



Enriching homes
around the world

New Phase, New Growth.

Integrated Report 2021

2020.2.21 - 2021.2.20



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Mission
Statement

Enriching homes around the world

Vision 2032

3,000 stores Net Sales **¥3**trillion

Vision 2022

1,000 stores Net Sales **¥1**trillion

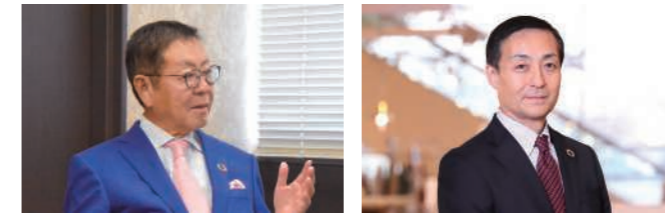


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Editing Policy

We have issued the 2021 Integrated Report to aid investors, shareholders, and other stakeholders' understanding of our processes and potential for achieving a long-term, sustainable enhancement of our corporate value. NITORI Group has a business model integrating manufacturing, distribution, IT, and retail that is unique even on an international basis, with its vertically integrated supply chain as the source of its competitiveness. Henceforth, the Group's policy will be to strengthen the foundations that support sustainable growth and corporate value enhancement by further upgrading the business model it has built thus far. We have planned and structured this Integrated Report with a focus on strengthening "cohesiveness" and "narrative quality" in order to communicate the "sustainability and future vision of our strategy and business model," with reference to the disclosure framework provided by the International Integrated Reporting Council (IIRC).

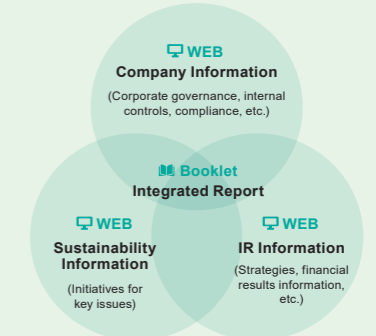
Target Scope

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, 2020 to February 20, 2021
In this report, the fiscal year ended February 20, 2021, is referred to as fiscal 2020 or FY2020. The Activity Report also includes some recent content.

The significance of this report



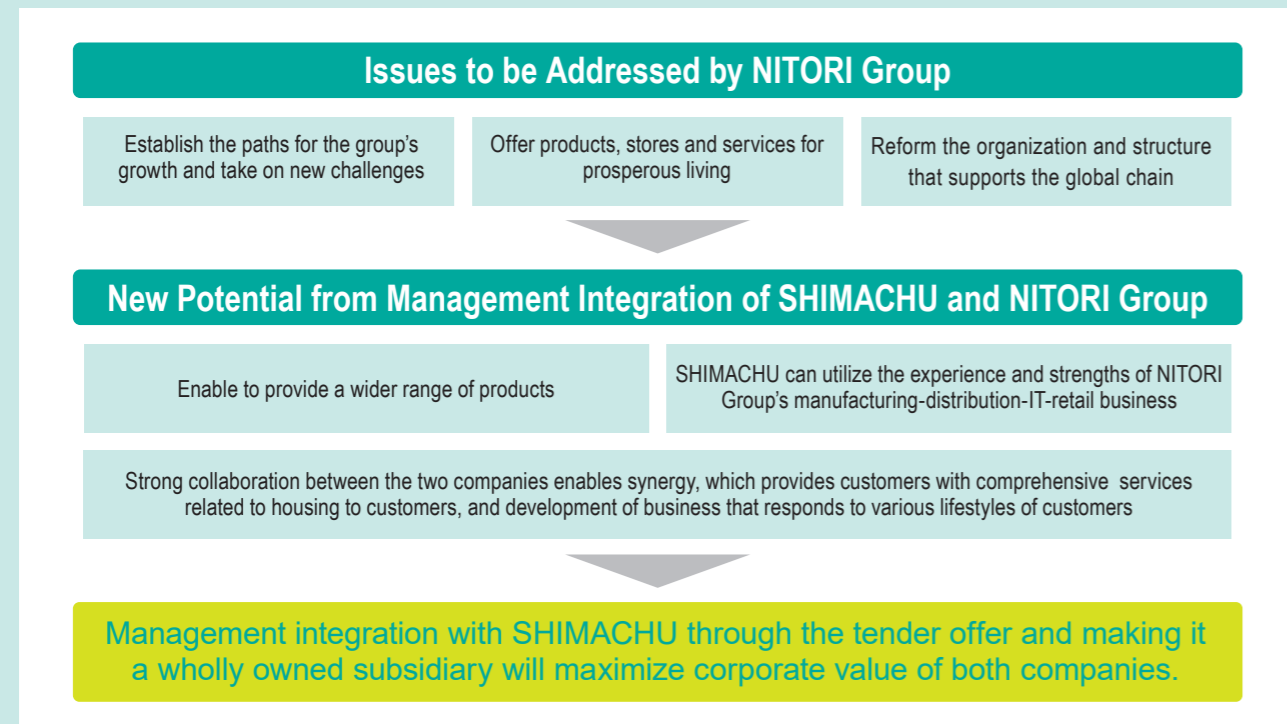
Disclaimer Regarding Forward-Looking Statements

This report contains 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 its group companies may differ from the forecasts.

Special Feature 1

Management Integration with SHIMACHU CO., LTD.

It came to our attention that SHIMACHU had decided to embark on management integration, aiming to create stores that meet its customers' needs and return to a growth trajectory as an enterprise. SHIMACHU was ready to accept and seriously consider proposals of all kinds in order to select the partner that would be best for all its stakeholders. We were certain that both companies' corporate value could be maximized by taking leveraging of its own strengths as a manufacturing-distribution-IT-retail business, and decided to make a tender offer. As a result, the two parties reached agreement and successfully achieved an amicable management integration.



About SHIMACHU CO., LTD.

SHIMACHU was established in Kasukabe City in 1890, as SHIMAMURA CABINET FACTORY. In 1969, it was incorporated as a limited company with the name SHIMACHU FURNITURE CO., LTD. In 1978, SHIMACHU moved into the home improvement business. Guided by the business philosophy of aiming to build stores that are full of satisfaction, surprise, and smiles to provide customers a "special everyday," SHIMACHU's fundamental policy is to offer customer satisfaction by fulfilling customers' needs concerning their homes and lifestyles. SHIMACHU is a long-established company that has developed its business through stores that follow the principle of selling home improvement items on the first floor and selling furniture and home fashion items on the second floor.

Key figures relating to synergies

	SHIMACHU	NITORI	Additional remarks
Number of stores in Japan (room for expansion)	61 stores	590 stores	Integration enables sales growth at existing stores for both companies
PB strategy (source of growth driver)	Started PB development	Approx. 90% of products handled are PB products	
Ratio of operating income to net sales (cost reduction)	6.3%	19.2%	TSE 1st Section retail sector average: 5.0%
ROA (asset efficiency improvement)	2.5%	17.2%	TSE 1st Section retail sector average: 2.5%
Membership base No. of e-commerce platform members	No. of SHIMAHO-net members Approx. 57,000 No. of SHIMAHO app members Approx. 151,000	Total no. of members Approx. 42 million No. of app members 9.08 million Target for fiscal 2021 13 million	
Overseas Expansion	-	71 stores	

(As of February 28, 2021)

Nine Expected Synergies

- Expanding sales opportunities for high-quality furniture and contributing to realization of enriched lifestyles for a wider range of customers by the expansion of SHIMACHU's stores nationwide
- Expansion of sales by mutual supplementation between SHIMACHU's home improvement products with NITORI's home fashion (HFa) products, and improvement of profit margin by the sharing of knowhow on the development of private brand (PB) products
- Reduction of costs and improvement of asset efficiency through joint use of logistics functions
- Acceleration of cost reduction and improvement by the provision of function and knowhow pertaining to the various supply chains possessed by NITORI Group in its capacity as a "Manufacturing, Logistics, IT and Retail Sales"
- Pursuit of synergy with the NITORI MALL business and Deco Home businesses
- Mutual opening of "shop in shop" stores in the Tokyo metropolitan and central areas, and strategic opening of stores in wider areas
- Bolstering of e-commerce sales structure
- Acquisition of mutual and new customers through the adoption of a shared reward points system
- Sale of the SHIMACHU's products in overseas stores and realization of future overseas store openings

Voice



Fumihiko Sudo
Representative Director & Chairperson
SHIMACHU CO., LTD.

Aiming to devise specific scenarios for achieving the nine synergies and formulate a medium-term business plan, SHIMACHU and NITORI Group launched the Integration Promotion Committee, setting up nine sub-committees within it, and we are now identifying issues and seeking solutions. The key will be to transition from a focus on individual stores and branch-oriented management to figures-based management according to chain store management theory. Alongside offering education and training to enable employees to learn about this form of management, we are also forging a new organizational structure and conducting personnel exchanges to facilitate integrated operations in our headquarters organizations, including merchandising and store development divisions. We have also made plans to stock NITORI products at SHIMACHU stores, and in June we opened an integrated store that brings together the best of both companies. At the same time, we are instituting management accounting, which is prompting an increasing number of store managers and others to actively engage in their own analysis, aiming to use figures as the basis for creating their sales floors. I therefore believe that we are now making steady progress toward realizing synergies.

Special Feature 2

Global Business Development: Accelerating Store Openings

NITORI Group is currently focused on opening stores overseas. Having launched the Japan-China Joint Project to Strengthen Global Business in December 2018, in January 2020, we created the Global Business Development Office to extend the scope of this project worldwide and enable our headquarters to take the lead in providing support to build foundations for overseas business.

Activities Undertaken

The Japan-China Joint Project to Strengthen Global Business (December 2018 to February 2020)

Four priority issues	Overview of initiatives
Human Resources Development	The Japan headquarters took the lead in developing a system for education, including a shared set of teaching materials, to quickly and efficiently develop the human resources required as store staff.
Product development promotion	Promoted sharing of products and manufacturing subcontractors on a global basis. Transitioned to a structure making maximum use of the Group's combined strengths.
Supply system establishment	Having previously supplied products for sale in China separately from those for Japan, an efficient supply system was developed by making use of NTL (Nitori Taicang Trading & Logistics Co. Ltd.), which is responsible for supplying products to Japan.
Improving store attractiveness	Standardized and clarified criteria for making decisions on selection of new store locations. Developed a system for ensuring that stores are opened in optimal locations. Standardized the placement of easy-to-understand POP (point-of-purchase) and promotional materials, easily navigable sales floor layouts, and proposals for attractive displays.

Global Business Development Office (started in January 2020)

Themes	Overview of initiatives
Support for overseas business by the Japan headquarters	Supporting issues related to developing business in all countries and regions outside Japan. Encompasses human resources development, product development, product supply, store creation, omni-channel development, store work standardization, product supply, and inventory management, etc.
Clarification of know-how and transfer of explicit documentation	Providing systems and standards for using the know-how employed in Japan throughout every aspect of overseas operations, including creation of sales floors that offer clear product suggestions, development of standards for product displays and for placement of POP and promotional materials, and faster and more efficient human resources development.
Product proposals based on lifestyle studies in new countries	Using our understanding of lifestyles in each country and region to promote NITORI products that resolve frustrations and inconveniences to local citizens in a clear way using sales floors, and POP and promotional materials, as an alternative to conducting market research on best-selling lines.
Global omni-channel promotion (platform-building, global standardization)	Evolving from e-commerce deployed in each country to the development of a shared global platform. Pursuing cost reduction measures and faster expansion to respond promptly to rapid changes in customers' "purchase behavior."

Voice



Masanori Takeda
 Director
 General Manager of Global Merchandising Division
 General Manager of Global Sales Promotion Office
 In charge of Overseas Sales Business

NITORI Group aims to enrich the lives of people around the world by supplying products and services that help to resolve the frustrations and inconveniences affecting people's lives in the countries and regions where we conduct business. In order to do so, it is important to create systems that enable us to make use of the know-how and strengths we cultivated in Japan throughout other countries and regions worldwide. The Global Business Development Office is accelerating NITORI Group's overseas expansion through its role of creating systems in all areas including human resources development, store operations, and distribution, and transferring these systems to our overseas operations.

CLOSE UP

CASE 1

NITORI (CHINA) HOLDINGS CO., LTD

Rebuilding systems, while bolstering the organization and human resources

We positioned the two years up to and including fiscal 2020, as a time to refrain from new store openings and strengthen our foundations with a view to future expansion of business scale. During this time, we focused on sharing resources, and the NITORI brand, to rebuild our systems, while bolstering the organization and human resources. Having designated the Shanghai Xujiahui Store as our flagship store, and the Shanghai Qibao Store as the standard store, we progressed with standardization in such areas as store creation, shelf allocation, and operational methods. We also undertook expansion, and scaled sales floors, in other standard stores. We now plan to make use of the systems we developed and the pool of human resources we are cultivating to resume active store openings. We are planning 14 store openings for fiscal 2021.



CASE 2

NITORI TAIWAN CO., LTD

Introducing the prototype sales floor employed in Japan

As one element in the process of introducing systems focused on shared resources and the NITORI brand, we introduced the prototype sales floor allocation employed in Japan, installing the prototype entrance display throughout all our stores. Moreover, in our Taoyuan Taimao Store we increased the coordinated display ratio to 30%. In conjunction with this, we made progress with scaling and renovation of sales floors and product categories, thereby improving the balance of income and expenditure. We will continue to make use of such initiatives as we proactively open new stores. We are planning seven store openings for fiscal 2021.



CASE 3

NITORI USA, INC.

Focusing on e-commerce initiatives

In the U.S., during the COVID-19 pandemic we have focused on e-commerce initiatives. We are pursuing our omni-channel strategy, which includes expanding the regions where Hfa products are available and developing prospective core products, as well as extending the e-commerce platforms and channels with which we have ties. We are actively backing up these efforts by, for instance, sending to the U.S. human resources specialized in supporting such e-commerce expansion. We are planning one store opening for fiscal 2021.





Continuing to provide enrichment to our customers is the very reason the NITORI Group exists

Akio Nitori

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

I would like to offer my deepest condolences to all those who lost their loved ones due to COVID-19. I would also like to express my heartfelt sympathies to those fighting the virus, and people whose lives have been affected by the spread of the virus.

On a separate note, I would like to sincerely apologize for the considerable worry and inconvenience caused by the asbestos in excess of legal standards contained in some of the NITORI Group's diatomite products, which resulted in our customers being required to cooperate with a voluntary recall. Being a company that puts customers first, this is an unacceptable matter and once again, I deeply apologize for the tremendous trouble and inconvenience caused.

The driving force behind our growth is the mission to enrich homes

Fiscal 2020 marked 34 years of consecutive sales and profit growth for NITORI Group. This would not have been possible without our stakeholders including customers who have purchased our products. I wish to express my heartfelt appreciation to all of you.

In fiscal 2020 we faced a once-in-a-century crisis as a result of the COVID-19 pandemic. Countermeasures such as staying at home and travel restrictions caused the stagnation of economic activity and sluggish personal consumption, leading to major changes in the structure of society and the consumption itself. At NITORI Group we were forced to take actions such as reducing opening hours and temporarily closing some stores in April 2020. However, we continued operating while implementing anti-infection measures to enable our customers to shop safely. Our business

environment remains as uncertain as ever, but I believe that it is the "ability to respond to changes" in such times of need that is indispensable to enable the growth that will empower us to achieve our mission and vision. It was a year of striving to respond to these changes by reassessing the way we had done things in the past, rejecting the status quo and engaging in innovation, and thinking anew about how we could grow in the future.

Ever since its founding, NITORI Group has grown by turning difficult situations into opportunities. Even in an unprecedented situation such as the one we face now, the Group's determination to overcome the challenges and achieve its mission remains unchanged. It is this mission that lies at the root of our business activities and is our driving force. We will continue to grow with the aim of achieving it.

Continuing to evolve as we strive to achieve Vision 2032

NITORI Group has always upheld its mission of enriching homes around the world, united by the determination to improve customers' lifestyles as it has progressed. And when we examined our mission anew, we felt that the business of SHIMACHU, which runs a home improvement enterprise including exterior goods, could be regarded as an extension of the NITORI Group's furniture and interior home furnishing business. Determined that SHIMACHU would be indispensable in providing even greater enrichment to a large number of customers, we recently integrated our management with that of SHIMACHU (see p.3 Management Integration with SHIMACHU CO., LTD.). From now on, we will move forward together as we work to achieve our mission and vision.

NITORI Group is currently implementing its second 30-year plan, aiming to achieve its vision of 3,000 stores and 3 trillion yen in net sales by 2032. In doing so, the key issue is the expansion of our overseas business. We have pursued overseas expansion ever since we first made a start by opening an overseas store in 2007. However, in the past two years, instead of accelerating store openings, we launched the Japan-China Joint Project to Strengthen Global Business (lasting from December 2018 to February 2020). This was to strengthen our foundations, and rebuild our systems for promoting overseas businesses, in order to accelerate overseas store openings by refining our own unique business

model with a view to worldwide expansion (see p.5 Global Business Development: Accelerating Store Openings). In fiscal 2021, we are planning to enter the Southeast Asian market in addition to opening 21 stores in Eastern Asia, and one store in the U.S.

Human resources are the foundation supporting NITORI Group's growth. My aim is to create a company in which all employees can fulfill their potential. I want to increase the number of employees who work not for the sake of the Company, but for the sake of their own growth, and can extend the possibilities of their careers themselves. That is why we are cultivating curiosity through transfer-based education, among other initiatives, to create an environment in which employees can demonstrate their individual capabilities to the fullest, while also developing an educational framework and systems. If our employees grow as individuals in order to fulfill their potential, that will ultimately lead to sustainable growth for NITORI Group as well. We will therefore continue engaging actively in education as a form of investment in the future.

NITORI Group will continue working as one to realize its mission of enriching homes around the world, and to provide enriched lifestyles over the next 50 to 100 years. I wish to thank all of our stakeholders for their continued support in our endeavors.

Our Value Creation Journey

Mission Statement

Enriching homes around the world

The needs of the times and our value offered

"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. The stores there supported a luxurious everyday lifestyle, offering customer-oriented products at overwhelmingly low prices that were in lineups unified in quality, color, and style—this was the starting point of NITORI Group.



widely accepted "One-room coordinated interior design."

We stopped displaying products by type, which is the conventional method, and set up room displays 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 created 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 yen. By reevaluating raw materials, NITORI Group was able to cut the price to under 10,000 yen 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).



NITORI Group's philosophy of doing everything in-house, making it possible to offer the unexpected. We control everything, from product planning to manufacturing, logistics, and sales.

- Sourcing that expands across the globe to achieve low prices
- Achieving high quality by working closely with the suppliers providing directions and management on the manufacturing process at overseas plants.
- Conducting trading operations in-house. Achieving cost reductions by creating our own distribution network from the import of products to the delivery to our customers.

Implementing price cuts even during recessions with an 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 our customers when the economy was experiencing a recession. More than 5,000 items were cut in price by 20% on average by 2012, garnering great support from our customers.



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

NITORI Group 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 essentials extending to their materials.

We have rapidly expanded our lineup of N Warm products (launched in 2011), which use moisture-absorbing, heat-generating materials, and N Cool products (launched in 2012), which use materials that are cool to the touch, while also enhancing these products functions. The products are very well regarded by our customers.



Present-day onward— Aspirations move to the global stage

Special Feature 1

Management Integration with SHIMACHU CO., LTD. → p.3

Special Feature 2

Global Business Development: Accelerating Store Openings → p.5

Establishment of a new business model that integrates manufacturing, distribution, IT, and retail

1967

NITORI Furniture Store established

Founding spirit

"To bring the comfortable and enriched living of the U.S. to Japan"

1973

Direct purchase from manufacturers started

Break through from being just a furniture store

- Opened large stores which sold products that make daily life more enjoyable and convenient
- Achievement of total coordination

1986

Started direct import of overseas products

Adding cost competitiveness that is one step ahead

1994 Overseas

Began operating an overseas factory

Established factories overseas in order to achieve low prices on products with Japanese quality

2003

Achieved 100 stores and ¥100 billion in net sales

2004

Established NITORI-net

Implemented the online sales business

Domestic nationwide development/ Overseas expansion

2007 Overseas

Opened Kaohsiung Dream Mall Store

2008

Price Cut Declaration

Price cuts on 1,000 items following the global financial crisis

2009

Achieved 200 stores and ¥200 billion in net sales

2013 Overseas

Opened the first store in the U.S.

Globalization and expansion of business areas

2014 Overseas

Opened Wuhan Star City Store 2015

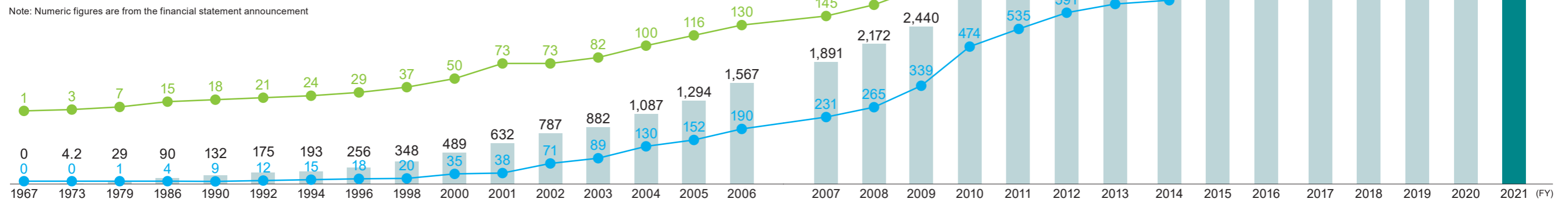
Opened Printemps Ginza Store as the first store inside a department store

2017 Overseas

The new factory in Ba Ria-Vung Tau, Vietnam began operation

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

Note: Numeric figures are from the financial statement announcement





Promoting acceleration of global business development and expansion of business areas to achieve Vision 2032

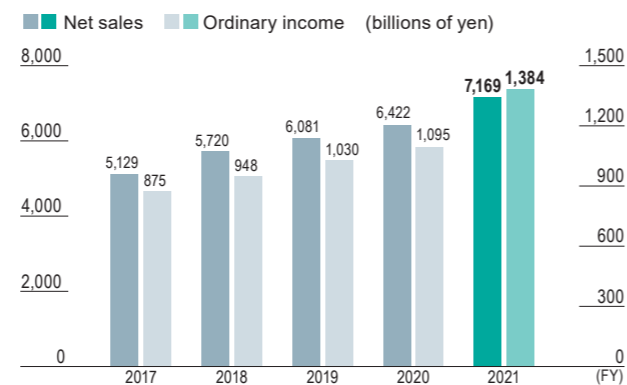
Summary of Fiscal 2020

Despite the difficult environment, NITORI Group achieved sales and profit growth for the 34th consecutive year

The social environment in fiscal 2020 was challenging due to the COVID-19 pandemic. With the establishment of a “new normal” way of life that involved spending more time at home than before, along with widespread teleworking, the so-called stay-at-home consumption grew. Sales increased for organization and storage products, kitchen and dining products, and home office furniture such as PC desks and desk chairs. In terms of channels, the growth in e-commerce business was particularly remarkable. We at NITORI Group were highly aware of our role as part of the social infrastructure responsible for reliably supplying daily essentials, and we continued operating our stores, while implementing anti-infection measures to ensure peace of mind and safety for our customers and employees. I believe that our customers supported and appreciated this approach.

Due to the factors above, our results for fiscal 2020 on a consolidated basis were: 716.9 billion yen in net sales (an 11.6% increase year on year); 137,687 million yen in operating income (a 28.1% increase year on year); and 138,426 million yen in ordinary income (a 26.4% increase year on year). We therefore achieved sales and profit growth for the 34th consecutive year. Compared with fiscal 1987, when our sales and profit growth started, we have 45-times more stores, our net sales are 69-times higher, and our ordinary income became 276-times higher. We also achieved higher net sales per store and profitability.

Net sales/Ordinary income



Toshiyuki Shirai
Representative Director & President (COO)

Strategy to Achieve Vision 2032

Direction of growth strategies and approach to corporate growth

We now have around 10 years left to realize Vision 2032, which requires us to achieve 3,000 stores and 3 trillion yen in net sales in order to fulfill our mission of enriching homes around the world. We have strived to achieve these goals by dramatically accelerating the growth of our overseas business and further developing our existing domestic business through creation of destination stores. These efforts have been supplemented by another growth driver in the form of the home improvement business derived from a new format created by rapidly achieving synergies with SHIMACHU, the company in which NITORI Group integrated its management during fiscal 2020. As a result, I believe that the path to achieving our vision is now clear. While each of these is an independent strategy, in combination they form an even stronger growth strategy by generating a multiplier effect. In addition to NITORI's existing furniture/home fashion format, it will also become possible to offer a home improvement format, and a combined furniture/home fashion/home improvement format. Thus, the options available to meet customers' needs will increase not only in Japan, but also in other countries in which we operate as we pursue further store openings overseas. Moreover, our integration and fusion with SHIMACHU has also augmented the experience and know-how of the NITORI Group's human resources, who underpin and implement these strategies. Believing that human resources are the key to corporate growth, NITORI Group has invested effort in creating an organization that boasts a wealth of elite employees, and in educating its employees. We will make the most of both our human resources and our organization as we forge ahead to achieve Vision 2032.

Working to achieve our vision in a post-coronavirus world

The worldwide spread of COVID-19 had a severe impact on economic activity in Japan and elsewhere. At the same time, the latent risks inherent in a range of situations became apparent.

Such risks are too numerous to mention, but they include the risk of sudden changes in overall demand following stagnation of economic activity or rapid recovery, the risks caused by rapid changes in customers' needs as a result of altered behavioral patterns, and the risks that could arise from disruption to supply chains, including overseas procurement and production activities, or distribution.

Of all these risks, the one that would have the greatest impact on NITORI Group's business activities is the risk relating to overseas procurement and production activities. PB (Private

Brand) products planned in-house account for 90% of NITORI Group's products, and we procure these products overseas. The manufacturing process is handled by a combination of our own factories and collaborating factories located primarily in other Asian countries. To address risks that threaten reliable supplies, NITORI Group is reconsidering the countries where its production takes place and decentralizing production locations for each of its products, aiming to build a production system that will allow it to procure products from multiple suppliers. We will continue to reinforce our system for supplying products reliably in order to provide customers with environments where they can shop safely and buy as much as they want of whatever they want whenever they want, regardless of the situation.

I believe that economies in general, and customers' consumer behavior and attitudes in particular, have been transformed due to the experience of enduring COVID-19 countermeasures for so long, and they will not return to how they were pre-pandemic. Setting our sights on the post-coronavirus world, NITORI Group will respond to such changes in the economic environment and continue working as one to achieve our mission and our medium- to long-term vision.

Looking back on fiscal 2020

To achieve its mission of enriching homes around the world, NITORI Group set three priority policies for realizing its medium- to long-term vision of 1,000 stores and net sales of 1 trillion yen in 2022, followed by 3,000 stores and net sales of 3 trillion yen in 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



Based on these policies, we determine priority issues every year, as we make steady progress toward the achievement of our vision.

Message from the President

[Table 1]

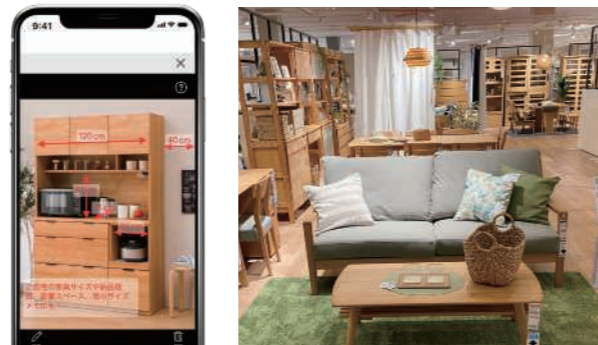
Priority issues for fiscal 2020	
1	Promoting coordination suggestions and O2O
2	Global business development and expansion of business areas
3	Enhancement of product development, production system, and quality control system
4	Rebuilding domestic distribution centers
5	Improvement of operational productivity for the entire company
6	Promoting human resources development toward the future

With regard to the first priority issue of promoting coordination suggestions and O2O, we promoted coordination suggestions by reorganizing product categories and composition to make suggestions specific to individual coordination series. We applied this approach in the Narimasu and Soka NITORI stores, which we positioned as new prototype (standard) stores, as well as in other stores in the Kanto region. We also focused on creating sales floors that are more enjoyable for customers in terms of total coordination, in particular by strengthening presentation. As a result of these efforts, the percentage of sales floors displaying coordination grew dramatically, from 25% in fiscal 2019 to 60% in fiscal 2020. As initiatives to promote O2O, we offered customers an even more convenient shopping experience by, for instance, awarding additional points to NITORI app members when they bought products, and adding the “Size with Memo”, a room-size measurement tool, as a new app function. The number of NITORI app members as of the end of fiscal 2020 was

9.08 million. We will maintain our focus on improving the app’s functions, and services for app members, to reach 25 million members by fiscal 2025.

With regard to the second priority issue—global business development and expansion of business areas—this was a year in which we took on many challenges. They included initiatives to accelerate store openings overseas, the management integration with SHIMACHU, and increasing the number of in-store shops of the N+, apparel brand for women. The number of N+ shops increased from 4 as of February 29, 2020, to 17, as a result of opening shops inside NITORI stores, and in the Kansai area. During fiscal 2021, we will also open NITORI HOME’S, an integrated store of NITORI and SHIMACHU HOME’S, as well as NITORI’s own restaurant chain, NITORI Dining Everyone’s Grill. I believe that NITORI Group’s attitude and DNA, which inspire us to continue striving to achieve our mission and vision, will remain indispensable to the sustainable growth of the Group, and will continue to be handed down from generation to generation well into the future.

- ➔p.3 Management Integration with SHIMACHU CO., LTD.
- ➔p.5 Global Business Development: Accelerating Store Openings



[Table 2]

Priority issues for fiscal 2021	Specific initiatives
1 Establishing market dominance within Japan and accelerating creation of destination stores	<ul style="list-style-type: none"> ●Setting targets higher than the previous fiscal year for NITORI, Deco Home, and the online sales business ●Proactively opening NITORI and Deco Home stores
2 Reaccelerating growth with a view to expanding business scale overseas after strengthening our foundations	<ul style="list-style-type: none"> ●Opening 21 stores in Eastern Asia ●Opening a store in the Southeast Asian market ●Focusing on e-commerce in the U.S.
3 Transforming the NITORI business foundation with a focus on distribution, IT, and the organization	<ul style="list-style-type: none"> ●Developing and rebuilding optimal distribution centers ●Improving operational processes and productivity ●Pursuing DX (digitalization) to transition to a new business model as a strategy for the future by developing an e-commerce mall, taking steps to merge online with offline, etc.
4 Undertaking sustainability activities and propagating such activities inside and outside the Company, taking advantage of NITORI’S strengths as a manufacturing-distribution-IT-retail business	<ul style="list-style-type: none"> ●Achieving the kind of sustainable management that suits NITORI Group by creating sustainable growth as a company, as well as environmental, social, and economic value
5 Rapidly achieving synergies through the management integration with SHIMACHU	<ul style="list-style-type: none"> ●Developing SHIMACHU toward chain store management and aiming to improve its figures ●Establishing the Integration Promotion Committee ●Developing PB for SHIMACHU products ●Opening an integrated SHIMACHU-NITORI store

Our priority issues for fiscal 2022

In fiscal 2021 we set five priority issues (see table 2) based on the three priority policies for achieving our medium- to long-term vision. To address the second priority issue—reaccelerating growth with a view to expanding business scale overseas after strengthening our foundations—we are taking measures such as accelerating our store openings in Eastern Asia(see p.5 Global Business Development: Accelerating Store Openings). Meanwhile, the third priority issue—transforming the NITORI business foundation with a focus on distribution, IT, and the organization—entails developing an optimal network of distribution centers and improving logistics to advance low-cost operations in stores. We are planning to invest a total of around 200 billion yen by 2025, to set up eight of our own new distribution centers across Japan. As the first step in rebuilding our network of distribution centers, we started construction of a new center in Ishikari City, Hokkaido, in May 2021. We are also enacting measures to cut actual distribution costs, aiming to further reduce the distribution expense ratio. We are addressing the fifth priority issue—rapidly achieving synergies through the management integration with SHIMACHU—by taking advantage of NITORI Group’s strengths as a manufacturing-distribution-IT-retail business to improve operational efficiency. We operate our business with the aim of providing comprehensive home-related products and services by making the most of the two companies’ experience and strengths to offer a wider range of products to customers (see p.3 Management Integration with SHIMACHU CO., LTD.)

NITORI Group’s Sustainability

NITORI Group places the highest priority on resolving customers’ frustrations and inconveniences, and acts accordingly. This attitude also applies to our initiatives relating to ESG and the SDGs. We believe that leveraging our unique business model that integrates manufacturing, distribution, IT, and retail in creating environmental, social and economic value to address environmental and social issues in the world is exactly the kind of sustainable management that suits NITORI Group.

In February 2021, we newly set up the Sustainable Development Goals Promotion Office to further strengthen NITORI Group’s system for promoting sustainable management. We are pursuing initiatives to augment our disclosure of information appropriately in line with the changing times and to resolve the social issues we are expected to address as a company. In doing so, we are guided by our sustainability policy of aiming for a better future by resolving the issues of the world while taking steps toward achieving our mission. As the first step toward undertaking these initiatives, we identified seven key sustainability issues (materiality) regarding the sustainable management we are targeting (see p.29 NITORI Group’s Sustainability). These issues were



identified following discussions by the Internal Board of Directors and the Board of Directors, considering the opinions of external experts, and they are of crucial importance for NITORI Group’s sustainable growth.

The relevant departments come together to hold regular meetings of the Sustainability Management Promotion Committee as a forum for discussion of the seven key sustainability issues (materiality). The committee’s objectives are to share information and facilitate related activities. Information is shared not only with employees at headquarters, but also with employees working in stores. To encourage participation in the activities, we are investing effort in building awareness within the Company through measures such as delivering information about NITORI Group’s ESG and SDGs initiatives via the display screens in each store. Young employees in particular have been very interested in these environmental and social issues in recent years, and they now ask numerous questions at the monthly dialogues between store employees and the management and executives. I am very pleased and heartened that our young employees who will be playing an important role for our future growth as a company demonstrate awareness of sustainability, ESG, and the SDGs. All of our employees—not only those in management or working at headquarters, but also young employees working in stores in Japan and overseas—are playing their part to enable the Group to work as one to tackle these issues in order to achieve sustainable growth and the kind of sustainable management that suits NITORI Group.

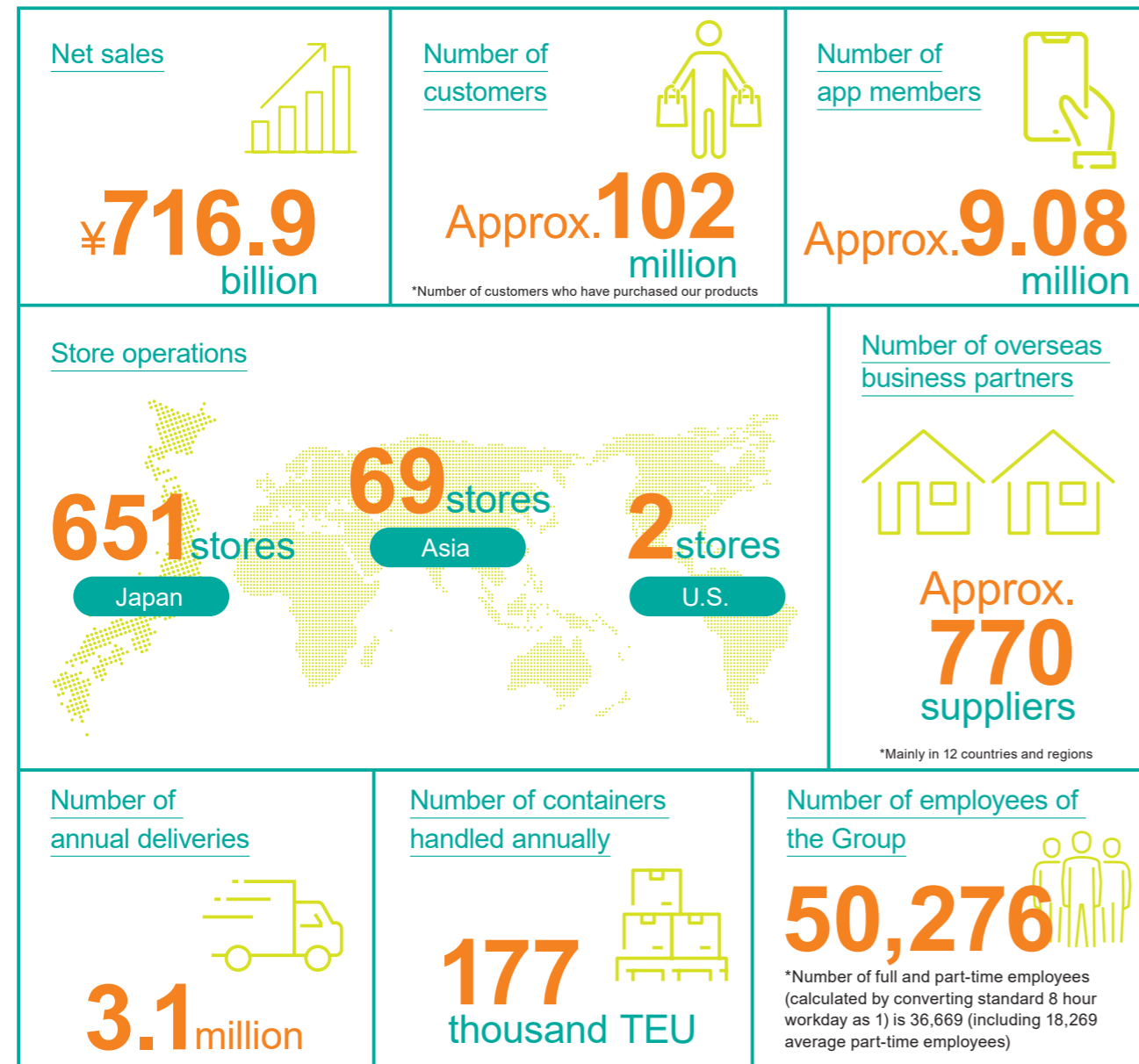
Message to Stakeholders

I would like to take this opportunity to reiterate our apologies for the considerable worry and inconvenience caused to our customers and many other stakeholders due to the asbestos in excess of legal standards contained in some of the NITORI Group’s diatomite products, which resulted in our customers being required to cooperate with a voluntary recall. Being a company that puts customers first, this is an unacceptable matter and once again, I deeply apologize for the tremendous trouble and inconvenience caused. We are now reinforcing our quality control system further and working to recover trust.

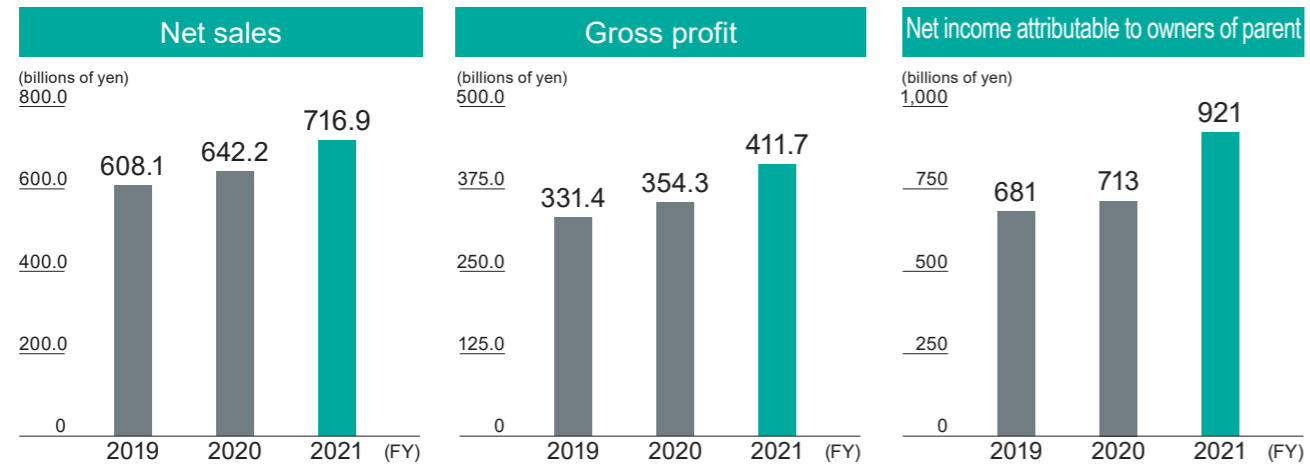
NITORI Group is steadily executing the growth strategy for achieving our medium- to long-term vision. We sincerely hope that our customers, our shareholders and investors, and all our other stakeholders will continue to grant us their understanding and support.

NITORI Group Today

NITORI Group has continued to provide products tailored to customer needs, based on its concept, which has remained consistent since its founding – to bring the comfortable and enriched living of the U.S. to Japan. NITORI Group of “today” is a midway point on its journey into “tomorrow,” as it looks to achieve its vision.

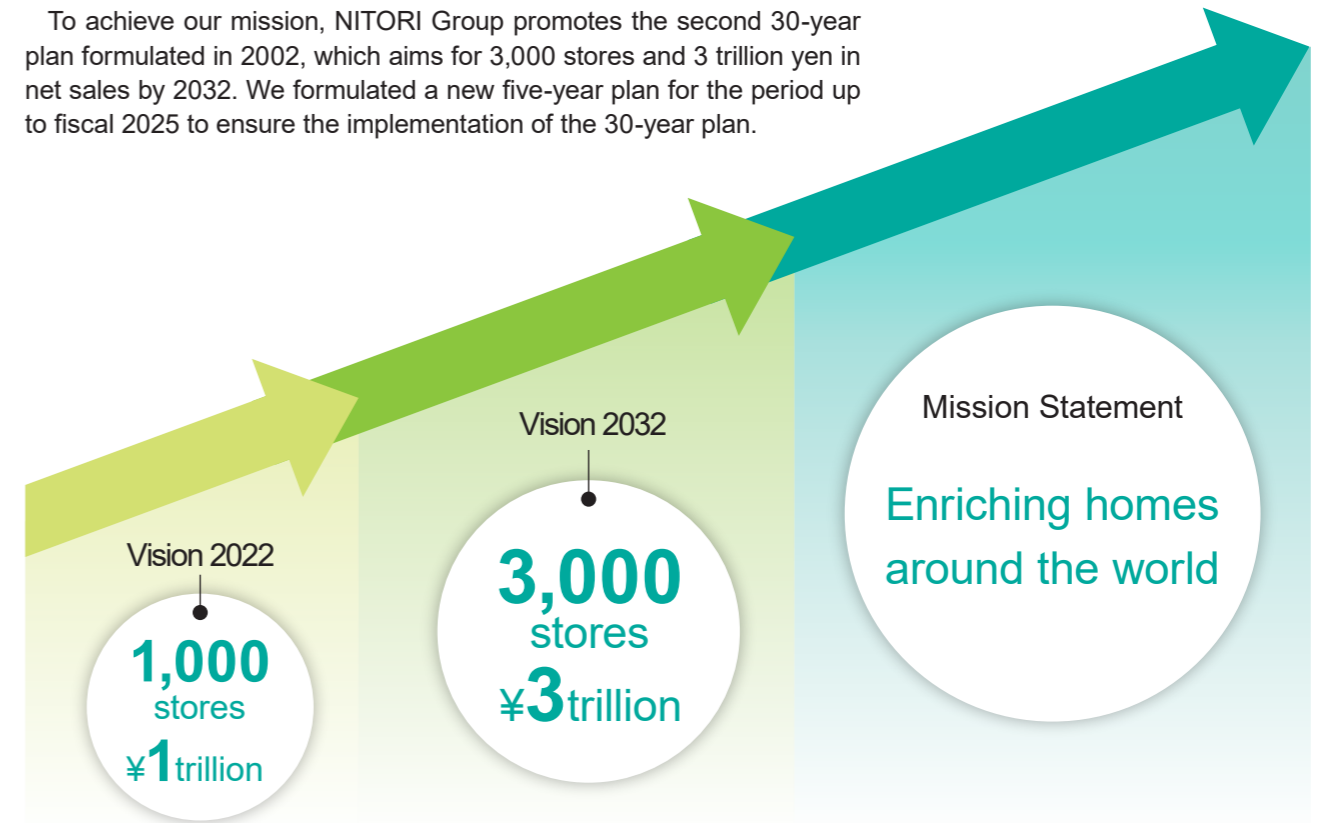


*Numeric figures are from Fiscal 2021



To Achieve Our Mission and Vision

To achieve our mission, NITORI Group promotes the second 30-year plan formulated in 2002, which aims for 3,000 stores and 3 trillion yen in net sales by 2032. We formulated a new five-year plan for the period up to fiscal 2025 to ensure the implementation of the 30-year plan.

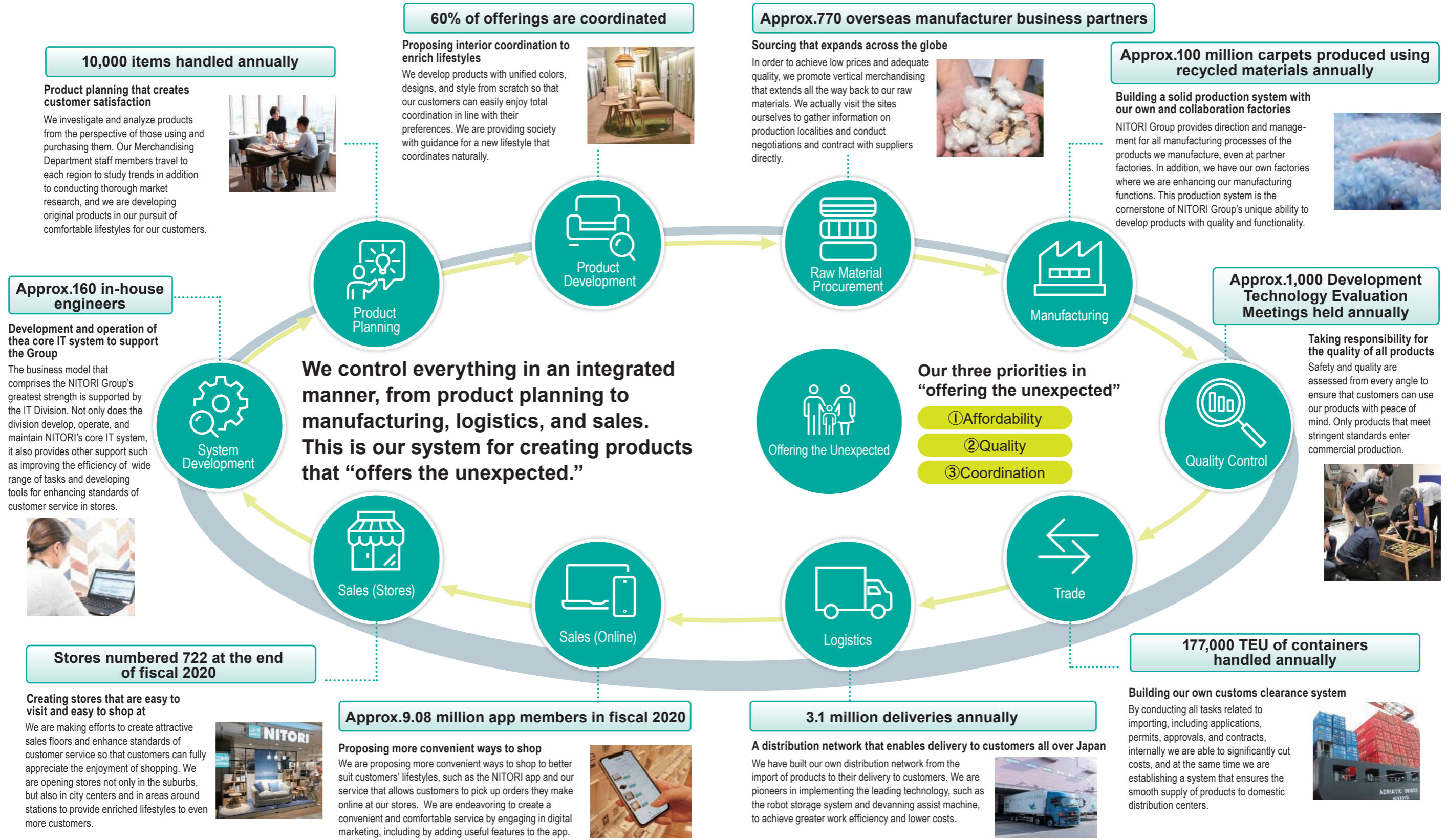


NITORI Group's five-year plan up to fiscal 2025



A manufacturing-distribution-IT-retail business: NITORI Group's unique business model provides value by "offering the unexpected"

Leveraging our solid foundation of human resources and global network of partner companies, we have established all operational functions inside NITORI Group to create a manufacturing-distribution-IT-retail business. We are endeavoring to evolve our customer-oriented business model in order to continue creating value by "offering the unexpected."



Focusing on product development to enrich customers' lifestyles



NITORI's coordination continues to evolve



Junichi Yoshima
General Manager
Merchandising Division

Developing new products and extending our product lineup

In developing products on a day-to-day basis, NITORI Group places the highest priority on resolving customers' frustrations and inconveniences and meeting their various needs. As part of efforts in this regard, we were quick to extend our ranges of products for children and babies, electronic appliances, and products designed for use during remote working. It is precisely because we are able to handle everything from market research to sales in-house, that we can proactively develop products that add enrichment and convenience to customers' day-to-day lives at affordable prices.

Case1

Resolving customers' frustrations and inconveniences through product development based on thorough market research

NITORI Group focuses on product development that "offers the unexpected" by providing products of appropriate quality at low prices in order to continue proposing more enriched, comfortable lifestyles. When doing research on design and style trends, we attend exhibits in Asian countries, Europe and the U.S., and visit actual stores to thoroughly research product materials, colors, and sales floor trends. Within Japan, we conduct thorough research from all angles, including studying trends among competitors and purchasing trends among customers at our own stores, in addition to studies based on home visits and on surveys to people inside and outside NITORI. Based on these surveys, our buyers formulate the product lineup and the merchandisers make it a reality in the form of products. Product development meetings held with the participation of



the management and Merchandising Division employees determine which products should be developed, enabling speedy development. We will continue striving to create products that meet customers' lifestyle needs by leveraging our strength of possessing all capabilities from market research through product development to manufacturing and sales.

For further enhancement

Improve the system for raw material procurement to reduce costs, and "offer the unexpected"

Promote product development targeting coexistence with the environment and society

Purchase raw materials ourselves and promote consolidation and shared use of raw material factories to rigorously cut costs during product development as a means of increasing the gross profit margin.

Continue to develop products that contribute not only to enhanced convenience for customers, but also to reducing environmental load, through the development and sale of environmentally friendly functional products (green products).

Case2

Interior Design for Every Home

In fiscal 2020, we announced our new ethos, which expresses our determination to achieve our mission. To enjoy coordinating home interiors will make lives that have become convenient, even more enriched. NITORI's duty is to lead and to make our customers realize this idea. We will continue to use variety of methods including our stores, NITORI-net, and the NITORI app to promote coordination suggestions, aiming to enrich customers' homes.

Interior Design for Every Home

We are here to bring joy to everyday living by

- providing a variety of products you can enjoy shopping for at affordable prices
- offering innovative designs, including items featuring technology to improve your daily life
- helping you discover new ideas for creating your own unique space and lifestyle
- bringing harmony to your home by coordinating colors, shapes and styles.

Case3

Offering total coordination through two brands with different price ranges

Our total coordination initiatives focus particularly on two brands with different price ranges—our DAY+Value and & Style lines. The DAY+Value brand proposes products with basic designs and colors. The brand's price range enables a wide variety of customers to try coordination easily. With the mid-priced brand & Style, we are taking coordination to the next level—style coordination—by adding the elements of shape, materials, texture, and finishing to the arrangement of colors and patterns. We have, moreover, made the NITORI name synonymous with coordination for everything from furniture, soft goods such as curtains, to hard goods such as items of practical use. In fiscal 2020 the proportion of sales floors displaying coordinated products was 60%. We are aiming to increase this to 80% in fiscal 2021. NITORI Group will continue to promote coordination suggestions.

For further enhancement

Increase coordination suggestions and content utilizing the internet and the latest technologies

Promote coordination-related education in-house

Launched the virtual showroom in March 2021, enabling customers to experience NITORI's coordination suggestions from their own homes. NITORI app will continue to increase contents going forward.

Use the NITORI Color Coordination School (NCCS) and educational videos to develop human resources who can employ their knowledge regarding coordination to suggest products and provide customer service.

Manufacturing



Deploying vertically integrated merchandising on a worldwide scale



Masanori Takeda
 Director
 General Manager of Global Merchandising Division
 General Manager of Global Sales Promotion Office
 In charge of Overseas Sales Business

An overseas production system that supports reliable supply

NITORI Group imports approximately 90% of its products from overseas. Of these, around 20% are produced in the Group's own overseas factories. We have increased our own production sites overseas, starting with our Indonesian factory in 1994. In product manufacturing, vertically integrated merchandising enables us to control all processes in-house, including product planning, raw material procurement, production, and quality control. We are also dispersing risk by increasing our production sites. NITORI Group's manufacturing will continue to further extend its reach, spanning national borders and multiple regions to deliver better products to customers all over the world.

Case

Curtain-producing factory constructed in Ba Ria-Vung Tau, Vietnam

Aiming to provide products that "offer the unexpected" by balancing low prices with high quality, NITORI Group pursues vertically integrated merchandising consistently and systematically throughout the entire process from raw material procurement to putting the finishing touches on end products. Our own manufacturing sites overseas help us to supply products reliably. Our Hanoi Factory produces mainly furniture, while our Ba Ria-Vung Tau Factory produces not only furniture, but also N Cool products and bedding. In this existing factory in Ba Ria-Vung Tau, we have gradually started operations of a new curtain factory from July 2021. Plans call for this new factory to initially produce 800 sets of curtains per day. In the future, it will contribute to NITORI Group's overseas production system



as a factory producing not only curtains, but also fabric for sofas and other products. Meanwhile, SIAM NITORI in Thailand is manufacturing carpets and rugs from recycled plastic bottles. We will continue to actively develop production sites geared to a global production system, as we seek to produce more products in-house.

For further enhancement

Enhance productivity at SIAM NITORI

HOME DECO start producing window-covering products other than curtains

→Related topic: p.36

Renovate and extend factories and revamp rug and carpet tile lines.

Started producing HOME DECO custom-made shades in May 2021, and plans for production of custom-made rollers shades and blinds to start in 2022 or later.

Quality



Product safety and quality control with our sights set on the world



Seiichi Endo
 Manager
 Product Quality Control & Improvement Office

Setting our own quality standards as the basis to improve and reform quality

Our philosophy of product safety is that the responsibility of the manufacturer for product safety and the responsibility of the seller for product safety are inseparable and are not allowed to be separated or left to others. In line with this philosophy, we are aiming to create a system for supplying products of reliable quality all over the world through united collaboration with our business partners. Since fiscal 2018, our Product Quality Control & Improvement Office in Japan has been leading role in quality control activities across the Group as a whole, assuming responsibility for determining relevant regulations, as well as auditing and education, as it started to develop a global quality assurance system. We will continue working with our business partners to ensure that quality is further improved.

Case

Building a global quality control system and localizing product evaluation overseas

As NITORI Group accelerates store openings overseas, the number of globally common products is increasing. The Product Quality Control & Improvement Office is currently working in stages to ensure the shared implementation of globally common quality control standards. In addition, we hold Development Technology Evaluation Meetings in which we evaluate product safety and reliability and decide whether or not to introduce certain products. This is done by analyzing the actual product or parts to predict and eliminate any potential defects, failures, or risks due to misuse. As part of our efforts to enhance local quality-related activities, we are taking proactive steps to hold these Development Technology Evaluation Meetings in the countries where our products are produced. This would

offer three main advantages: (1) business partners could participate directly in evaluation meetings so that any issues could be explained to them using the actual product or part, thereby enabling appropriate improvements and development to be undertaken quickly; (2) business partners could use the issues for improvement pointed out to them as standard specifications, and reflect these in their subsequent product development, leading to greater product safety and faster development; (3) the time required for transportation, and costs incurred, when holding meetings in Japan could be saved. The number of evaluation meetings held at production sites overseas in fiscal 2020 was 127.2% of the previous year's figure, including educational training for overseas NITORI staff.

For further enhancement

Undertake reforms following the diatomite issue

Create a new system to prevent products containing hazardous substances from being released into the market

Aiming to prevent products containing substances hazardous to the human body from being released into the market, we are collaborating with a third-party inspection agency to revise our "negative list" of standards relating to restricted substances and enforce bans, or restrictions on the amounts, of the relevant substances in products. We also set up a new Planning & Design Evaluation Meeting to shift to a system that makes evaluation a prerequisite for commercial production of products featuring new materials or new functions.

A distribution network that cuts costs and improves operational efficiency



Hiroyuki Yanagawa
Representative Director & President
Home Logistics Co., Ltd.

The distribution platform that supports NITORI's manufacturing-distribution-IT-retail business

Home Logistics Co., Ltd. plays an important role in handling the logistics that are indispensable to NITORI Group's unique business model integrating manufacturing, distribution, IT, and retail. However, we face many issues including driver shortages, rising labor and transportation costs, and the increased work involved in shipping goods bought online as a result of stay-at-home demand. Our key role is to resolve these issues, achieve even lower-cost operations, and work toward standardization.

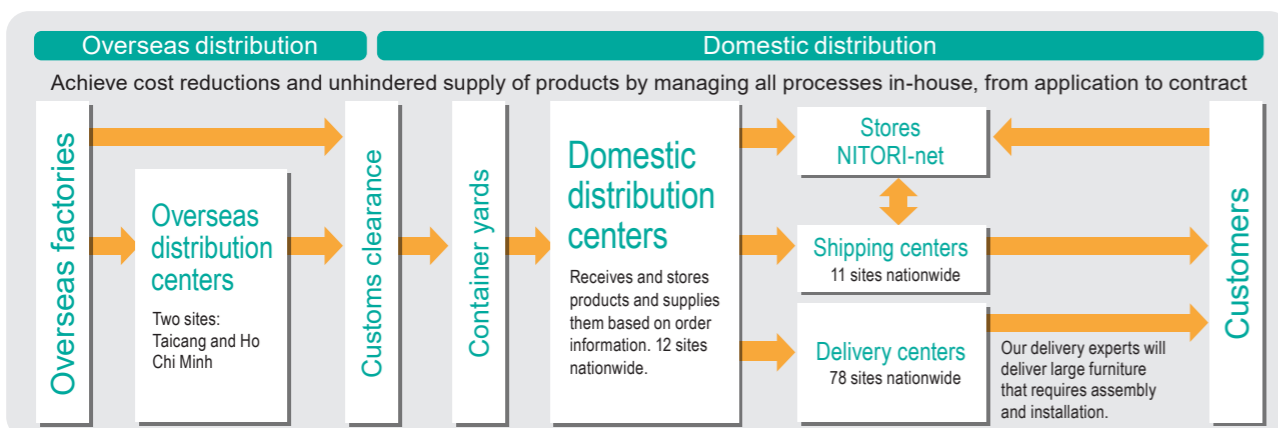
We will utilize our information assets accumulated throughout the supply chain and pursue reforms targeting overall optimization, including developing our network and combining different forms of transportation.

Case 1

A one-stop shipping system that smoothly connects production locations with customers

NITORI Group imports approximately 90% of its products from overseas. The Group imports products into Japan from 73 ports in 15 countries around the world, and total container volume reached 177,000 twenty-foot equivalent units (TEU) for the year in fiscal 2020. The volume of cargo handled is increasing each year, making NITORI Japan's largest distributor operating as a single business enterprise. We are also making substantial cost savings by building our own distribution network and conducting import-related tasks in-house. Overseas, we have two large distribution centers in the Asian region, in Taicang and Ho Chi Minh, where we optimize inventories by supplying the exact

volume of products required when and where they are needed. The Taicang distribution center, which started operating in October 2018, is the Group's largest distribution center and plays a key role globally, including undertaking trading and logistics overseas. In Japan, we have built a network across Japan that can deliver products anywhere in the country, comprising 12 distribution centers with storage capability, 11 shipping centers, and 78 furniture delivery centers. Home Logistics is responsible for providing high-quality logistics through integrated distribution that makes the most of NITORI Group's economies of scale.



Case 2

Digital transformation of logistics operations

In 1980, we introduced the Japanese distribution industry's first automatic warehouse system in our Sapporo distribution center. Since then, NITORI Group has been proactive in introducing the latest technologies and equipment, aiming to expand services and improve convenience for customers. However, if NITORI Group is to maintain sustainable growth globally, it needs to deal with chronic labor shortages. That will require it to do even more to boost the efficiency of the distribution network as a whole, improve work environments, and standardize operations. In 2016, we introduced an automated warehouse picking system called AutoStore, featuring high storage density and high-speed product loading and unloading, at our East-Japan Ecommerce Fulfillment Center, which handles shipping for online sales. Even after this installation, due to manual packing process, overall operational efficiency did not improve greatly. Moreover, the new external factor of soaring shipping costs presented an additional problem. Accordingly, in February 2021, we introduced the German-made automated packaging machine, VARIO558. With VARIO558, products are placed in a special cardboard box, which is loaded into the automated packaging machine. The machine then

automatically measures the height of products, make a box of the right height around them, and seals the box. The East-Japan Ecommerce Fulfillment Center ships around 3.02 million orders annually (as of fiscal 2020), and by using packaging machines for small items such as pillows, towels, and cutlery, we expect to increase the productivity of packaging operations by 10%. Furthermore, the appropriate sizing of packages will also enable us to reduce shipping costs. Through this type of new capital expenditure, we are lightening the load for workers and focusing on creating a positive work environment for our employees.



For further enhancement

Rebuild the domestic distribution center network, cutting costs through increased efficiency, and reducing environmental impact

Plans call for Japan to be divided into eight zones by 2025: Hokkaido, Tohoku, North-Kanto, South-Kanto, Chubu, Kinki, Chugoku-Shikoku, and Kyushu. Approximately 200 billion yen will be invested to set up eight of our own new distribution centers of 66,000–165,000 m2 in size. As the first step, construction of the new distribution center started in Ishikari City, Hokkaido, in May 2021.

Offering enriched homes to many people by expanding our network of stores in Japan and overseas



Manabu Nakamura
General Manager
Store Development Division

Making more people's lives comfortable and convenient

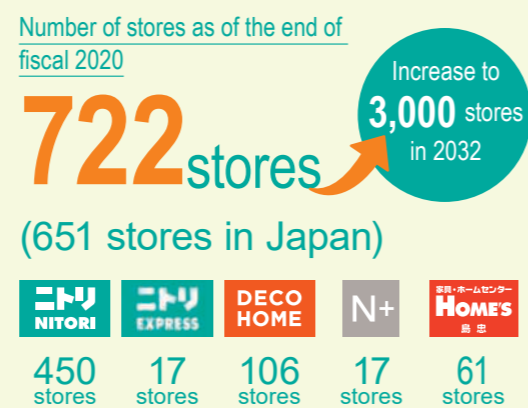
Up until now, NITORI Group has opened stores with the following NITORI, NITORI EXPRESS, and Deco Home formats, offering a variety of suggestions regarding housing to people in local communities. In recent years, we launched the N+ women's apparel brand and NITORI Dining Everyone's Grill, a restaurant business. Through such endeavors, we aspire to make contribution not only in the home-related sphere, but also in clothing and food. With regard to NITORI stores, in the past 15 years, we have gained the capability to open stores also in small market areas with populations of 100 thousand or less. We are pursuing dominance by opening stores not only in urban areas, but also in provincial cities, where we previously had no stores. Through this approach, we are enriching homes for people in every region of Japan and providing an environment that enables anybody to buy the products necessary for daily living whenever needed.

Case

Proactively opening stores in small market areas and urban areas

Looking ahead, Japan's population is expected to continue aging, and declining in size. Under such circumstances, we will still open stores in the suburbs, but we are also proactively opening stores in market areas with low populations, and in urban areas, where it has been difficult to open stores in the past. In December 2020, we opened a NITORI store in Nakashibetsu, Hokkaido. This was possible because we had accumulated the know-how necessary to address various location-related requirements and the needs of market areas with low populations when creating and operating stores. In addition, we are opening small-format stores, including NITORI, Deco Home, and NITORI EXPRESS in urban areas where cars are not required, such as in department stores and shopping centers near station, thereby enhancing convenience for people living in these areas. Looking ahead, we will continue to expand our store network, aiming to make life more convenient, comfortable, and enriched for customers in all regions throughout the country.

Store Openings in Japan during Fiscal 2020



Improving our ability to create attractive sales floors and provide suggestions to our customers



Mitsuyoshi Kubota
General Manager
Store Operations Division

Improving our ability to create attractive sales floors and provide suggestions to our customers

Stores are crucial contact points that connect local customers with NITORI Group. The COVID-19 pandemic temporarily caused closures and reduced opening hours among our stores during fiscal 2020, and we also noticed changes in customers' shopping habits. Prioritizing safety of our customers and employees, we strove to create clearly laid-out sales floors that made shopping easy so that customers visiting stores could enjoy their shopping. We will continue improving our ability to create attractive sales floors and provide suggestions to customers, aiming to make stores that customers want to shop again at.

Case

Creating attractive sales floors to make stores that customers want to return to

As the COVID-19 pandemic persists, the increase in time spent at home has prompted more customers to become interested in coordination and in reorganizing their homes. Under such circumstances, it is crucial that we continue to suggest new discoveries and enriched lifestyles by means of attractive sales floors. NITORI Group's products are unique in the way they are planned: designs and shades of color are uniform, making it easy for our customers to coordinate. On our sales floors, various types of products, including furniture, fabrics, and household items, are combined in groups, arranged in position, and shown to their best advantage to offer customers suggestions for total coordination. In addition, we are creating sales floors incorporating small-scale coordinated displays. For

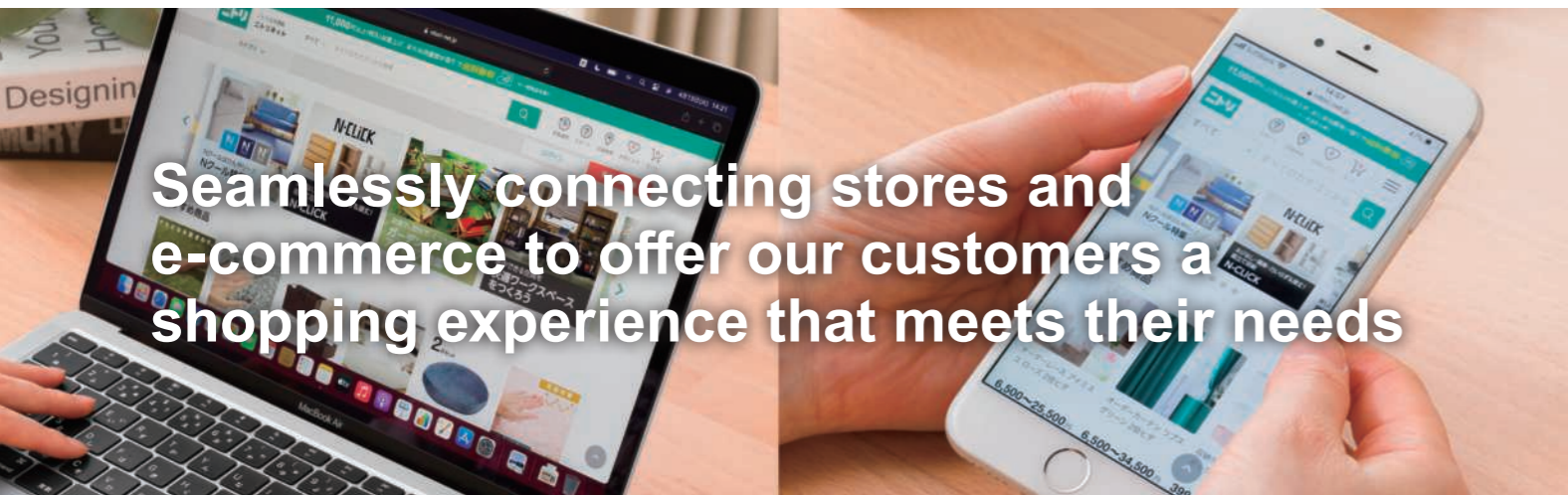


example, on the towel sales floor we are providing coordination suggestions by displaying other complementary washroom items such as soap dispensers and cups. NITORI Group will continue to provide attractive sales floors and spaces where even more customers can enjoy shopping.

For further enhancement

Keep developing new products and sales floors to enrich our customers' lifestyles.

NITORI started selling air conditioners in fiscal 2020. Furthermore, NITORI created sales floors where simple electric appliances with a uniform design were brought together in one place, making it easy for our customers to make a purchase. Future plans call for the roll-out of electric appliances targeting families, and the expansion of sales floors selling products for children and babies, which are increasingly in-demand.



Seamlessly connecting stores and e-commerce to offer our customers a shopping experience that meets their needs



Hiroshi Nagai
General Manager
Sales Planning Office

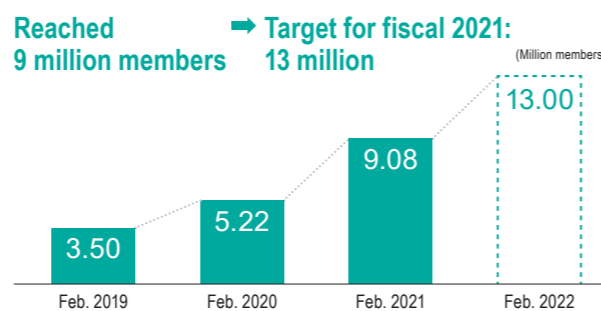
Responding to changes in consumption trends

In fiscal 2020, sales for NITORI Group's online shopping business came to 159.2% of the previous year's figure, marking substantial growth. Meanwhile, the number of NITORI app members surpassed 9 million. Online sales demand is growing from day to day, while customers' offline consumer behavior (at actual stores) and online consumer behavior (via online sales sites and apps) is becoming seamless. Against such a backdrop, we are making the most of the strengths of NITORI Group, which has stores and a distribution network across Japan, to offer a variety of options throughout the process from ordering products to receiving them. We will continue offering our customers suggestions for a more convenient and comfortable shopping experience.

Case

The NITORI app continues to evolve

The NITORI app, launched in March 2014, functions as a key hub that enables us to offer customers a convenient and seamless shopping experience with no dividing line between offline and online. In 2018 we augmented the app with the Tebura de Shopping (meaning empty-handed shopping) function, which creates a wish list when customers scan the barcodes of products displayed in-store. This enables customers to complete the entire process from ordering to delivery without having to carry products around inside the store. Alternatively, customers can research products at home, then easily buy them all together online or in store. In 2019, we introduced the Search by Photo function, which enables customers to use a photo to search for a product. In 2021, we plan to add



contents to the app that will enable customers to enjoy browsing many interior coordination images according to their preferred style and room type, and provide a smooth connection straight to purchasing. Taking advantage of evolving technologies, NITORI Group will continue to pursue an O2O strategy that enables us to offer our customers suggestions for an enriched lifestyle.

For further enhancement

Offer new shopping experiences by promoting digital transformation

Virtual showroom set up on NITORI-net in March 2021

The new showroom utilizes 3D video of coordinated rooms in actual stores to offer customers 360-degree views, enabling them to easily enjoy an online shopping experience almost identical to the in-store experience anytime and anywhere. The virtual showroom is linked to NITORI-net, so customers can progress straight to purchasing. NITORI will keep offering new shopping experiences by promoting digital transformation.

A Wide Range of Business Fields

N+

Launched in 2019, N+ is NITORI Group's apparel brand for women. Inspired by the concept of "total coordinated clothing for adults," the brand proposes affordable priced fashion that is comfortable to wear and can be easily color coordinated. Looking ahead, we will increase the number of N+ stores and further extend the range of PB (private brand) products to provide our customers with attractive products at even more affordable prices.



Corporate Sales and Interior Renovation Businesses

NITORI has cultivated strengths in developing products and suggesting coordination through its residential furniture and home fashion businesses. The Corporate Sales and Interior Renovation Businesses draw on these strengths to propose interior design of office spaces for corporate customers and total renovation services for households, respectively. In the showrooms for these businesses, we employ XR (extended reality) and many other latest technologies, endeavoring to create showrooms befitting the era of digital transformation.

Nitori Public Co., Ltd.

Nitori Public is an integrated advertising agency. In addition to conducting advertising and sales promotion for NITORI Group companies, we also work in a wide range of business for other companies. Nitori Public handles everything from corporate branding strategy through implementation of advertising and sales promotion campaigns to event planning and management. Other businesses include operation of a travel business and a Japanese-style hotel called Ginrinsou in Otaru, Hokkaido, as well as a restaurant business. Nitori Public plays a part in enhancing the value of the Group.

Nitori Facility Co., Ltd.

Nitori Facility is responsible for waste disposal, cleaning, and security, as well as for insurance services as an insurance agency for NITORI Group. Our aim is not only to maintain and manage facilities, but also to consider optimization for the Group as a whole, in order to reduce costs and improve efficiency, as well as enhance provision of benefits for employees.

NITORI MALL Business

To enable our customers to fully appreciate the NITORI MALL concept of "an abundance of products and affordable prices," we created a mix of shops focused on large specialty stores in each category with the ability to pull in a broad spectrum of customers, including popular stores selling apparel or household items, and restaurants. By developing the NITORI MALL business, we will keep on contributing to enriched lifestyles for local customers.

NITORI Dining Everyone's Grill

NITORI Dining Everyone's Grill is NITORI Group's restaurant business, which Nitori Public started in March 2021. The guiding concept is "to provide service that offers the unexpected and ensuring customer satisfaction in terms of both flavor and price." It procures only carefully selected ingredients, and by ensuring operational efficiency it has succeeded in developing menus that combine high quality with reasonable prices. The business will accelerate the opening of new restaurants and develop new menus, working together with NITORI Group to achieve the mission and vision.



Establishing second and third pillars to support medium- to long-term growth

NITORI Group operates a range of businesses to enable customers to experience enriched lifestyles. Having supplemented its established business by launching the N+ apparel brand and the NITORI Dining restaurant business, the Group is now able to offer proposals to customers in all three of the clothing, food, and home-related businesses. We will continue extending the strengths cultivated within the Group into new business domains as we endeavor to achieve our mission and vision.

Sustainability Policy

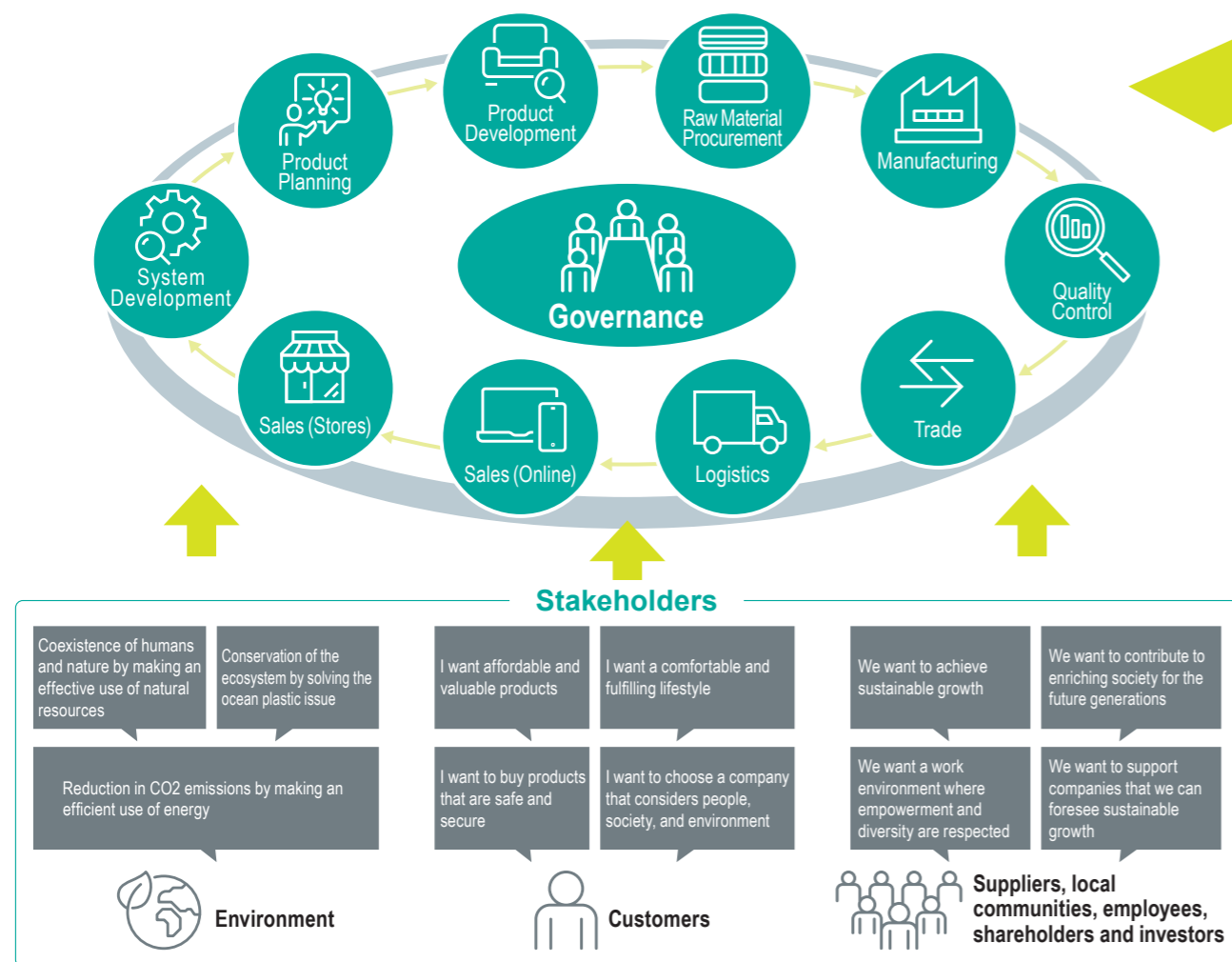
Taking steps toward achieving our mission while resolving the issues of the world, aiming for a better future.

NITORI Group has continued to maintain its shared corporate philosophy of enriching homes around the world and continues its endeavors as a corporation to provide products and services focused on "offering the unexpected." The Group's unique business model that integrates manufacturing, distribution, IT, and retail was developed precisely during this process.

Applying this business model, we reduced costs drastically, maintained appropriate quality, and developed products and services from the customer's perspective by denying the way we operated in the past and repeating improvement and reform at every stage from planning to manufacturing, logistics, and sales. We pursue contribution to customers' enriched lifestyles by "offering the unexpected," featuring unprecedented affordability, quality (functionality), and coordination.

In addition, NITORI Group takes advantage of the control capabilities, ability to gather information, and know-how throughout the entire supply chain, which are the fruits of our unique business model that controls all aspects. This enables us to carry out every task more efficiently and pursue the right business for the society at all times, based on the idea of optimization for the whole. Such a stance leads to the creation of new value that helps us to address ESG issues, as well as to achieve the SDGs and solve other environmental and social issues.

We will continue to place the highest priority on "resolving customers' frustrations and inconveniences" in our never-ending journey of achieving our mission. By focusing our efforts on the external environment and change in the times and by transforming and challenging ourselves, we will achieve sustainable corporate growth, expand environmental and social value, and work toward a better future, to achieve the sustainable management that suits the characteristic of NITORI Group.



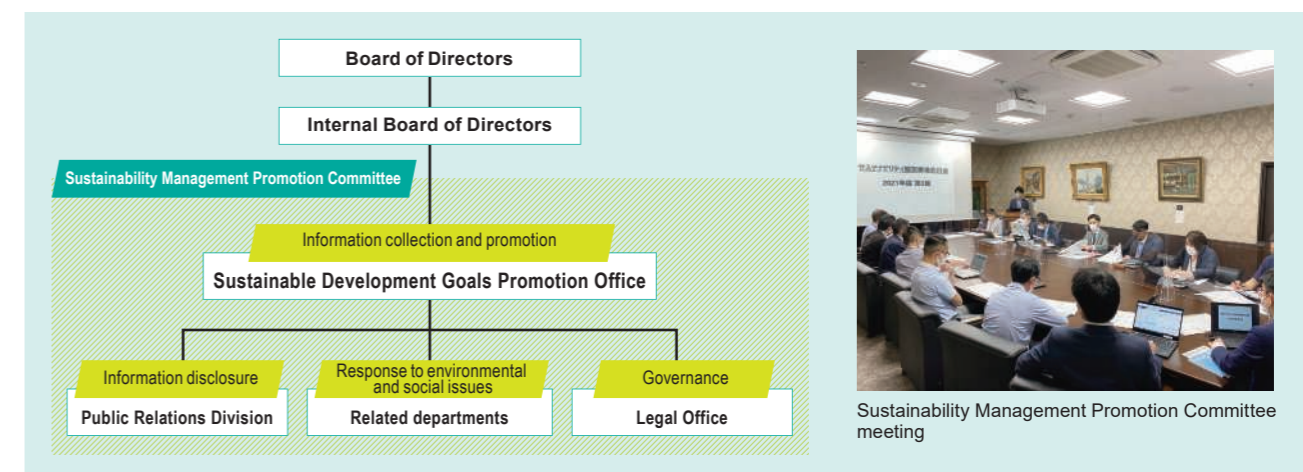
NITORI Group's customer-oriented, unique business model that integrates manufacturing, distribution, IT, and retail
Resolving issues around the world through our business model

Mission Statement

Enriching homes around the world



Sustainability Management Promotion System



Building a sustainability management promotion system led by the Board of Directors

We set up the Sustainable Development Goals Promotion Office to further strengthen NITORI Group's efforts centered on sustainability, ESG, and SDGs.

As global efforts centered on ESG and SDGs accelerate, NITORI Group believes that it is essential for its accelerated global business development and sustainable growth to focus on the external environment and respond in a flexible manner.

Under the management system led by the Board of Directors, the Sustainable Development Goals Promotion Office will take the initiative in collecting and organizing information on past efforts, ensuring appropriate information disclosure, and promoting the expansion of efforts businesses are expected to make to resolve environmental and social issues. We will control initiatives centered on ESG and SDGs in our business activities in a systematic manner and create greater shared value, thereby continuing to pursue sustainability management.

In addition, we launched the Sustainability Management Promotion Committee in fiscal 2019 as a platform to recognize the importance of such initiatives as the entire Group and create opportunities to share information and promote activities. The Committee holds companywide meetings regularly.

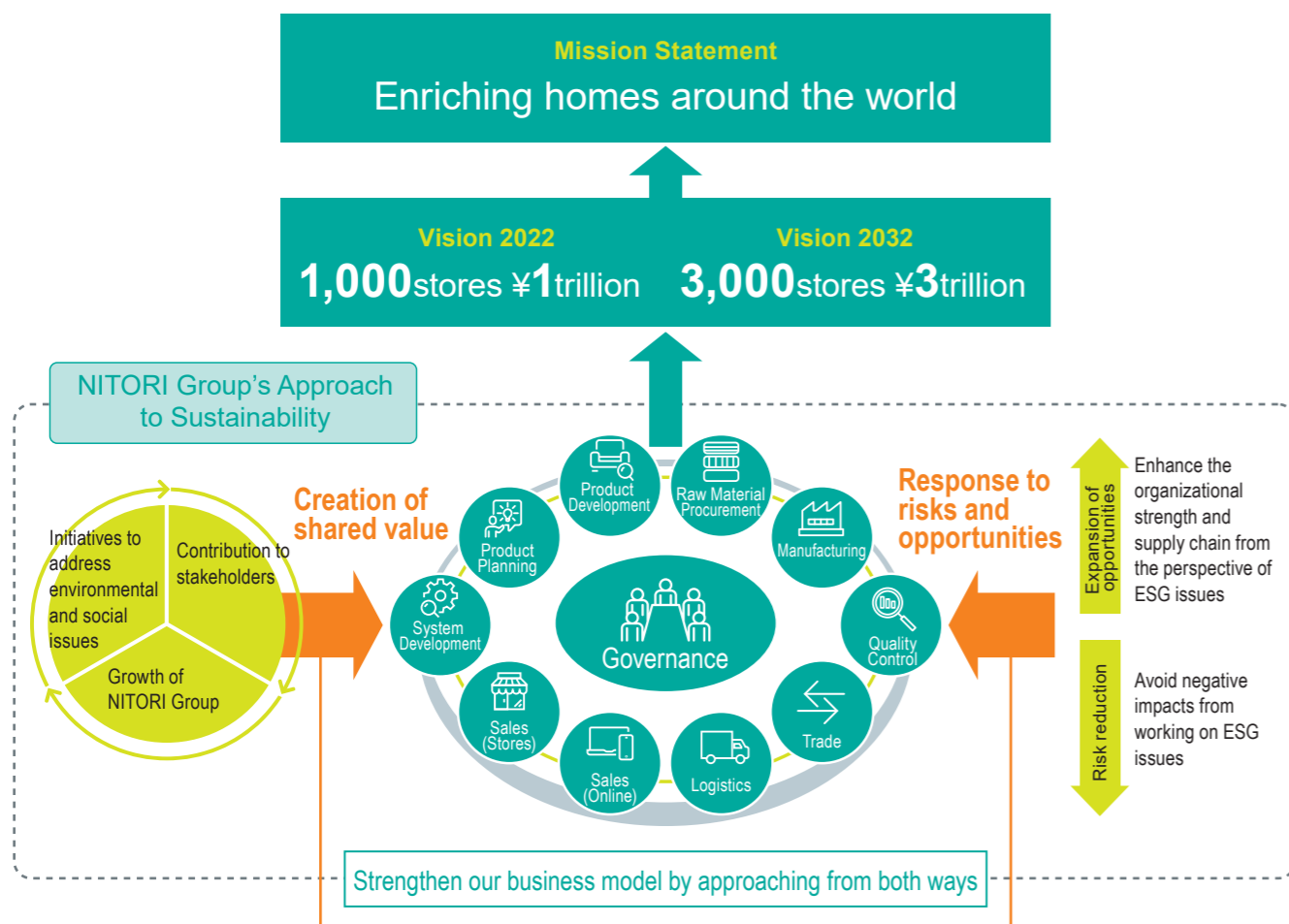
Sustainability Framework

Approach to Sustainability – Strategy to Achieve Our Mission and Vision –

NITORI Group will promote sustainability management as an essential element of corporate strategy to achieve our mission and vision (see p.1 and 16). By taking advantage of our business model that integrates manufacturing, distribution, IT, and retail, we will address social issues throughout the entire supply chain as expected, create value to be shared with our stakeholders, and develop a medium to long-term growth strategy out of the efforts, which will lead to the achievement of our mission and vision.

To achieve sustainable growth in a business environment with increasing uncertainty, it is also important to strengthen the business foundation that supports medium- to long-term growth realized by addressing ESG issues.

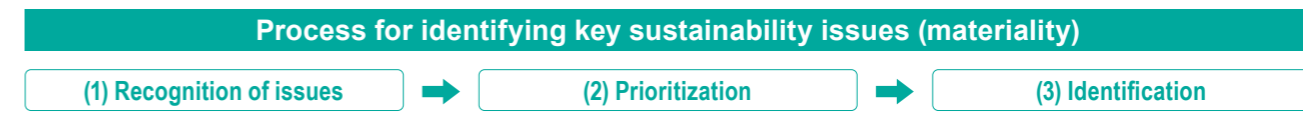
In the face of environmental and social issues, such as climate change, we will weigh risks and opportunities, address ESG issues not only in Japan but across the globe, make our business model more resilient, and fulfill our corporate social responsibility.



Planning and Development	Offering new value with products balancing comfort and environmental consciousness	p.33-34	Human Resources Development	Creation of an organization with a wealth of elites	p.43-45
Procurement and Manufacturing	Contribution to environmental preservation and recycling-oriented society with effective use of resources and recycling	p.35-36	Work Environment	Aiming for a comfortable work environment where everyone works in good health	p.46
Procurement, Manufacturing, and Quality	Offering safety and security and achieving sustainable growth with suppliers through correct manufacturing and responsible procurement	p.37-38	Diversity	Respect for human rights and diversity Enhancement of work-life balance	p.46
Logistics and Trade	Reduction of CO2 emissions and realization of comfortable workplace by improving business productivity, such as transportation efficiency	p.39-40	Local Contribution Activities	Hand-in-hand with our customers	p.47
Sales	Contribution to convenient and enjoyable shopping experiences for customers through expansion of store network and promotion of O2O	p.41	Governance	Building a foundation that supports medium- to long-term growth	p.48-59
New Fields of Business	Aiming to be a company that makes comprehensive lifestyle suggestions	p.42	ESG Information	Sustainability data book	p.60-62

Key Sustainability Issues (Materiality)

To link sustainability initiatives more closely with management strategy and achieve its mission and vision (see p.1 and 16), NITORI Group reviewed environmental and social issues based on the importance for stakeholders (see p.29) and the Company and identified key sustainability issues.



(1) Recognition of issues
The Sustainability Management Promotion Committee takes the lead in making a list of a wide range of environmental, social, and economic issues, referring to the GRI Standards (international guidelines for sustainability), SDGs, etc.

(2) Prioritization
Priorities are set based on the Company's ratings given by SRI assessment bodies, impacts on stakeholders, importance to our business, etc.

(3) Identification
Key sustainability issues are identified in light of external experts' opinions and after discussions by the Internal Board of Directors and the Board of Directors.

Key Sustainability Issues (Materiality)

Seven key issues NITORI Group should work on for its sustainability management

No.	Key sustainability issues (materiality)	NITORI Group's approach	Relevant SDGs
1	Contribution to enriched lifestyles by "offering the unexpected"	(1) Pursue affordability, appropriate quality (functionality), and coordination (2) Resolve customers' frustrations and inconveniences (3) Offer new value that further enriches lifestyles (products and services that can lead to solutions to environmental and social issues)	7, 9, 12, 13
2	Product safety and security through comprehensive quality control	(1) Quality control and product safety measures as a manufacturer (2) Share with suppliers ideas and initiatives to build a culture of product safety	8, 9, 12
3	Promotion of environmentally friendly business	(1) Carry out all tasks more efficiently throughout the entire supply chain (2) Make effective use of all raw materials (3) Make effective use of recycled materials through innovation (4) Disclose and reduce CO2 emissions from business activities	7, 9, 12, 13, 15
4	Fair and honest trade and respect for human rights in the supply chain	(1) Supplier contracts based on strict standards and on-site investigations (2) Establish true partnerships with suppliers Fair and honest trade, respect for human rights, work environment creation, etc.	8, 10, 12, 17
5	Contribution to local communities	(1) As a company that offers lifestyle infrastructure, expand the store network and create stores supported by customers (2) Expand into global business (open stores and create employment) (3) Disaster assistance and social action programs in fields other than the main lines of business	4, 8, 9, 11, 13
6	Creation of rewarding work environment and promotion of diversity	(1) Education system that allows employees to realize self-growth (2) Transfer to a variety of occupations in a wide range of business fields (3) Create a comfortable environment where everyone can work in good health with peace of mind	3, 5, 8
7	Effective corporate governance	(1) Build a foundation that supports medium- to long-term corporate growth Create decision-making systems and a basis for active discussions (2) Strict compliance (3) Build a robust risk management system	16, 17

Initiatives centered on SDGs

To achieve our mission and vision, NITORI Group will focus on business activities rolled out through its business model based on the customer's perspective and contribute to the achievement of SDGs through all corporate activities, including value creation with various stakeholders.

Of the 17 goals that constitute SDGs, we judge that there are high relevance and compatibility with 13 goals (3, 4, 5, 7, 8, 9, 10, 11, 12, 13, 15, 16, and 17), and we will thus promote our initiatives aimed at contributing to the achievement of these goals.

Materiality 1
Contribution to enriched lifestyles by "offering the unexpected"

Materiality 3
Promotion of environmentally conscious business



Offering new value with products balancing comfort and environmental consciousness

Recognition of issues and creation of shared value



Spirit of "offering the unexpected" found in products that are good for both customers and the environment

NITORI will accurately analyze customers' needs and social background of the times and create products tailored to them. We believe that our endeavors as a corporation to resolve customers' frustrations and inconveniences will eventually result in reduced environmental impact and resolution of social issues. NITORI Group will achieve its objective of resolving customers' frustrations and inconveniences and enrich people's day-to-day lives, while at the same time promote the development of environmentally friendly functional products (green products), the use of which reduces electricity use and other types of environmental impact. Environmentally friendly functional products are developed based on designs that are both low priced and highly functional, while at the same time being environmentally friendly, and as a result, contribute to reduced environmental impact, such as lower CO2 emissions, as well as to making a positive contribution to customers' household finances by saving energy and resource usage.

Visualize the level of environmental friendliness to show functions in an easy-to-understand way and enable easier product selection for customers

NITORI Group strives to communicate product functionality to customers in an easy way to understand. Showing the thermal insulation and heat retention effects of curtains, for which we won a Good Design Award 2020, is an example of such efforts. Specifically, in collaboration with Teijin's laboratory, we quantified the functions of each curtain by building a 10m2 laboratory in an all-weather type environment control chamber and measuring thermal insulation and heat retention effects under different conditions, including insulation levels. This enabled us to make clear specific functionality, energy-saving effects, etc. of curtains, which had been vague, and show them on POP displays for each product. Customers can see specific functions before purchasing, which enables them to purchase a product after picturing and comparing energy-saving effects and levels of contribution to the reduction of environmental impact, in addition to thermal insulation and heat retention effects from the use of the products. By correctly proposing and offering products customers really want, we will expand initiatives to reduce environmental impact, together with customers.

→Details: News release on winning a Good Design Award 2020



All-weather type environment control chamber

Examples of NITORI Group's initiatives (linked to SDGs)

Environmentally friendly functional products

Comfortable lifestyles for both summer and winter × Energy saving



"How can we get a comfortable night's sleep without using air-conditioning in the summer and the winter?" This question led to the development of the moisture-absorbing, heat-generating N Warm series (launched in 2011) and the N Cool series using materials that feel cool to the touch (launched in 2012), which started from bedding items. We were able to develop products that are sufficiently functional while also being low priced and of appropriate quality by managing the proportion of different thread materials at the raw material procurement stage. We took advantage of this, and as a result, the product was a major hit. In cumulative total, we have sold over 53 million units of N Cool series and approximately 34.8 million units of N Warm series.



Furthermore, using N Cool and N Warm reduces the use of air-conditioning at home and contributes to the reduction of energy use. In response to customer needs, we are expanding the product series beyond bedding items. We will further contribute to comfortable lifestyles of customers, including babies and pets, and to environmental impact reduction.

Expansion of N Cool and N Warm product series

FY	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
N COOL		Sales started (bedding only) N Cool and N Cool Super	Line expands to rugs and living room accessories	Line expands to kids products	Sales of N Cool Double Super launched	Line expands to loungewear	Line expands to pet products		Line expands to baby products	Sales of N Cool Cotton series made from 100% cotton launched (baby products)
N WARM	Sales started (bedding and rugs)	Sales of N Warm Super launched	Line expands to living room accessories		Line expands to kids products		Line expands to pet products	Line expands to baby products Sales of N Warm Moist launched	Sales of N Warm Double Moist launched	Sales of mattress toppers without anchor bands launched

Take in sunlight but block vision and cut ultraviolet light and outside air × Energy saving



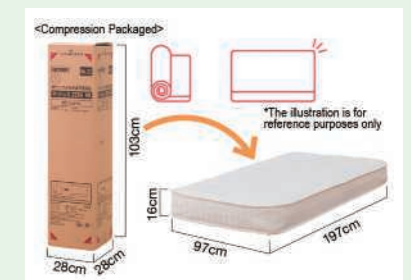
"I am concerned about privacy, ultraviolet light, and outside air, but I want to take in light in the room." Customers hope to ensure privacy protection, keep a comfortable room temperature, and take in sufficient sunlight. NITORI's ECONATURE™ functional lace curtains satisfy such needs. The curtains use new materials, thread that insulates heat but allows light to pass through, and keep the room light by taking in sunlight while making it difficult to see inside the room and keeping privacy. In addition, they cut outside heat in the summer and cold air in the winter. As the room temperature becomes less affected by outside air, air conditioning and heating efficiency at home increases, which leads to energy saving.



Take home on the day of purchase × Reduce CO2 emissions



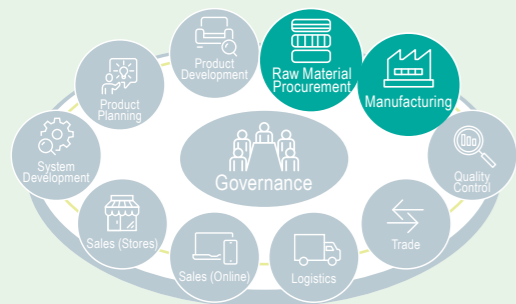
"Bed mattresses are too big to take home by ourselves." We wanted to change this common conception. The solution was to compress the mattresses. By adopting NITORI Group's unique compressing technology and reducing the packing size to 25%, we made it possible to take the products home on the day of purchase. Customers can start using them right away, without paying shipping fees or waiting until the product is delivered. Furthermore, reducing the packing size, in the best case, quadrupled the number of products that can be loaded in a container or a truck for transportation. The significant enhancement of product transportation efficiency has led to reduction in transportation costs and CO2 emissions associated with transportation.



→Related topic: p.40

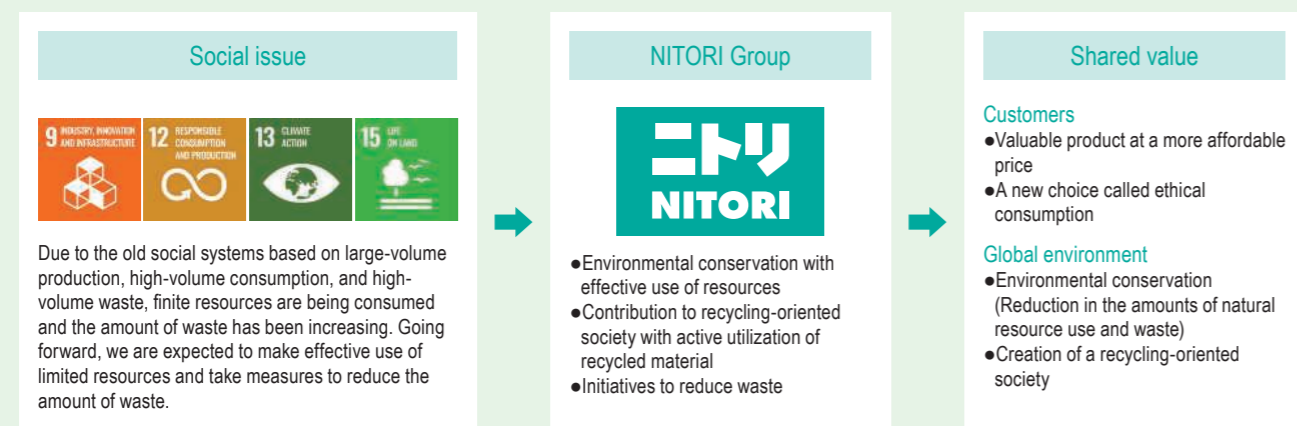
Materiality 1
Contribution to enriched lifestyles by "offering the unexpected"

Materiality 3
Promotion of environmentally conscious business



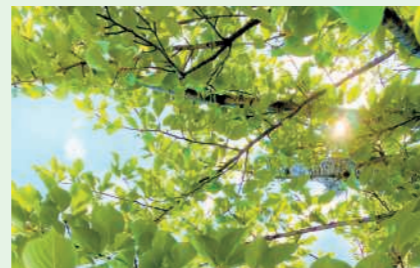
Contribution to environmental preservation and recycling-oriented society with effective use of resources and recycling

Recognition of issues and creation of shared value



Making full use of finite resources, without wasting

We, a company involved in all processes from manufacturing to sales, consider it a corporate responsibility and an important mission to recognize the finite nature of resources, especially timber, and to be conscious of the sustainability of resources. Making full use of resources, without wasting, and promoting recycling are directly linked to reduction in the amounts of resource use and waste in the product life cycle, in addition to lower product prices from cutting manufacturing costs. In addition, we not only ensure comprehensive quality control in the product manufacturing process but also work to protect the environment by preventing and reducing air and water pollution, as well as thoroughly controlling chemical substances.



NITORI's environmentally conscious manufacturing

Under the slogan of "Good for the future. Good for everyone," NITORI Group develops products that are made through environmentally friendly initiatives in each process of manufacturing, transportation, and use, positioning them as "Nitori's ecology." When manufacturing, we use recycled materials and protect finite resources. For transportation, we reduce packing size and cut CO2 emissions. We develop functions that link product use with energy saving. As NITORI Group is involved in all processes from the upstream to the downstream, the Group takes responsibility not only as the seller but also as the manufacturer and sets its own environmental standards. We will continue to expand environmentally friendly products that meet the "Nitori's ecology" standards.

未来にいいこと。
みんなにいいこと。

—— ニトリが取り組む、環境を考えたものづくり ——

- 「つくる」ときにリサイクル材を活用し、限りある資源を守る
- 「はこぶ」ときの梱包サイズを小さくし、排出CO₂を減らす
- 「つかう」ことが省エネルギーにつながる機能を開発する

そうしてできた商品を、手こるな価格でお届けしたい。
ニトリの想いを込めました。

Nitori's ecology
ニトリの環境意識

Examples of NITORI Group's initiatives (linked to SDGs)

Recycling and effective use of resources

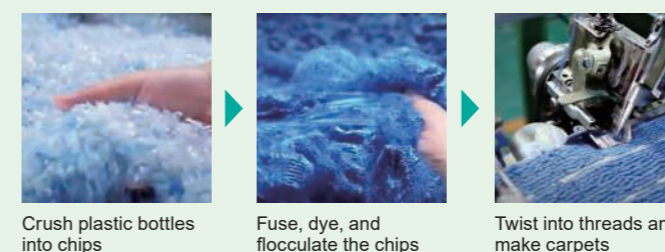
Manufacturing carpets and rugs with recycled plastic bottles



SIAM NITORI, a Group company which runs its own factory in Thailand, is the sole factory using special technology to manufacture carpets and rugs with recycled polyester made from plastic bottles and supplying them to Japan. One carpet approximately 10m² in size, can be made with recycled polyester extracted from approximately a hundred 500ml plastic bottles. The factory recycles approximately 100 million plastic bottles a year. Approximately 3,750,000m² (equivalent to 80 Tokyo Domes) of carpets are manufactured from those plastic bottles. In the manufacturing process, a coloring method that does not produce sewage is adopted. The business is thus conducted in an environmentally conscious manner. This initiative also contributes to reduction in the use of finite resources, such as fossil fuels, because synthetic fiber derived from petroleum, which is typically needed in manufacturing carpets and rugs, is not used. While the use of recycled materials normally increases costs and selling prices, NITORI Group manufactures affordable, high-quality products with its unique technology, implementing radical cost reduction strategies. In the future, we will expand the use of recycled fiber in products other than carpets, and promote initiatives for further reduction in environmental impact toward a creation of a recycling-oriented society.

→Related video: "We make carpets from plastic bottles" (NITORI's official YouTube channel)

Plastic bottle recycling process (Involved in the entire process)



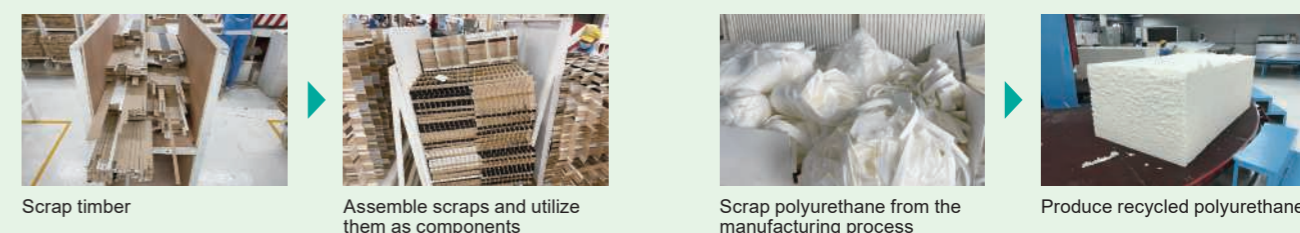
Utilization of recycled materials

Number of recycled plastic bottles at SIAM NITORI (From joining Group in May 2018 to fiscal 2020)	Approx. 300 million
Carpets and rugs shipped in fiscal 2020	Approx. 930 thousand units
Usage volume of recycled polyester in soft goods including those from SIAM NITORI (Fiscal 2020)	Over 12,000t in total
Composition ratio in above virgin materials (%)	31%

Effective use of resources



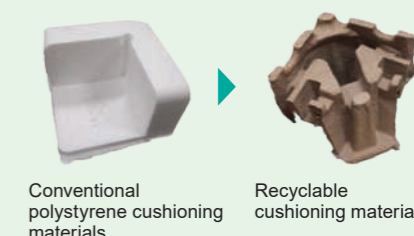
As a manufacturer and seller of a variety of products that use timber and other kinds of natural resources, it is essential for us to reduce the use of those resources and work on cost reduction and environmental conservation. NITORI FURNITURE, an overseas factory that mainly manufactures furniture, recycles almost all scrap timber, which is normally disposed of, and use it as raw materials for products. Also, in polyurethane manufacturing, almost all scraps from the sofa and mattress manufacturing process are recycled, and made into recycled polyurethane. By making full use of limited resources and reducing waste to the minimum, we not only cut raw material costs but also the amount of waste incinerated and contribute to the reduction in CO₂ emissions.



Reducing plastic waste by changing cushioning materials for packaging



Cushioning materials for packaging protect products from impact during transportation and delivery and maintain the quality. By replacing polystyrene (plastic) cushioning materials, used mainly for furniture, with recyclable cushioning materials made from paper, NITORI Group reduced the amount of annual polystyrene (plastic) waste from stores and delivery centers by approximately 78%. This also leads to reduction in plastic waste after purchase.



Materiality 2

Product safety and security through comprehensive quality control

Materiality 3

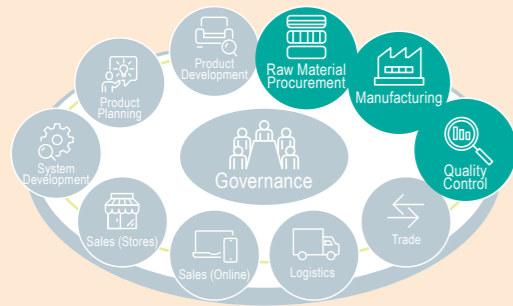
Promotion of environmentally conscious business

Materiality 4

Fair and honest trade and respect for human rights in the supply chain

Materiality 5

Contribution to local communities



Offering safety and security and achieving sustainable growth with suppliers through correct manufacturing and responsible procurement

Recognition of issues and creation of shared value



Pursuing correct manufacturing and responsible procurement

NITORI Group considers affordability, quality, and coordination as the most important factors in manufacturing. Quality means that measures are taken to ensure appropriate functions and product safety, and that products are made through the correct manufacturing process (in terms of sincerity, respect for human rights, compliance, occupational safety, environmental protection, etc.). We aim for sustainable growth throughout the entire supply chain by explaining to and sharing with not only our own factories but also suppliers, who are our partners in achieving the mission, the importance of being environmentally conscious and fulfilling social responsibilities, as well as our ideas to create a culture of product safety.

Initiatives to ensure comprehensive quality control and improve work environment in the Group's own factories

NITORI Group is a manufacturer that has its own factories at one domestic and three overseas locations, where total of over 10,000 employees work. Each factory commits to quality control in the manufacturing process. For example, the factory in Vietnam (NITORI FURNITURE) conducts voluntary audits mainly on quality control, led by an independent local department that specializes in quality control. Employees also participate in "Product Safety and After* Sales Service Reduction Meetings," where employees gather customer's voice to make improvements and reforms, and Nitori World Circle (NWC) activities (NITORI Group's unique small group activities where employees identify issues from everyday tasks and make improvements and reforms). To improve quality and productivity, they carry out tasks every day with high motivation. In addition, departments specialized in factory control monitor occupational safety and attendance, based on NITORI Group's belief that creation and improvement of work environment leads to stable quality. The purpose of their strict checks includes ensuring that there are no risks that may lead to accidents and that employees are taking sufficient break times. Furthermore, free meals are served in the factory cafeterias, and the filling, tasty meals are well received by our employees. Our own factories create employment in local areas and contribute to the development of local communities. The factories' initiatives to ensure comprehensive quality control and improvement of work environment are taken advantage of, as precious know-how, in building partnerships with overseas suppliers.

*Troubles raised by customers



Product check by the quality control division before packing



Our employees enjoying meals at the NITORI FURNITURE cafeteria

Examples of NITORI Group's initiatives (linked to SDGs)

Responsible Procurement

Comprehensive quality control through the United Collaboration System with overseas suppliers



NITORI Group currently does business with approximately 770 overseas suppliers. We not only ensure compliance in relation to suppliers, who are our partners in achieving the mission, but also share with them ideas and management methods to build a culture of product safety. In the following processes, strict standards have been set and PDCA cycles implemented. We establish true partnerships with suppliers and aim for sustainable growth together.

Investigations and contracts / Product development and quality activities

Selection of new suppliers, on-site investigations, and conclusion of contracts

We set our own strict standards, select suppliers after carrying out on-site investigations, and conclude contracts that include quality assurance.

Development Technology Evaluation Meetings

When developing products, we evaluate products based on the Failure, Mode, Effect, Analysis (FMEA) method using the Risk Priority Number (RPN), with the aim of preventing accidents, defects, risk due to misuse, and other problems before they occur.



Development Technology Evaluation Meetings

Checking laws and regulations

We check hazardous substances content, the Household Goods Quality Labeling Act, the Food Sanitation Act, the Electrical Appliances and Materials Safety Act, etc.

Constant plant audits and emergency audits in response to accidents (compliance audits)

Constant plant audits

- To reduce defective products, we check whether the supplier's quality control system meets NITORI Group's requirements based on the Sangen Principle of visiting the actual site, observing the actual parts, products or item, determining the actual situation, and propose improvements. (In fiscal 2020, we proposed improvements 426 times in total.)
- For each incident, an audit is carried out from a wide range of perspectives, including human factors; underlying 5S issues, such as inspection systems, tools, and other arrangements; and response to social issues (child labor and forced labor issues, etc.)



Constant plant audits

Mass production quality check activities

Check before mass production / On-site witness for mass production

- Final check on products that are to be mass produced (specifications, laws and regulations, and quality)
- Supervision of important points in the process
- Share and take measures against defects in the production process
- Check and follow up improvements on issues pointed out



Check before mass production / On-site witness for mass production

Analysis of defective products

- Collect defective products from the market and conduct analysis in the Quality Improvement Meeting (QIM). Determine the cause and countermeasures, and submit an improvement request to the manufacturing factory
- Review the effectiveness of the countermeasures and keep requesting improvement until the quality reaches the required level

Market quality analysis activities

Inspection of incoming products (minor tasks)

- Prevent defective product release into the market by thoroughly inspecting incoming products
- Return products with major defects to containers (Total number of inspections: Approx. 750 thousand)



Inspection of incoming products

Double check various laws and regulations, etc.

To strengthen measures to prevent release of products exceeding guidelines values of hazardous substances (formaldehyde, etc.), install facilities with the function to check the safety of imported products (Two constant temperature and humidity chambers are available to measure the emission amount of formaldehyde at the product stage)



Constant temperature and humidity chamber

Building a culture of product safety



NITORI Group considers it important to build fair, honest, highly transparent, and open relationships with suppliers and grow together. We take thorough measures to prevent "silent change," where changes made by the suppliers in material or parts are not notified to the clients, and make sure that each supplier factory files an application when there is a change to the 4Ms (Man, Machine, Material, Method). We also work to raise suppliers' motivation by sharing product safety information and giving awards in the Overseas Management Policy Briefings and the Annual Awards Ceremony. In addition, product safety and quality meetings are held twice a year. We aim to establish true partnerships with suppliers by signing the NITORI Group's Business Partner Charter and the Fair Trade Declaration, not to mention agreeing on terms and conditions concerning products and quality. Other matters we emphasize in our communication with suppliers include the importance of environmental considerations, respect for human rights, and compliance.

Improvement and reform proposals from suppliers



Every year, NITORI Group holds Nitori World Circle (NWC), which is based on small group activities and aims to identify issues from everyday tasks and make improvements and reforms. In fiscal 2020, a total of 415 teams participated from Japan and overseas, of which 91 teams were from overseas suppliers. The activity topics included quality improvement by involving the secondary supplier, improvement of production efficiency by leveling out process capability, and approaches to defective products that reduce waste rate. In many cases that were presented, suppliers led improvements and reforms.

➡Related topic: p.45



NWC (Held remotely for FY 2020 due to the COVID-19 pandemic)

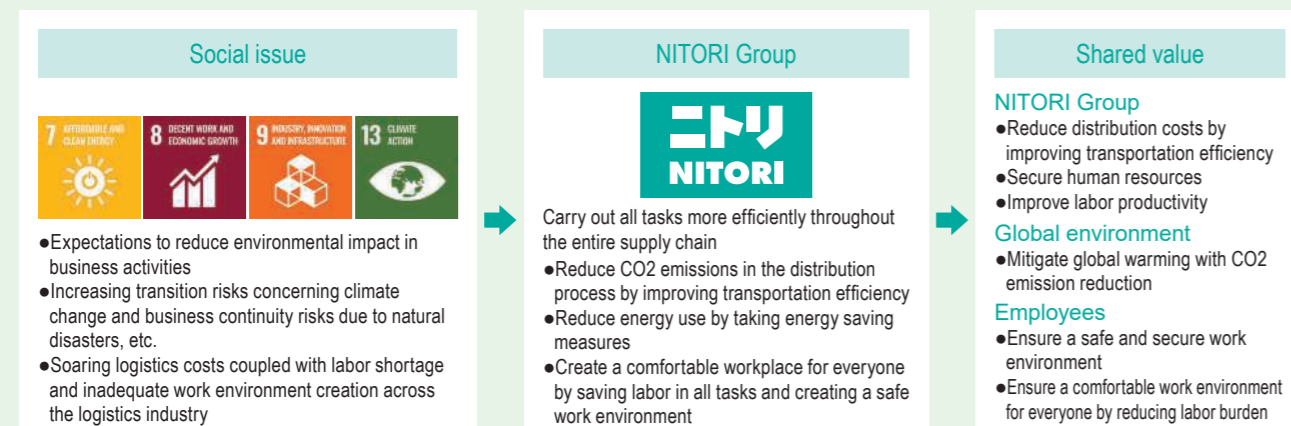
Materiality 3
Promotion of environmentally friendly business

Materiality 6
Creation of rewarding work environment and promotion of diversity



Reduction of CO2 emissions and realization of comfortable workplace by improving business productivity, such as transportation efficiency

Recognition of issues and creation of shared value



NITORI Group's promotion of environmentally friendly business to mitigate climate change

Climate change due to global warming may cause enormous damage to the manufacturing and logistics operations. Abnormal weather, such as heavy rainfalls and large typhoons, has a serious impact on the management resources that are essential for a company to carry out business activities, and its influence extends throughout the entire supply chain. We recognize a range of business continuity risks caused by climate change and strive to improve efficiency and consider total optimization at all stages of our supply chain, thereby reducing CO2 emissions and mitigating the impact of climate change. We also recognize the finite nature of energy essential for our business activities, and work to improve efficiency of and reduce energy use, throughout the entire supply chain.

→Related data: p.60, 61



→Details: Official website of Home

NITORI Group's promotion of environmentally friendly business to mitigate climate change

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Large ceiling fan installed in the distribution center

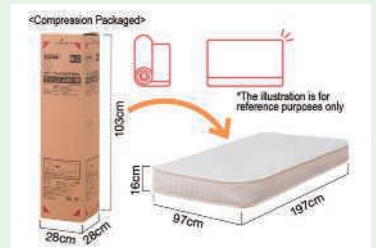
Examples of NITORI Group's initiatives (linked to SDGs)

Environmental impact reduction with enhanced transportation efficiency

CO2 reduction with downsizing of product packaging



By eliminating waste and improving efficiency in all scenes of the distribution process, including trade, transportation, and shipping, we work to achieve environmentally friendly "Green Logistics." We proceed with downsizing of product packaging and expansion of the product composition ratio of assembled furniture to increase the number of products that can be loaded per container and per truck, which leads to reduction of CO2 emissions in the distribution process. For example, compressing the packing size of mattresses to approximately 25% enhances container and truck loading efficiency and reduces the number of containers and trucks necessary for the transportation of products. As a result of the expansion of types of mattresses to which NITORI Group's unique compressing technology is applied, as well as the increase in their unit sales, CO2 emissions in fiscal 2020 decreased by approximately 3,087t. The Group works to create further economic and environmental value by integrating manufacturing and logistics and pursue overall optimization.



→Related topic: p.34

Improvement of work environment and reduction of CO2 emissions with introduction of swap body containers



In recent years, long working hours, as well as driver shortages due to aging population, has been a social issue. We recognize that this as an important business continuity issue for Home Logistics Co., Ltd., which is in charge of NITORI Group's logistics. As a solution to the issue, we introduced swap body containers, which make it possible to separate the truck bed from the body. Warehouse workers, instead of drivers, being able to load and unload trucks has reduced the burden of loading and unloading, which had been the most burdensome part of work for drivers. In addition, the initiative has improved work environments and workstyles by shortening the distance and hours one driver runs continually in long-distance truck transportation. Taking advantage of swap body containers, three companies from different industries launched a joint transportation project, thereby reducing, throughout the domestic logistics business, air transportation and burden on drivers. The project reduced the number of trucks operated by 50%, annual CO2 emissions by approximately 880t, and the time drivers spent on loading and unloading by 12,450 hours annually. In recognition of the achievement, the MLIT Minister's Award was given jointly to the three companies in the Green Logistics Partnership Conference commendation ceremony, held in December 2020.

Optimization of domestic distribution center network



We are planning to set up eight of our own new distribution centers across Japan by 2025. We are expecting to reduce the number of times and the distance products travel between distribution centers and facilitate smooth flow of goods. It contributes not only to speedy delivery of products to customers, but also to reduction in logistics costs, improvement in employee work environment, and reduction in environmental impact (CO2 emissions).



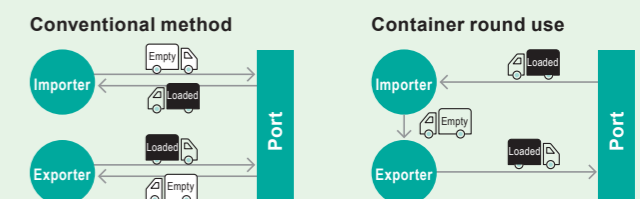
The new distribution center in Ishikari City, Hokkaido, the construction of which started in May 2021

→Related topic: p.24

Expansion of container round use



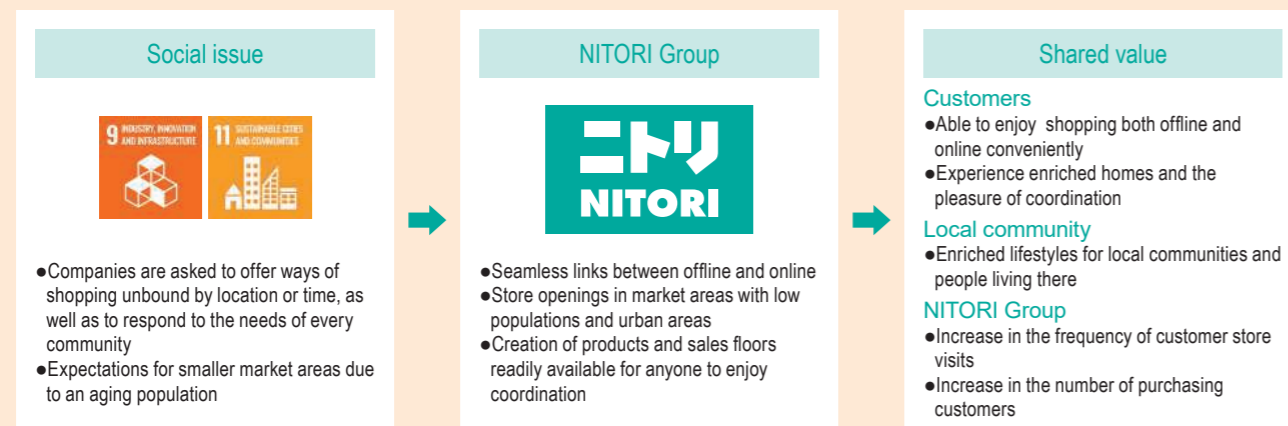
By expanding container round use, which is an initiative to use imported containers after packages are unloaded in exports thereafter, an annual total of more than 3,200 containers were used more effectively throughout fiscal 2020. Through this, the annual volume of CO2 emissions was reduced by 103t.





Contribution to convenient and enjoyable shopping experiences for customers through expansion of store network and promotion of O2O

Recognition of issues and creation of shared value



Examples of NITORI Group's initiatives (linked to SDGs)

Enriching homes for many more people

We aim to make available products necessary for everyday life anytime, anywhere, and for anyone. We consider the increasing number of customers as an indicator of social contribution. The number of domestic and overseas stores totaled 722 as of the end of fiscal 2020. We are opening stores in unconventional places that have market areas with populations of 100 thousand or less, as well as in urban areas, thereby increasing accessibility to brick-and-mortar stores. In the meantime, our e-commerce site NITORI-net proposes more convenient ways to shop by expanding the range of available products and introducing new services, including virtual showrooms, where customers can enjoy 360-degree views of NITORI's coordination. Creation of stores and enhancement of services that are supported by customers resulted in an increase in the number of purchasing customers in the pandemic-struck fiscal 2020 to 112.8% of the number in the previous year. We thus contributed to enriched homes of a larger number of customers. As a destination store in the area (a store where customers can buy everything they are looking for at one place), we will continue to expand the contribution to convenient and enjoyable shopping experience for customers by further expanding our store network and seamlessly linking offline and online.



Virtual showroom

Coordination for everyone

We aim to offer readily available, easy coordination for everyone. Customers can choose products in preferred styles of coordination. A wide range of colors, patterns, and shapes enable anyone to find natural coordination. In addition, customers can enjoy choosing a number of products at affordable prices. NITORI's stores and e-commerce site thus have a lot of elements that can upgrade customers' daily lives. We will continue to be attentive to the precious time customers spend at home.



New Initiatives Following the Expansion of Business Fields

NITORI Group aims to be a company that makes comprehensive lifestyle suggestions, catering to a range of customer lifestyles and offering comprehensive home-related services.

家に価値タスカチタス Offering homes that more people want to purchase and live in



Capital and business alliance with KATITAS Co., Ltd., the No.1 seller in the used home purchase and reselling market

KATITAS has more than 100 local outlets across Japan. The company offers quality homes at low prices by integrating research, purchase, renovation, and sales and taking charge of all processes. With virtual home staging, which introduces computer graphics NITORI furniture to panoramic images that offer easy online viewing experience, we help customers choose homes by adding ambience and a sense of reality. It not only makes it easier for customers to imagine how it would be after moving in but also supports a smooth start after purchasing the house. Facilitating the distribution of used homes offers solutions to vacant houses and other social issues, as well as revitalizes local areas. It also contributes to the reduction in environmental impact. Compared with newly built homes, used homes can reduce CO2 emissions to a quarter and timber use to one seventh. We will keep contributing to sustainable urban planning through the revitalization of the used home market.

Details: KATITAS' ESG Report



*1 Source: "Estimation of CO2 Emission from Construction, Renovation and Demolition of Residential Buildings up to 2050," Table 4 CO2 emissions per floor area, wooden detached house

*2 Source: Forestry Agency, "Current State of Issues of Forest, Forestry, and the Timber Industry (March 2021)" 3. Current State and Issues of the Timber Industry

*3 Source: Standard properties renovated by the company in December 2018

Recycling soil to contribute to society through business



SHIMACHU considers it important that all employees work at their best and contribute to society through business. To work toward the harmonization among society, people, and the environment and the realization of a sustainable society, as well as to be a company trusted by stakeholders, the company engages in business activities that attach importance to sincerity, honesty, and sustainability, not to mention compliance. In addition, SHIMACHU contributes to resolving ESG issues and achieving SDGs in various ways. For example, SHIMACHU collects used soil, fires and sterilizes the soil with dedicated machinery at the manufacturer, and turns it into new, recycled soil. This initiative not only contributes to waste reduction and creation of a recycling-oriented society but also resolves frustrations and inconveniences of customers who wish to grow plants in new soil but do not know how they should dispose of used soil.

*This service is available only for customers who purchased certain products.

Details: SHIMACHU's sustainability

Human Resources Development

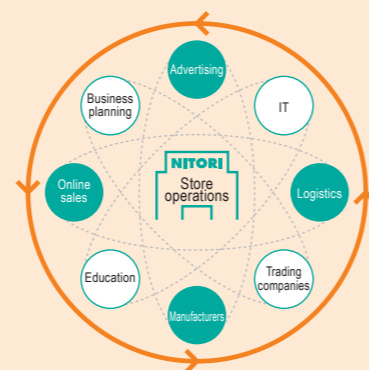
NITORI Group aims to train true specialists who can contribute to society, enhances human resources through transfer-based education that covers an extensive range of fields, and creates an organization with a wealth of elites.

Transfer-based education

NITORI-style specialists build the foundation for sustainable growth



NITORI Group's unique business model that integrates manufacturing, distribution, IT, and retail is supported by specialists who can think comprehensively and create new value. In order to train them, a transfer-based education in which they can experience a variety of occupations every two to three years is essential. It is an education system that forms the foundation of human resource development, designed to provide each employee with a wealth of knowledge and extensive experience. In recent years in which personnel are forced to solve problems that transcend the boundaries of industries and occupations, we require human resources who can apply knowledge on a broad range of fields and combine expertise in several subjects to generate innovation. Through transfer-based education, NITORI Group has increased the number of pillars of expertise each employee has and produced a large number of "NITORI-style specialists" who are able to solve problems from a broad perspective. We continue to aim for sustainable growth by taking advantage of the potential presented by being an organization with a wealth of elites.



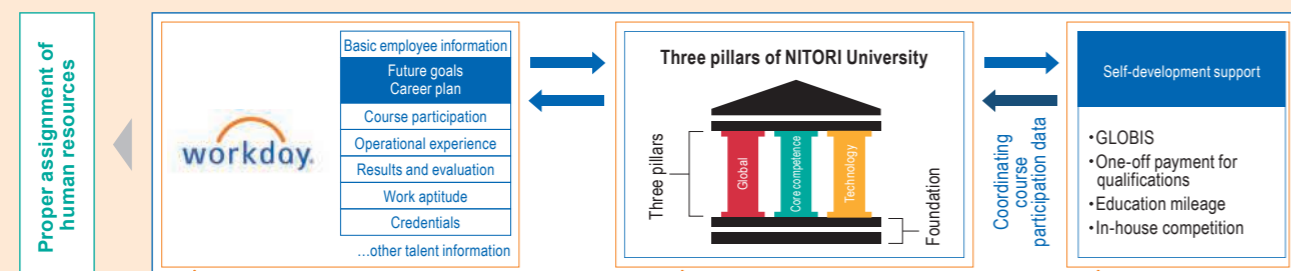
Education system

Development of autonomous human resources that support the future of NITORI Group



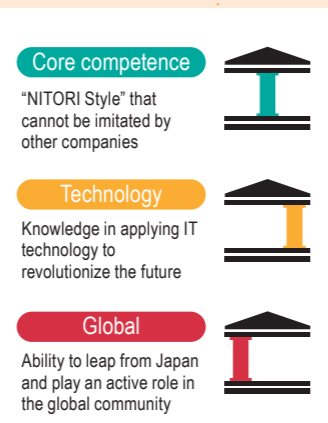
NITORI University, an in-house educational institution, is at the center of NITORI Group's employee education. Placing the idea of "training 'innovation creators' through 'deepening of knowledge' and 'search for knowledge'" as the core, it offers a variety of learning opportunities for our employees.

In "deepening of knowledge," we deepen studies of the philosophy, knowledge, and experience that NITORI Group values. In "search for knowledge," we have prepared curriculums that reflect the latest technology, values, and knowledge of the modern era in order to accommodate the insatiable intellectual curiosity of employees.



Realizing the best assignment for each employee by introducing Workday

NITORI Group employees submit future career plans to the company twice a year, based on social issues they wish to resolve and where they see themselves in 30 years. Such career aspirations of each employee, as well as all other information on them including learning history, backgrounds, and skills, are compiled in Workday, a human resource platform. By taking advantage of technology and centrally managing a large amount of information, we realize the best, optimal assignment for each employee.



Backing up the growth of each employee for the company's growth

As our business fields expand, business skills, such as management theories and digital knowledge, have become increasingly important, in addition to conventional in-house learning centered around the chain store management theory. Since 2019, NITORI Group provides all employees with a long-term plan of Globis' study-all-you-want program. We back up the growth of each employee by creating an environment where they can gain knowledge guided by their intellectual curiosity. In fiscal 2020, a total of approximately 5,000 hours were spent on learning each month, indicating that our employees are increasingly taking advantage of Globis' study-all-you-want program.

Training system

Toward an organization where employees learn from and inspire each other's growth



Seminars in the U.S. is a major training program in NITORI Group, with curriculums prepared for each training stage, from the introductory course in which second-year employees participate, to the selective advanced courses. Approximately 1,200 people attend the seminars each year. The purpose of these long-standing seminars is to experience an "enriched lifestyle" with all five senses and to reaffirm the Company's mission. We visit the U.S., where NITORI Group's mission has its roots, to tour the chain stores that support the lifestyles of the general public and observe the latest initiatives, sales floors, and products, and through the seminars, our employees realize and learn a lot from the experience. In fiscal 2020, all of the seminars in the U.S. were cancelled due to the COVID-19 pandemic. Long-term, ongoing initiatives are essential for human resource development, and to keep offering education, we immediately replaced the seminars with programs that take place in Japan and launched various new training programs.



Leaders' course of seminars in the U.S. in fiscal 2019

Training programs and initiatives that give employees learning opportunities and back up their growth

Job shadowing training

Job shadowing is a form of career education where participants think about their future workstyles and lifestyles by accompanying employees of various companies and organizations, as if they were shadows, and experiencing the work. In fiscal 2020, 70 of our fourth-year employees participated in the program, and 10 departments* accepted the participants. Experiencing the tasks at the headquarters made the participants realize how rewarding and enjoyable the tasks are. In addition, being close to the actual employees helped the participants understand the difficulty and significance of the tasks, which encourages our young employees to draw clearer career plans.



*Merchandizing Division, Organization Development Office, Product Quality Control & Improvement Office, Internal Regulation Office, etc.

NITORI Color Coordination School (NCCS)

NCCS is a one-year in-house program where our employees study interior coordination to be coordination professionals. All of our employees, including part-time employees, are eligible to take the program. Based on the belief that coordination is not about tastes but about rules, participants gain proper knowledge on coordination and apply the knowledge through practical assignments, thereby acquiring skills to propose coordination in response to our customer needs. The program consists of four courses, designed for employees at different skill levels, including the beginner course to gain a basic knowledge and the adviser course teaching how to propose coordination plans based on customer needs. The program constitutes an important education opportunity that helps employees' career building, since taking the NCCS program often leads to a transfer to the Merchandizing Division or the Corporate Sales Business Division.

Introduction of digital signages to our stores

To create a work environment where employees can work with peace of mind and increase the level of employee engagement, we put in a great effort in facilitating communication between the company and our employees. As part of the effort, we installed monitors at each store, which stream the latest information on the company. To increase the amount of knowledge full-time and part-time employees have and the level of their satisfaction, the monitors are installed at locations convenient for the employees to see. We call for information from each department at all times, so that the information that is seen on the screen is always up-to-date and fresh. We hear from our employees that contents such as the new product introduction videos are very helpful.



Global Communication Online at Nitori (GCON)

GCON is an online business conversation program for the enhancement of employees' foreign language skills. We aim to enhance global literacy in the company by equipping employees with the ability to have business conversations expected in actual work at NITORI Group. To ensure that the program is practical, all contents and textbooks are prepared by the HR Education Division from scratch. The program develops human resources who can immediately play an active role on a global stage. Employees with high levels of language proficiency serve as instructors. Twenty-six employees have been instructors so far, and by creating a platform where individuals can take advantage of their skills, we create a culture where our employees learn from and inspire each other's growth.

Training for part-time employees

Part-time employees, who account for approximately 90% of NITORI Group employees, are the important human resources which support the Group. We have various training programs for them, so that they can find their tasks rewarding and contributing to their growth. For instance, we have enhanced online training programs for part-time employees working at stores across Japan. This initiative was led by the Store Operations Division, and the intention was to keep offering education opportunities under the COVID-19 pandemic. Dedicated trainers serve as instructors of the training program, which is offered live instead of via recordings. The program lays emphasis on interactive communication, thereby bringing out the participants' eagerness to learn. The headquarters take charge of all education programs to eliminate the unevenness of quality and opportunity. We thus help all NITORI Group employees work at sales floors with peace of mind, as they feel the joy of growth and find the tasks rewarding.

Examples of the training programs: Education for new employees, how to operate cash registers, knowledge on sofa products, knowledge on curtain products, etc.

Internal commendation system

Systems for fair assessment of results create reforms



We have various internal commendation systems and competitions to increase employee motivation and create innovation. Initiatives and results that are launched and produced by each individual, group, and department are acknowledged and recognized across the company. These commendation systems and competitions not only revitalize the company but also play a significant role in the development of the organization by uncovering hidden abilities and identifying talented human resources.

NITORI Group's internal commendation systems and competitions

President's Award (annual/quarterly)

The award commends groups that achieved cost reduction, profit increase, etc. by making improvements to resolve groupwide or each department's issues. Depending on the details of the initiatives and the scale of the achievement, the groups are given the Gold Prize, Silver Prize, Bronze Prize, or Special Prize and monetary rewards for each prize. Winners are announced in quarterly commendation ceremonies. Annual awards are given at the ceremony held in the management policy briefing, and the results are shared in the company.



FY2020 annual awards: A total of 70 entries/30 awards

Nitori World Circle (NWC)

NWC activities are long-standing initiatives where like-minded employees form a team, identify issues from day-to-day tasks, and promote improvements. This year marked the 15th year since the launch. The activities take place at NITORI Group sites across the world and play an important role as a platform to directly deliver the voice of frontline employees to the management. The team that wins the first prize gets to participate in a seven-day seminar in Vietnam, so many young employees aspiring to grow take part in the activities.



*Seminars in Vietnam for 2020 were cancelled due to the COVID-19 pandemic.

NWC in 2019: 341 entries
NWC in 2020: 415 entries

➔Related topics: p.37, 38

New graduate recruitment

Being close to students and helping them take a step toward their dreams



New graduate recruitment

The recruitment philosophy of NITORI Group is, "Your dream shapes who you are." To support students to think carefully about their purpose for working and their future goals before deciding to join NITORI Group, our third- to sixth-year employees, who work as the recruitment staff, take care of each student and offer support until they make the decision to join the company. In fiscal 2020, we carried out online recruitment activities even under the COVID-19 pandemic. More than 19,000 students attended our briefings in total, and we were able to speak to a large number of students and end the recruitment season without reducing the number of new recruits.

➔Ranked 5th (humanities and social science students) and 13th (natural science students) in the most popular companies among 2022 university graduates, compiled by Mynavi and The Nikkei

Recruitment from overseas

For NITORI Group's global business development, global-minded human resources are essential. In search of human resources who can play an active role on the global stage, we also put in an effort in recruitment from overseas. We used to send our own employees to overseas job fairs to find talent, but such events were cancelled in 2020 due to the COVID-19 pandemic. In the face of the cancellations, we participated in online job fairs and continued with our recruitment activities by directly negotiating with overseas universities and student organizations. In addition, we actively participate in events at universities specializing in foreign languages to recruit global-minded human resources in Japan.

Internship

NITORI Group's internship program aims for "zero stranded job-hunting students." The purpose of the program is to help students face job hunting in a positive mindset, by letting them think about their purpose of working, as well as learn how to self-analyze themselves and analyze different companies. In fiscal 2020, 29,000 students participated in NITORI Group's internship program. We hope to offer a program useful as a first step of students' job hunting.

➔Ranked 1st in companies that offer best internship programs for 2022 graduates, compiled by Rakuten Minshu



President Shirai attending an online briefing

Work Environment

NITORI Group strives to ensure workplace safety and aims for a comfortable work environment where all our employees work in good health.

Health management creates the future



At NITORI Group, we believe that the physical and mental health of each and every employee is essential to the growth of our company, and we are actively working to maintain and improve the health of employees and their families. In 2013, we instated the Company's exclusive NITORI health insurance society, and in 2016, established the Health Management Declaration. We work with our labor union and health insurance society to achieve our Group mission and vision and ensure that all employees fulfill their potential. Our efforts resulted in the accreditation in the Certified Health and Productivity Management Organization Recognition Program (White 500) for the fifth time in 2021.



NITORI Group's key initiatives

Measures to prevent harassment

- Establishment of rules to prevent harassment
- Introduction of various helplines, development of a self-reporting system
- Creation of content for personnel management
- Practical communication training for managers



Wellness promotion

- Health education program in in-house training
- Education to prevent mental illnesses, creation and distribution of books for self-care
- Created our own women's health booklets in collaboration with six companies in different industries and the health insurance society. Distributed them to approximately 7,100 female employees.



Health improvement events

- Health checkup challenge
- Walking campaign in which teams compete against each other

Personnel management

- Personnel management seminars by external lecturers (four times a year)
- Distribution of video learning content concerning personnel management

Diversity

NITORI Group respects human rights of each and every employee and harmonizes all workplace communication to maintain diversity.

Creation of a culture that respects diversity and an environment where each person can shine

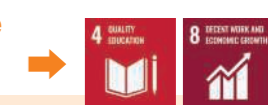


NITORI Group promotes diversity and inclusion. We consider that fostering a corporate culture where employees in different circumstances and with different backgrounds, in terms of marriage, childbirth, childcare, nursing care, nationality, sexual orientation, etc., acknowledge and respect each other creates an empowered work environment and leads to the company's growth. In particular, we are focusing on supporting women's active roles. For example, we have been holding career support seminars since 2014 to encourage women to fully demonstrate their individual ability in carrying out their tasks. Female employees of all ages and positions participate in each of these seminars, where they discuss work-life balance and career plans, as well as exchange opinions on their workstyles. Issues raised in these seminars often lead to suggestions to the company and shape future policies. We aim to pay attention to employees' voice and be a company where each female employee enjoy their work.



Career support seminars

Balancing work and private life is the key to improved productivity



We have been enhancing systems that give employees diverse workstyle options, in accordance with their personal circumstances including marriage, childbirth, childcare, nursing care, and illness. To create a culture that facilitates the use of the systems, we distribute guidebooks to all employees to provide an overview of systems that support work-life balance and how to use them, and hold seminars for managers.

We believe that enhancing the lives of employees can improve work performance, and aim to be a family-friendly company for both employees and their families. A half-day paid leave system was introduced in 2016, and a work interval system in 2017. To reduce overtime hours, we take a firm stance against unpaid overtime. Employees whose overtime hours constantly exceed 30 hours per month, as well as their managers, are notified by the Human Resources & Labor Division. If the monthly overtime hours exceed 45 hours, an improvement plan needs to be submitted to the management. We thus promote the reduction of overtime hours across the company.

To accompany the change in workstyles, we also introduced a work-at-home system geared toward employees who work shorter hours to improve work productivity from 2016, and the telework system from 2018. These ongoing initiatives have been recognized, and we won the first prize in the 5th White Company Award.



Local Contribution Activities

Aiming to become a company that people will feel in need of, we implement a wide variety of local contribution activities, with particular focus on “personal development,” “measures against disasters” and “environmental support,” to give back to all of the countries, local communities, and society members that nurture and support NITORI Group.

Development of “Future IT Human Resources”



NITORI Holdings concluded a partnership agreement with Sapporo City and Hokkaido University in July 2019 for the development of “Future IT Human Resources”, who can leverage the power of digital technology and data to resolve local issues and create a society of the future. Hokkaido joined the partnership in March 2021 to expand and strengthen the initiative throughout the prefecture. The four dedicated parties are working together to roll out human resource development for each level of education, including elementary, junior high school, high school, university and graduate school students. “NITORI Future Society Design Course,” established in Hokkaido University, invites public applications for research using data and assignments provided by NITORI, as well as conducts cutting-edge research that make use of actual stores. Research outcomes are published in journals and presented in academic conferences, constituting practical human resource development initiatives. We are promoting initiatives so that Hokkaido, the place where NITORI was founded, will generate many talented people who will forge the future, and so that those people will generate vitality throughout the entire community by playing an active role in the region, and moreover become a bridge to the world.



Disaster mitigation project and disaster assistance

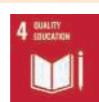


As a social infrastructure company that deals with household items, NITORI Group consider it its mission to promptly deliver necessary products to customers in affected areas, when natural disasters occur. Based on multilateral analyses of issues found at the time of past disasters, we implement the “Future Disaster Mitigation Project,” which builds expertise to resume store operations in affected areas in the shortest possible time and simultaneously creates systems to supply products that are in high demand after disasters. The aim is to help customers restore their daily lives as soon as possible. When actual natural disasters, such as earthquakes and heavy rainfall, strike in various locations, the entire Group joins forces to procure and deliver emergency relief supplies to shelters and temporary housing at the request of the government and local municipalities. We will continue to offer assistance as necessary, both in Japan and overseas.



→ Past disaster assistance: NITORI Holdings website

NITORI International Scholarship Foundation



NITORI's founder, Akio Nitori, donated his private funds to establish the NITORI International Scholarship Foundation in March 2005, hoping to give something back to people in the Asian countries, who have lent a tremendous support to the achievement of NITORI Group's mission. To expand friendship and support human resource development around the world, the foundation offers benefit-type scholarships and has supported a total of 7,040 students from 43 countries and regions. In addition, social events and study group sessions are held to provide opportunities for scholarship students from different countries and of different ages to interact with each other. These are precious opportunities where each scholarship student grows by finding inspiration from guests' and other alumni's advice and peers' speeches. We will continue to expand the circle of support in various ways, both in Japan and overseas.



→Details: Official website of NITORI International Scholarship Foundation

NITORI Culture Foundation



The NITORI Culture Foundation was founded in April 2011, to support the development and succession of culture, arts, and tradition and to be a bridge for the formation of a new culture. Taking up joint projects with NITORI, the foundation has supported activities that are for the public benefit and expected to contribute to local communities, as well as tree planting activities (supported the planting of a cumulative total of over 5 million trees). In October 2020, the foundation took over OTARU ART BASE, a collection of museums in Otaru City, Hokkaido that had been managed by NITORI, and started its management as a non-profit activity (the gallery attracted over 250 thousand visitors in fiscal 2019). Working with the foundation, we will promote and expand activities to contribute to tourism development, as well as to protect and use cultural resources such as historic structures and wonderful works of art.

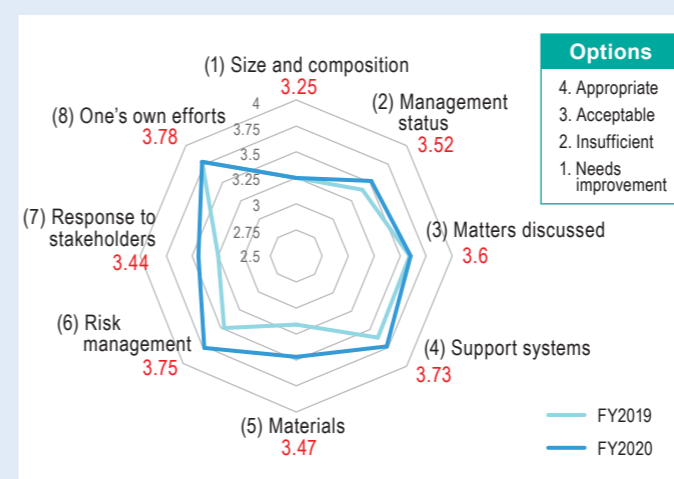


*In May 2021, a plan to promote cultural tourism in the Otaru Canal district, the center of which is OTARU ART BASE, was authorized as a project subsidized by the Agency for Cultural Affairs.

Corporate Governance

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' effectiveness evaluation



- Options**
- 4. Appropriate
 - 3. Acceptable
 - 2. Insufficient
 - 1. Needs improvement

In analyzing and evaluating the effectiveness of fiscal 2020 Board of Directors, we confirmed the status of improvements and progress of the issues identified in the effectiveness evaluation conducted in the previous fiscal year. Based on the questionnaire-style evaluation given by each Director, individual interviews were conducted. The results were discussed by the Board of Directors to improve its functions.

Evaluation categories of the questionnaire

- (1) Size and composition of the Board of Directors
- (2) Management status of the Board of Directors
- (3) Matters discussed by the Board of Directors
- (4) Support systems for the Board of Directors
- (5) Materials for the Board of Directors meetings
- (6) Risk management
- (7) Response to stakeholders
- (8) One's own efforts

Initiatives in fiscal 2020



Priority issues for fiscal 2021 Board of Directors



Based on the results of the effectiveness evaluation, we interviewed our outside directors about the current state and the future of the Board of Directors.

Discussion with Outside Directors 1 (Non-Audit and Supervisory Committee Members)



We held a conversation with three outside directors who are non-Audit and Supervisory Committee Members: Mr. Sadayuki Sakakibara, Mr. Yoshihiko Miyauchi, and Ms. Naoko Yoshizawa (newly appointed). The themes discussed included the distinguishing characteristics of the NITORI Group's Board of Directors and the sustainable growth of the NITORI Group. The conversation was led by Kenichiro Aoya, Executive Officer and General Manager of the Legal Office.

*To avoid spreading COVID-19, those present wore face masks during the discussion and removed their masks only to have their photographs taken.

Enhancing the Effectiveness of the Board of Directors

Could you tell us what you regard as the distinguishing characteristics of the Company's Board of Directors, having attended its meetings?

Sakakibara: It's been exactly two years since I assumed the position of outside director. During that time, the outward characteristic that struck me most was that NITORI Group's Board of Directors is an extremely objective and progressive. The percentage of members who are independent outside directors is over 40%, and as the skills matrix shows, the mix of outside directors' skills is extremely well-balanced. In terms of the way meetings are run too, the outside directors lead a lively exchange of opinions, and for that reason, I feel that it really is a Board of Directors in the true sense. The board chairperson, Akio Nitori, is an owner-manager, but he always listens to the outside directors' opinions and comments and reflects them in his business management faithfully and with a sense of urgency. I feel that this is a distinguishing characteristic lacking in other companies managed by their founders. As outside directors are in the position of monitoring the executive directors, I try to comment from the perspective of shareholders and society at large. I can see that the executive directors take our comments very seriously, and instigate actions and improvements accordingly. When I first assumed this position, numerous detailed business execution-related matters would be selected for discussion by the Board of Directors, but recently, matters relating to management strategy and business

strategy have become the main topics of discussion. I have a real sense that this Board of Directors has evolved into a forum that can engage in enthusiastic discussion while emphasizing a strategic approach, considering practical management strategy from a long-term perspective, and incorporating the shareholder perspective.

Miyauchi: In my case, a year has passed since I became an outside director, so I am now in my second year. To address the question from a corporate governance perspective, I believe that the essential purpose of governance is to help a company continue generating value over the medium to long term. The responsibility for generating value lies with the executive directors, and it's the role of the Board of Directors to monitor whether they are on the right track toward their purpose and goals. That being the case, my own focus is on monitoring from an external perspective as a representative of the market. In fact, the Company's Board of Directors is moving in the right direction faster than I imagined it would. It may still be developing in some respects, but in light of my own experiences as an outside director at more than ten companies, I think the Company's Board of Directors is on course to be top class, so to speak. I've also been extremely impressed by how the Board's chairperson, Akio Nitori, who is also the Company's founder, listens with humility to the outside directors' opinions, and in no time at all, carefully considers them and incorporates them into the business. Mr. Sakakibara and I both have experience of running companies ourselves, and in our view

the Company's Board of Directors is making progress in discussing major themes such as management strategy and we're looking forward to future discussions.

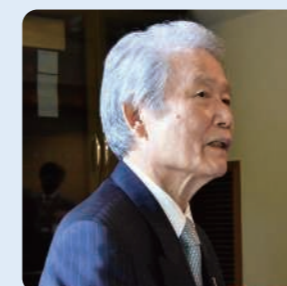
Yoshizawa: This is the first time I've ever been a member of the Board of Directors at a listed company. I've learned a great deal personally from attending the Company's Board meetings. At other companies' Board meetings that I experienced in Japan, there was often very little opportunity to discuss business strategy. On the other hand, my impression is that Board meetings at venture companies overseas are very strategic and discussions are guided by the directors' skills, drawing on their various perspectives as specialist professionals. To be honest, before attending the meetings of the Company's Board of Directors, I thought the atmosphere might be similar to the first group of companies I'd experienced, but once I attended meetings here, I gained the definite impression that this Board belongs to the second group. I'm very impressed by how the Board of Directors discusses strategy properly.

At the shareholders' meeting two female directors were appointed. Could you tell us what changes you're expecting with the addition of a female perspective?

Sakakibara: I regard the addition of two female directors as a major reform. With women's participation, the atmosphere at Board meetings will change completely and both the content and quality of comments will naturally differ from before, especially as opinions from a new perspective are voiced. And when you consider that, in the case of consumer goods such as the products the Company handles, the authority for purchasing decisions often lies with women, a management strategy focused on women's perspective is indispensable. In terms of diversity too, we could perhaps add another female member. And I also think it would be a good idea to have non-Japanese directors in future from a diversity standpoint.

Miyauchi: I think of diversity as meaning variety. But it's not a case of a woman speaking on behalf of women or a man speaking on behalf of men. What will be important as the next step, I think, will be to avoid categorizing people in terms of separate genders or nationalities in the name of "diversity," and instead, to ensure that people with an array of different backgrounds and skills can bring variety into debates.

Could you tell us what perspectives you yourselves adopt when commenting or expressing opinions at Board meetings?



Sadayuki Sakakibara
Outside Director, NITORI Group

Sakakibara: As I mentioned earlier, I monitor and comment from the perspective of shareholders and society at large. There are three generations of outside director arrangements: Generation 1.0, Generation 2.0, and Generation 3.0. The

Generation 1.0 arrangement was what we might call an extension of relationships between friends. Generation 2.0 could be described as an arrangement whereby outside directors keep corporate governance and compliance in mind as they monitor management. I think Japan is currently in Generation 2.0, and Generation 3.0 is an arrangement whereby, in addition to the role outside directors play in Generation 2.0, they not only advise on management strategy, but also become involved in its formulation. Based on my own experience of running a company, my comments are intended to enable discussion of management strategy from a Generation 3.0 perspective. As an outside director, I try to probe deeply, primarily as a means of helping to formulate better management strategy.

Miyauchi: I think the current executive directors are a great team: they're extremely passionate about their work, they work quickly, and they thoroughly understand the relevant issues. It's important that this continues to be the case. And this is the perspective from which I intend to approach monitoring.

Have there been any occasions when you felt that your comments at a Board meeting changed the result of a discussion, or led to improvements in how duties are executed or how the Board of Directors is run?

Sakakibara: Although the Company's Board of Directors is still developing, I think it has evolved significantly even in just these last two years. The opinions of outside directors including myself are taken seriously; for example, the suggestion that we should allow more time to discuss medium- to long-term strategy was properly addressed. I feel that the executive directors are very quick to act.

Miyauchi: When the outside directors offer their opinions, the executive directors give those opinions serious thought and come up with plans. Even if the plans don't come to fruition, the outside directors have fulfilled their duty by expressing their opinions. When I give my opinions to the Company's executive directors, I feel confident that they will always seriously discuss the issues I raise. From that point of view, I feel that my role as an outside director at the Company is meaningful.

Achieving Sustainable Growth and Enhancing Corporate Value for the Company

Could you tell us the potential issues to be aware of when implementing digital transformation (DX) in NITORI Group over the medium to long term?

Sakakibara: DX has become a key shared concept, not only throughout Japan, but throughout the entire world. Yet, it seems to me that many companies in Japan are taking an over-simplistic approach by directly equating DX to IT. IT and AI are merely tools; the real objective lies elsewhere. That's to reform businesses and operations. In addition to reforming the Company's actual businesses for the DX era, therefore, we will also need to reform all the operations that make up each business, including store operations and the product mix. I think we should treat DX as our actual management strategy and create a specialized internal



Yoshihiko Miyauchi
Outside Director, NITORI Group

organization to promote it. This organization should not only develop the physical infrastructure necessary for DX, but should also deliberate on how to create a new NITORI Group, drawing on the opinions of the outside directors.

Miyauchi: We should think about how DX could be

incorporated into, or combined with, the Company's main business model. Effective use of DX might enable us to change NITORI Group's business formats in positive ways. However, doing so will require human resources with the business management skills to determine the changes to be made; I therefore think we should develop such human resources.

Yoshizawa: I believe there are three hurdles to overcome in implementing DX. The first is the "ideas hurdle," the second is the "investment decision hurdle," and the third is the "execution hurdle." I myself often talk to companies about DX, and the most common cause of failure for DX initiatives is the poor quality of the initial ideas on which they're based. The first requirement when implementing DX is usually to conduct a POC (Proof of Concept), but POCs generally achieve only a 20% success rate. Or it might be even less than that. Accordingly, the reality is that, unless a DX-related idea proves to be at least five times more successful than usual at the POC stage, it won't be a worthwhile investment. So, the number of high-quality ideas that can be generated at the beginning is important. The next most common pattern of failure is an inability to get others involved. Within a company, individual people and departments have their own differing opinions and aims. But, when implementing DX, it's essential for the entire company to proceed based on a shared understanding. DX is a business reform aimed at providing added value to customers. As it entails creating an organization and corporate culture that can provide added value continuously, I believe it's necessary to involve the entire company. And next we come to the third pattern of failure, which is employing low-quality solutions to issues. For example, if one takes a tools-based approach to dealing with a certain issue, and decides from the start to solve the issue using AI, that mindset is in itself misguided. AI is just a means to an end; there are many other factors and choices to be considered when solving an issue. Failing to think about those other elements is a mistake. The keys to avoiding failures such as these are commitment to DX on the part of the management, and a shared understanding among employees. And, when coming up with ideas, it's important to ensure diversity by, for instance, introducing a variety of opinions from outside the company. This is because people inside a company sometimes regard things as normal when they're actually not.

Could you tell us how the sustainable growth of NITORI Group should be combined and balanced with ESG and SDGs?

Sakakibara: In the last year or two, ESG and SDGs have come to be recognized as the top priority in business management worldwide. However, instead of undertaking related initiatives for nebulous reasons, as in the past, we should engage with ESG and SDGs as key issues for the company, acknowledging that our business depends on doing so to remain viable. Amid major worldwide trends including efforts to achieve net-zero carbon emissions by 2050, and to address human rights issues, NITORI Group cannot survive as an enterprise unless it sets out its policy and priorities. At this very moment we're at a fork in the road, and as a company it will be crucial to have guiding principles.

Miyauchi: I too sense rapid change. With regard to assessments by organizations such as ESG assessment bodies, for the time being I think we have no choice but to aim for just a "pass mark," but in future we must earn better assessments in a way that is workable from a business perspective. This is because corporate activities are set to come under increasing pressure from outside, both socially and politically. In future, we should aim to be among the top companies that lead the way in terms of ESG and SDGs, as well as in other areas. I see this as the path we must follow.

Yoshizawa: Given that shareholders provide the capital that funds sustainable growth, I think it's essential to focus action on the issues that are currently of greatest concern among institutional investors and other shareholders—namely, the environment, and climate change in particular. As the Company's Integrated Report shows, its initiatives to tackle environmental issues have made great progress. However, when business expands, distribution centers and stores, for example, increase, and this results in a vast number of route permutations. It may therefore become impossible to improve the efficiency of distribution routes from within the existing system. For that reason, NITORI Group always needs to be taking action focused on the next step ahead, such as considering new technologies now.

Could you tell us your thoughts regarding the challenges of globalization?

Sakakibara: My perception is that the Company's global business development is still far from adequate. Growth in the Group's global business will be crucial to achieve its mission and vision, but simply persisting with the current way of doing things won't be enough. In terms of the organization, for instance, the Group should create an internal organization dedicated exclusively to global business development. Overseas strategy is a specialist field that requires sophisticated skills; an organization and overseas



Naoko Yoshizawa
Outside Director, NITORI Group
(newly appointed)

operating sites need to be put in place to focus on this strategic area. There can be no doubt that overseas expansion is challenging. Accordingly, I believe that, rather than trying to control overseas operations from Japan, it's only once human resources totally committed to a certain country are living and working there that the first signs of success will emerge. The Company has only just made it to the start line in terms of global business development. I think it should develop specialist human resources who can formulate overseas strategy, and undertake upfront investment, while holding more discussions including exchanges of opinions with outside directors.

Miyauchi: It's fantastic that the entire company is heading in the same direction, guided by a vision for the next ten years. Looking back at the Company's business model to date, it hasn't branched out into new products or services, but has instead concentrated on its original furniture and home fashion businesses as a means of building a wide network of stores and achieving success. And now that it's become a leading company in the domestic arena, the Company's taken on the ambitious task of trying to do two difficult things at the same time: enter the markets for new formats and services, and advance into new geographical areas overseas. Both of these endeavors require knowledge, but if the Company is to make progress on these fronts, what it lacks above all are human resources. The Company needs to engage in serious, probing discussions to determine how to develop the human resources that will be central to its plans. The fact is that it's trying to do something unprecedented that no other retail or services business has ever done. Japan boasts numerous outstanding retail and services businesses, but few of them have been successful outside this country. So, I'm really looking forward to seeing the Company make inroads overseas according to the NITORI Way, and my expectations are high. That's another reason for the Company to hold repeated discussions as a matter of urgency and put its plans into action.

Yoshizawa: In my own experience, growth in the size of overseas operating sites gives rise to the issue of how to ensure effective governance over them. It's important to delegate certain aspects of governance to local operating sites that fully understand their own markets, but in cases where it's necessary for the NITORI Group

as a whole to move in a single direction globally, this issue becomes very difficult to deal with. To cite some specific examples, the Company needs to consider how to implement employee appraisals and management accounting. It will be important to design systems that take local approaches into account. Meanwhile, another issue is, of course, human resources. A company can't just start managing overseas operations overnight if experience hasn't been accumulated well in advance. I'm well aware that the Company's investing effort in developing human resources, but it's important to tackle the issue of how to cultivate individuals capable of management suited to different countries and regions from a young age.

Could you tell us your thoughts on further strengthening the Company's corporate governance?

Sakakibara: An important role of the Board of Directors is choosing the next generation of senior managers. In fact, one could even say that taking the lead in the replacement of senior management is another one of our key functions as outside directors. The Company has set up a discretionary Nominating and Compensation Committee, so the Board of Directors needs to be kept fully informed of the types of discussions that take place at this committee. I also believe that key issues and strategies shouldn't be discussed only at meetings of the Board of Directors. I think it would be a good idea to also have something like a separate discussion forum made up entirely of outside directors.

Miyauchi: The Company shouldn't aim merely to be a corporate governance high-flier by Japanese standards, within the framework of the Japanese Companies Act; it should aim to lead the way overseas as well. And surely it should also consider the future possibility of changing its corporate governance structure to become a Company with a Nominating Committee, etc. Progress is being made in delegating business execution-related matters to the executive directors, but I also think it would be great if we could create a setup whereby even more authority for reporting, such as monthly reporting, is delegated to executive directors to enable more dynamic discussion of medium- to long-term topics.



Discussion with Outside Directors 2 (Audit and Supervisory Committee Members)



We held a discussion with three outside directors who are Audit and Supervisory Committee Members: Mr. Takaharu Ando, Mr. Kazuhiro Suzuki, and Mr. Tsuneyoshi Tatsuoka. The themes discussed included evaluation of the effectiveness of NITORI Group's Board of Directors and the sustainable growth of the NITORI Group. The conversation was led by Kenichiro Aoya, Executive Officer and General Manager of the Legal Office.

*To avoid spreading COVID-19, those present wore face masks during the discussion and removed their masks only to have their photographs taken.

Enhancing the Effectiveness of the Board of Directors

In evaluating the effectiveness of the Company's Board of Directors, we have aimed to delegate a greater number of decisions on business execution-related matters to the executive directors, while shifting the matters to be discussed by the Board of Directors to medium- to long-term strategy. Could you tell us if you feel that this has been successful, and if you think that the themes to be addressed as agenda items by the Board of Directors are appropriate?

Ando: My impression is that increased delegation to the executive directors and the shift toward discussion of medium- to long-term strategy are progressing incrementally; I think things are heading in the right direction. As one point to be aware of, however, I'd suggest that minor changes or issues that occur at stores or other frontline locations sometimes presage larger medium- to long-term issues, so I feel that, rather than narrowing down the number of themes too much, I'd like such frontline changes or issues to be addressed as a theme within the discussion of medium- to long-term strategy as well. And I'd like us to keep that perspective in mind in future.

Suzuki: I feel that increased delegation to the executive directors has brought about a shift from discussion of detailed matters to discussion of medium- to long-term themes.

Tatsuoka: I have the impression that we've steadily transitioned from "management-style" discussion of individual store openings and similar matters to "monitoring-style" discussion of cross-cutting issues. Looking ahead, as the Company works toward achieving its targets for 2032, there's a limit to what can be achieved simply through organic growth of the furniture and Hfa businesses. I therefore think it will be necessary to discuss medium- to long-term strategy, taking into account changes in the operating environment.

Could you tell us which themes you think should be addressed as agenda items (or should be extended in scope) going forward?

Ando: Overseas regions such as the U.S. and Eastern Asia are far ahead of Japan in terms of integrating online and offline services, and even within Japan itself the barriers to entering other business spheres or industries are lower than they were previously. What's more, companies trying out a variety of different formats have appeared, so there is more competition. In such circumstances, I think that Board of Directors meetings should include descriptions of the latest trends among progressive retail businesses in Japan and overseas, and discuss the theme of potential risks to the Company as a result of taking no countermeasures. And, with regard to SHIMACHU CO., LTD., which became a member of NITORI Group, the theme of how the two companies should merge and generate synergies over the mid to long term should be incorporated into discussions.

Suzuki: We need to discuss the course the Company should take in developing its business in order to achieve its mission and vision. I believe that, in addition to discussing the Company's existing formats, we need to discuss its entry into the new formats of apparel, including the business of N Plus Co., Ltd., and restaurants, in the form of the NITORI Dining business. We also need to talk about business development overseas, and in particular the course to be followed when expanding business elsewhere in Asia, including the ASEAN nations.

Tatsuoka: I believe there are four themes that should be discussed within a larger framework. The first is overseas strategy. NITORI

(CHINA) HOLDINGS CO., LTD. is in the process of moving on from the current situation, in which it purposely decelerated store openings and paused for a while. In light of what's been learned there, we should discuss the Company's future strategy for other regions as well. The second theme is strengthening existing formats and expanding business areas. In this regard, we should discuss how to approach new business areas such as SHIMACHU CO., LTD.'s home center business and the apparel business of N Plus Co., Ltd., while leveraging the Company's strengths. The third theme requiring discussion is digital transformation (DX). Pursuing more seamless O2O is essential as the next phase for the Company, so we need to discuss what type of measures should be taken to ensure proper CRM (Customer Relationship Management) as a means of enhancing customer satisfaction. The fourth theme is financial strategy; I think that, as the Company undertakes M&A and major investments, it will be necessary to discuss medium- to long-term cash flow.

At the shareholders' meeting two female directors were appointed. Could you tell us how you think the Board of Directors will change with the addition of a female perspective?

Ando: Precisely because women account for a large proportion of the Company's customer demographic, I have high expectations that adding a female perspective to the management of the business and hearing their opinions during Board discussions will have a positive effect. What's more, the fact that we now have a female inside director (Hiromi Abiko), will serve as encouragement to many female employees.

Suzuki: The appointment of a female employee who started her career at the Company as an inside director is a very significant development. I think it will raise motivation for the Company's female employees. And, as the Company's products comprise numerous household items including furniture, I think that opinions from a female perspective represented in meetings of the Board of Directors certainly will have a positive effect. Not only does Ms. Abiko's appointment increase diversity, I also think it's an appropriate appointment in terms of contributing to the Company's strategy with regard to business formats.

Tatsuoka: In addition to benefitting from the perspective of the Company's female customer base, as pointed out by my two colleagues, I expect the Board of Directors' discussions to be enlivened by the addition of the younger generation's perspective. Looking ahead to potential changes in the post-coronavirus world,



Takaharu Ando
Outside Director and Audit and Supervisory Committee Member, NITORI Group

this younger generation (the generation closest to the Company's customer base) will be highly attuned to shifts in consumer preferences. Newly appointed inside director, Ms. Hiromi Abiko is highly insightful and perceptive with regard to human resources development, training, and coordination, while outside

director, Ms. Naoko Yoshizawa offers the same degree of insight and perceptiveness with regard to DX and IT. I therefore expect that these two directors will not only provide a female perspective, but will also bring their respective specialist skills into play.

Could you tell us what perspectives you yourselves adopt when commenting or expressing opinions at Board meetings?

Ando: The first perspective I adopt is that of consumers. I'm always trying to ascertain whether the Company is managing to provide products that enable a large number of customers to experience enriched homes. My criterion is whether the Company is continuously providing products that offer new forms of appeal, and when I have time, I go to look at competitors' stores to find out what they are doing with new formats. My second perspective is whether the Company can continue growing into the future, so I'm checking that the Company isn't relying too much on its past successes and showing reluctance to reform. The third is crisis management. Obviously, this involves commenting from a crisis-management perspective when a scandal or something similar occurs, but it also involves constantly thinking about risk across all aspects of corporate management and looking ahead to the future to offer comments intended to prevent risks arising from issues that have not yet become apparent.

Suzuki: I believe the Company's lineup of directors is diverse, and I have a high opinion of the Board of Directors, which holds lively discussions and is highly effective. Each individual director provides objective opinions based on his or her own experience and perspectives, and I myself intend to express my opinions from a compliance and governance perspective. The Company is managed by its founder and chairperson, Akio Nitori, and it's his charisma that's enabled it to continue growing. This could potentially create an atmosphere that makes it difficult for inside directors to express disagreement freely. In such circumstances, it's crucial that outside directors can speak freely, and I myself am doing so. In fact, the atmosphere is such that everyone can fully express their opinions to the chairperson as well, and I therefore feel that this is a genuinely effective Board of Directors.

Tatsuoka: As my own distinguishing characteristic within the Board of Directors is my experience of working at an economics-related governmental ministry, my contributions to discussions are informed by my past involvement with matters including structural changes in the Japanese economy and industry, corporate governance reform, issues relating to energy and the environment, and trade policy including geopolitical issues relating to Eastern Asian countries. At the same time, I believe that the key to continuously enhancing corporate value—the most important mission for directors—is sustainability. To describe sustainability in my own words, it would be "the capacity to always continue being regarded as essential by consumers, even when the external environment is changing dramatically." I make a point of constantly keeping this perspective in mind. During discussions, I strive for a combination of understanding and vigilance. In addition to trying to fully comprehend the Company's corporate culture and its unique



Kazuhiro Suzuki
Outside Director and Audit and Supervisory Committee Member, NITORI Group

business model integrating manufacturing, distribution, IT, and retail, I pay attention when my own common sense makes me feel uncomfortable about certain matters or developments. I approach my role with the attitude that it's important to maintain a balance between deepening my understanding of the Company and retaining

a degree of vigilance with regard to its management.

Achieving Sustainable Growth and Enhancing Corporate Value for the Company

Could you tell us your thoughts regarding the risks associated with globalization and entry into markets overseas?

Ando: In addition to the time it takes for forays into overseas markets to turn a profit, companies are reluctant to waste the investments they've already made, so many find it difficult to withdraw. To avoid that from happening, I think it would be better to decide in advance the timing for reviews of Company's policies on withdrawing or temporarily pausing. The Company should also make strategic preparations to develop human resources who can work effectively in the global arena, in line with its future plans for entering new markets. And another important thing is to conduct exhaustive local marketing in advance.

Suzuki: Although the Company still has scope for growth within Japan, future expansion overseas is unavoidable, and I believe that making inroads in Eastern Asia and the ASEAN nations is particularly important. In Eastern Asia, the Company already has experience of opening stores, so it has accumulated know-how, but in new regions such as the ASEAN nations and Europe, where it hasn't yet opened any stores, it will be important to take full stock of local circumstances, and work out how to deal with them. Such circumstances could include internal affairs, politics and economics, living conditions, and feelings toward Japan. The Company should then devise comprehensive plans for entering each market, including development of distribution networks and IT infrastructure. For example, the key to accelerating store openings in Eastern Asia is human resources development targeting middle-ranking executives, and when opening stores in Europe and the ASEAN nations, it will be difficult to achieve adequate results without first establishing a system for educating human resources, which should include identifying the skills required and developing local employees. When doing business with local suppliers as well, I think the Company needs to gather information about the conditions in each country or region, whilst also taking the SDGs into account.

Tatsuoka: When expanding overseas, alongside discussing the policy regarding which regions should be targeted, it's also necessary to consider how to build the Company's brand image

and corporate identity. As long as the Company stays within Asia, it may be enough to simply stick with the current way of doing things, but entry into the European and U.S. markets, where values differ significantly, will necessitate discussion. In addition, standardization and sharing of products leads to increased efficiency, but preferences and markets differ from one region to another, so localization will also be required to some extent. Therefore, it will be necessary to find the right balance between standardization and localization through trial and error. Meanwhile, as everybody's pointing out, the biggest issue is human resources. In particular, as we learned through the Company's experience in Eastern Asia, when embarking on a phase of accelerated store openings, a system is required to prevent a mismatch between the capabilities of the human resources and the store opening plans. And, when expanding into new regions, it's important to have the necessary operating foundation, including standardized infrastructure for IT and operations, so a proper strategy needs to be worked out alongside opening stores. When developing supply chains in each region, it's important to ensure their resilience in light of the risks in each country and region. The Company must make arrangements to monitor supply chains' sensitivity to geopolitical risks and situations systematically and continuously.

Could you tell us your thoughts on creating empowered work environments and promoting diversity from the ESG and SDG perspectives?

Ando: To create empowered work environments, the Company needs to implement tangible measures, such as expanding telework by pursuing DX and creating an environment in which employees can use satellite offices, although in essence it's the intangible aspect—people—that's more important. I think that further enhancing the education provided to executives to cultivate respected individuals who can raise the morale of their teams will do more to empower employees than providing the right physical environment.

Suzuki: I feel that ESG and SDGs related initiatives initially had a strong air of being responses to external pressure from Europe and the U.S., rather than being something inherently Japanese. Recently, however, the idea that it's normal for companies to engage with ESG and SDGs has become more prevalent. Awareness of ESG and SDGs has grown at the Company too: for instance, it established the Sustainable Development Goals Promotion Office as a new department to play a role within the wider society as a means of contributing as a company. To produce results, however, it's necessary for not only senior management, but all employees, to be ESG and SDGs aware. Moving on to the issue of creating empowered workplaces, the Company's employment of a very large number of part-time



Tsuneyoshi Tatsuoka
Outside Director and Audit and Supervisory Committee Member, NITORI Group

employees requires it to think about their terms of employment and ensure that those terms have been set properly. I think it's important to conduct accurate employee surveys to establish whether part-time employees really do feel empowered, and to follow up by bringing any issues to light and resolving them.

Tatsuoka: Ultimately, the Company's greatest asset is its people. What's struck me about the Company's corporate culture is its ethos of striving to achieve targets—even those that appear ambitious—by starting with the target itself and backcasting from there to identify the required actions. I've realized that this ethos is not just empty words, but an approach that has permeated through to every single employee. Meanwhile, the Company, for its part, appears to value its human resources because it invests a considerable amount in people, including sending them to seminars in the U.S. On the issue of creating empowered environments, I believe that employees can maintain their motivation and work energetically if they experience three feelings simultaneously. These are: (1) the feeling of achieving self-fulfillment and personal growth, (2) the feeling of being connected to the Company's business performance and growth, and (3) the feeling of being connected to social contribution by providing enriched lifestyles to people around the world. As the underlying infrastructure is already in place, including the corporate culture and provision for training, I think the Company should seek to make further progress in this regard. Moving on to diversity, it seems to me that the point is not to hold discussions within formalized frames of reference defined by gender and nationality. Instead, surely, what changes the status quo and leads to innovation is the process whereby contact between human beings of various types triggers a chemical reaction. As implied by the saying "two heads are better than one," it's important for people with a variety of attributes and backgrounds to come into contact and react against each other. The Company already appears to have the foundations of a corporate culture that allows employees to constantly interact and produce an effect that was not expected and clash over their approaches, so it just needs to do more to cultivate this culture.

Could you tell us your thoughts on further strengthening the Company's corporate governance?

Ando: I have a high opinion of the Company's Board of Directors, which holds very lively discussions, even in comparison with other

companies. To strengthen corporate governance even more, I'd like the standard of the documents provided to the Board of Directors to be further improved. Discussions would be enlivened by eliminating differences in the standard of documents produced by individual departments and concisely summarizing issues for discussion in terms of where they arose, their background, how they were handled, and the efficacy of the measures taken. With regard to important topics for discussion, when there are matters over which opinions are divided at the Internal Board of Directors (the body that deliberates on matters for discussion prior to meetings of the Board of Directors), if the points of contention could be clearly set out for the Board of Directors, the decision-making process up until that point would be easier to understand. Meanwhile, from a risk management perspective, if reports could be made to the Board of Directors not only after incidents have occurred, but whenever there are risks, or signs of risk, relating to any aspect of the company's management over the mid to long term, I think such risks could be averted by receiving useful opinions and comments from outside directors with abundant experience in a wide array of fields.

Suzuki: The documents provided to the Board of Directors have improved, and the volume of documents is now at the right level, but I would like even more to be done in this regard. As Mr. Ando said, it's probably necessary to share information about the process of internal decision-making, such as the points of contention when there's disagreement at the Internal Board of Directors. And I'd suggest that topics discussed at Audit and Supervisory Committee meetings should also be reported to the Board of Directors, although not necessarily every time.

Tatsuoka: While it's a plus that the skills and perspectives offered by the directors are becoming more diverse, I also see a need to review how deliberations are conducted in future so that discussions don't lose focus as a result of the increased number of Board members compared with a few years ago. For complicated matters, it would be advisable to provide fuller explanations prior to Board meetings, reducing the time spent explaining agenda items during meetings as much as possible, to ensure more time to engage in actual discussion. In order to maximize the benefits of greater diversity, I think we need to avoid running meetings the same way we've always done, and instead embrace further reforms.



Directors (As of May 13, 2021)

Directors

 Akio Nitori Representative Director & Chairperson (CEO)	 Toshiyuki Shirai Representative Director & President (COO)	 Fumihiko Sudo Director, Executive Officer & Vice President
 Fumiaki Matsumoto Director, Executive Officer & Vice President	 Masanori Takeda Director General Manager of Global Merchandising Division General Manager of Global Sales Promotion Office In charge of Overseas Sales Business	 Hiromi Abiko Director General Manager of HR Education Division
 Takaaki Okano Director	 Takao Kubo Director Member of Audit & Supervisory Committee (Full-time)	

Independent Outside Directors

 Sadayuki Sakakibara Director * Independent Outside Director	 Yoshihiko Miyauchi Director * Independent Outside Director	 Naoko Yoshizawa Director * Independent Outside Director
 Takaharu Ando Director * Independent Outside Director Member of Audit & Supervisory Committee	 Kazuhiro Suzuki Director * Independent Outside Director Member of Audit & Supervisory Committee	 Tsuneyoshi Tatsuoka Director * Independent Outside Director Member of Audit & Supervisory Committee

Executive Officers

Executive Vice Presidents Fumihiko Sudo / Fumiaki Matsumoto	Senior Executive Officers Naoshi Takei / Manabu Nakamura / Hiroshi Nagai / Kazuyuki Hashimoto / Isao Arai / Tsuyoshi Okamura / Junichi Yoshima	Executive Officers Akio Igarashi / Hidetoshi Kobayashi / Tadashi Kudo / Soichi Oda / Eri Ablet / Hiroki Murabayashi / Kunihiko Takahashi / Yoshihisa Sato / Nobuyuki Tomii / Toshinao Matsushima / Ei Sugiura / Harumi Sawai / Akihiro Kushida / Kenichiro Aoya / Shigeyuki Kushida / Koichiro Oshima / Tadahiro Hosokawa / Kazuya Orimoto
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The Aspirations of Newly Appointed Directors

 Hiromi Abiko Director General Manager of HR Education Division	 Takaaki Okano Director	 Naoko Yoshizawa Director * Independent Outside Director
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I am very pleased to have recently assumed the position of director at NITORI Holdings. For more than 30 years I have been involved in the development of coordinated products, as well as in creating systems for delivering coordination-related education and in-house training on chain store theory. Over the past five years I have been working within the field of coordinated product development on product branding, and I served as manager of the Planning Group Merchandising Division. This year, I was appointed as president of NITORI University and general manager of the HR Education Division. I intend to apply my knowledge and experience to the human resources development field in order to promote education that enables employees to become who they want to be, and to put NITORI's excellent corporate culture (the NITORI Way) into words as a means to educate employees. I will dedicate myself as a member of the Board of Directors to enable the Company to enhance its corporate value sustainably. I look forward to serving the Company.

I am very pleased to have recently assumed the position of director at NITORI Holdings. For the past 18 years I have worked in furniture and home improvement retail. During the last seven years I was a director at SHIMACHU responsible for the administrative divisions of Human Resources and General Affairs and following a stint as general manager of the Sales Division, I served as representative director. I intend to apply my knowledge and experience to promote NITORI Group's comprehensive lifestyle suggestions, including those in the home improvement field. I will dedicate myself as a member of the Board of Directors to enable the Company to enhance its corporate value sustainably. I look forward to serving the Company.

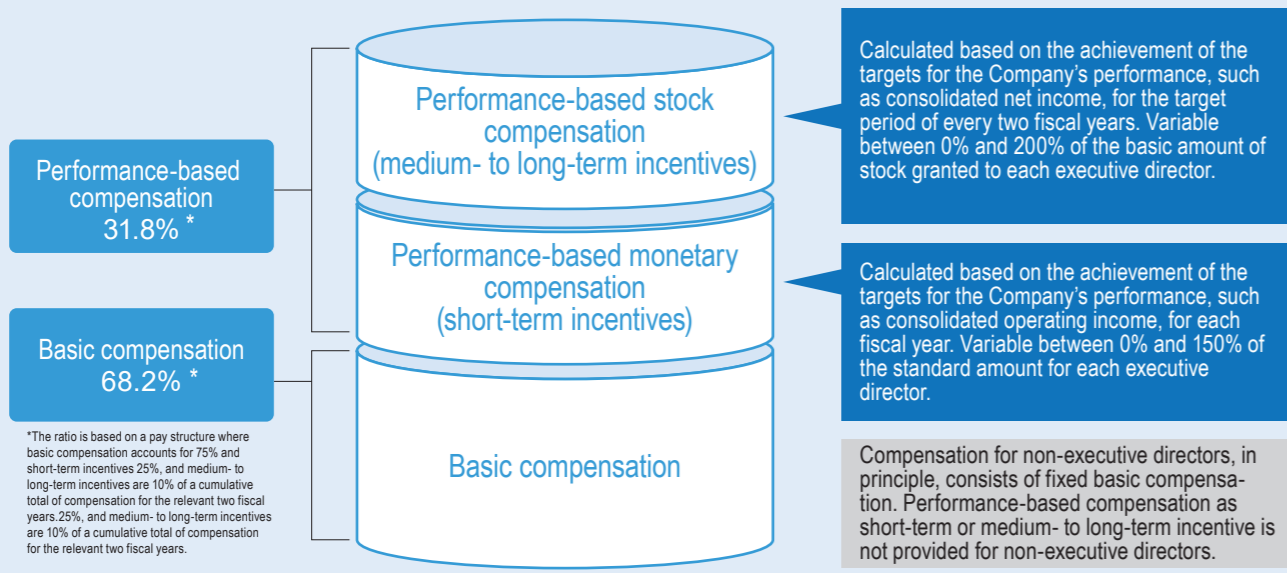
I am very pleased to have recently assumed the position of outside director at NITORI Holdings. For more than 30 years I have worked on projects with IT vendors inside and outside Japan in fields including development of databases, cell phones, smartphones and AI business. During the past few years in particular, I have challenged myself to broaden my horizons by starting up a new IT business overseas and providing advisory services to venture companies in Japan, among other endeavors. I intend to apply my knowledge and experience to help make digital transformation a reality at NITORI Group. I will dedicate myself as a member of the Board of Directors to enable the Company to enhance its corporate value sustainably. I look forward to serving the Company.

Skills Matrix

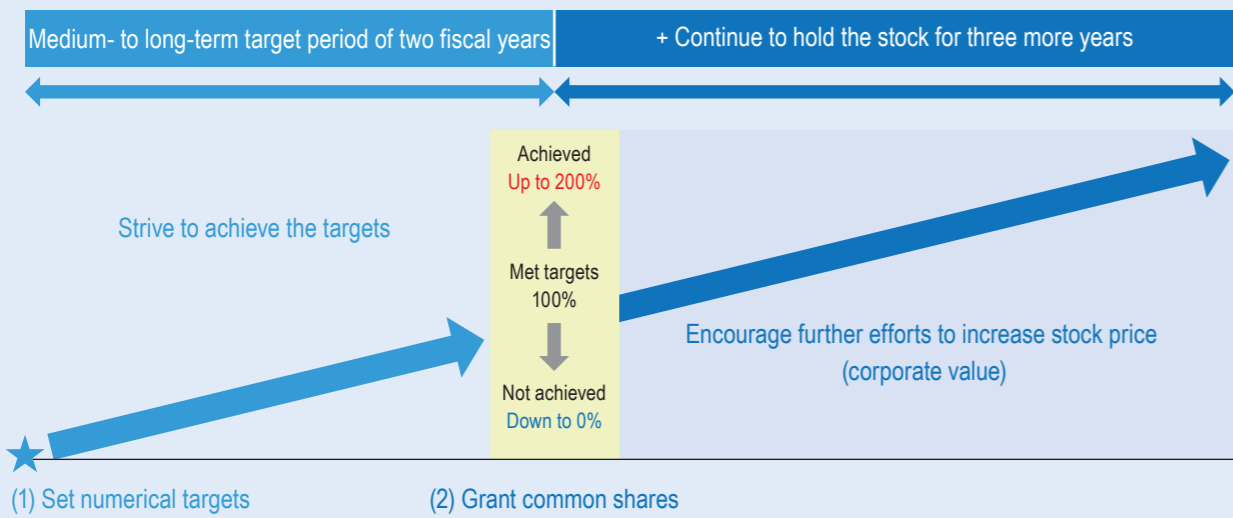
Of the skills, etc. held by each Director, maximum of seven main skills are marked with ●.

		Knowledge and experience the Company expects of Directors															
Name	Title	Independent	Nominating and Compensation Committee	Corporate Management Strategy	Product Development Coordination	Production Quality Control	Logistics & Trading Procurement	IT & Information Communications	Sales Planning Strategizing Policy	Macroeconomic & International Situation	Overseas Business Strategy	Rejecting Status Quo Changes & Challenges	Organization & HR Development	Legal Affairs Risk Management	Finance & Accounting Taxation	Internal Control Governance	Sustainability SIGs
Akio Nitori	Representative Director & Chairperson (CEO)		● (Chairperson)	●	●				●		●	●	●			●	
Toshiyuki Shirai	Representative Director & President (COO)		●	●	●		●	●				●	●				●
Fumihiko Sudo	Director, Executive Officer & Vice President			●	●			●	●			●					●
Fumiaki Matsumoto	Director, Executive Officer & Vice President			●		●	●	●			●	●					
Masanori Takeda	Director			●	●	●	●		●		●	●					
Hiromi Abiko	Director				●	●						●	●				●
Takaaki Okano	Director			●					●				●				
Sadayuki Sakakibara	Outside Director	●		●		●		●		●	●					●	●
Yoshihiko Miyauchi	Outside Director	●		●			●	●		●	●					●	●
Naoko Yoshizawa	Outside Director	●		●				●			●						
Takao Kubo	Director, Full-time Member of Audit & Supervisory Committee			●					●			●			●	●	
Takaharu Ando	Outside Director, Member of Audit & Supervisory Committee (Chairperson)	●	●							●			●	●		●	●
Kazuhiro Suzuki	Outside Director, Member of Audit & Supervisory Committee	●	●										●	●		●	●
Tsuneyoshi Tatsuoka	Outside Director, Member of Audit & Supervisory Committee	●	●					●		●				●	●	●	●

Executive compensation system



Performance-based stock compensation system



Performance Share Unit

To strengthen the link between the compensation structure and medium- to long-term increase in corporate value, the Company has adopted a performance-based compensation system (Performance Share Unit) in which compensation is provided in accordance with the achievement of medium- to long-term performance targets.

Restrictions on transfer after delivery

To promote medium- to long-term profit sharing with shareholders, the Company's shareholding guidelines set forth that a three-year restriction shall be imposed on the transfer of stock granted as performance-based stock compensation.

Clawback provisions

The Company's shareholding guidelines set forth that the Company may request an eligible director to **return the incentives (clawback)** if misconduct or illegal conduct causes a material breach regarding financial reports.

Materiality 1 Contribution to enriched lifestyles by "offering the unexpected"

NITORI Group places the highest priority on resolving customers' frustrations and inconveniences, and continues to pursue what is useful, always from the perspective of our customers. Taking advantage of our business model that integrates manufacturing, distribution, IT, and retail, we will not only maintain affordability and appropriate quality but also offer products and services that live up to the concept of "offering the unexpected," allowing everyone to enjoy coordination. As we work to be conducive to customers' convenience and comfortable lives through those products and services, we hope to further contribute to enriched lives of customers by creating and providing unprecedented, new value that also leads to solutions to environmental and social issues.

Materiality 2 Product safety and security through comprehensive quality control

NITORI Group always has the customer's perspective and recognizes its social responsibility to contribute to safe and secure lives of customers, not to mention offering products with stable quality at affordable prices. We work to improve quality and ensure safety at all times, so that customers can use our products safely and with peace of mind.

Materiality 3 Promotion of environmentally conscious business

To prevent its business expansion from increasing environmental impact not only within the Company but also throughout the entire supply chain including suppliers, NITORI Group strives to be environmentally conscious at all times by saving resources and energy. In addition, we aim to promote initiatives that conserve and improve the environment through business and to contribute to the creation of a better environment.

Response to climate change

We recognize a range of risks caused by the impact of climate change, and by taking advantage of our unique business model, work to optimize all stages of our supply chain to improve efficiency and the level of optimization. We thereby reduce CO2 emissions and mitigate the impact of climate change. Going forward, we will work to disclose information in accordance with the Task Force on Climate-related Financial Disclosures (TCFD).

Effective use of resources

As a company that manufactures and sells a wide range of products from large furniture to fabric products (bedding, curtains, etc.), hard products using metal and plastic, and accessories (tableware, etc.), we regard it our corporate responsibility and an important mission to recognize the finite nature of resources, especially timber, and address the sustainability of resources. We strive to reduce the amounts of resource use and waste in the product life cycle by making full use of resources, without wasting, and promoting recycling through effective use of recycled materials.

Energy use

We recognize the finite nature of energy essential for our business activities, and by taking advantage of our unique business model, work to improve efficiency of and reduce energy use throughout the entire supply chain. In addition, we contribute to the reduction of energy use in customers' everyday lives by developing and selling environmentally friendly functional products.

Prevention of air and water pollution

Both our own factories and suppliers not only ensure comprehensive quality control in the product manufacturing process but also work to protect the environment by preventing and reducing air and water pollution, as well as thoroughly controlling chemical substances.

CO2 emissions from NITORI Group's domestic operations

Greenhouse gas emissions from domestic operations calculated based on the Basic Guidelines on Accounting for Greenhouse Gas Emissions Throughout the Supply Chain

Domestic operations: Stores (NITORI, Deco Home), Head Office (Sapporo Head Office (including Nitori Asabu store), Tokyo Headquarters (including Nitori Akabane store)), and distribution bases (distribution centers, sales offices)

CO2 emissions from domestic operations		FY2018	FY2019	FY2020 ^{*3}
Scope 1 (t-CO2e)				
Total		50,605	50,192	57,567
Direct emissions from the use of gas, kerosene, and diesel oil (Amount of energy (gas, kerosene, and gasoline) use) × (CO2 emissions unit by type of energy)	Stores	49,341	48,807	56,294
	Head Office, etc.	665	757	676
	Distribution bases	599	628	597
Scope 2 (t-CO2e)*1				
Total		107,651	101,858	110,336
Indirect emissions from electricity use (Amount of electricity use (kWh)) × (Emission factors by electricity supplier)	Stores	93,581	87,854	95,432
	Head Office, etc.	3,232	3,241	3,144
	Distribution bases	10,838	10,763	11,760
Total of CO2 emissions associated with energy use*2		158,256	152,051	167,903
CO2 emissions per 100 million yen of net sales in Japan		34.5	29.6	29.4

*1 Scope 2 emissions were calculated by multiplying CO2 emissions from electricity purchased from other companies by emission factors by electricity supplier (emission factors after adjustment), based on the Global Warming Countermeasures Act.

*2 CO2 emissions associated with energy use represents the total of Scopes 1 and 2.

*3 Energy use in summer and winter temporarily increased for FY2020 to maintain a comfortable room temperature while ventilating the stores to prevent COVID-19 infection.

Energy use (gas, kerosene, gasoline, diesel oil, and electricity) in NITORI Group's domestic operations

Energy use in domestic operations		FY2018	FY2019	FY2020*
Gas use (m3)	Total	10,798,550	10,425,022	14,614,443
	Stores	10,407,555	10,083,236	14,258,976
	Head Office, etc.	220,929	182,575	203,780
	Distribution bases	170,066	159,211	151,687
Gas use per 100 million yen of net sales in Japan (m3)		2,357	2,075	2,120
Use of kerosene, gasoline, and diesel oil (ℓ)	Total	612,514	616,443	571,443
	Stores	493,570	491,646	436,212
	Head Office, etc.	19,276	20,952	32,514
	Distribution bases	99,668	103,845	102,717
Use of kerosene, gasoline, and diesel oil per 100 million yen of net sales in Japan (ℓ)		134	120	100
Electricity use (kWh)	Total	223,576,423	227,178,208	248,878,442
	Stores	194,765,535	196,247,241	215,045,734
	Head Office, etc.	6,505,895	6,912,682	6,807,994
	Distribution bases	22,304,993	24,018,285	27,024,714
Electricity use per 100 million yen of net sales in Japan (kWh)		48,805	44,293	43,510

Past initiatives to reduce CO2 emissions and energy use at domestic sites

FY2013: Introduced LED lighting for new stores. Started replacing lighting of existing stores with LED lighting and reducing electricity use by demand control.

FY2015: Completed the introduction of LED lighting at four distribution centers.

FY2018: Introduced smaller company cars for stores (energy saving by improving safety, fuel efficiency, and store operation)

*Energy use in summer and winter temporarily increased for FY2020 to maintain a comfortable room temperature while ventilating the stores to prevent COVID-19 infection.

Amount of waste from NITORI Group's domestic operations

Amount of waste disposed of from domestic operations		FY2018	FY2019	FY2020
Amount of waste (t)	Total	85,099	88,823	90,028
	Plastic	4,945	5,248	5,119
	Polystyrene	605	522	350
	Cardboard*	39,720	40,835	42,648
	General waste, etc.	39,829	42,218	41,911
Amount of waste per 100 million yen of net sales in Japan (t)		18.6	17.3	15.7

Past initiatives to reduce the amount of waste at domestic sites

FY2013: Reduced the use of packaging materials by downsizing product packaging.

FY2017: Reduced the use of polystyrene by changing product packaging materials.

FY2020: Used stretch film, left after transportation, was recycled into garbage bags by a subcontractor and utilized at some of our sites.

*We recycle cardboard into secondary materials in collaboration with subcontractors.

Materiality 4 Fair and honest trade and respect for human rights in the supply chain

Affordability, quality, and coordination are considered most important in NITORI Group's manufacturing. Quality means that thorough measures are taken to ensure, from the customer's perspective, appropriate functions and product safety, and that products are made through the correct manufacturing process (in terms of sincerity, respect for human rights, compliance, occupational safety, environmental protection, etc.). We ask suppliers, who are our partners in achieving the mission, to not only comply with laws and regulations but also establish what we consider as true partnerships with us. Together, we will achieve sustainable growth throughout the entire supply chain.

True partnership

(1) A relationship where both sides learn about the latest topics, including those relevant to corporate management, share the knowledge and work hard together.

(2) A fair, honest, highly transparent, and open relationship where both sides can engage in active exchange of opinions.

(3) A relationship where both sides share not only ideas and management methods for the creation of a culture of product safety but also the importance of fulfilling social responsibilities, such as being environmentally conscious*1, respecting human rights*2, and maintaining an appropriate work environment*3 and grow together to achieve the mission. To share such information, we conclude contracts that comply with our "Basic Entrustment Contract for Product Manufacturing" and "Quality Assurance Manual."

*1 Being environmentally conscious in accordance with NITORI Group's Environmental Policy

*2 Prohibition of forced labor, child labor, and discrimination, etc.

*3 Preventing overwork, ensuring more leave than statutory requirements, paying statutory minimum wage, ensuring workplace safety, maintaining a comfortable workplace environment where employees work in good health, etc.

Suppliers' rights to organize

We respect basic rights, including the right to establish a labor union, and strive to resolve issues through consultation and dialogue.

➔**Related link: Business Partner Charter (NITORI Holdings website)**

Materiality 5 Contribution to local communities

NITORI Group takes action to be indispensable to local customers by contributing to local communities as a mission of chain stores, such as ensuring stable supply of affordable products essential in daily life, creating local employment, and being environmentally conscious.

Materiality 6 Creation of a rewarding work environment and promotion of diversity

NITORI Group aims to train true specialists who can contribute to society, enhances human resources through transfer-based education that covers an extensive range of business fields, and creates an organization with a wealth of elites. In addition, we aim for a comfortable workplace environment where all Group employees feel empowered and respect each other's personalities. To this end, we strive to respect human rights (prohibit forced labor, child labor, and discrimination, etc.) and maintain an appropriate work environment (prevent overwork, ensure more leave than statutory requirements, pay statutory minimum wage, ensure workplace safety, create a comfortable workplace environment where employees work in good health, etc.).

Anti-discrimination

NITORI Group respects basic human rights and diversity of all people concerned and neither engages in nor encourages any discriminatory evaluation or human rights violations based on race, ethnicity, skin color, faith, religion, sexual orientation, gender, pregnancy, nationality, social status, age, birthplace, lineage, mental or physical disability, military service record, or other characteristics protected by laws and regulations or rules of each country and region.

Employees' freedom of association and right to collective bargaining

In accordance with international standards, NITORI Group respects employees' basic rights, including freedom of association and right to collective bargaining.

Personnel Data

Employee data		FY2018	FY2019	FY2020
Number of full-time employees		4,688	4,965	5,300
Percentage of women (%)		27.2	31.8	29.5
Number of employees		31,031	33,055	34,564
Percentage of women (%)		63.1	63.4	64.1
Type	Regular employment	4,688	4,965	5,300
	Non-regular employment	26,343	28,090	29,264

Global human resources strategy

	FY2018	FY2019	FY2020	
Number of participants in U.S. seminars	1,169	1,134	-	
Gender	Male	740	728	-
	Female	429	406	-

*Cancelled for fiscal 2020 due to the COVID-19 pandemic

Training Hours Data

	FY2020
Total training hours	59,124

*Calculated by multiplying training hours per session by the number of times training sessions were held

Diversity & Inclusion

	FY2018	FY2019	FY2020	
Childcare leave, childcare leave for partners	139	152	152	
Shorter working hours (pregnancy, childcare, nursing care)	145	144	190	
Nursing care leave	8	10	7	
Percentage of paid leave taken (%)	85.1	87.5	84.3	
Average overtime hours (hours per month)	20.4	16.7	16.2	
Women in management positions	Percentage (%)	12.8	13.4	13.7
	Number	286	305	344
New graduate women hired	Percentage (%)	42.2	47.8	45.1
	Number	227	277	233
Percentage of employment of persons with disabilities (%)	2.52	2.85	2.7	

*Total numerical values of NITORI Holdings, NITORI, Home Logistics, Nitori Facility, and N+

Materiality 7 Effective corporate governance

To achieve its grand mission and vision, NITORI Group works to respond to requests from all people involved in the Group's business activities, builds trust-based relationships with them, enhances compliance systems, and aims for mutual prosperity.

Trust-based relationship

Shareholders and investor relations: To meet the expectations and trust of our shareholders and investors, we aim for stable growth and increase in corporate value. We will strive to promote understanding about corporate management and business activities through appropriate investor relations activities. Furthermore, our Board of Outside Directors will actively exercise its monitoring function for sound management. In addition to fulfilling statutory requirements for the disclosure of company information, we will actively publish accurate information in a way easy to understand to familiarize people with NITORI Group.

Business partners

In rolling out our global sales strategy with the support of customers, we always maintain equal relationships with all business partners and strive for fair trade, thereby building relationships based on mutual trust and working together as trusted partners for the business development on both sides.

Local communities and next generations

We not only comply with local laws in all countries and regions around the world but also respect local customs and cultures to gain trust. As the world faces a range of social issues, including those concerning health, healthcare, food, the environment and climate change, energy, safety, disaster prevention, and equality between people and genders, we strive for sustainable economic growth and resolution of social issues to achieve SDGs as a member of international society.

• We take action to be indispensable to local customers by contributing to local communities as a mission of chain stores, such as creating local employment and being environmentally conscious.

• The environment, as well as local cultures and customs, will be taken into consideration in global business development. We thus contribute to each country and region's development.

• We will achieve our corporate philosophy of enriching homes around the world, while not only complying with laws of each country and region but also taking into consideration the environment, local cultures and customs, and the benefit of all people involved in NITORI Group's business activities.

➔**Related links: Anti-corruption Policy, Global Tax Policy (NITORI Holdings website)**

Transition of Key Management Indicators

*Fiscal years ended February 20

	(Million yen)										(Thousand USD)
	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2020
Income/Loss											
Net sales	¥ 331,016	¥ 348,789	¥ 387,605	¥ 417,285	¥ 458,140	¥ 512,958	¥ 572,060	¥ 608,131	¥ 642,273	¥ 716,900	\$ 6,780,481
Gross profit	183,938	192,616	201,656	218,337	243,543	278,274	314,778	331,421	354,364	411,791	3,894,743
Selling, general and administrative expenses	125,987	131,066	138,583	152,029	170,503	192,497	221,400	230,642	246,886	274,104	2,592,491
Operating income	57,951	61,550	63,073	66,307	73,039	85,776	93,378	100,779	107,478	137,687	1,302,251
Ordinary income	59,151	62,195	63,474	67,929	75,007	87,563	94,860	103,053	109,522	138,426	1,309,240
Net income attribute to owners of parent	33,548	35,811	38,425	41,450	46,969	59,999	64,219	68,180	71,395	92,114	871,225
Cash flow from operating activities	43,908	41,989	46,154	52,923	57,343	77,930	76,840	81,664	99,337	150,879	1,427,022
Cash flows from investing activities	(22,925)	(21,937)	(32,376)	(43,023)	(35,899)	(42,047)	(82,751)	(30,424)	(44,486)	(195,985)	(1,853,643)
Cash flows from financing activities	(16,099)	(22,047)	(10,540)	(6,654)	(9,943)	(6,414)	655	(11,340)	(13,862)	30,309	286,672
Cash and cash equivalents at the end of the year	18,410	16,816	21,179	25,713	36,794	66,035	60,923	100,053	140,791	125,487	1,186,865
Depreciation and amortization	8,456	8,227	8,850	8,921	9,398	10,406	11,357	12,311	14,575	16,024	151,556
Capital expenditure	22,348	25,708	30,083	45,033	26,605	42,828	64,172	32,237	26,191	22,323	211,136
Financial Position											
Total assets	267,153	284,290	321,703	404,793	414,541	487,814	550,507	619,286	683,247	927,048	8,768,070
Net assets	174,949	209,764	247,898	310,531	330,968	394,778	441,668	500,192	560,861	681,857	6,449,045
Equity	174,527	209,125	247,099	309,413	329,695	393,693	440,991	499,721	560,571	642,096	6,072,984
Key management Indicators											
Gross profit to net sales ratio(%)	55.6	55.2	52.0	52.3	53.2	54.2	55.0	54.5	55.2	57.4	57.4
SG&A expenses to net sales ratio(%)	38.1	37.6	35.8	36.4	37.2	37.5	38.7	37.9	38.4	38.2	38.2
Operating income to net sales ratio(%)	17.5	17.6	16.3	15.9	15.9	16.7	16.3	16.6	16.7	19.2	19.2
Rate of return on equity (ROE)(%)	20.9	18.7	16.8	14.9	14.7	16.6	15.4	14.5	13.5	15.3	15.3
Equity ratio(%)	65.3	73.6	76.8	76.4	79.5	80.7	80.1	80.7	82.0	69.3	69.3
Ordinary income to total assets ratio (ROA)(%)	23.0	22.6	20.9	18.7	18.3	19.4	18.3	17.6	16.8	17.2	17.2
Payout ration (consolidated)(%)	13.1	13.8	14.3	14.6	15.3	15.2	16.0	16.0	17.0	15.1	15.1
Price earnings ratio (PER)	11.2	10.6	13.3	20.2	19.4	22.7	30.7	23.1	26.1	25.7	25.7
Per Share Information											
Net income per share (EPS)(Yen,USD)	305.95	325.83	350.27	376.14	425.10	540.93	574.49	608.05	635.42	817.01	7.73
Net assets oer share (BPS),(Yen,USD)	1,591.64	1,906.91	2,248.80	2,806.99	2,981.27	3,530.51	3,938.89	4,452.99	4,984.29	5,691.11	53.83
Dividend per share (Yen,USD)	40	45	50	55	65	82	92	97	108	123	1.16
Other Data											
Number of shares issued at the end of the year	57,221,748	57,221,748	57,221,748	114,443,496	114,443,496	114,443,496	114,443,496	114,443,496	114,443,496	114,443,496	114,443,496
Stock price at the end of the year (Yen, USD)	6,850	6,890	9,340	7,600	8,260	12,250	17,625	14,050	16,560	20,970	198.34
Total market value	391,968	394,258	534,451	869,771	945,303	1,401,933	2,017,067	1,607,931	1,895,184	2,399,880	22,698,194
Number of stores in Japan	258	286	312	346	383	428	467	505	545	651	651
Number of stores overseas	10	14	19	27	37	43	56	71	66	71	71
Net increase in number of stores	24	32	31	42	47	51	52	53	31	111	111
Total sales floor area (㎡)	1,275,121	1,390,711	1,478,205	1,568,596	1,678,835	1,806,666	1,928,461	2,037,213	2,099,373	2,173,090	2,173,090
Total number of employees	14,358	15,272	16,884	19,092	20,759	22,111	24,816	27,506	29,936	36,669	36,669

(Notes)

1.The Company conducted a two-for-one stock split of its common shares effective February 21, 2014. The above per share information is calculated under the assumption that the stock split was conducted at the beginning of FY2011.

2.Translation into US dollars has been made at the exchange rate of 1 USD to 105.73 yen.

3.The total number of employees includes the average number of temporary employees (calculated on the basis that one day is eight hours).



We will realize business growth and maximize corporate value through appropriate capital allocation

Masaomi Zenji
General Manager
Accounting & Finance Division

1. Results and financial policies in fiscal 2020



What are the factors that enabled you to achieve sales and profit growth for the 34th consecutive year despite the COVID-19 pandemic? In addition, you conducted a large-scale merger during fiscal 2020; has your financial policy remained the same since the merger?

During fiscal 2020, the COVID-19 pandemic (“the pandemic”) raging all over the world had a major impact on NITORI Group’s business. The declaration of the first state of emergency in Japan resulted in difficult business conditions that required us to temporarily close or reduce opening hours at some of our stores. Under such circumstances, we implemented a variety of anti-infection measures to combat the pandemic and continued operating, highly aware of our role as part of the social infrastructure responsible for reliably supplying daily essentials. As a result, we were able to capture increased demand for furniture and interior products resulting from so-called stay-at-home consumption and the establishment of the “new normal” way of life that involved spending more time at home than before, and our sales grew significantly. Sales in our e-commerce business also achieved substantial growth, increasing to 159.2% of the previous year’s figure as a result of our efforts to enhance services, aligning them more closely with customers’ needs. Existing store sales for the year as a whole were 110.4% of the previous year’s figure, while consolidated net sales for fiscal 2020 came to 716.9 billion yen. We therefore managed to exceed even the sales forecast that we had revised upward to 702.6 billion yen

in the second quarter. I believe that our achievement of sales and profit growth for the 34th consecutive year is the result of more widespread customer recognition of our stores as destination stores, and of the progress NITORI Group has made toward growth by working as one to achieve our long-term vision.

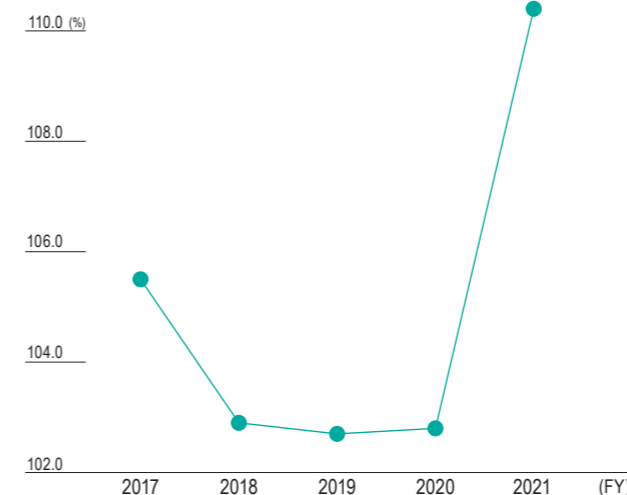
In terms of profits, our ordinary income margin improved by 2.2 percentage points to 19.3%. In addition to the higher sales, our continuous efforts to lower costs also contributed to this increase. Such efforts included standardization of raw materials and improvement of production processes through cooperation with overseas suppliers. Meanwhile, most of NITORI Group’s procurement comprises imports denominated in U.S. dollars, meaning that fluctuations in the dollar-yen exchange rate present the risk of variable profits. During fiscal 2020, however, our success in conducting adequate currency hedging using forward exchange contracts was another factor contributing to profit growth.

The basic policy underlying NITORI Group’s financial strategy is to strive to ensure stable liquidity on hand, while considering the balance between investment for growth and shareholder returns. In fiscal 2020, cash flows from investing

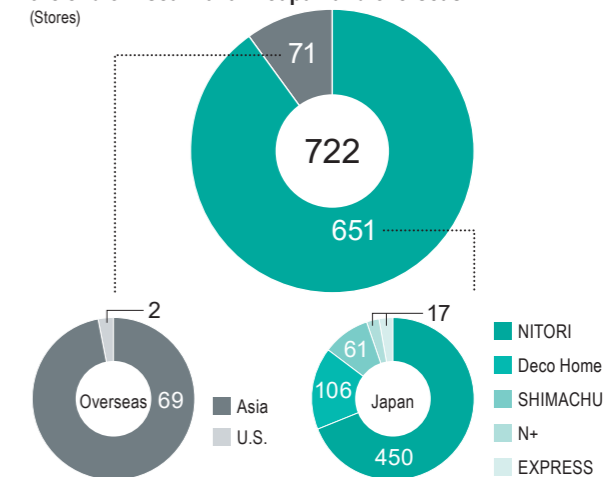
activities came to (195.9) billion yen as a result of undertaking the large M&A with SHIMACHU. However, we achieved a stable cash position, with cash and cash equivalents at the end of the year at 125.4 billion yen, thereby maintaining the optimum level of two- to three-times monthly sales, which serves as a guideline. Interest-bearing debt increased by

43.9 billion yen, but the equity ratio was 69.3%, maintaining a level exceeding our target of 60%. I believe it is important to continue paying attention to ensuring stable liquidity on hand as we build and maintain solid financial foundations to enable us to invest for growth in a flexible manner.

Year-on-year change in existing store sales



Store openings in fiscal 2020 and number of stores as of the end of fiscal 2020 in Japan and overseas



2. Store opening plans for achieving Vision 2022 and Vision 2032



Please tell us about your store opening plans and the role of finance in achieving a store network of 1,000 stores and net sales of 1 trillion yen by 2022 and 3,000 stores and net sales of 3 trillion yen by 2032.

In fiscal 2020, we added 50 more stores in total, comprising 20 NITORI stores, 12 Deco Home stores, 13 N+ stores and 5 stores in Asia. And as a result of adding SHIMACHU to the Group as a consolidated subsidiary, the number of stores for NITORI Group as a whole increased by 111 to 722 stores.

With regard to our plans for opening new stores within Japan, for the past few years we have curbed store openings in light of rising construction costs, but in fiscal 2021 we will accelerate our store openings again. We are planning a total of 85 new stores, comprising NITORI, Deco Home, and N+ stores. Meanwhile, NITORI (CHINA) HOLDINGS CO.,LTD, during the past two years of strengthening our foundations, we rebuilt our systems, while bolstering our organization and human resources. Currently, the business is performing well and we are planning 14 store openings for fiscal 2021. As of NITORI TAIWAN CO.,LTD, we are planning seven store openings, the most ever, and we are also planning to open two stores in new areas in Southeast Asia. We are planning a total of 110 new store openings in fiscal 2021, including locations in the U.S., and SHIMACHU outlets. We will continue actively opening stores, targeting 1,400 stores in 2025.

We also plan to continue using internal funds for the funds

required to open these stores, both in Japan and overseas, in fiscal 2021. Based on fiscal 2020 results we have approximately 150.0 billion yen of annual operating cash flow; we are able to finance the cash conversion cycle using funds in hand, as our business model is based on a relatively short cycle.

As we work toward our target of 3,000 stores in 2032, we will continue to consider M&A in the clothing, food, and home-related domains as an option. When undertaking such M&A, it may be necessary to procure external funds, depending on the scale. We will consider a range of fundraising methods that enable us to respond flexibly to changes in the interest-rate environment. Whilst striking a balance between ensuring stable fund procurement and keeping procurement costs down, we will also take into account compatibility with our overall capital structure to balance long-term funding with short-term funding, and indirect fund procurement with direct fund procurement. I think that, depending on the situation, it may be necessary to develop a financial strategy involving greater financial leverage, while also taking our capital structure into account.

3. Investment for growth

Q Please tell us about the financial impact of turning SHIMACHU into a consolidated subsidiary and the post-merger integration that will enable SHIMACHU to contribute to profits.

As a result of this business combination, the Company incurred approximately 165.0 billion yen in outgoings for fiscal 2020, but as the Company held more than 140.0 billion yen in cash at the end of fiscal 2019, it has been able to maintain solid financial foundations, having ensured stable liquidity on hand by borrowing only 46.0 billion yen in short-term funds from a financial institution. In fiscal 2021 we are planning approximately 50.0 billion yen in outgoings for the procedures necessary to make SHIMACHU a wholly owned subsidiary. However, in a situation where the end of the pandemic defies prediction, we plan to raise around 100.0 billion yen in funds in order to strengthen our financial foundations further to guard against sudden changes in the business environment.

With regard to the management integration with SHIMACHU, we set up the Integration Promotion Committee to rapidly achieve synergies. We are undertaking numerous specific tasks in this regard, including revising our organizational structure, introducing NITORI products in SHIMACHU stores, developing a PB for SHIMACHU products, unifying operations by integrating the two companies' distribution functions, creating systems for product supply and store operations, and opening a combined SHIMACHU-NITORI store. We already achieved some of these tasks, and we will continue working on them with a sense of urgency.

In other investment plans unrelated to store openings, we are also implementing plans such as the following:

Increasing production sites (Vietnam)

In addition to the existing furniture business, we also expanded our factory capacity ahead of the launch of the fabric business. Over fiscal 2019 and fiscal 2020 we invested approximately 5.0 billion yen, and we expect our final total investment to amount to approximately 6.0 billion yen. Our new factory has already started operating, and we plan to be able to ship products in fiscal 2021. Through investments of this kind we are pursuing vertically integrated merchandising in order to provide low prices and appropriate quality.

Building an optimal distribution center network (Japan)

As of February 2021, NITORI Group is using 20 distribution centers. However, these are not optimally located, requiring distribution between centers which leads to increased costs. Therefore, by relocating these distribution facilities to optimal locations, we will be able to reduce distribution expenses. In addition, we are currently renting most of our distribution centers, making it impossible to install large materials handling equipment. However, by managing these centers ourselves it will make it possible for us to install the necessary materials handling equipment, which will lead to reduced distribution expenses and a higher ratio of operating income to net sales as a result of improved operational efficiency. We already started making plans in this regard and we expect to bring the plans to fruition by investing approximately 200.0 billion yen in total by 2025. Our basic assumption is that we will cover this amount with internal funds.

4. Capital efficiency

Q Could you tell us how you were able to undertake investment for growth and improve capital efficiency at the same time?

NITORI Group is still growing and we are focusing our cash allocation on investment for growth. I think it is important to actively invest in a growth strategy that will contribute to sustainable enhancement of corporate value as we work toward our targets of 3,000 stores and 3 trillion yen in net sales in 2032.

As one of the KPIs used to gauge capital efficiency, ROE is a comprehensive indicator covering profitability, asset efficiency, and financial leverage. We analyze ROE as one of our management indicators, bearing in mind the cost of capital. NITORI Group has maintained a constant ROE target of 15% or higher. We have achieved this target, since our ROE

reached 15.3% in fiscal 2020, and averaged 15.1% over the past five years. One reason why we have managed to keep ROE at a high level is that we continuously strive to increase our gross profit margin. Gross profit is the highest level of profit, and our continuous improvements and reforms with regard to gross profit are a factor helping us to achieve a high level of capital efficiency on a stable basis. Furthermore, we regard NITORI Group's capital cost, which is at the 4%-5%

level, as stable. I believe that keeping our profit volatility low, achieving sales and profit growth for 34 consecutive years, and maintaining continuous business growth, have all contributed to keeping our risk premium down. We will continue to undertake continuous improvement and reform to keep capital cost at this level.

5. Shareholder returns

Q With regard to shareholder returns, does your basic policy of paying a stable dividend, while also balancing this with investment for growth, remain unchanged?

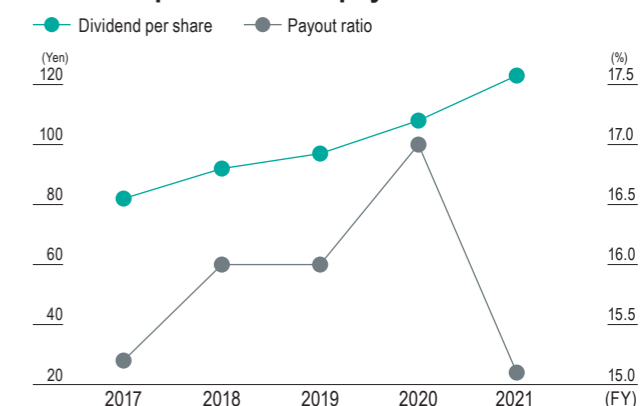
Our basic policy for shareholder returns will be to maintain stable dividends while taking into account factors such as the future growth potential and profitability of our business, financial soundness (i.e., cash generated, cash and deposits held, and the level of our equity ratio), investments undertaken, and capital efficiency. As part of our efforts to return profits to shareholders, we increased the annual dividend per share for fiscal 2020 to 123 yen, 8 yen higher than the most recent dividend forecast of 115 yen. This means we increased our dividend by 15 yen from the previous year, marking 17 consecutive years of increased dividends. For fiscal 2021 we are planning to pay an annual dividend of 140 yen per share; if we achieve this, it will be our 18th consecutive year of increased dividends.

I believe it is important for NITORI Group, which is still growing, to prioritize investment for growth in order to boost its EPS and sustainably enhance its corporate value as a means of improving TSR (total shareholder return) from an all-round

perspective.

NITORI Group will continue aiming to be trusted by stakeholders as it combines continuous contribution to societal development with efforts to enhance its corporate value. We ask for shareholders' continued support as we pursue these endeavors.

Dividend per share and payout ratio



6. Dialogue with capital markets

Q Could you tell us about your approach and initiatives in terms of dialogue with stakeholders?

I believe it is essential to establish two-way communication with our shareholders and investors, and engage in constructive dialogue. This entails providing appropriate, timely information about management policies and measures to enhance corporate value over the medium to long term, as well as continuously offering clear explanations, and reporting or otherwise conveying the opinions of shareholders and investors to senior management. Our basic policy is to

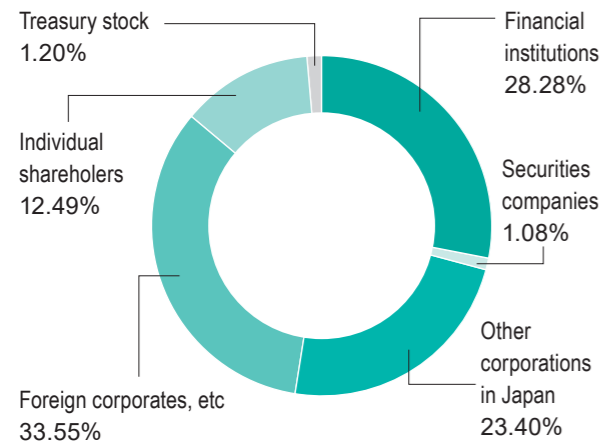
disseminate information to all stakeholders fairly and equitably; we publish financial results and similar information promptly on our corporate website, including materials in English. We also seek to deepen stakeholders' understanding of NITORI Group's mission, vision, and business model by publishing this Integrated Report and actively disclosing information through such means as holding results briefings and small meetings.

Company Stock Information (As of February 20,2021)

Outline of Shares

Total number of authorized shares: 288,000,000
 Total number of issued shares: 114,443,496
 Number of shareholders: 24,877
 Listed markets: 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
 Administrator of shareholder registry: May
 Administrator of shareholder registry: Sumitomo Mitsui Trust Bank, Limited

Distribution of Share by Type of Shareholder



Major Shareholders (As of February 20,2021)

Name	Number of shares owned (thousands)	Ratio to the total number of issued shares (%)
NITORI Trading Ltd.	20,799	18.40
The Master Trust Bank of Japan, Ltd. (Trust Account)	7,020	6.21
Japan Trustee Services Bank, Ltd. (Trust Account)	4,857	4.30
NITORI International Scholarship Foundation	4,000	3.54
North Pacific Bank, Ltd.	3,860	3.41
Akio Nitori	3,410	3.02
Momoyo Nitori	3,078	2.72
Nippon Life Insurance Company	2,056	1.82
National Mutual Insurance Federation of Agricultural Cooperatives	2,007	1.78
JP Morgan Chase Bank 385632	1,897	1.68

Notes:
 1.The numbers presented in "Number of shares held" above are calculated based on the list of shareholders.
 2.The Company's 1,378,337 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 The Master Trust Bank of Japan, Ltd. and Custody Bank of Japan, Ltd. are shares held in securities investment trusts and retirement benefit trusts.

Stock Price and Turnover



Company Information (As of February 20,2021)

Company Name	Nitori Holdings Co., Ltd.
Representative	Akio Nitori, Representative Director & Chairman (Chief Executive Officer) Toshiyuki Shirai, Representative Director & President (Chief Operating Officer)
Address	Sapporo Head Office: 1-2-39 Shinkotoni 7-jo, Kita-ku, Sapporo, Hokkaido 001-0907; Tel: +08-81-11-330-6200 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)	¥716,900 million
Ordinary Income (Consolidated)	¥138,426 million
Capital Stock	¥13,370 million
Number of Employees (Consolidated)	36,669(including 18,269 part-time employees)

NITORI Group List (As of February 20,2021)

