. They are able to learn a broad range of business-related knowledge and skills and a multifaceted perspective while at the same time finding the field in which they can best demonstrate their own value.

In addition to transfer-based education, we also offer a variety of educational training programs that meet the needs and careers of each individual employee. The training programs offer basic knowledge such as chain store theory and business skills, to the cultivation of management skills required at executive levels.

### Building a new human resource management platform

In fiscal 2018, NITORI started building a new human resource management platform. This platform was built with the cooperation of Workday (HR and Finance solutions vendor) and Globis (operating Japan’s largest business school). It promotes the unified management and visibility of personnel information, such as work history, skills, and career orientation, while at the same time provides an optimal learning environment in accordance with each individual employee’s orientation and career.

As the NITORI Group’s business domains expand globally, a variety of knowledge and skills such as management theory and digital knowledge are becoming increasingly important for the development of future human

resources, in addition to our in-house learning centered around transfer-based education. Understanding this, the new platform provides all current employees with the long-term opportunity to learn a variety of knowledge and skills via video with Globis’ study-all-you-want program. Employees can choose what interests or inspires them from a menu of 200 courses in nine different fields, anytime, anywhere. In addition, the learning data from Globis’ study-all-you-want program and personal data in the human resources management system are linked so that the information can be used in optimizing assignments to Manufacturing, Logistics, retail, IT, and other divisions.

### Growing alongside employees with “border-crossing curiosity”

NITORI believes the most important factor in developing human resources is the growth of each individual employee. The role of the HR Division is to pave the way that will encourage employee’s individual growth so that the company also transforms and grows.

At NITORI, we provide all employees with an opportunity to submit a “Career Plan” every six months.

This is their personal aspiration. In other words, it is an opportunity for employees to think about what kind of value they can create and provide for society, as well as what they might need or what they should study in order to achieve that goal. As the years pass, and the department they work in changes, their interests and goals for the future also change. We provide employees with a regular opportunity to think about who they want to be and how to get there.

In general, when people become members of society, they are overwhelmed with tasks and become afraid of failure and eventually are no longer able to display their curiosity. However, at NITORI, we believe that curiosity is an essential element to corporate growth. A mind that can cross the borders of unexplored markets or future markets is what we call “border-crossing curiosity.” We will continue to cultivate the soil that fertilizes border-crossing curiosity, and by nurturing as many employees as possible with both expertise and a broad perspective, we aim for sustainable growth as an organization of powerful elites.

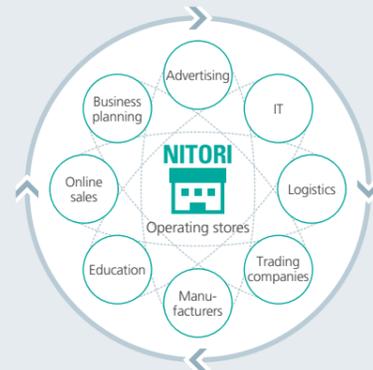
## Developing human resources that contribute to society

Under NITORI University, a unique education system, the Group has focused on expanding its employee training system and supporting independent learning with the aim of developing genuine specialists who contribute to the company and society.

### NITORI's transfer-based education provides the opportunity to gain a variety of experience that supports career advancement

In order to support our manufacturing, distribution, IT, retail business model, specialists who can think comprehensively and create new value are essential.

At NITORI, we move (transfer) employees between departments every two to three years so that they can amass real-life experience while being trained as specialists.



### Main training and systems that support career advancement

#### Position-specific training

Starting with the onboarding program we implement for new employees, we hold training sessions for employees at every level.

#### Primary initiatives

##### Onboarding program

This training program, held regularly, is designed to ingrain NITORI's philosophy for the younger generation and help them acquire fundamental business knowledge. By conducting group work and having employees engage in resolving a variety of issues, participants learn skills, behavior and perspective required of new employees.



Lecture



Group discussion

##### Vision leader training

We hold selective training sessions to cultivate managers (store managers, etc.). Participants learn the skills and way of thinking required for management tasks. We are aiming to develop human resources who can take

responsibilities of the growth of their subordinates, and while growing along with their subordinates, unify their organization as one.



Declaration of determination



Group work

#### Seminars in the United States

We hold seminars in the United States where the distribution industry is advancing, and many companies are pursuing trailblazing policies and measures. After receiving theoretical thinking training, participants tour the local community and the chain stores that support it. The training results are announced on site.

The curriculum is prepared for each training stage, from the introductory course in which all second-year employees participate, to the selective advanced courses,



Observation tour



Presentation of results

which more than 1,000 people attend each year.

Through these seminars, participants reaffirm the NITORI Group's aspiration and vision and utilize them in business restructuring in each department while building their own career plans.

#### Global training

In light of globalization and the expansion of our business areas, we are making efforts to train and strengthen our human resources who are able to see things from a global perspective and take an active role.

In addition, for employees at the management level, we hold diversity management training required of those in supervisory positions in order to achieve common goals alongside their subordinates who have a variety of different nationalities, genders, ages, and backgrounds.



Global mindset training



Diversity management training

#### Self-development support systems

We have a range of educational support systems to help employees further their careers in line with their individual aspirations.

#### Primary systems

##### E-learning (Globis' study-all-you-want)

From fiscal 2019 we are introducing Globis' study-all-you-want program (long term plan) and making it available to all employees. The program consists of video content that enables easy access to the knowledge required to achieve the careers employees aspire to.

##### NITORI Color Coordination School (NCCS)

NCCS is a course that teaches knowledge in interior coordination essential to NITORI's business. Employees can study at four different levels in line with their skills. Levels range from the beginner course, where students learn the basics of interior design and sizing up spaces and colors to the expert course, which consists of talks from selected speakers and field work.



Winning coordination design

#### NITORI World Circle (NWC)

NWC activities encourage employees to use statistical tools and work with their colleagues to solve problems and challenges in the workplace through teamwork. Activities are open to anyone who wishes to participate. Teams that are selected from around the country go on to give a presentation to the management team. The best ideas are then tested and refined before they get rolled out throughout the company.



NWC National Competition

#### Global human resource development

We have a Global Training System to train employees to be able to work globally in an effort to achieve NITORI's future vision. Under this system, employees apply and those who are selected are dispatched to one of our overseas Group companies for a year, to receive training to become our future core human resources.



Training before going overseas



Training while overseas

#### Overseas Group company initiatives

The NITORI Group has established the same education and training systems as Japan at its overseas bases.

We conduct overseas training such as U.S. seminars for outstanding employees. We also conduct training at our Japan headquarters and share the company's values and business approach.



Training in Japan



## Creating a comfortable workplace

We are promoting diversity and health management to create a workplace where diverse human resources can exercise their capabilities and work with enthusiasm.

### An environment where individuals can play an active role will be the force behind company growth and changing society

In order for the NITORI Group to bring enriched lifestyles to people around the world and become a company that makes widespread contributions to society, creating an environment that respects diversity and where individuals can demonstrate their best capabilities is essential. We believe that each and every employee proactively endeavoring to achieve their goals in good physical and mental health is the driving force behind corporate growth, which leads to changes in society. In order to achieve our Vision 2032, we will continue to further strengthen our efforts, such as considering the establishment of specialized organizations, so that our employees can continue to work with peace of mind.



The three pillars for creating a pleasant work environment

### Improved productivity

#### Introducing a work-at-home system and satellite offices to promote teleworking

From October 2016, we introduced a work-at-home system geared toward employees who work shorter hours to improve work productivity. In 2018, we opened satellite offices using our bases located throughout the country. Many employees who have used the telework system reported that it improved their productivity.



Working at home

#### RPA utilization

In order to promote RPA (Robotics Process Automation), the Information System Improvement Office leads regular internal briefings. The entire company is working towards improving operational efficiency using technology, such as explaining to employees what RPA can achieve, showing practical examples and holding demonstrations.

#### Swap body container utilization

From March 2019, we began using swap body containers in relay transportation. By using swap body containers, we can improve transport efficiency, reduce the burden on drivers, improve work style, and promote active roles for women.

### Work-life balance

#### System enhanced to support the balancing of childcare, nursing care, illness and work

NITORI is enhancing its support systems so that employees can choose their workstyle according to the events in their lives.

##### Primary support systems

- A system that subsidizes daycare services used on Sundays and national holidays
- When there is no paid leave remaining for childbirth or childcare, special paid leave can be given according to years of service
- A system of shorter working hours used for the purpose of nursing care or childcare
- Special paid leave for personal injury or illness used when injured or ill or for the nursing care preparatory period of up to 120 days of accumulated expired annual paid leave

#### Introduction of work interval system

We have introduced a system that provides an interval of at least 10 hours from the end of a workday until the next workday begins, which contributes to the maintenance of employees' mental and physical health and ensures they have personal time.

#### Published booklet to disseminate awareness of the current system

We have summarized the contents of the system in a booklet to help promote system usage and reduce concerns and burdens when using it. The booklet is revised every year and distributed to all employees in all bases.



Booklet

### Health management & diversity

#### Health management promotion

At the NITORI Group, as our company grows, we provide our employees and their families with comprehensive support for their health so that every employee can engage in work in both good physical and mental health, and full of dynamism, dreams, and aspirations. In 2016 we established a Health Management Declaration and are proactively deploying the Collabo-health movement along with the NITORI health insurance society and labor union.

#### Health Management Declaration (Established April 1, 2016)

We believe that employee health is a crucial management resource for the NITORI Group. We will work with our labor union and health insurance society to help all of our employees and their families stay healthy so that we can achieve our Group mission and vision and ensure that all employees fulfill their potential.

#### Primary initiatives

##### Improve self-management and awareness of health

We have implemented the following initiatives with the purpose of grasping your own health condition from checkup results, adopting appropriate lifestyle habits, and being able to grasp your own stress level and learning how to cope with it.

- Operation of the personal health website "My Health Web"
- Holding health education programs at various internal training sessions geared toward new employees, female employees, executives, how to quit smoking, mental illness prevention, etc.
- Creating and distributing a book of self-care measures, "NITORI Supplements for your Heart"

##### Health promotion campaign implementation

Held annually as a team competition to improve employee communication across generations and lifestyle habits.

- Walking campaign
- NITORI physical condition improvement contest

#### Recruitment of diverse human resources

At NITORI, diverse human resources actively participate regardless of nationality, age, or gender. With the aim of achieving our 3,000 stores by 2032 Vision, we have actively been hiring foreign nationals. We have also implemented a "Job Return System" rehiring employees who have left for reasons such as marriage, raising children, caring for the elderly, changing occupations, or studying abroad, as we take steps to ensure we have outstanding human resources.

#### Promoting women

At NITORI, we have positioned bolstering diversity as one of our pivotal management strategies, and we are promoting initiatives so that diverse human resources can feel motivated and empowered in their roles. Among those, we are focusing on encouraging women's active roles, expanding systems that allow women to demonstrate their individual power and holding career support seminars.

We plan to continue implementing various initiatives with the goal of creating a workplace where women can feel invigorated in their work.



Seminar promoting women

#### Women in management positions



### NEWS

#### Obtained Kurumin certification

NITORI's earnest efforts to support employees' childbirth and childcare were recognized with its receipt in March 2018 of Kurumin certification\*, as a company that supports child rearing.



\*A system whereby the Director of the Prefectural Labour Bureau certifies companies that are taking specific measures as companies that support child rearing under an action plan based on the Act on Advancement of Measures to Support Raising Next-Generation Children.

#### Accredited for the 3rd consecutive year Certified Health and Productivity Management Organization Recognition Program (White 500)

The NITORI Group was accredited for the 3rd consecutive year since 2017, in the Certified Health and Productivity Management Organization Program\* (White 500) by the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi.



\*Based on the Certified Health and Productivity Management Organization Program, which rewards corporations that practice exceptionally good health management with health promotion initiatives and initiatives adapted to local health issues.

## Pursuing product safety measures and quality enhancements in step with the world

In product safety, product liability and seller's responsibility cannot be separated, must not be separated nor left to others. This is our policy under which NITORI delivers products that can be used with assurance and at a lower price, thanks to the United Collaboration System with our business partners.

### Globalization of quality assurance system

NITORI has been building a global quality assurance system across the Group since fiscal 2018. The center of activities for this effort is the Quality Control Headquarters in Japan, which is responsible for decisions, audits, and education on related rules and regulations. Actual work including technical evaluation and inspection is conducted by the quality department of the country or region in charge of production and sales. This makes for an even more efficient and stricter quality assurance system.



### Quality assurance flow



#### 1 New plant survey

We conduct new plant surveys of new suppliers before starting business with them. We audit and evaluate 13 items including the quality assurance system and the onsite parts and process management systems from an ISO perspective.

#### 2 Quality standards

To comply with laws, prevent accidents and the reoccurrence of defective and non-conforming products, as well as to establish a baseline for quality, we have established quality standards based on Japanese Industrial Standards (JIS).



Quality control

#### 3 Development technology evaluation meetings

Development Technology Evaluation Meetings are held to prevent product-related quality problems (accidents, defects, and risk due to misuse). We evaluate products based on the Failure, Mode, Effect, Analysis (FMEA) method with the aim of preventing problems before they occur.



Development technology evaluation meeting in Vietnam

#### 4 Pre-shipment inspection/Incoming inspection

Pre-shipment inspections are conducted at overseas plants. Random inspections prevent defective products from leaving our plants. In addition, distribution centers in Japan conduct incoming inspections when they receive new products and perform strict checks of product appearance and display.



Pre-shipment inspection

#### 5 Quality improvement meetings

At Quality Improvement Meetings, we analyze damaged and defective products, determine their cause and countermeasures, and ask suppliers to make production plant improvements. In addition, we check the effectiveness of the improvement measures and turn the PDCA cycle.

#### 6 Continuous plant audits

We conduct Continuous Plant Audits with the goal of reducing defective and non-conforming products. We check whether the supplier's quality assurance system meets NITORI's requirements based on the Sangen Principle of visiting the actual site, observing the actual part, product or item, determining the actual situation, and then proposing improvements as necessary.

## NEWS

### NITORI Received the Minister of Economy, Trade and Industry Award for the Second Consecutive Year\*

This award program seeks to entrench a product safety culture in companies and create a safe and secure society. NITORI's various product safety and quality improvement initiatives have been highly rated.

\*As winners of the Minister of Economy, Trade and Industry award cannot apply for the award the following year, our award in 2018 was the second consecutive award win after 2016.



Award ceremony

### Awards received



## Fair and honest partnerships

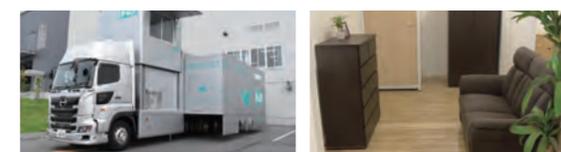
NITORI not only conducts fair, honest, and transparent trade with suppliers, it provides technical guidance and management policy briefings, and strives to create new value together.

### Logistics partnerships

Since fiscal 2015, Home Logistics Co., Ltd., which supports NITORI Group's logistics, began holding a Management Policy Meeting for Suppliers to explain anticipated future management and partnership developments. NITORI is working together with partner logistics companies to implement training related to furniture handling and delivery, and to jointly organize initiatives to further enhance service quality.

In addition, in recent years, we have been actively promoting measures such as the installation of rest facilities for staff members involved in delivery work, as well as the introduction of materials handling equipment\* and tools that can be used by all workers, regardless of age or gender. We are working together with partner companies to alleviate issues in the logistics industry such as the shortage of workers and to address issues related to changes in society, such as the aging population and the promotion of women's active participation in the workforce.

\*Materials handling equipment: Machinery used to enhance the efficiency of logistics operations.



Mobile Training Unit exterior (left) and interior (right)

### Guidance on plant management/ Open House

NITORI actively works with suppliers, even at their manufacturing plants, to build strong collaborative systems to create better products together.

At trainings for managers of suppliers, we explain the importance of fulfilling their social responsibilities including the work environment and share NITORI's ideas and policies through various meetings in order to create a culture of product safety.

We also hold study group sessions called Open House for suppliers at their plants, which serve as models for improvement, and work to improve the technology of the entire manufacturing site.



Supplier factory open house

## Balancing economic value and environmental value

We are simultaneously working to raise economic and environmental value by constantly raising productivity and pursuing greater efficiency.

### Pursuing improved productivity and efficient manufacturing to continue being an essential entity

The existence of NITORI makes daily life in the community convenient and enriched. We believe this is the meaning of our existence and our social responsibility as a corporation. In addition, fulfilling this responsibility contributes to achieving a sustainable society. In order to continue growing as an essential entity, NITORI seeks to improve productivity and more efficient manufacturing, and aims to balance financial and environmental values.

### Initiatives in product development

NITORI offers furniture and interior decor products necessary for people's everyday lives and it therefore pursues product development by leveraging new technologies to respond to people's changing and increasing environmental awareness with its products. In addition, product development is conducted in line with NITORI's own original standards to create products that will please both our customers and also be eco-friendly.

#### Primary initiatives

##### Product development contributing to less home electricity consumption

Among our bedding items, the summer N Cool and winter N Warm use materials that feel cool to the touch in summer and warm to the touch in winter. By providing these types of products, we are contributing to reducing the usage rate of air conditioning and heating systems.



Cross-sectional view of N Cool and N Warm

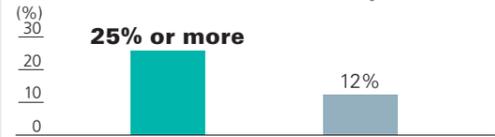
### NEWS

#### Product development – The ECONATURE™ Curtain

In May 2018, we launched the premium lace curtain ECONATURE™ as part of our product line that is high performance, low cost and also environmentally friendly. Leveraging the product development capabilities of NITORI and the technologies of TEIJIN FRONTIER CO., LTD., we created a curtain that enables sunlight to pass through it while cutting heat and ultraviolet light and blocking vision into the room.

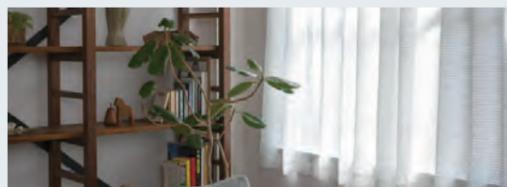
Compared to conventional insulated curtains heat-resistance effectiveness rate of 12%, the ECONATURE™ curtain achieves a heat-resistance performance of 25% or more\*. As the product's high heat-resistance function contributes to less use of air conditioning, it is also an environmentally friendly product.

##### ECONATURE™ curtain's insulation performance



Thermal insulation experiment (60°C infrared lamp testing method) This is not a guaranteed value.

\*From an inspection conducted by the Japan Textile Products Quality and Technology Center



ECONATURE™ curtain cuts heat, ultraviolet rays, and visibility while allowing sunlight to pass

### Initiatives in manufacturing

NITORI actively promotes the development of products that minimize the use of natural wood, the development of products that use recycled polyester cotton, and the reuse of scrap materials that are produced in the manufacturing stage, thereby reducing the environmental impact of the manufacturing process.

### NEWS

#### Manufacturing carpets using recycled fibers

At NITORI, we are expanding environmentally friendly product development. Thai Negoro Co., Ltd., which became a wholly owned subsidiary in May 2018, recycles plastic bottles to manufacture carpets. The entire process of the plastic bottle recycling process, recycled fiber manufacturing process, base fabric and carpet backing process, sewing, and product inspection process are all conducted at the factory. Increasing the usage rate of recycled fibers will result in a reduction in CO<sub>2</sub> emissions and energy consumption.



### Initiatives in logistics

At NITORI, we are using our manufacturing, distribution, IT, retail business model to promote cooperation amongst the product development sections, trade sections, and logistics divisions and implement NITORI-wide measures to reduce the environmental impact of the distribution process.

In fiscal 2018, we were able to achieve an annual reduction of 674t of CO<sub>2</sub> gas in the Logistics Division. We are further reducing CO<sub>2</sub> emissions by increasing the efficiency of container transportation and expanding container round use.

- **Cargo volume per truck** ..... up 1.9 % year on year
- **Number of trucks** ..... -5,416 trucks year on year
- **Annual CO<sub>2</sub> emissions volume** ..... -674t year on year

#### Primary initiatives

##### Improving container transportation efficiency

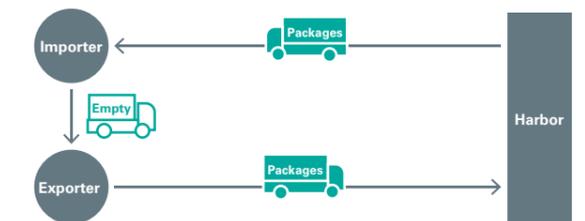
We are working to improve the efficiency of container transportation by improving compression technology in product packaging and expanding the product composition ratio of assembled furniture. As a result, though the annual volume of imported containers has increased every year, the volume of products loaded on the containers has also increased, and in fiscal 2018, our CO<sub>2</sub> emissions volume was reduced by 550t.



### Expanding container round use

After packages are unloaded from imported containers, the empty container is filled with export items in a process called container round use, which eliminates the waste of returning an empty container, which cut down on CO<sub>2</sub> emissions by 117t in fiscal 2018.

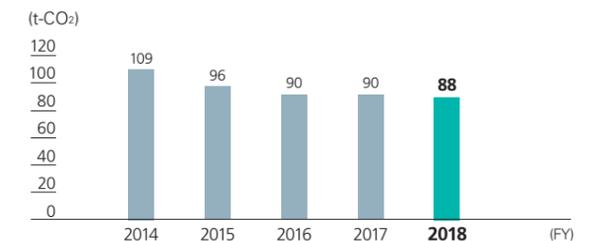
#### Container round use



### More efficient product transportation routes

Although we used to deliver ordered goods to customers via an in-house distribution center, we are now delivering goods directly from the manufacturer to the customer by eliminating relay points. As a result of streamlining the product transportation route, the volume of domestic per store CO<sub>2</sub> emissions related to distribution is on a downward trend.

### CO<sub>2</sub> emissions per store in domestic distribution



### Reviewing product packaging to reduce waste

Foam polystyrene has excellent shock absorption and elasticity making it the optimal material for packaging and cushioning furniture, but it is incinerated after it is used. At NITORI, by switching from polystyrene to molded recycled paper products (pulp mode), which have a low environmental impact as packing and cushioning material for our furniture products mainly, we were able to reduce our annual usage volume of polystyrene by 34t. In addition, this has also reduced the time required to collect garbage after delivery, improving delivery efficiency, which also leads to reduced CO<sub>2</sub> emissions.



## Hand-in-hand with our customers

The existence of NITORI makes daily life in the community convenient and enriched. We believe this is the meaning of our being and our social responsibility as a corporation. NITORI will continue to work on initiatives toward becoming an indispensable presence while cherishing our partnerships with the many people who support us.

### Contributing to Hokkaido

NITORI was founded in 1967, in Hokkaido, Japan, where it has its headquarters. In 2005, NITORI established the Hokkaido Aid Fund to contribute to the development of the area where it has conducted business for many years.

In collaboration with the NITORI Culture Foundation established in 2011, it supports a wide range of activities aimed at revitalizing Hokkaido.

In fiscal 2016, NITORI began to assist in the development of Yubari City with the first corporate version of the hometown tax. The local creativity support tax system activities that have taken place over the last three years have become the model for other initiatives, and its remarkable achievement was recognized with an award from the Minister of State in January 2019. We are continuing this support in fiscal 2019.



Company version hometown tax Ministerial award ceremony (January 2019)

### Support for disaster-stricken areas

NITORI provides emergency relief supplies at the request of local municipalities when natural disasters such as earthquakes and heavy rainfall strike in various locations. Most of NITORI's products are essential for everyday life. We have a strong desire to quickly deliver whatever disaster-stricken customers need. Maintaining store operation, even when it is difficult, and restarting operation as soon as possible, are the most important ways to support the stricken areas.

#### Most recent major disaster assistance

- July 2017 Assistance for damage caused by heavy rainfall in northern Kyushu
- July 2018 Assistance for damage caused by heavy rainfall in western Japan
- September 2018 Assistance for earthquake in eastern Iburi, Hokkaido

### Helping to develop the next generation

To communicate the basic principles of logistics and service centered on chain store management to young people who will lead the next generation, NITORI holds endowed courses at universities featuring those who work on the front lines at companies as lecturers. In addition, in response to requests from various companies/organizations, NITORI proactively provides lecturers outside of the company.



Endowed course at Tokyo University

#### Universities where NITORI's endowed courses were provided

- Hokkai-Gakuen University: From 2005 to 2010
- Waseda University: From 2010 to 2014
- University of Tokyo: From 2015 to 2019 (scheduled)

### Overseas education support

Since 2013, NITORI has been operating Tokujinkai to support education in China. Tokujinkai help conduct education projects in poor areas with the goal of supporting poor families, as well as the schoolwork of orphaned children and children of single parent families.

#### Establishment of Tokujinen (free student dormitories)

- Jiangxi Province: Gongqingcheng Tokujinen (Headquarters), Fenyi county Tokujinen, Shanggao county Tokujinen
- Anhui Province: Feidong county Tokujinen

In addition, we have conducted educational support activities for 10 years since 2008 for the St. Vincent Free Elementary School.



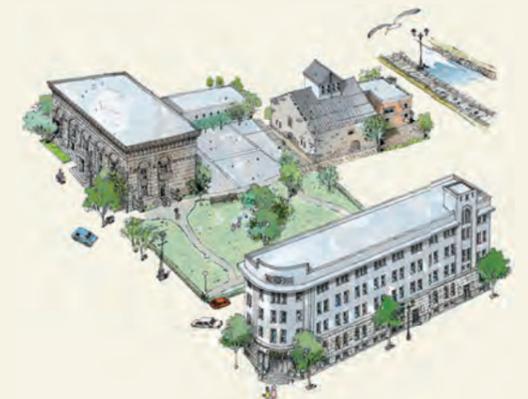
Children living in Tokujinen

Children of the St. Vincent Free Elementary School

## Grand opening of OTARU ART BASE in Otaru City, Hokkaido

In September 2017, we established the OTARU ART BASE which is composed of four historical structures in the heart of Otaru City, Hokkaido. Here, the early architecture of the mid 19th to early 20th centuries is preserved, managed, and researched, and works of art and artifacts owned by NITORI are displayed.

In November 2018, we held the grand opening of the Louis C. Tiffany Stained Glass Gallery on the first floor of the NITORI Museum of Art. NITORI will continue to hold various events, including exhibitions and summer festivals, disseminate this wonderful culture and art to the world, and contribute to the further development of local industries, as well as tourism.



Former Mitsui Bank Otaru Branch



Stained Glass Museum (former Takahashi Warehouse)



NITORI Museum of Art (Former Hokkaido Takushoku Bank, Otaru Branch)



Louis C. Tiffany Stained Glass Gallery (NITORI Museum of Art, 1st floor)

### NITORI International Scholarship Foundation

Since the foundation was established in 2005, NITORI has provided scholarships to students who study in Japan not only from Asia, where it has many business bases, but also from around the world, and to Japanese college and high school students, as well as local college students overseas. The foundation provided scholarships which do not need to be paid back to more than 5,339 college students (40 countries and regions) as of July 2019.



Exchange event China enrollment certificate conferment ceremony

### NITORI Culture Foundation

NITORI established the NITORI Culture Foundation to provide support for the growth and inheritance of culture, art and tradition, and to build a bridge to the formation of new culture in April 2011. The foundation provides grants for activities with a high public profile and public interest that can be expected to contribute to the community. We provided grants to 88 organizations in fiscal 2017. Of these, grants were provided to the Furusato Hokkaido 10-Million-Tree Planting Project for the planting of about four million trees over the course of 11 years from 2007.



Yuni planting festival (April 2018)

### NITORI Ladies Golf Tournament

NITORI is also focused on holding sporting events with the aim of revitalizing local communities and promoting sports.

In August 2019, the 10th NITORI Ladies Golf Tournament was held over a four-day period. The tournament site in Otaru City, Hokkaido was crowded with over 10,000 spectators.



Presentation of winner's trophy (August 2018)

### Most recent major sponsorships (donations, advertising sponsorships)

#### [FY2018] Donations

- Yubari City Corporate version of hometown tax, etc.
- Sapporo Medical University Donated lectures and research department donations
- Keidanren Nature Conservation Fund

#### Sponsorships

- 27th YOSAKOI SORAN FESTIVAL
- Tokyu Bunkamura
- Sapporo Cultural Arts Theater hitaru and others

#### [As of August 2019] Donations

- New Japan Philharmonic
- NPO SALASUSU
- Vietnam Festival in Sapporo

#### Sponsorships

- Tokyu Bunkamura
- Sapporo Cultural Arts Theater hitaru
- Prince Ice World and others

## Corporate governance

NITORI seeks to sustain growth and raise the corporate value of the entire Group through stronger corporate governance, compliance, and risk management.

### Basic approach

NITORI Holdings Co., Ltd. (“the Company”) places top priority on sustainable growth and the medium- to long-term improvement of corporate value in its management. The Company believes that enhancing its corporate governance system is necessary for achieving these goals.

To enhance corporate governance, the Company aims to build an organizational structure to respond promptly to

any changes in the business environment, practice fair and transparent management as a listed company, and disclose accurate information to all stakeholders in a timely manner. Meanwhile, the Company will develop an internal system to establish its corporate social responsibility and corporate ethics.

### Board of Directors

#### Directors



**Akio Nitori**  
Representative Director & Chairperson (Chief Executive Officer)



**Toshiyuki Shirai**  
Representative Director & Chief Operating Officer (COO)



**Fumihiro Sudo**  
Director & Vice President



**Fumiaki Matsumoto**  
Director & Vice President



**Masanori Takeda**  
Managing Director



**Takaharu Ando**  
Director  
Independent Outside Director



**Sadayuki Sakakibara**  
Director  
Independent Outside Director



**Takao Kubo**  
Director (Audit and Supervisory Committee member (full-time))



**Kazuhiko Takeshima**  
Director (Audit and Supervisory Committee member)  
Independent Outside Director



**Kazuhiro Suzuki**  
Director (Audit and Supervisory Committee member)  
Independent Outside Director



**Tsuneyoshi Tatsuoka**  
Director (Audit and Supervisory Committee member)  
Independent Outside Director

### Executive Officers

#### Managing executive officers

Yuichi Kazeharu  
Mitsuru Ohki  
Hiromi Abiko

#### Senior executive officer

Akio Igarashi

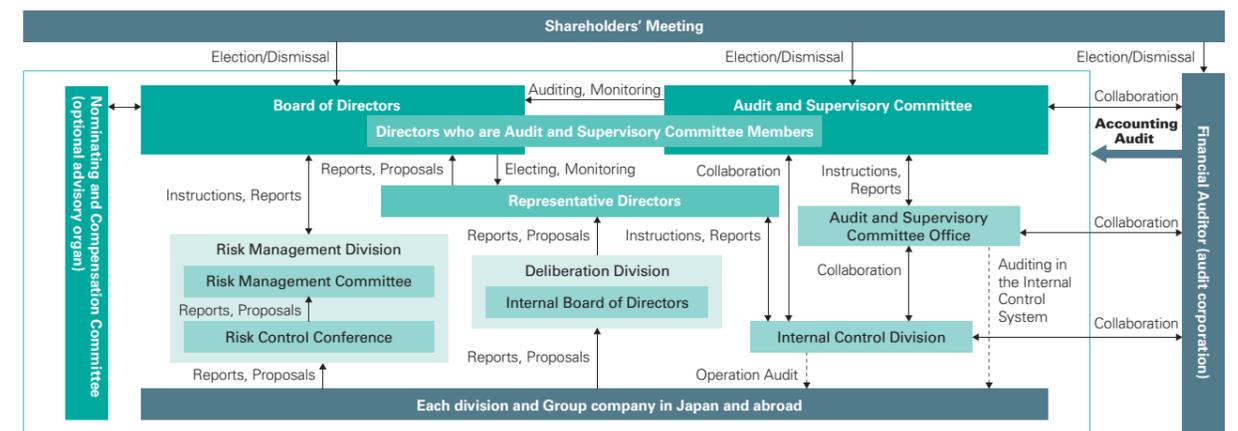
#### Executive officers

Hidetoshi Kobayashi, Tadashi Kudo, Soichi Oda, Kazuyoshi Tayano, Naoshi Takei, Shunichi Osawa, Eri Ablet, Hiroki Murabayashi, Manabu Nakamura, Ken Ueda, Hiroshi Nagai, Kazuyuki Hashimoto, Isao Arai, Tsuyoshi Okamura, Kunihiko Takahashi, Yoshihisa Sato, Junichi Yoshima, Fumiki Takeda, Nobuyuki Tomii

### Corporate governance system overview

| Primary Items   | Content  |
|---|--|
| <b>Organization design format</b>                                 | Company with an audit and supervisory committee  |
| <b>Number of directors (number of outside directors included)</b> | 11 (5)   |
| <b>Term of directors</b>  | 1 year   |
| <b>System to adopt an executive officer</b>                       | Established  |
| <b>Establishment of discretionary committees</b>                  | Nomination and remuneration committees   |
| <b>Executive compensation system</b>                              | 1. Basic compensation, 2. Short-term incentive compensation, 3. Medium-term performance linked to stock compensation |
| <b>Audit corporation</b>  | Deloitte Touche Tohmatsu Limited   |

### Corporate governance system



### Outside directors and independent executives

The Company has appointed all outside directors as independent executives as stipulated by the Tokyo Stock Exchange and has notified said stock exchange of these appointments.

| Name                       | Reason for appointment   |
|----------------------------|--|
| <b>Takaharu Ando</b>       | Mr. Ando has held prominent positions, including Commissioner General of the National Police Agency, and has a wealth of experience and extensive knowledge. Based on his professional experience and knowledge, Mr. Ando has been monitoring the Company's overall management and has been giving appropriate advice as an Outside Director. Although he has no direct corporate management experience, he will be able to continue to properly fulfill his duties as an outside director based on the above-mentioned experience and knowledge. Number of years served as an outside director: 6 (as of the conclusion of the 47th Ordinary General Meeting of Shareholders).  |
| <b>Sadayuki Sakakibara</b> | Mr. Sakakibara was involved in the management of Toray Industries for many years and has held prominent positions including Chairman of the Japan Business Federation. With his abundant experience and considerable insight, we believe his proper supervision and beneficial advice regarding the overall management of the Company will contribute to further strengthening our corporate governance. In addition, he meets all the criteria set forth by the Company for determining independent outside directors and he meets all the requirements established by the stock exchange for independent officers. We have determined that there is no risk of conflict of interest with general shareholders, and we have designated him as an independent officer.                     |
| <b>Kazuhiko Takeshima</b>  | Mr. Takeshima has held prominent positions, including Chairman of the Japan Fair Trade Commission, and has a wealth of experience and extensive knowledge. Based on his professional experience and knowledge, Mr. Takeshima has been monitoring the Company's overall management appropriately and has been giving appropriate advice as an Outside Director. Although he has no direct corporate management experience, he will be able to continue to properly fulfill his duties as an outside director based on the above-mentioned experience and knowledge. Number of years served as an outside director: 6; Number of years served as a director who is an Audit and Supervisory Committee member: 3 (as of the conclusion of the 47th Ordinary General Meeting of Shareholders). |
| <b>Kazuhiro Suzuki</b>     | Mr. Suzuki is a legal professional who has held prominent positions, including Superintendent Prosecutor of the Fukuoka High Public Prosecutors Office. He has made use of his extensive experience and expertise by sharing his opinions about the Company's management as an Outside Auditor. Although he has no direct corporate management experience, he will be able to continue to properly fulfill his duties as an outside director based on the above-mentioned reasons. Number of years served as an outside director: 3; Number of years served as a director who is an Audit and Supervisory Committee member: 3 (as of the conclusion of the 47th Ordinary General Meeting of Shareholders).   |
| <b>Tsuneyoshi Tatsuoka</b> | Mr. Tatsuoka has assumed many prominent positions, including Vice-Minister of Economy, Trade and Industry. He makes the most of his wealth of experience and professional insight to strengthen the Company's corporate governance and compliance systems as an Outside Director appropriately. Although he has no direct corporate management experience, he will be able to continue to properly fulfill his duties as an outside director based on the above-mentioned reasons. Number of years served as an outside director: 3; Number of years served as a director who is an Audit and Supervisory Committee member: 3 (as of the conclusion of the 47th Ordinary General Meeting of Shareholders).   |

### Board of Directors

For constructive, frank, and efficient discussion at Board of Director meetings, the Company sets the number of directors at 15 or less. For an effective monitoring system, a third or more of the directors shall be independent outside directors. The Company has 11 directors, of whom five are independent outside directors. The Company aims to develop and strengthen the Board of Directors' function of monitoring and checking management and the execution of business.

In addition, the Board of Directors delegates the authority to make decisions regarding the execution of business, excluding important investment projects, to the representative director in order to focus on discussions regarding management direction and business strategies strengthening the auditing function of the Board of Directors.

The Company established an Internal Board of Officers to discuss important items related to the execution of business in advance of discussion at board meetings. The Company has introduced an executive officer system for prompt decision-making and business execution to respond promptly and appropriately to changes in the business environment.

### Audit and Supervisory Committee

The Company sets the number of Audit and Supervisory Committee members at five or less. The Audit and Supervisory Committee monitors management from a fair and independent perspective in accordance with the audit policy and audit plan for the current period.

The Audit and Supervisory Committee currently has four directors, of whom three are independent outside directors. The three outside directors audit and monitor the execution of business by the directors by participating in Board of Directors meetings and using the internal control system. The director who is a full-time Audit and Supervisory Committee member audits and monitors the execution of business by the directors by attending in Board of Directors and Internal Board of Officers meetings, reading documents regarding important decisions, reporting on the Internal Audit Division, and interviewing the relevant people. The Audit and Supervisory Committee cooperates with the financial auditor, communicating about the financial auditor's audit policy, audit plans and audit reports as needed.

The Company has established an Audit and Supervisory Committee Office as a department to assist the Audit and Supervisory Committee.

### Nominating and Compensation Committee

The Company has established a Nominating and Compensation Committee as an optional advisory organ for the Board of Directors. The committee ensures objectivity and transparency when the Board of Directors determines policies and procedures related to the nomination of director candidates and compensation, and also further improves the corporate governance system.

The Company stipulates that the majority of the Nominating and Compensation Committee members shall be independent outside directors. The committee consists of five members, three independent outside directors and two representative directors.

### Risk Management Committee

To minimize losses or disadvantages that our Group suffers, the Company formulated risk management regulations and a Business Continuity Plan (BCP) and established a risk management system initiated by the Risk Management Committee. In accordance with the BCP, the Company carries out various training along with monthly Risk Control Conferences that review risks and implement countermeasures against new challenges to strengthen the Group's risk management system.

### Internal control systems

In order to implement the NITORI Group's corporate philosophy and basic policies on corporate governance, as well as appropriately and efficiently execute its corporate duties, the Company has established "basic policies on internal control systems" related to the development of a system for the following execution of duties by the directors and employees of the Company and Group companies: risk management and compliance systems to help with the execution of said duties, and a system for ensuring effective auditing.

In principle, the basic policies on internal control systems apply to all of the Group's entities. The purpose of the basic policies is for the Group as a whole to enhance its enterprise value and to achieve management transparency and efficiency.

### Performance-based stock compensation plan

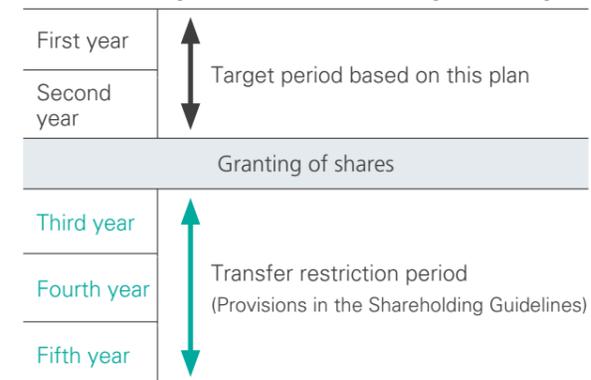
The Company has introduced a performance-based stock compensation plan to provide an incentive to directors who are responsible for the execution of duties to sustainably improve the Company's corporate value and to further promote the sharing of profits with shareholders.

Compensation for executive directors consists of performance-based compensation, in which the amount paid fluctuates based on a fixed basic compensation and Company performance. In addition, performance-based compensation is composed of bonuses (short-term incentive) linked to performance for each fiscal year, and stock-based compensation (medium- and long-term incentive) that establishes numerical targets in advance for Company performance during the target period every two fiscal years and pays for the Company's common stock after the applicable period, depending on the achievement of said numerical targets.

In addition, the composition of directors' compensation, the evaluation of the appropriateness of the performance-based compensation plan's design, the establishment of targets, and the evaluation of performance are reported to the board of directors after being discussed at the Nomination and Compensation Committee and then decided.

From the viewpoint of sharing profits with shareholders over the medium- to long-term, these directors (including directors who retire after receiving shares granted based on this plan) will continue to hold shares that have been granted for a certain period of time based on this plan pursuant to shareholding guidelines established by the Company's Board of Directors, and will have restrictions imposed on their transfer for three years after delivery in said shareholding guidelines.

#### Outline of the performance-based compensation plan



### Board of Directors' effectiveness evaluation results overview

The Company Board of Directors evaluates the performance of the Board of Directors based on the policy of basic corporate governance. In this fiscal year, we confirmed the status of improvements and progress of the issues identified in the effectiveness evaluation conducted in the previous fiscal year. As in the previous fiscal year, the Board of Directors Secretariat established evaluation categories in the form of a questionnaire with items for evaluating the effectiveness of the Board of Directors. Questionnaires and individual interviews were conducted for all directors, and discussions were held at the Board of Directors regarding the analysis results and each issue.

An analysis conducted by the Company's Board of Directors confirmed that the Board of Directors is well balanced with people of diverse knowledge and experience, and has free and lively discussions among all attending directors including outside directors occurs, and that the frequency of meetings is reasonable, and the Board's proceedings are properly managed. The effectiveness of the Board's decision-making and its oversight of directors' execution of their duties was judged as properly maintained in line with the corporate governance basic policy.

On the other hand, as a result of verifying the status of improvements and progress of issues that were clarified by the effectiveness evaluation of the previous fiscal year, it was judged that although steady improvements have been made in enhancing discussions that contribute to the improvement of medium- to long-term corporate value and further reinforcement of the corporate governance system, there are still issues to be resolved regarding further strengthening the Board of Director's monitoring function and enhancing the provision necessary information in order to deepen the Board's discussions.

Based on each of the issues recognized by the Board of Directors' effectiveness evaluation and the candid opinion of each director who freely responded to the questionnaire, the Company's Board of Directors has continued its efforts from the fiscal year before last and has tried to improve the following issues on a priority basis.

- 1 Further evolution of the Board of Director's monitoring function
  - 1-1 Strengthen supervisory functions related to important management matters
  - 1-2 Strengthen collaboration to further enhance the functions of the Board of Directors and each meeting body
  - 1-3 Promote delegation of authority concerning business Execution
- 2 Enhancing the provision of information necessary to deepen discussions at the Board of Directors

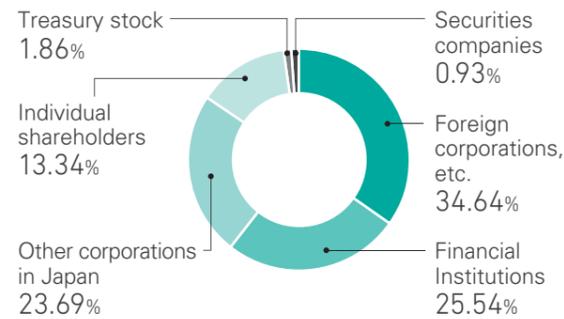
The Company will continue to discuss how to raise corporate value as well as how to enhance the effectiveness and improve the evaluation of the Board of Directors to achieve the NITORI Group's vision.

Company Stock Information (As of February 20, 2019)

Outline of Shares

Total number of authorized shares: 288,000,000  
 Total number of issued shares: 114,443,496  
 Number of shareholders: 25,162 people  
 Listing market: First Section of the Tokyo Stock Exchange and the Sapporo Securities Exchange  
 Securities code: 9843  
 Fiscal year: February 21st of every year to February 20th of the following year  
 Ordinary General Meeting of Shareholders: May  
 Administrator of shareholder registry: Sumitomo Mitsui Trust Bank, Limited

Distribution of share by type of shareholder



Major Shareholders (As of February 20, 2019)

| Name  | Number of shares owned (thousands) | Ratio to the total number of issued shares (%) |
|---|------------------------------------|--|
| NITORI Trading, Ltd.  | 20,799                             | 18.52  |
| The Master Trust Bank of Japan, Ltd. (Trust account)              | 4,794                              | 4.27   |
| Japan Trustee Services Bank, Ltd. (Trust account)                 | 4,509                              | 4.02   |
| NITORI International Scholarship Foundation                       | 4,000                              | 3.56   |
| North Pacific Bank, Ltd.  | 3,860                              | 3.44   |
| JP Morgan Chase Bank 380055                                       | 3,663                              | 3.26   |
| Akio Nitori   | 3,409                              | 3.04   |
| Momoyo Nitori   | 3,078                              | 2.74   |
| Nippon Life Insurance Company                                     | 2,056                              | 1.83   |
| National Mutual Insurance Federation of Agricultural Cooperatives | 2,007                              | 1.79   |

Notes: 1. The numbers presented in "Number of shares held" above are calculated based on the list of shareholders.  
 2. The Company's 2,125,128 shares of treasury stock are excluded from the above list of major shareholders.  
 3. Calculations of equity positions exclude holdings of treasury stock.  
 4. The number of shares owned by Japan Trustee Services Bank, Ltd. and The Master Trust Bank of Japan, Ltd. are shares held in securities investment trusts and retirement benefit trusts.

Stock Price and Turnover



Company Information (As of February 20, 2019)

|                                    |   |
|------------------------------------|---|
| Company Name                       | NITORI Holdings Co., Ltd.   |
| Representative                     | Akio Nitori, Representative Director & Chairperson (Chief Executive Officer)<br>Toshiyuki Shirai, Representative Director & Chief Operating Officer   |
| Address                            | Sapporo Head Office: 1-2-39 Shinkotoni 7-jo, Kita-ku, Sapporo, Hokkaido 001-0907; Tel: +81-11-330-6200<br>Tokyo Headquarters: 3-6-20, Kamiya, Kita-ku, Tokyo 115-0043; Tel: +81-3-6741-1235 |
| Establishment                      | Established December 1967   |
| Incorporated                       | March 1972  |
| Revenues (Consolidated)            | ¥ 608,131 million   |
| Ordinary Income (Consolidated)     | ¥103,053 million  |
| Capital Stock                      | ¥13,370 million   |
| Number of Employees (Consolidated) | Full-time: 12,668 Part-time: 14,838   |

NITORI Group List (As of February 20, 2019)

