



Enriching homes around the world
New Phase, New Growth.

2020 Integrated Report

Feb. 21, 2019 – Feb. 20, 2020



NITORI Holdings Co., Ltd.

Sapporo Head Office
1-2-39, Shinkotoni 7-jo, Kita-ku, Sapporo, Hokkaido 001-0907
Tokyo Headquarters
3-6-20, Kamiya, Kita-ku, Tokyo 115-0043
Osaka Headquarters
1-1, Kamisu-cho, Toyonaka, Osaka 561-0823

www.nitorihd.co.jp/en/



This report uses environmentally-friendly FSC-certified paper and vegetable oil ink.



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

NITORI
日本著名家具 & 家居品牌

Contents & Editing Policy

- 01 Mission Statement & Vision
- 02 Contents & Editing Policy

About NITORI Group

03 Message from the Chairman

- 05 Our Value Creation Journey
- 07 NITORI Group Today



NITORI Group's Strengths

- 08 Strengths Developed Through Our Manufacturing-distribution-IT-retail Business
- 09 Control Capabilities
- 13 Ability to Utilize Our Expertise



NITORI Group's Strategy

17 Message from the President

- 21 Value Creation Model
- 23 Strategy to Achieve Our Vision
- 27 Domestic Sales Business
- 29 Overseas Sales Business



NITORI Group's ESG

- 33 Planning and Development
- 35 Procurement and Manufacturing
- 37 Logistics and Trade
- 39 Sales
- 41 Initiatives in New Fields of Business
- 42 Social Action Programs
- 43 Human Resources Development
- 45 Environment Creation
- 47 Corporate Governance



Financial & Company Data

- 51 Transition of Key Management Indicators
- 53 NITORI Group's Financial Strategy
- 57 ESG Information
- 61 Company Stock Information / Company Information

Editing Policy

We have issued the 2020 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 take the strengths it has built thus far and advance and augment them on the global market, as it builds the foundations for sustainable growth and enhance corporate value. To ensure that the Company's story reaches more stakeholders, 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, 2019 to February 20, 2020
In this report, the fiscal year ending February 20, 2020, is referred to as fiscal 2019 or FY2019.
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.



As we work to achieve our mission, we will preempt changes in the times and continue to evolve.

Akio Nitori

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

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

Fiscal 2019 marked 33 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.

We will continue to focus on rejecting the status quo and engaging in innovation as we work to achieve our Vision 2032.

The outlook for the business environment in fiscal 2020 is unclear owing partly to the stagnation of economic activity as a result of the spread of COVID-19, but I believe it is precisely in such times of need that our “ability to respond to changes” will be crucial in ensuring the sustainable growth of NITORI Group over the next 50 or 100 years. For example, at present, we are rebuilding our systems for promoting overseas businesses as we look to expand globally (see p.25 Global Business Development Office), but customs and ways of living differ completely in each area, so utilizing expertise from our successes in Japan is not a simple matter. In order to enrich the lives of people around the world, we must understand people’s ways of living in different regions, then preempt changes in the times, change our methods, continue evolving based on trial and error, and adapt appropriately. The result of this will be the establishment of an unsurpassable dominant competitive position.

Under Vision 2032, we are targeting a business approximately five times the size of our current business, with 3,000 stores and 3 trillion yen in net sales.

We will become unable to adapt to the changing society and cannot expect sustainable growth if our aim is to maintain the status quo. In order to continue moving forward, we must always reject the status quo and engage in innovation – reject the past and keep taking on new endeavors. I believe this is a quintessential quality of NITORI Group. We will continue to evolve significantly in the forthcoming fiscal year.

Offering the experience of enriched living and promoting human resource development are what leads to sustainable growth.

After operating for many years, it becomes easy for companies to become consumed by the short-term goal of pursuing profits, and lose sight of justice and benevolence. Profits are a necessary part of corporate management, but they are only the “result” that follows the achievement of the corporate philosophy. In the case of our Group, the correct process is to think in-depth about how we can

address our customers’ frustrations and inconveniences, as we work to achieve our mission of “enriching homes around the world.” For that reason, we do not cut employee training expenses under any circumstance, instead we keep maintaining them at a level approximately five times that of the average for listed companies. Every year, we conduct training in the U.S. to enable our employees to experience enriched lifestyles themselves and focus on the goals that we should be aiming to achieve.

Then, to ensure that the qualities of these human resources can be passed down to the next generation, we must create a system that can educate our employees. I think it is important that NITORI continues to be a company where our employees work not just for the company, but for their own growth, and enjoy their work as that growth is reflected in quantifiable changes. “The growth of individual employees leads to an enrichment of customers’ lifestyles.” I believe that if we create a work environment that enables employees to feel the results of their efforts in this way, it will in return help nurture our employees and lead to the sustainable growth of NITORI Group.

Message to stakeholders

The roots of NITORI Group lie in the surprise, excitement, and inspiration I felt toward the luxuriousness of people’s lifestyles that I experienced when I went to the U.S. for an observation tour in 1972, at the age of 27. Everything was luxurious and I saw that people’s lifestyles were 50 or 60 years ahead of those in Japan. It inspired me to create opportunities for Japanese people to experience this kind of luxuriousness, and thus we formulated the first 30-year plan. It had an extremely challenging target of 100 stores and net sales of 100 billion yen, but we were able to achieve this goal in 2003, and we are grateful to have earned great customer support. The second 30-year plan, i.e. Vision 2032, will take place on the global stage. The road ahead will be even more difficult than that of the previous plan, but we will endeavor to achieve our mission of “enriching homes around the world,” with the achievement of our vision as our guide.

I wish to thank all of our stakeholders for their continued support in our endeavors.

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



Pioneer of the now widely accepted “One-room coordinated interior design.”

We stopped displaying products by type, which is the conventional method, and set up 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 were creating sales floors where customers could experience coordinated living spaces.



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

Feather comforters once cost more than 100,000 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 for it 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 supplier and with direction and management on the manufacturing process at overseas plants.
- Conducting all trading operations in-house. Achieving cost reductions by building our own distribution network from the import of products to the delivery to 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 customers precisely because the economy was experiencing a recession. More than 5,000 items were cut in price by 20% on average until 2012, garnering great support from our customers.



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

NITORI 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 customers.



Present-day onward Aspirations move to the global stage

NITORI Group Today p.7

NITORI Group’s Strengths p.8-16

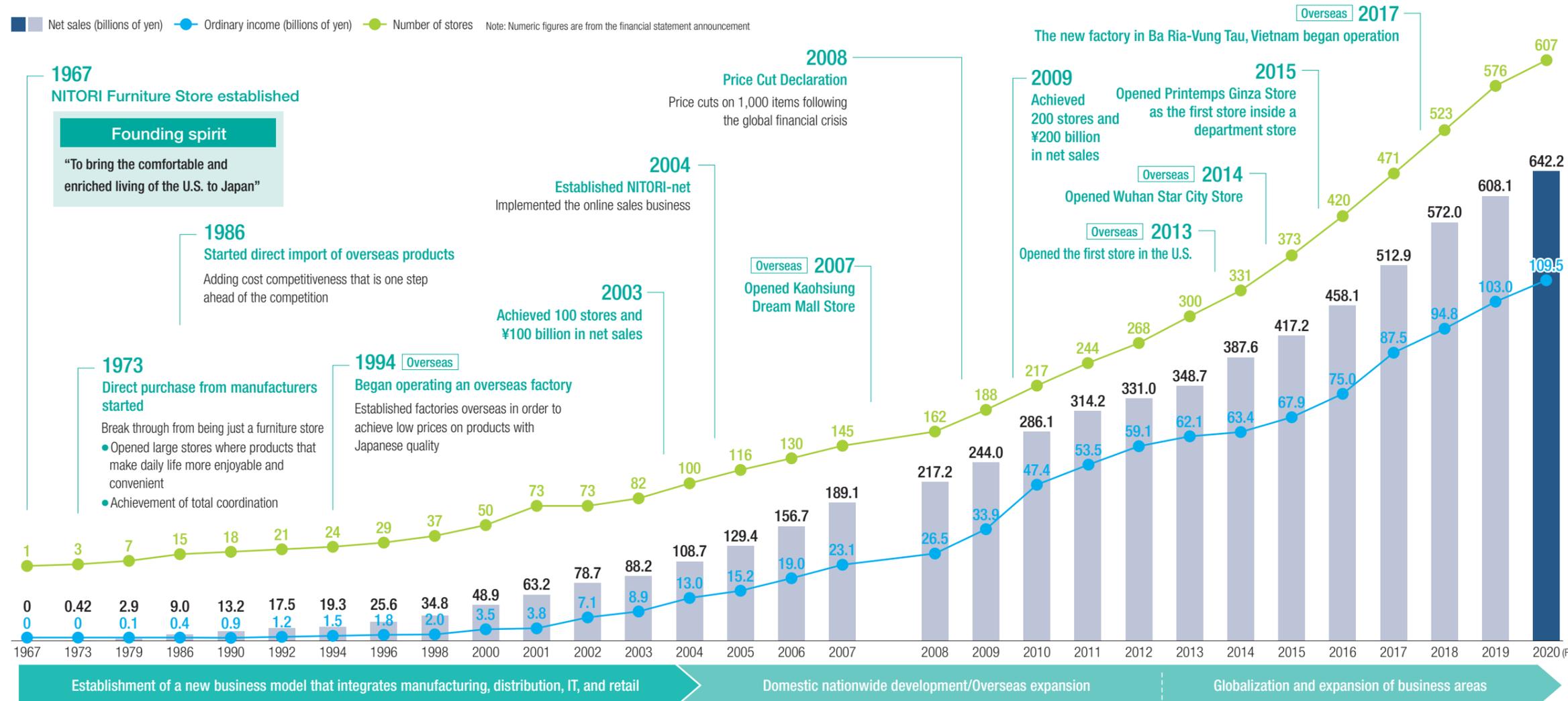
NITORI Group’s Strategy

Strategy to Achieve Our Vision p.23-26

Domestic and Overseas Sales Business Strategy p.27-30

NITORI Group’s ESG p.31-50

■ Net sales (billions of yen) ● Ordinary income (billions of yen) ● Number of stores Note: Numeric figures are from the financial statement announcement



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.

Business content

Planning, manufacturing, logistics, and sales of all products related to “homes”

- Domestic and overseas network of stores selling products from large furniture to household items and more
- Renovation business to support our customers’ homes
- Corporate sales business making proposals for offices and facilities
- NITORI-net, an online store for furniture and interior decoration.



Net sales

¥642.2 billion



Number of employees of the Group

43,800



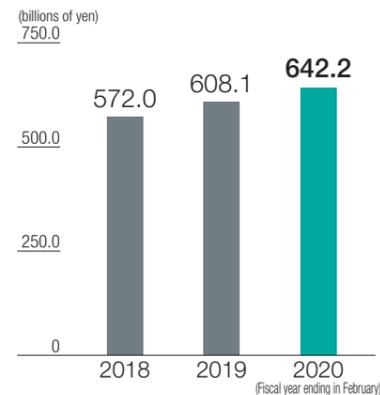
* Number of full and part-time employees (calculated by converting standard 8 hour workday as 1) is 29,936 (including 15,599 average part-time employees)

Areas of operation

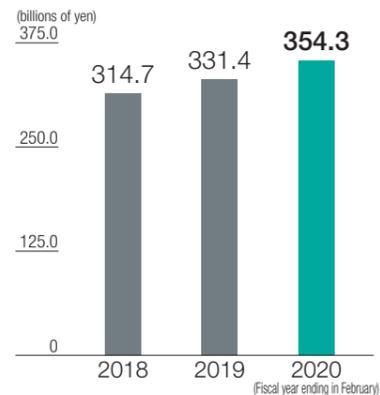


*Numeric figures are from Fiscal 2019

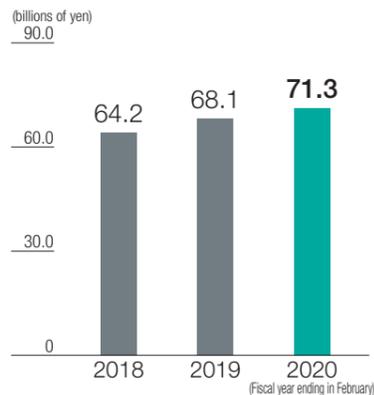
Net sales



Gross profit

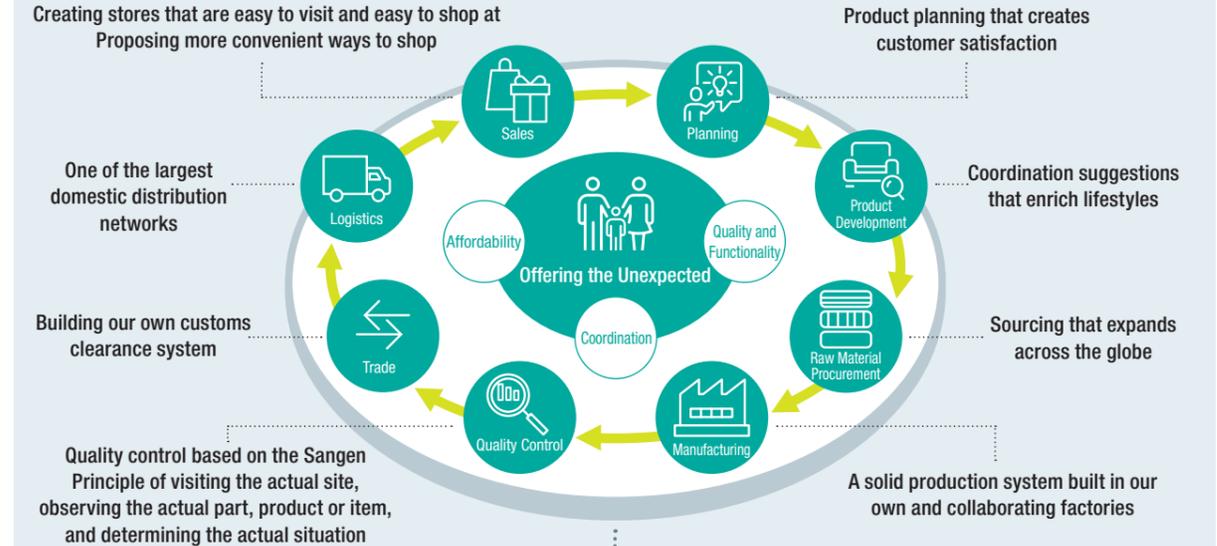


Profit attributable to owners of parent



Strengths Developed Through Our Manufacturing-distribution-IT-retail Business

Strength 1. Vertically integrated supply chain

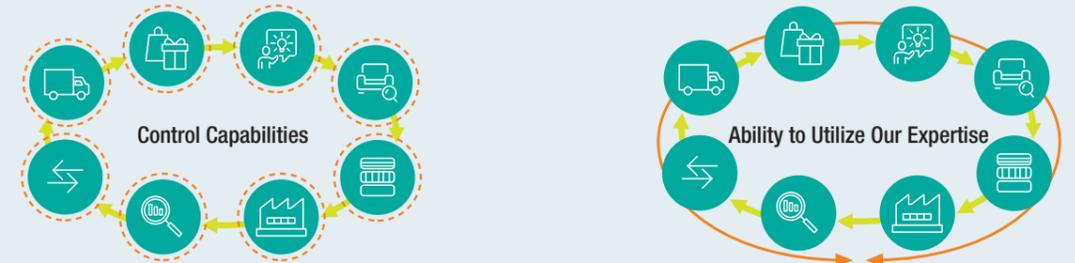


NITORI Group's philosophy of doing everything in-house, making it possible for it to offer the unexpected. We control all aspects, from product planning, manufacturing, logistics, through to sales, allowing us to create a competitive superiority based on cost performance, unique marketing abilities based on an expansion of our area of authority, and our ability to gather information from our control of both upstream and downstream markets.

Initiatives to strengthen coordination in each process

Initiatives forming the source of our added value

Strength 2. More sophisticated supply chain utilizing our knowledge and experience built up in each process



Even in an increasingly complex global market, we will control and manage our supply chain to achieve complete security, safety, and high quality, and more efficient logistics in each process.

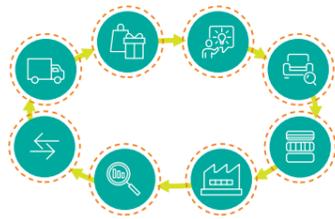
We will utilize our information assets accumulated throughout the supply chain to eliminate constraints, etc. in each process. We will establish a new competitive superiority by utilizing expertise accumulated in each process in a cross-sectional manner.

Taking NITORI Group's product safety and quality control to the world p.9-10

Coordination that realizes our customers' ideal lifestyles p.13-14

Achieving both improved delivery quality and cost reduction p.11-12

Promotion of O2O strategy Proposing more convenient shopping p.15-16



Strengths developed through our manufacturing-distribution-IT-retail business

Taking NITORI Group's product safety and quality control to the world

Toward the creation of a global product safety management system

Social background

Product safety as the basis of our business

There are over 10,000 NITORI Group products, with 90% or more of those sourced from overseas. Overseas collaborating factories, primarily in Asia, are responsible for related manufacturing processes. In recent years, there have been issues associated with the increasing complexity of the supply chain. One of them is "silent changes," where parts are altered based on the judgment of the manufacturer, without the buyer's consent. A single error has the risk of causing a major product accident, so buyers must always implement strict quality controls.

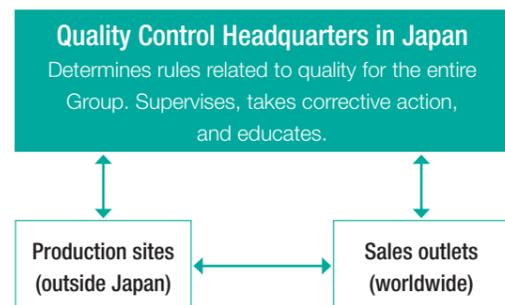
NITORI Group's approach

NITORI Group is involved in all processes, from product planning, procurement through to sales in an integrated manner, enabling it to effectively negotiate and coordinate with suppliers, and control quality at NITORI standard.



Globalization of quality assurance system

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



Case 1



Hiroyuki Tajiri
Manager, Product Quality Control & Improvement Office

Pursuit of quality enhancement through the United Collaboration System with our business partners

In order to deliver products to our customers with more secure and safe levels of quality, NITORI Group selects supplier factories after conducting investigations based on its own rigorous standards. I believe it is important that we build a relationship based on mutual enhancement and support through study group sessions called Open House for suppliers at their plants and training and technical direction concerning product safety and quality control.

Among these, we are particularly focusing on managing our suppliers. For example, in continuous plant audits QAV2 (Quality Assurance Visits 2), we check whether the supplier's quality assurance system meets NITORI Group's requirements based on the Sengen Principle of visiting the actual site, observing the actual parts, products or item, determining the actual situation, with the aim of reducing defective and non-conforming products. Last year, we conducted investigations of over 200 companies. In addition, we are also working to develop model factories for the future, such as by providing compensated technical support (guidance across all methods of management in factory operations as a means of improving corporate structures) to nine companies.

As we look to expand our store openings overseas from 2022, we will continue to focus on building a global quality assurance system and endeavor to deliver products that offer the unexpected to customers around the world.

Related Information p.59 ESG Information Responsible Procurement

Case 2

Toward a more efficient and more rigorous quality assurance system

As 90% of our products are PB (Private Brand) products planned and developed in Japan and manufactured overseas, NITORI Group has established its own quality standards, and it is focusing on improving and reforming quality on a day-to-day basis.

When developing products, NITORI evaluates products based on the Failure, Mode, Effect, Analysis (FMEA) method at Development Technology Evaluation Meetings, with the aim of preventing accidents, defects, risk due to misuse, and other problems before they occur. In fiscal 2019, over 1,000 Development Technology Evaluation Meetings were held, with at times as many as over 40 meetings being held in one week. In addition, approximately 540 Quality Improvement Meetings were held, in which defective products for which issues occurred were analyzed, and their cause and countermeasures were determined before improvement requests were provided to manufacturing



Development Technology Evaluation Meeting

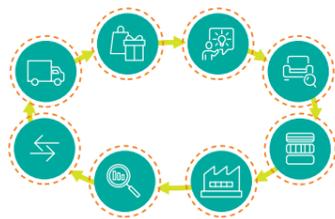
factories. In addition to demands and directions for improvement, after the meetings, the effectiveness of the improvement measures is also subsequently checked and the PDCA cycle is implemented.

This series of initiatives has won acclaim, and we received the Minister of Economy, Trade and Industry Award for the second consecutive year under the Product Safety Award in 2018 category, after previously receiving this award in 2016.

For further enhancement

1. Build a global quality control system
2. Train suppliers and reduce defective products through quality reforms

1. As we expand our store openings overseas and offer an expanded range of common global products, we intend to ensure that quality standards, testing, numerical and record collection, etc. in each country where products are sold are shared and implemented in stages from fiscal 2020.
2. Determine an order of priority based on the number of defects, amount of sales, and factory evaluation, conduct QAV2 and compensated support, and reduce the defect rate by 5% year on year.



Strengths developed through our manufacturing-distribution-IT-retail business

Achieving both improved delivery quality and cost reduction

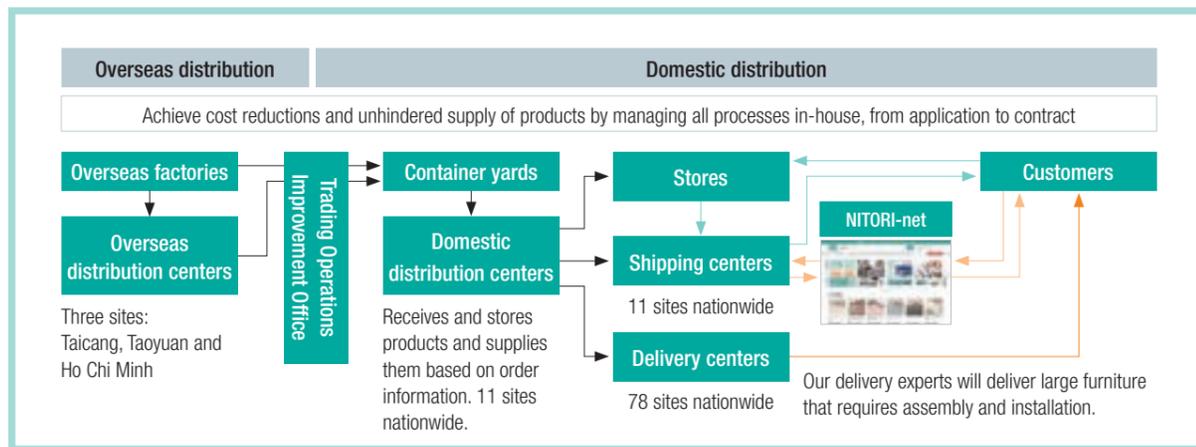
Social background

Worsening labor shortage

Home Logistics Co., Ltd. is responsible for the final process of delivering NITORI Group's products to customers' homes. NITORI's unique business model that integrates manufacturing, distribution, IT, and retail, enables it to offer high-quality logistics to the last mile, based on economies of scale and its expertise. In order to improve the labor shortage and working conditions that have become an issue for the logistics industry in recent years, NITORI Group has identified breaking away from labor-intensive operations, i.e. using labor-saving measures and standardization to reduce reliance on human resources, as a major theme.

NITORI Group's approach

- Create distributions centers in Japan and overseas to reduce delivery costs through the sorting and storage of products, and ensure prompt product delivery to our store network around Japan
- Control efficient logistics by separating logistics routes for different product formats
- Save labor and improve productivity by introducing Warehouse Management Solutions (WMS)



Case 1

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

In order for NITORI Group to continue growing on the global stage while also overcoming chronic labor shortages, we must enhance our efforts to standardize our warehouse management operation and improve the efficiency of the distribution network as a whole.

Kansai DC, which introduced warehouse management systems from Manhattan Associates, Inc. in January 2019, is an advanced logistics base that utilizes three-dimensional automatic warehouse (AS / RS) systems that are among the leading systems in Japan. With the introduction of warehouse management systems and quality improvement activities by the quality control team, we are ensuring the optimal performance and an increase in

processing capabilities, while at the same time promoting the automation and standardization of warehouse operations as a whole. At present, we have rolled out these initiatives to the existing Kawasaki DC, Sendai DC, and Misato DC, resulting in an improvement of the shipping-cubic meter rate by 20%.

In addition, we have also currently made it possible to trace products from their manufacture through the last mile by coordinating with our in-house production site in Hanoi, Vietnam to link product manufacturing information using Warehouse Management Solutions (WMS) on a trial basis.

In the future, NITORI will improve and reform operational systems by promoting the expansion of these initiatives to other distribution centers, and utilizing Warehouse Management Solutions (WMS) together with the latest business processes.

Case 2

Aiming to further enhance our delivery quality with the introduction of the delivery training vehicle

Special skills are essential for delivering large furniture, including assembly and installation skills and customer service skills. In recent years, we have been placing particular focus on the "last mile"—improving the quality of the final process of delivering products to our customers. In June 2019, Home Logistics Co., Ltd. introduced the industry's first Mobile Training Unit, a vehicle for delivery training. This training vehicle, which won a Good Design Award 2019, replicates the inside of a customer's home and is designed in a way that facilitates training related to hoisting up furniture, stairways, and delivery inside the home. In order to achieve a high standard of delivery across Japan, we have conducted training at approximately 150 partner delivery companies nationwide to ensure that workers possess delivery skills, the ability to work quickly, customer service skills, etc. of a

level that meets customers' expectations. In fiscal 2019, we conducted over 100 training sessions for over 400 people both within and outside NITORI, including training sessions utilizing the Mobile Training Unit. By taking advantage of the fact that the Mobile Training Unit allows us to conduct training anywhere in Japan, we aim to further enhance our delivery quality.



Exterior of the Mobile Training Unit

For further enhancement

Digitalization of logistics operations

1. We are studying and researching the latest robotics and ICT. We aim to utilize the latest technologies to rebuild all logistics operations, from contracts, transportation and delivery, inventory management through to payment.
2. We aim to enhance productivity in the last mile by expanding the use of systems to optimize delivery routes and the use of a system that utilizes AI to enable anyone to easily schedule the optimal delivery plans.



Strengths developed through our manufacturing-distribution-IT-retail business

Coordination that realizes our customers' ideal lifestyles



Social background

Needs associated with diversified ways of living

People's lifestyles have become increasingly diversified with the advancement of urbanization, the shift toward nuclear families, and changes in ways people work, and as a result, people require "homes" that suit the ways they live. "A space where the kids can play safely, but also decorated with fashionable interior items" (Working couple in their 30s) "A space that's comfortable, even if the space is limited" (Woman in Tokyo in her 20s) "A space where my parents, wife, and kids can all relax together, while still respecting each other's lifestyles" (Man in his 50s living with his family and his parents)... From that matter, it is necessary to respond to the needs of the diversified homes by offering ways to "create spaces" and "suggesting lifestyles."

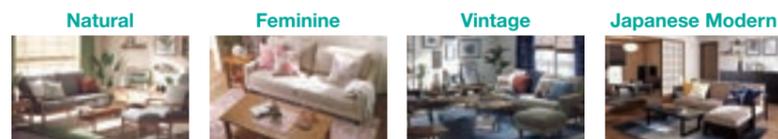
NITORI Group's approach

To fulfill the need for various styles of "living", NITORI utilizes expertise and data developed at every stage of the process- from planning, procurement, manufacturing, through to sales.



Suggesting coordinated styles

Creating products based on colors, shapes, and materials



Suggestions by use

Creating products to suit different lifestyle scenes.



Case 1



Hiromi Abiko
Managing Executive Officer,
Global Merchandising Division
Coordinated Merchandising
Planning Section
Planning Group Merchandising
Division Manager

Coordination for everyone

Coordination is a key factor in achieving our aim of enriching homes around the world, which lies at the root of NITORI Group's corporate activities. At NITORI, we focus not just on product development that enables us to offer the unexpected with appropriate levels of quality at low prices, but also on total

coordination, which offers our customers a "harmonized" home by just shopping at our stores.

Our approach to coordination is not based solely on color, pattern, or other aspects of the product's appearance, but also on creating "living coordination" that create more comfortable homes through price, functionality, idea, design, style, and other factors. Coordination turns the ordinary everyday life into something exciting – we intend to spread this richness of living around the world. Having people realize free ways of living that express their own tastes through products and coordination – I believe this will contribute to the enriched ways of living that we propose.

Overseas tours

In overseas tours, we visit exhibitions in Asian countries, Europe, and the U.S., and research trends in designs and styles. At exhibitions, we can learn about what kinds of textiles and colors are trendy. We also study actual trends among private brands and sales floors at a variety of stores on tours, then we utilize this information in product planning and development and sales floor development.

Domestic survey

Within Japan, we mainly study trends among competitors and purchasing trends at our own stores, in addition to studies based on surveys to people in and outside NITORI and studies based on actual visits to people's homes. Our focus on customers' frustrations and inconveniences in domestic studies led us to develop products from the perspective of the users and other customers, which have contributed significantly to the growth of NITORI Group.

Ways of communication

After the surveys, buyers formulate a product lineup and the merchandisers makes it a reality in the form of products. We handle everything in-house, from the creation of secondary materials to display methods in stores, then work with the Advertising Department and other relevant sections to advertise these factors. It is precisely because of NITORI Group's fully integrated business model that we are able to control every aspect and promote the greatest attractions of our products to customers.

For further enhancement

1. Expansion of sales floors displaying coordinated products
2. Attempting new product types

1. Conduct thorough market research and produce products that meet customer needs. Present our products in small coordination and in total coordination.
2. Began selling TVs in fiscal 2019. Attempting further expansion in home appliances.



Strengths developed through our manufacturing-distribution-IT-retail business

Promotion of O2O* strategy Proposing more convenient ways to shop

*Seamlessly linking offline (stores and DCs) and online (e-commerce sites, mobile apps, digital ads, etc.) to provide quality customer experience.

Social background

Changing consumer behavior

Recent years have seen a rise in consumer behavior that uses both stores and e-commerce sites in a flexible manner, as smartphones and other mobile devices have become more popular. Companies must offer more convenient services to meet customer needs, such as those of customers who wish to check products on e-commerce sites before purchasing based on images on social media, interior design sites, etc., and customers who wish to check products at actual stores before purchasing on e-commerce sites.



NITORI Group's approach

We aim to utilize data and expertise developed in warehouse, distribution, and store operations to go beyond the barriers between actual stores and e-commerce sites, and offer customers a seamless and convenient shopping experiences.



Case 1

Evolution of e-commerce sites and pursuit of convenience

NITORI-net, our e-commerce site established in 2004, renewed in August 2019. Sales have grown favorably, partly as a result of online-limited products, colors, and sizes, an online feature enabling customers to search for products based on coordinated styles, and enhanced recommendations.

We will work with the O2O Promotion Office to respond to changing consumer behavior through digital marketing and enhanced coordination between brick-and-mortar stores and e-commerce sites.

Formulation of measures emphasizing online sales in fiscal 2020

Themes	
1	Promotion of direct marketing and improvement of customer convenience
2	Expansion of product listings
3	Enhanced services with coordination between e-commerce, stores, and distribution

Case 2



Noriaki Miyairi
Manager, O2O Promotion Office

Enhancing contact points with the customers mainly on the NITORI app and utilizing customer data analysis

We know from data analysis that at present, many customers use both stores and e-commerce sites in a flexible manner. The fact that we have brick-and-mortar stores and maintain a delivery network that covers this store network is a significant advantage for us.

In recent years, customers have become able to connect with companies and enjoy shopping any time, in any place. For such customers, companies must offer more convenient and comfortable customer experience (including the value of the experience of shopping and receiving useful information from companies).

Our mobile app (the NITORI app) is positioned as a valuable hub for ensuring that customers enjoy a convenient and seamless shopping experiences without thinking about whether they are offline or online. Customers can use the app prior to purchase, when they're not considering a purchase, etc., and in this way create a connection with NITORI.

I believe that if we increase the time spent connecting with customers through the NITORI app, they will be more likely to think of and select NITORI when considering a purchase of furniture, interior accessories, and household items.

In order to achieve that goal, we renewed the NITORI app in August 2019.

Specifically, we added functions and services that are convenient from the customer's perspective, including delivering promotional notifications and messages tailored to each individual customer through the app, adding an image search function that

allows customers to search for products sold by NITORI using product images, functions for checking store inventories and displaying the location of products within stores, and improvements to information and media functions. Looking ahead, we will further augment the app by adding tools for measuring room sizes, an in-store mode, and more.

We are focusing on developing and introducing coupon functions connected to the POS, etc. to achieve our future target of having the majority of customers shopping at NITORI through the NITORI app, with a target of over 9 million NITORI app members by the end of fiscal 2020 (5.4 million as of the end of fiscal 2019).

On the other hand, the formulation and implementation of promotional strategies that address digitalization in society and people's lifestyles is also an important issue. Promotions that align with individual customers' purchasing trends and lifestyles are effective for creating loyalty among new customers and increasing the repeat rate among existing customers. NITORI has data from a cumulative total of over 40 million NITORI members. We consider our customers' data as a significant asset and intend to return the insights gained from data analysis as useful information for our customers.

We will position the NITORI app at the center of our strategy as we focus on effective marketing that enables direct communication with customers, and further augment our customer-focused business as a key characteristic of NITORI Group.



For further enhancement

1. Rebuild customer data foundations and promote customer-centered KPI management
2. Company-wide data utilization and human resources development

1. By integrating online and offline data, we will redefine what information is necessary, where we acquire it, how we accumulate it, and how we utilize it. We will formulate KPIs that place a primary focus on the customer, and promote management based on KPIs and their utilization in business.
2. Promote enhancement based on both development of data and analysis environment and human resources development, as we look to promote the utilization of data on a company-wide basis.



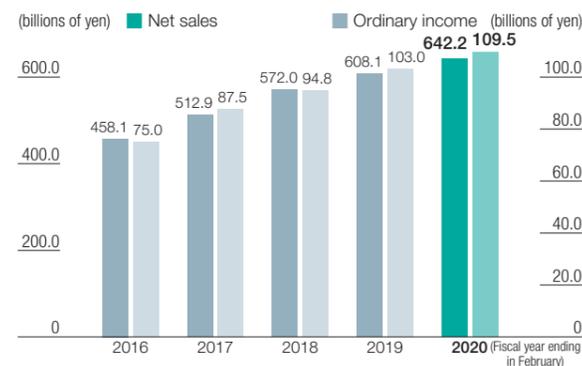
We will create new trajectories for growth toward achieving our vision through global development and expansion of business areas.

Toshiyuki Shirai
Representative Director & President (COO)

Summary of Results for Fiscal 2019
Achieved 33 consecutive years of increased sales and profits. A year of definite progress toward the achievement of our vision.

In fiscal 2019, we built our store network out to 607 stores, including overseas stores, and achieved sales of 642.2 billion yen. Difficult business conditions continued in the furniture and interior decorating industry, owing partly to intensifying sales competition across industries, soaring labor costs, and the rising cost of distribution, but we achieved our 33rd year of consecutive growth in sales and profits on the back of robust sales of bedding products, kitchen products, appliances, sofas, and bedroom furniture.

Net sales/Ordinary income



Compared with the start of our first 30-year plan in 1972, our store network has increased approximately 300 times, and the number of purchasing customers exceeded 93 million in fiscal 2019. In my view, these figures show the results of our performance, i.e. that the number of times each customer visits our stores per year has increased, and that customers feel a close connection to NITORI thanks to accelerated store openings in small market areas.

In order to ensure continued customer loyalty, I believe it will be important that we have stores in locations that are close and convenient for customers, and that we continue offering attractive products.



Strategy to Achieve Vision 2032

Direction of growth strategies and approach to corporate growth

We have set forth our vision of achieving 3,000 stores and 3 trillion yen in net sales by 2032 ("Vision 2032"), based on our aspiration to enrich homes around the world. The domestic sales business will continue to play an important role in achieving this vision, but our overseas sales business will also be a crucial factor (see p.23 Project to Strengthen Global Business).

In addition to pursuing expansion in existing business fields, we are also actively advancing into new fields of business where we can leverage our strengths. For example, in the Corporate Sales and Interior Renovation Businesses, which opened our largest BtoB showroom, the NITORI Business Showroom Shibuya, in 2018, began development and sales of free desks, which can be fully customized without any installation work, in line with the increase in people working from home and in small offices. Even as customers' needs become increasingly diversified in the future, we intend to develop and offer products capable of addressing their needs, and expand our range of products that offer the unexpected in the BtoB market as well.

In addition, as a separate format to our NITORI stores, we are also accelerating our openings of Deco Home stores, which are based around the concept of "a store you can drop in on daily" and stock a large number of popular basic items concentrating on basic necessities for the home. We aim to further clarify the differences between Deco Home and the NITORI brand, as we look to establish a business model that can coexist with NITORI, even in the same shopping malls. In addition, we will also develop brands targeting women, and enter the apparel business.

Taking on the challenge of entering new fields of business requires a significant amount of energy, not to mention that it carries risks. At NITORI, however, we have created our current unique business model that integrates manufacturing, distribution, IT, and retail and achieved growth precisely because of our characteristic attitude of "taking on new endeavors in areas where we lack past experience" and "identifying tiresome and difficult issues, and doing them ourselves." I believe that this attitude, which forms the DNA of NITORI Group, will certainly manifest itself as a significant strength in our future global development and business expansion.

Looking back on priority issues for fiscal 2019

NITORI Group has put three priority policies in place to achieve Vision 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.

Priority issues for fiscal 2019 [Table 1]

1. Sustainable customer expansion through the pursuit of the customer's perspective
2. Business area expansion strategy
3. Establishment of an overseas sales business profit model
4. Task and system reform
5. Organizational and human resources development reform

With regard to priority issue 1. sustainable customer expansion through the pursuit of the customer's perspective, there were signs of progress in creating next-generation prototypes, such as the renovation of the Niiza Store to use new layouts centered on separate coordinated rooms for different styles, but the issue of increasing the number of items purchased remained. As a measure for enhancing the number of items purchased, we intend to thoroughly implement the strategy of enhancing sales floors that show the attractions of coordinated products. With regard to priority issue 5. organizational and human resources development reform, we introduced Workday, which allows our employees to manage their learning history, and Globis' study-all-you-want program, an online learning system, in order to augment our creation of an organization that boasts a wealth of elite employees who can

carry the responsibilities of our Group and its diverse businesses. The full-scale operation of the Human Resources Management Platform was also a significant step forward in terms of this issue. We will utilize the unique education system offered by this platform and NITORI University to develop personnel capable of creating new value, thereby becoming a stronger organization boasting a wealth of elite employees as we target sustainable growth.

Our business results are growing in terms of numbers, but I believe there are still points where we must improve in terms of progress toward achieving our vision. We will not ease up on the speed with which we resolve issues as we continue to steadily implement improvements and reforms.

Priority issues for fiscal 2020

We have set forth six priority issues shown in table 2 for fiscal 2020 and will accelerate our initiatives in these areas. Also, as we work our way to significantly change the way we approach solving these issues this year, we have begun building organizational systems to enhance the speed and accuracy of decision-making, by eliminating the concurrent holding of the position of President of operating companies and NITORI Holdings Co., Ltd. by the same person, and establishing dedicated officers responsible for each issue. As President of NITORI Holdings Co., Ltd., I believe key parts of my duties involve measures for the future – namely training personnel and creating an organization for the future – and the establishment

of an organization that clarifies the persons dedicated to resolving the respective issues.

I think a day will come when we look back at fiscal 2020 as a watershed moment, when our initiatives this year significantly changed our future direction, precisely because the year began with the headwind of the spread of COVID-19. I intend for NITORI to take a proactive stance this year, as we accelerate the speed of improvements and reforms aimed at turning this difficult situation into an opportunity.

NITORI Group's ESG and sustainability

In order for NITORI Group to maintain sustainable growth, we believe it is necessary to flexibly respond to the "external environment," which includes factors such as domestic market shrinkage and changes in consumer preferences. On top of this, we will further strengthen our overseas sales business, which means that we will engage with and be supported by a more diverse selection of people as we expand our business activities. Recognizing the importance of these changes in the business environment, we have summarized the sustainability policy of NITORI Group and examples of our contributions to ESG and SDGs, and have established systems for promoting these initiatives. (see p.31 NITORI Group's ESG)

NITORI Group's attitude of placing the highest priority on resolving customers' frustrations and inconveniences and taking action is the same attitude we assume when approaching ESG.

We believe that leveraging our unique business model that integrates manufacturing, distribution, IT, and retail in creating environmental, social and economic value is exactly the kind of sustainable management that suits NITORI Group. For example, enhancing transportation efficiency by downsizing product packaging leads to the reduction of CO₂ emissions volume in addition to cost reduction, and providing direction and inspections for overseas factories for OEMs not only improve quality but also lead to the resolution of social issues, such as the prevention of "silent changes," where parts are altered based on the judgment of the manufacturer, without the buyer's consent.

There is one sentiment that I've often expressed to the dedicated employees who support these business activities that lead to corporate growth-it is the idea that you haven't crossed the goal line just because a system has been created; the real work comes in continuing to break it down and rebuild it into something better.

Our business model that integrates manufacturing, distribution, IT, and retail, which is recognized as the one and only of its type in Japan, is not necessarily compatible with direct deployment overseas as it is, and it must be strengthened through constant evolution and development to adapt to the surrounding environment and circumstances. I don't believe in the idea that you've crossed the goal line just by creating a system, and that you can simply copy existing rules as they are; instead, I believe that deep understanding of the "process" of system creation and being able to create a new system to accommodate evolving situations are what are important as an organization and what allow both the individuals and the company itself to continue growing.

Based on the approach detailed in the NITORI Group Sustainability Policy, we will continue to provide systematic control in ESG initiatives through our business activities and create additional shared value to achieve the sustainable corporate growth and sustainable management that is characteristic of NITORI Group.

Message to Stakeholders

From Japan to the world. NITORI Group will continue to grow.

Although the first 30-year plan for our expansion from Hokkaido to the mainland, which included opening 100 stores and achieving net sales of 100 billion yen, was considered a grand vision at the time of its conception, we were able to achieve this vision in 2003. Our current plan is to expand out from Japan into the world, increasing the number of stores and net sales to 30 times what they were in 2003. Vision 2032 sets ambitious goals, but the challenges that NITORI Group must tackle to achieve them are clear, and by steadily resolving them, we will lead our efforts into the achievement of our vision and mission.

Decrease in population due to low birthrate and aging population is an issue in Japan, but on the other hand, shifting our attention to the world at large, population in the Asian countries are increasing, and in that sense, we recognize that even after achieving Vision 2032, we still have challenges that are waiting to be tackled. We will be accelerating the number of store openings in Eastern Asia from 2021, but we are also already looking into expanding into Southeast Asia.

The indicators that we value as cornerstones of corporate growth are the number of stores and the number of customers, which serve as barometers of social contribution in the distribution industry. To those ends, it is important to think of customers first and to provide product development and services that resolve the frustrations and inconveniences experienced in everyday life. We will continue to open stores in small market areas and strengthen our O2O initiatives in order to deliver these products and services to more customers. Profits will follow as a result of these efforts. I sincerely believe that this is true.

I believe that all of the dedicated stakeholders who are involved with NITORI Group, as customers or as shareholders, will continue to make us stronger by providing us with a diverse selection of valuable opinions and requests from a wide variety of perspectives. We ask for your continued support and wishes for the further growth of NITORI Group as a company that will remain close to your heart.

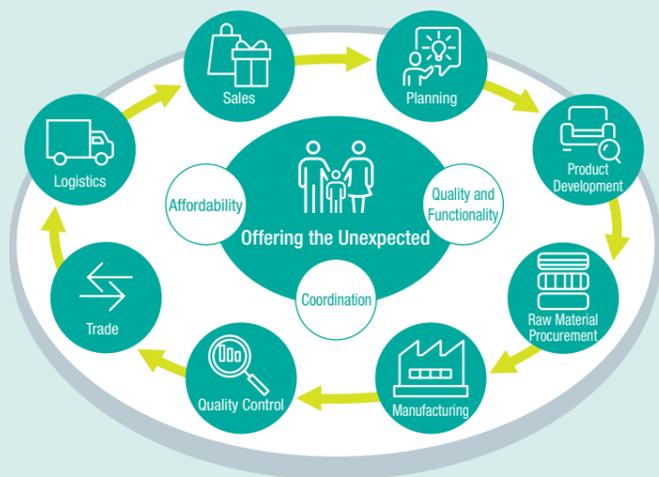
[Table 2]

Priority issues for fiscal 2020	Specific targets
1. Promoting coordination suggestions and O2O	<ul style="list-style-type: none"> ● Increase percentage of sales floors displaying coordination ● Improve linkage function between stores and the NITORI app ● Enhance function for receiving feedback from customers
2. Global business development and expansion of business areas	(see p.23 Japan-China Joint Project to Strengthen Global Business)
3. Enhancement of product development, production system, and quality control system	<ul style="list-style-type: none"> ● Establish production system for dining chairs: 1,000 per day ● Production of bed mattresses: 1 million per year ● Production of sofas: 200,000 per year ● Globalization of quality regulations and standards ● Strengthened quality control procedures overseas ● Direction and development of suppliers
4. Rebuilding domestic distribution centers	<ul style="list-style-type: none"> ● Rebuild locations and functions at both new and existing sites ● Review methods and frequency of delivery to stores, and maintain and achieve appropriate store inventories and optimal lead-times
5. Improvement of operational productivity for the entire company	<ul style="list-style-type: none"> ● Promote enhanced work speeds, labor reduction, and automation by further utilizing digital transformation
6. Promoting human resources development toward the future	<ul style="list-style-type: none"> ● Develop a talent management platform and link individual career orientations with internal education (NITORI University) to support self-directed careers



Mission shared by each and every employee as the source of corporate activities

Enriching homes around the world



Approach

- Product development from the customer perspective
- Improvement and reform based on rejecting the status quo
- Working backwards from our goal

Business Environment

Contraction in domestic market owing to low birth rates and aging population
Increased diversification of lifestyles

Global standard sustainability management

Strengths Developed through Our Manufacturing-distribution-IT-retail Business p. 8-16

- Built our own supply chain from product planning, manufacturing, distribution, through to sales
- Ensuring quality with comprehensive management systems and establishment of new competitive superiority through utilization of expertise



Strategy to Achieve Our Vision p. 23-26

From the Japan-China Joint Project to Strengthen Global Business to the Global Business Development Office



- Create the attraction of “offering the unexpected” overseas with a proper understanding of the local environment and market needs
- Utilize clarification and standardization of business know-how for global business development

Business Activities and Strategies p. 27-30

Domestic Sales Business and Overseas Sales Business

- Actively open stores in small market areas and promote coordination suggestions
- Challenges and growth strategies overseas

ESG p. 31-50



- Aiming for a better future by resolving the issues of the world while taking steps toward achieving our mission
- Create environmental, social, and economic value through business activities that leverage our business model

Achieving Our Mission

Vision 2032
3,000 stores
¥3 trillion

Becoming a company that offers enriched lifestyles to people around the world

Vision 2022
1,000 stores
¥1 trillion

Expanding dominant areas around the world and revolutionizing lifestyles

From the Japan-China Joint Project to Strengthen Global Business to the Global Business Development Office

Project background

NITORI has continued to take a proactive approach in opening stores throughout Asia since 2014. Home furnishing businesses like ours are not common, and there is an opportunity for us to become the market leader. On the other hand, the competitive environment is changing drastically due to the rapid digitalization of local competitors, and it remains a fierce market where competitive battles are being fought daily.

NITORI Group's approach



Four priority issues	Specific activities and primary results
Human resources development	<ul style="list-style-type: none"> Clarify roles and standards for store manager and buyer positions Create a short-term training program that enable development in a short period of time, and develop lecturers Establish and begin operation of curriculums that feature training in Japan, etc.
Product development promotion	<ul style="list-style-type: none"> Build a product development system and standardize processes that take advantage of economies of scale linked to the approximately 540 stores in Japan Global standardization of NITORI's unique KPI management methods and improvement of management skills Provide appropriate store inventories that support product development that can continue to enhance product appeal Redesign e-commerce site, etc.
Improving store appeal	<ul style="list-style-type: none"> Design displays, layouts, etc. that create special experience that will attract customers back to stores that include new discoveries, good value, and heightened expectations Establish a prototype for standard stores and horizontal deployment of remodeling for other stores Establish system for new product trial sales using flagship stores Redevelop guidelines on store opening criteria, including location strategies, etc., for accelerating store openings Scrap-and-build, etc.
Supply system establishment	<ul style="list-style-type: none"> Sales plans and appropriate inventory management based on coefficient management of seasonal indicators and sales performance Clarification and application of efficient in-store storage methods, etc.

- Increased localization of management
- Standard store (Shanghai Qibao Store) and flagship store (Shanghai Xujiahui Store) both recorded double-digit growth in net sales on a year-on-year basis following renovation
- Existing stores recorded annual net sales of 103.8% (double-digit growth in the third and fourth quarters) on a year-on-year basis



Interview

Clarification and standardization of business know-how cultivated in Japan: Creating a system where we can bring together the know-how of each individual person in our "organizational knowledge" and open stores anywhere in the world

Fumiaki Matsumoto
Director, Executive Vice President

NITORI Group's Global Business Development –The Importance of Overseas Sales Business to Achieve Our Vision–

Working backward from the goal of achieving 3,000 stores and 3 trillion yen in net sales set forth in Vision 2032, we believe that strengthening global business is absolutely essential. Although NITORI Group will continue to focus on sales growth through actively opening stores and providing total coordination suggestions in Japan, considering that the scale of the domestic market is approximately 3 trillion yen, the overseas sales business could be called the growth driver for achieving our vision.

I think the key to the success or failure of overseas business lies in whether the business model has a "system" that can accommodate the different needs found around the world. In this regard, NITORI Group benefits from maintaining management skills for fully integrated control from procurement to sales, which it has achieved through the manufacturing-distribution-IT-retail business model. (see p.8 NITORI Group's Strength)

Through this, it is possible to reflect the needs of each region, such as trends and consumption levels in the area of operation, in the ways that products are made and supplied. With

this in mind, I am confident that NITORI Group's business model can be expected to succeed in the global market as well.

In our global business, we opened our first overseas store, Kaohsiung Dream Mall Store, in 2007, and have since then expanded proactively overseas, and at the end of fiscal 2019, there are 64 stores in Asia, and two stores in the U.S. Although our overseas results don't seem necessarily promising when compared with domestic sales, this is due to lack of management in factors such as human resource management being unable to keep up with the pace of opening stores and a lack of utilization of business know-how, and it is actually not a field that is posing an inherently tough battle. We believe that this period gave us time to experiment through trial and error to create a system that can win out in the fierce competition of the global market.

Under these circumstances, the Japan-China Joint Project to Strengthen Global Business was launched in an all-out effort to thoroughly consider the subject of how we can accelerate the expansion of our overseas sales business in the future.

Establishing the Japan-China Joint Project to Strengthen Global Business –The Project Content and Results–

In December 2018, we established the Japan-China Joint Project to Strengthen Global Business, a joint effort in which knowledgeable specialists from our headquarters in Japan and local staff members worked together to resolve issues, strengthen overseas sales business and achieve speedy global business development. Starting with an analysis of the current state of development, we organized and analyzed a scattered selection of issues and clarified the problem areas that needed to be resolved. In addition, we organized the know-how that has been handed down to us as knowledge through experience, and have put in place a system to improve our ability to replicate this know-how at

actual sites. Thanks to this approach, fiscal 2019 has already begun to produce positive results in both store operation and performance.

Approximately half of the listed and recognized issues will be resolved through operational improvements such as human resources development and sales floor development, and prospects look bright that the other half will be resolved through clarification, adding to our curriculum, and systematization. NITORI as a company retains all kinds of internal know-how, but it is contained within specific personnel and has not been collected and managed as shared organizational knowledge. Through this

project, it has become clear that identifying this implicit knowledge and sharing it as explicit knowledge is a shared theme that we must continue to work on.

In addition, we also gained great insights, including the fact that the members of the headquarters in Japan were able to experience how efficient and effective the Japan-China

relationship can be in jointly solving problems that are occurring and that we were able to share a firm understanding that it is the job of the headquarters to take responsibility for supporting the overseas business. In the future, we believe that this will be a powerful resource as we continue to dramatically expand the overseas sales business.

Creating a System with the Ability to Open Stores Anywhere in the World – Strategy to Achieve Our Vision –

The Japan-China Joint Project to Strengthen Global Business was disbanded in fiscal 2019 as originally planned, and we have transitioned to a holdings company structure to support overseas business expansion by each organization through the Global Business Development Office. The Global Business Development Office will drive future overseas sales business as a management organization that provides systematic control over the knowledge

acquired through this project and effectively convey it to each department. Specifically, it will direct and supervise the entire global business by acting as a bridge for communication so that each department can easily support overseas business, regulating issue awareness, and in some cases, creating systems for issue resolution.

Global Business Development Office (started in January 2020)

Themes	Initiatives
<p>Support for overseas business by the Japan headquarters →Supporting issues related to developing business in all countries and regions</p>	<ul style="list-style-type: none"> Human resources development Product development Product supply Store creation Omni-channel Store work standardization Product supply and inventory management
<p>Clarification and transfer of the knowledge →Through OJT and personnel transfers to enable knowledge sharing, transplant and transfer the knowledge accumulated within the Company to other countries and regions</p>	<ul style="list-style-type: none"> Display standards Faster and more efficient human resources development, etc. <p>* Discovering more solid knowledge through a process of clarification and transfer of conventional know-how</p>
<p>Lifestyle studies in new countries →Identifying the features of local lifestyles instead of market research on what's currently selling well</p>	<ul style="list-style-type: none"> Understanding the lifestyles of local people and identifying frustrations and inconveniences based on actual living conditions
<p>Global omni-channel promotion (platform building, global standardization) →Evolution from e-commerce measures deployed in each country to the development of a shared global platform</p>	<ul style="list-style-type: none"> Response to rapid changes in customers' "purchase behavior" Unified system, cost measures and improved expansion speed, etc.

There are many different countries around the world, with many different lifestyles and ways of living. We believe that we can respond to the frustrations and inconveniences found in each country with NITORI Group's business model.

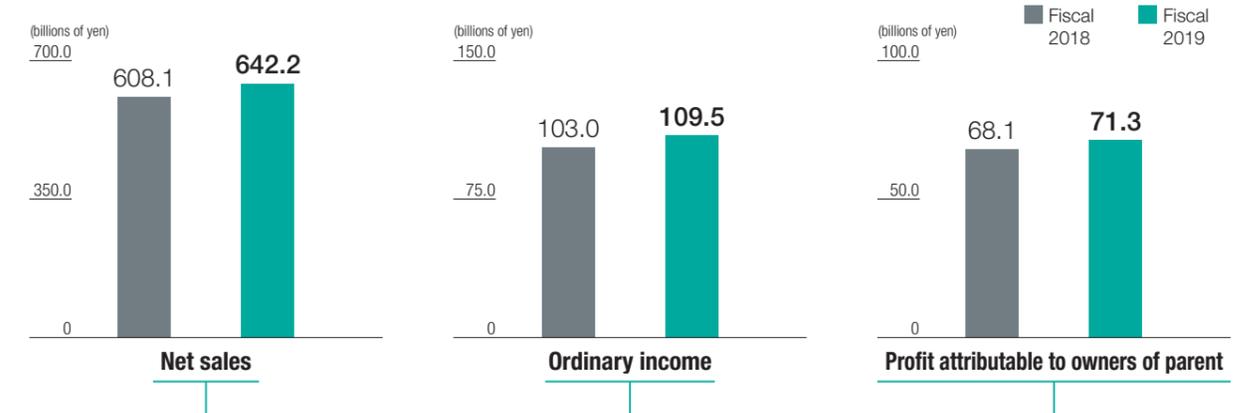
The strategy we are employing to achieve our vision is to establish a system for stable growth in the top competitive market while still making maximum use of the knowledge and strength we have cultivated in Japan, and provide global standardization so that this system can be transferred to any region of the world.

While maintaining support for issue resolution through operational changes and improvements, we will continue to promote the creation of a system featuring clarification and transfer overseas of the knowledge to achieve efficient and effective global business expansion, which includes the discovery of new knowledge that arises from providing support.

In this way, NITORI Group seeks to establish a system with the ability to open stores anywhere in the world.

Performance Reports and Growth Strategy for Achieving Our Vision

Consolidated operating results



Sales were strong in N Cool series and N Warm series bedding products, kitchen products, appliances including refrigerator/freezer and washing machines, sofas, and bedroom furniture including internally-developed mattresses, etc.

Gross profit improved due to forward exchange contracts and measures to lower costs. Selling, general and administrative expenses increased due to increased logistic expenses, including shipping and delivery expenses, and expenses involved in remodeling 25 existing stores.

Despite recording gain on sales of non-current assets and extraordinary losses due to factors including impairment of unprofitable branches of overseas stores, etc., profit attributable to owners of parent increased by 4.7% year-on-year.

Growth strategy

- Priority policies**
- Establish a Group growth trajectory and new endeavors
 - Provide a comfortable lifestyle via our merchandise, stores, and services
 - Rebuild the company organization to sustain a global chain store system

Looking back on fiscal 2019

Furniture and interior decorating product sales were strong, driven by favorable performance of bedding products, kitchen products, appliances, sofas, and bedroom furniture, and gross profit improved due to forward exchange contracts. Net sales in the furniture and interior decorating products sales business were 629.7 billion yen.

Net sales in other business were 12.5 billion yen, due to real estate lease revenue and advertising and publicity business, etc.

Future issues and response strategy

In the furniture and interior decorating industry, the business environment is expected to change significantly due to factors including technological progress, evolution of competition, intensifying sales competition that spans across business categories, rising logistic costs, and changes in consumption trends. In order to establish a global chain in response to this kind of environment, we will evolve our strength as a manufacturing-distribution-IT-retail business, offer coordination suggestions, promote O2O, etc. and continue to provide products, stores, and services with increased focus on the perspective of our customers.

Domestic Sales Business

Create attractive stores with new products, services, and coordination suggestions



We place the highest priority on resolving customers' frustrations and inconveniences in developing products and providing services. I believe that identifying and resolving many more of the troubles faced by customers will contribute to the enriched lifestyles that we offer. We aim to achieve our mission and vision by clarifying and devoting ourselves to issues in products, sales floors, and services.

Masanori Takeda
Representative Director & President, Nitori Co., Ltd.

Business Environment (Risks and Opportunities)

Pursuit of the customer's perspective as a priority issue for sustainable expansion of customers

In fiscal 2019, the number of stores increased by 36 from the previous fiscal year, with total of 541 stores (NITORI, Deco Home, and NITORI EXPRESS) in Japan. After we opened our first store in Hokkaido in 1967, NITORI Group has focused on expanding domestic businesses. However, we have witnessed shrinkage of the domestic market with a decrease in domestic sales in various industries resulting from the impact of population decline and other factors in recent years. We have worked on sustainable customer expansion through the pursuit of the customer's perspective as one of our priority issues in order to continue to provide enriched lifestyles even amid this situation.

Countermeasures

To create stores where many customers would want to visit repeatedly

In fiscal 2019, we undertook various measures to improve the convenience of shopping. This included establishing interior design consultation corners at four separate sites, building a customer service system using 3-D simulators, installing digital catalogs in 439 stores to compliment the product lineup, and experimental trials of introducing self- and semi-self-service cash registers. As we continue to open new stores, we will strive to implement low-cost operations while providing stable services to customers, and aim to continue devoting ourselves to creating stores with repeat visitors.

Growth Strategy for Achieving Our Mission and Vision

Actively open stores in small market areas and promote coordination suggestions

In regard to store openings within Japan, there is a lot of room for the sustainable expansion of customers in areas where our Group has yet to open a sufficient number of stores: market areas with low populations. In the Deco Home business, we are actively opening stores in these areas. Our domestic network of Deco Home stores, which are based around the concept of "a store you can drop in on daily," had expanded to 94 as of February 20, 2020, including the opening of our first store in Hokkaido in February 2020. In fiscal 2020, we plan to open 20 stores, as we look to expand our offering of skin care products, cosmetics, beauty appliances, and other new types of products, and create store formats that can exist alongside NITORI.

Additionally, the "promotion of coordination suggestions" will be essential as we look to achieve the mission and vision of NITORI Group. At present, the proportion of our sales floors allocated to displaying coordinated merchandise is just 25%, but we aim to increase this to 40% in fiscal 2020 by increasing our

range of coordinated offerings. We aim to encourage more customers to visit stores by ensuring they experience at first hand a greater range of coordinated offerings that will enrich their lifestyles, and we believe this will lead to an increase in the number of items purchased as customers learn the joy of coordinated merchandise.

In order to make life more convenient, comfortable, and enriched for all people in all regions throughout the country, we are actively opening stores and promoting coordinated offerings, as we aim to achieve our mission and vision.



Specific strategy

DAY+Value

居心地のいい暮らしを。

& Style

私らしい部屋へ。



Offering enriched ways of living with a wide range of options

NITORI's approach to coordinated offerings is based on two brands with different price ranges – our DAY+Value and & Style lines – and five styles (simple, natural, feminine, vintage, and Japanese modern). In order to offer customers ways of living that allow them to experience the joy of coherent interior coordination, we are revising our product mix (price ranges) and creating style-based merchandising (clarification of our philosophy and design policies, and control of our mix of brands for each type of product). The Group's aim is to ensure that customers are able to select the style, price, and function that meets their needs, and experience the joy of shopping and interior coordination. We will offer more people enriched ways of living by increasing our efforts to provide coordinated offerings and thereby offering customers a multitude of styles that cannot be found anywhere else.

Overseas Sales Business

Accelerating globalization is the key to achieving Vision 2032



NITORI Group is currently focused on opening stores overseas. Up to this point, resolution of the unique issues faced in each country was left to the local team members. However, since we thought that this method will not provide the ability to accelerate globalization, in February 2020, we established the Global Business Development Office in order to provide support directly from our headquarters for building foundations for overseas business.

Fumiaki Matsumoto
Director, Executive Vice President

NITORI (China) Holdings Co., Ltd.: Looking Back on Fiscal 2019 and Issues and Growth Strategy for Fiscal 2020

A year of foundation building - yielding steady results from the project

The number of stores in fiscal 2019 decreased by four from the previous fiscal year to 34. However, this was a deliberate strategy deployed to restructure the business promotion system led by the Japan-China Joint Project to Strengthen Global Business that was formed in December 2018. Focusing on remodeling existing stores, the Shanghai Qibao Store, the standard store, took steps to establish standard patterns in operation and sales floors, while the Shanghai Xujiahui Store, the flagship store, conducted initiatives such as reproducing the most advanced stores in Japan to recreate the image of NITORI. As a result, these two stores recorded double-digit growth in net sales year-on-year after remodeling and were able to grow as models for profit-generating stores.

In fiscal 2020, the issues are to horizontally expand Hfa prototype stores through scrap-and-build initiatives and remodeling existing stores, in addition to maintaining a PDCA cycle to accelerate store openings from 2021, including standardization of shelving allocation and product lineups that meet the needs of the area. In addition, we will continue to take on new challenges to expand the e-commerce business and implement measures to increase contact points with customers leveraging the results obtained from the project. As the second year of foundation building, we will move forward to achieve steady growth.

NITORI Taiwan Co., Ltd.: Looking Back on Fiscal 2019

Net sales at existing stores recorded double-digit growth year-on-year. Gaining confidence in the permeation of the NITORI brand

Although the number of stores in fiscal 2019 decreased by one from the end of fiscal 2018 to 30 as a result of promotion of scrap-and-build initiatives, net sales at existing stores recorded double-digit growth year-on-year due to effective remodeling of existing stores. The remodeled stores have been favored by customers as a result of reviewing product composition, strengthening presentation, and replacing floors and furniture. Also, performance in the BtoB business increased significantly from the previous year, as we provided interior design planning service to Japanese companies on the occasion of their store openings. This business is expected to grow into a pillar of NITORI Taiwan Co., Ltd. in the future.

NITORI Taiwan Co., Ltd.: Fiscal 2020 Issues and Growth Strategy

To become the company that contributes the most to enriched living

We will continue to promote scrap-and-build initiatives as well as the remodeling of existing stores to build a profit model and also experiment the development of small stores of the size of 330 m² in our efforts to open more stores. In addition, we will utilize TV commercials and social media to promote our products and services to an even wider range of customers, and in doing so, aim to promote recognition of the product capabilities of NITORI Group and our status as a global corporation. "Becoming a company that contributes the most to enriched living" - this is the vision that NITORI Taiwan Co., Ltd. aims to achieve. We will work to steadily gain the support from our customers and continue to take on new challenges.



NITORI USA, INC.: Looking Back on Fiscal 2019

A two-store structure with a streamlined organization which allows more functional responses to market changes.

We have been promoting the development of our Aki-Home brand in the U.S. since we first entered the market in 2013. In fiscal 2019, the number of stores in the U.S. came down to two as a result of closing unprofitable stores, but we also worked to cut down on costs by downsizing the organization. Half-hearted attempts will not make the cut when it comes to business development in the U.S., which is said to be the most competitive market in the world. However, establishing a store in the U.S., where the roots of our mission lie, has great significance for the growth and development of NITORI Group. We are now undergoing a repeated process of learning and taking on of new challenges amid the fierce competition presented in this market.

NITORI USA, INC.: Fiscal 2020 Issues and Growth Strategy

Promotion of omni-channel strategy centered on private label products

In regard to purchasing behaviors of furniture in the U.S., more than 60% of customers first select products on e-commerce sites and then purchase them at actual stores. In order to accommodate this behavior at Aki-Home as well, we will focus on expanding e-commerce sales in fiscal 2020. In addition, we will pursue new endeavors, such as experimenting the use of physical contact points (pop-up stores) to convey the value of functional products, including the N Cool product series, to customers, and linking information obtained through lifestyle surveys to product development capabilities for developing core products.



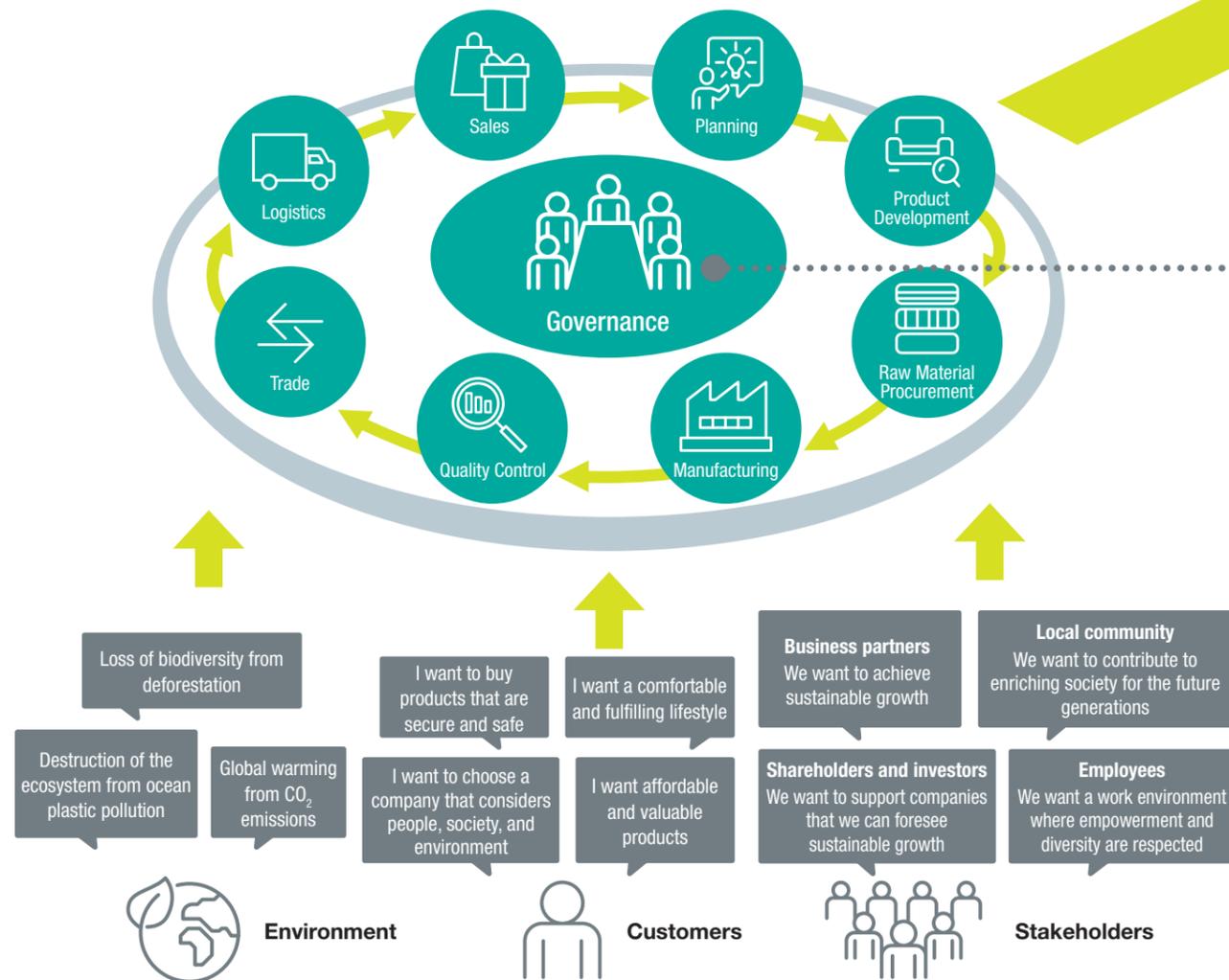
NITORI Group's Sustainability Policy

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." Its unique business model that integrates manufacturing, distribution, IT, and retail was developed precisely during this process.

Taking advantage of this fully integrated business model, and repeating improvements and reform at every stage from planning to sales by constantly making considerations from the perspective of the entire supply chain, we are not only able to achieve drastic cost reduction, but also able to contribute to various fields in solving ESG issues and implementing the SDGs.

We will continue to place the highest priority on "resolving customers' frustrations and inconveniences" as we work to achieve our mission, and by focusing our efforts on the external environment and change and challenge ourselves, achieve sustainable corporate growth and create environmental, social, and economic value 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

Enriching homes around the world



Initiatives to Solve Issues

- Planning and Development** Balancing convenience of products and environmental consciousness.....p.33-34
- Procurement and Manufacturing** Contributing to a recycling-oriented society with the use of recycled materials.....p.35-36
- Logistics and Trade** CO₂ reduction through enhanced transport efficiency.....p.37-38
- Sales** Offering convenience with an expanded store network.....p.39-40
- New Fields of Business** Contribution to sustainable urban planning through revitalization of used home market.....p.41

Initiatives to Build Foundations

- Social Action Programs** Hand-in-hand with our customers.....p.42
- Human Resources Development** Creating an organization with a wealth of elites.....p.43-46
- Governance** Corporate governance.....p.47-50
- ESG Information** Disclosure of ESG Information.....p.57-60

Sustainability Promotion System





Balancing convenience of products and environmental consciousness

Overview of initiatives



Create shared value through the above process

Environmental value	Contribute to a reduced environmental impact through development of environmentally friendly functional products (green products)	Economic value	Reduce electric power usage in typical homes cutting down the use of heating and air conditioning systems, etc.
----------------------------	---	-----------------------	---

Social issue Balancing economic and ecological goals

General trends

- As the global community is increasingly engaging in debate surrounding global warming, there are also signs of increased interest in new ways of valuing companies that utilize an ESG perspective.
- In response, companies are required to identify social issues, while taking into consideration the environment surrounding them, resolve those issues through their businesses, and outline scenarios for sustainable growth.

NITORI's approach

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.

Product development targeting coexistence with the environment and society

In response to these changes in the environment surrounding companies, 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 recognize the importance of ethical consumption, in which consumers actively select and use products and services that consider the environment and society, and promote the development of environmentally friendly functional products (green products).

These 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, in addition to making a positive contribution to customers' household finances by saving energy and resource usage.

Related Information p.58 Environmental Data Reducing wastes by reviewing product packaging (from polystyrene to molded pulp)

NITORI Group

Placing the highest priority on resolving customers' frustrations and inconveniences

Development Concept Behind the scenes of the N Cool series

"How can we get a comfortable night's sleep without using air-conditioning on humid summer nights?" This was the question that led NITORI to develop the N Cool product series, which uses materials that feel cool to the touch. Through our unique business model, 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, and as a result, the product was a major hit.

The N Cool product series started from bedding items, but are expanding in line with customer needs, which as a result is leading to the contribution and reduction of environmental impact.



In addition, NITORI has developed many environmentally friendly products that contribute to enhanced convenience for customers, including the N Warm series, which was developed to enable a warm night's sleep on cold winter nights and uses moisture-absorbing, heat-generating materials; N Warm Moist, which uses thread that maintains a high moisture percentage and feels moist against the skin, for people worried about dryness; and ECONATURE™ lace curtains, which cuts heat and ultraviolet light, and blocking vision into the room, while enabling sunlight to pass through.

Expansion of N Cool and N Warm product series

FY	2011	2012	2013	2014	2015	2016	2017	2018	2019
N Cool series		Sales of N Cool and N Cool Super (bedding only) started	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
N Warm series	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 Double Moist launched

Fiscal 2019 Sales N Cool series: 8.76 mn units / N Warm series: 5.33 mn units

Shared value

Accelerating the shift to a sustainable society through contributions on both environmental and economic fronts

Looking ahead, NITORI will continue to contribute to enhanced convenience for customers and consideration for the environment, through the development and sale of environmentally friendly functional products (green products).

Examples of NITORI's green product functions

N Cool	Cooler than general pile fabric Approximately -3.5°C (N Cool Super) Approximately -5.3°C (N Cool Double Super)
N Warm	Compared with ordinary flannel fabric Heat retention +5°C (N Warm Super) Moisture percentage 5 times (N Warm Moist)
Premium lace curtain ECONATURE™	Summer insulation over 25% / winter heat retention over 20% UV reduction over 80% / lighting rate approx. over 20%

Contribution on both environmental and economic fronts with reduction in electric power consumption

Creation of shared value

Customers

In addition to comfortable lifestyles, contributing to household finances through reduced costs as a result of lower electric power usage

NITORI Group

Sustainable growth by offering convenience for customers and capturing needs of next-generation consumers

Global environment

Reduction of environmental impact through reduced energy usage



7.3
By 2030, double the global rate of improvement in energy efficiency



12.2
By 2030, achieve the sustainable management and efficient use of natural resources



Contributing to a recycling-oriented society with the use of recycled materials

Overview of initiatives



Create shared value through the above process



Social issue Necessity of building a recycling-oriented society

Raise the alarm against large-volume production, high-volume consumption, and high-volume waste

- As shown by the call of Goal 12 of the SDGs to secure sustainable models of production and consumption, the finite nature of resources has been indicated amid growing energy demand in line with the increasing global population, and companies are thus required to optimize product lifecycles and enhance the efficiency of their resource use as part of their social corporate responsibility.
- Ocean plastic pollution has spread to become a global environmental issue, and the conditions under which people can maintain old social systems based on high-volume production, consumption, and waste are beginning to collapse.



As we look to achieve our common goal of building a society with no concept of waste, it is important that all parties fulfill their respective roles under the basis of "co-creation and coordination."

Building a recycling-oriented society

Related Information p.58 Environmental Data Reducing wastes through the effective use of scrap materials at NITORI FURNITURE VIETNAM

NITORI Group

Manufacturing carpets and rugs with recycled plastic bottles

Approach

- In order to promote a recycling-oriented society in the home furnishing field, we made Thai Negoro (currently SIAM NITORI), which recycles plastic bottles and uses them to make carpets and rugs, a subsidiary.
- By promoting initiatives including comprehensive collection and recycling and the development of products that use fewer resources, we will limit the use of new natural resources as much as possible, and build supply chains that reduce wastes.

About SIAM NITORI

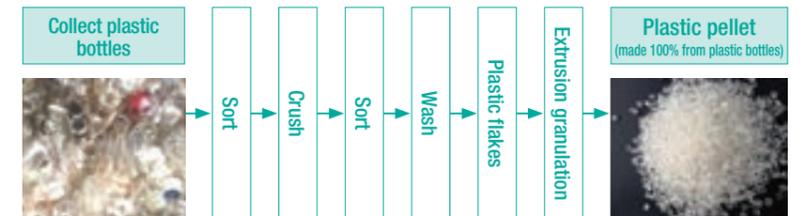
- SIAM NITORI is the sole factory supplying products manufactured using recycled fibers to Japan.
- One carpet approximately 10m² in size, can be made with recycled polyester produced from approximately a hundred 500ml plastic bottles.

SIAM NITORI's technical capabilities

- Manufacture of carpets and rugs using recycled polyester produced from plastic bottles
- Manufacture of recycled polyester with special functions such as flame retardant and antibacterial properties → **Promotion of recycling**
- Manufacture of recycled polyester using pigments with an environmentally friendly coloring method that does not produce sewage → **Reduce environmental impact**
- Manufacture of spun yarn with high bulkiness using a special "wrap thread," in which ultra-fine nylon thread is wrapped around recycled polyester → **Efficient use of materials**

Plastic bottle recycling process

Used plastic bottles are turned into plastic flakes after they are sorted, crushed, and washed, which is processed into plastic pellets, 100% made from plastic bottles with SIAM NITORI's unique technology



Shared value

Contribution to creating a sustainable society through active use of recycled materials

At NITORI, carpets and rugs produced using the recycled fiber of SIAM NITORI are labeled with the "Neco" logo and are promoted as environmentally friendly products. In the future, we will expand the use of this fiber in products other than carpets, and promote initiatives for further reduction of environmental impact toward a recycling-oriented society.



Creation of shared value

- NITORI Group** Sustainable growth through efficient use of resources and development and sales of products that contribute to ethical consumption
- Global environment** Short-term: Environmental conservation
Long-term: Recycling-oriented society
- Customers** New lifestyles through ethical consumption that does not contribute to environmental impact

Utilization of recycled materials

Number of recycled plastic bottles at SIAM NITORI (From joining Group in May 2018 to fiscal 2019)	Approx. 200 million
Usage volume of recycled polyester in soft goods other than those from SIAM NITORI (Fiscal 2019)	Over 18,000t in total
Composition ratio in above virgin materials (%)	43%

12.2
By 2030, achieve the sustainable management and efficient use of natural resources



CO₂ reduction through enhanced transport efficiency

Overview of initiatives



Create shared value through the above process

Environmental value	Mitigation of impact on climate change through achieving Green Logistics Contribution to global environmental conservation	Economic value	Reduce logistics and trade risks by strengthening logistics capabilities through enhancing transportation efficiency and mitigating impact on climate change
----------------------------	---	-----------------------	--

Social issue Building resilience to climate change

Increasing "sense of crisis" and business risk associated with global climate change

- Issues such as rising sea levels, abnormal weather, depletion of land resources, deforestation, water pollution and depletion, and changes in the ecosystem due to climate change are becoming increasingly serious on a global scale.
- Also in the international community, the Paris Agreement sets a goal for all countries to work on reducing greenhouse gas, and there is a need to balance both economic activities and resolving environmental issues.
- The increase of extreme weather events, such as heavy rainfall and super typhoons, may cause enormous damage in manufacturing and logistics operations.

Strengthen NITORI Group's logistics capabilities by contributing to the environment and adapting to climate change

- Climate change 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.
- NITORI Group believes that contributing to global environmental conservation by mitigating the factors that cause climate change and **adapting to climate change** to enhance sustainability and resilience will lead to earning the trust of all stakeholders, including business partners, investors, etc.

Related Information p.59 Our role as a social infrastructure at the time of disasters

* Difference calculated from the previous fiscal year

NITORI Group

Reduction of CO₂ through Green Logistics

Annual volume of CO₂ emission reduction 1,930t-CO₂*

Approach

Aiming to balance reduction of distribution costs and environmental measures through improvement of transportation efficiency

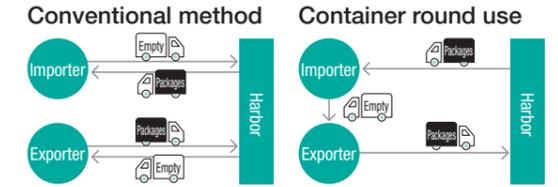
Through eliminating waste and improving efficiency in all steps of the distribution process, including trade, transportation, and shipping, we are able to significantly reduce logistics costs and achieve environmentally friendly "Green Logistics," which furthermore leads to reduction of CO₂ emission volume in the distribution process.

Initiatives

Improvement and reform for reduction of environmental impact in logistics and trade as ALL NITORI

Improving container transportation efficiency by expanding container round use

In an initiative to use imported containers after packages are unloaded in exports thereafter, an annual total of more than 2,000 containers was used more effectively throughout fiscal 2019. Through this, the annual volume of CO₂ emissions was reduced by 130t (number of containers was 118% compared to fiscal 2018).



Building a one-stop shipping system through reviewing international logistics

By undertaking all import-related tasks within our Group, we are achieving significant cost reduction and smooth product supply.

Improve efficiency of transportation routes by introducing the latest systems

Distribution centers throughout the country use the latest traffic control systems employing GPS for more efficient delivery.

Expand direct delivery of products to customer homes

Eliminate relay points and ship directly from the manufacturer to customer homes. Used to enhance efficiency of transportation routes.

Optimize placement of domestic distribution centers

Proceed with initiatives including the establishment of new distribution hubs and review of the positioning and functions of existing distribution centers to balance cost reductions with improvement of productivity and reduction of environmental impact.

Enhanced loading efficiency with downsizing of product packaging

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.

Related Information p.57 Environmental Data

Shared value

Aiming for sustainable growth by contributing to efforts on climate change

Energy usage in logistics by unit

FY	2015	2016	2017	2018	2019
Unit (kℓ)	3.13	2.94	2.91	2.90	2.78
Year-on-year (%)	88.9%	93.9%	99.1%	99.5%	95.9%

* Unit = Crude oil equivalent (kℓ) of energy usage (GJ) / annual net sales

CO₂ emission volume per store in Japan involved in logistics

FY	2015	2016	2017	2018	2019
CO ₂ emission volume per store in Japan (t-CO ₂)	95.5	89.7	90.3	88.1	83.4

CO₂-related indicators at delivery centers

FY	2017	2018	2019
Mileage per delivery truck (Km)	91.62	90.92	89.51
Mileage per delivery truck year-on-year (%)	98.6%	99.2%	98.4%

Creation of shared value

- NITORI Group**: Reduce distribution costs by improving transportation efficiency
- Global environment**: Mitigate global warming with CO₂ emission reduction
- Employees**: Reduce labor burden and reform workstyles with improved logistics efficiency

- 7.3**
By 2030, double the global rate of improvement in energy efficiency
- 9.4 (Summary)**
Improve sustainability with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies
- 13.3**
Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction, and early warning



Offering convenience with an expanded store network

Overview of initiatives



Create shared value through the above process

Social value Guaranteeing affordable, safe and comfortable living environments for all

Economic value Contributing to the revitalization of local economies and urban planning that achieves sustainable growth and development

Social issue Accessibility for people living in small market areas

Expectations for an aging population and smaller market areas

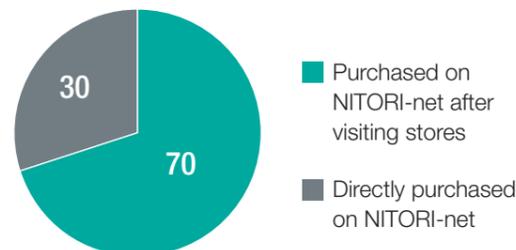
Although the total Japanese population in 2019 decreased by 260 thousand year-on-year, the elderly population over the age of 65 increased by 320 thousand to 35,880 thousand, the highest number it has ever been. The percentage of the total population represented by the elderly is 28.4%, as it rose by 0.3 points from 2018 to the current record high, and Japan is facing the realities presented by an aging population.

It is commonly said that elderly people can only walk and shop within a 400-500m radius from home due to physical weakness in their legs and hips that come with aging, and the idea of developing retail stores in market areas with low populations is gathering attention.

Seamlessly linking stores and e-commerce sites to propose more convenient ways to shop

As the e-commerce market shows remarkable growth in general, sales performance on NITORI's e-commerce site, NITORI-net, is also expanding year by year. At the same time, we know that approximately 70% of customers who make purchases on NITORI-net actually visit NITORI stores beforehand to see the products, touch them, check the quality, and then make their purchase online. We will continue to pursue initiatives to improve customer convenience by continuing to meet the changing needs of the times in our sales methods.

Purchasing behavior on NITORI-net



NITORI Group

Offering enriched living to many more people

Idea

By expanding store network, increase store density

Even though customers can get product information and read reviews on e-commerce sites, they cannot actually pick up the products and check them out in person unless there is a physical store located near their homes. Shopping has become convenient with the expansion of e-commerce, but that alone is not enough. NITORI Group believes that being able to directly view the quality of

products in person at stores before purchasing them, and being able to directly ask questions to and consult with store employees, will lead to safe and enjoyable shopping experiences for our customers. To achieve this, stores must be available in every region of the country. As such, we are focused on expanding our store network to improve customer convenience.

Approach

Actively opening small-format stores in urban areas

While continuing to open stores for regions that have market areas with populations of 100 thousand or less, we will also focus on opening stores in shopping centers and department stores in urban areas, and development of small-format Deco Home and NITORI EXPRESS stores, to provide shopping experiences for customers living in urban areas where cars are not required.



Urban area store: Shibuya Koen-dori store (left) Deco Home Rasora Sapporo store (top right) NITORI EXPRESS Apita Terrace Yokohama Tsunashima store (bottom right)

Shared value

The ability to purchase products essential for daily living whenever they are needed

We aim to become a store that is supported in all regions of the country by improving accessibility to stores through expanding our store network, focusing on creating stores catering to each individual region, and strengthening sales floors, product lines, and services that make it easy for customers to go through with their purchase.

Accelerating development of small-format stores

Number of Deco Home stores

FY	2012	2013	2017	2018	2019	2020 (plan)
Number of stores	10	22	62	78	94	114

Initiatives for creating stores that will be supported by more customers

- Actively opening stores located in shopping centers
- Building system to maintain low-cost operations even at stores of different sizes and market areas
- Complementing product lineups with a digital catalog
- Installation of display corners coordinated in different styles through complete refurbishment
- New interior design consultation corner with professional advisors

Expanding lines of appliances

- NITORI offers everything needed in daily life, so customers don't have to shop around at multiple stores. We are committed to providing expedited shopping experiences.

Product line expansion history of NITORI's simple electric appliances*

FY2009	Full-scale sales of compact electric appliances (new home appliances)
FY2017	Full-scale sales of compact refrigerators (106L)
FY2018	Fully automated washing machines (6kg)
FY2019	32V-type high-definition TVs

* Achieving low prices by carefully selecting only the functions that customers really need
* Achieve the same quality as domestic electric appliance manufacturers with our own unique quality control system

Creation of shared value

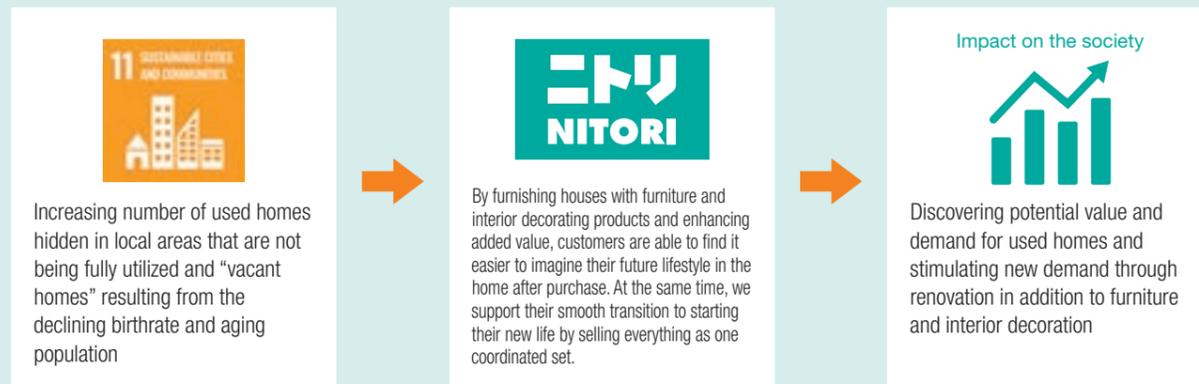


11 Make cities inclusive, safe, resilient and sustainable

Initiatives in New Fields of Business

Contribution to sustainable urban planning through revitalization of used home market

Overview of initiatives



Create shared value through the above process

Social value	Proposing solutions to external diseconomies and inefficient use of existing houses due to an increase in used homes and vacant houses that have been left open for a long time	Economic value	Revitalize used home market and furniture and interior decorating market through lifestyle suggestions that feature total coordination
---------------------	---	-----------------------	--

Social issue One in every four houses will be vacant by 2033!?

As the population continues to fall due to the declining birthrate and aging population, homes that were built during the high growth period have turned into vacant houses. It has been predicted that one in every four houses will be vacant by 2033, and there is a need to address social issues such as property taxes and other uneconomical situations, building collapse and fires, bug infestations, and criminal risks.

NITORI Group Business alliances with other companies centered on the used home rehabilitation market

Perspective Reduce vacant houses through revitalization of used home market

The idea of sharing possessions and services has taken root in recent years, and even in housing, the number of cases where people choose to buy a home regardless of whether it is new or used is increasing.

Concept Offering spaces that meet customer needs

We will provide NITORI's furniture and interior decoration in coordinated sets to help customers with a smooth transition to starting their new life after making their purchase.

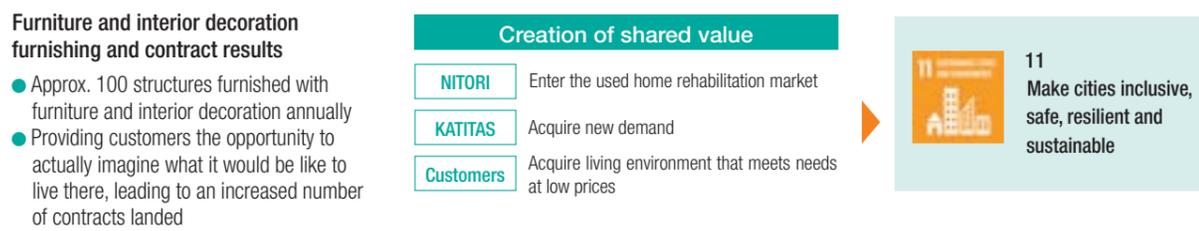
Approach Capital and business alliance with KATITAS Co., Ltd., the No. 1 company in the used home rehabilitation industry

We aim to develop a system for increasing added value in sales through a business alliance.



Shared value Offering homes that more people want to purchase and live in

Since 2018, we have been working on "home staging," in which we furnish real estate properties with NITORI's furniture.



Social Action Programs

Hand-in-hand with our customers

NITORI Group's approach to social action programs

Aiming to become a company that people will feel in need of, we conduct a wide variety of activities to give back to our founding place, Hokkaido, and all of the countries, local communities, and society members that nurture and support NITORI Group. We would like to introduce some of the various activities that we have implemented by building a long-term relationship with the community involved in our businesses, and focusing on the areas of "personal development," "environmental support" and "local contribution."

Categories	Activities	Results and expected impact
Develop the next generation of leaders	● External lectures	Improve the status of distribution/retail industries and develop the next generation of leaders
	● Endowed courses at universities	Endowed courses at the University of Tokyo (2015-2019) →More than 5,000 students in total in five years
	● Partnership agreement for development of "Future IT Human Resources" with Sapporo City and Hokkaido University	See below
Conservation of the environment and revitalization of the local community	● Support through benefit-type scholarships by the NITORI International Scholarship Foundation	Expanding friendship and supporting human resources development around the world →Supported a total of 5,850 students from 42 countries and regions in 15 years from 2005 to 2019
	● Furusato Hokkaido 10-million Tree Planting Project	Conservation of nature and revitalization of the local community →Supported the planting of a cumulative total of over 5 million trees in 15 years from 2005 to 2019
Contributing to the local community and community investment from a long-term perspective	● Installed electric vehicle charging facilities	Reduce environmental impact by contributing to popularizing electric vehicles →Installation and operation of 558 charging stations in parking lots in 208 of our stores nationwide
	● Donated to Yubari City using the corporate version of the hometown tax system	Contribute to promoting the Japanese economy with compact city development and regional revitalization →Donated 500 million yen in four years from 2015 to 2019
	● Opened an art gallery, OTARU ART BASE	Contribute to tourism development and protection and use of cultural resources such as historic structures and wonderful works of art →Over 250 thousand annual visitors



Focus

Partnership agreement for development of "Future IT Human Resources" with Sapporo City and Hokkaido University

Outline NITORI Group 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.



(From left) Mr. Kasahara, Vice President of Hokkaido University, Mayor Akimoto of Sapporo City, and Mr. Shirai, President of NITORI Holdings Co., Ltd.

Activities These three dedicated parties are working together to develop initiatives for each level of education, including elementary and junior high school students, high school students, and university and graduate school students. Among these initiatives, in "NITORI Future Society Design Course," established in the Education and Research Center for Mathematical and Data Science, they are focused on implementing an ambitious project to conduct human resources development by applying the latest data science research on the big data retained by companies.

Future subjects We are promoting initiatives so that Sapporo, 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.

Human Resources Development

Creating an organization with a wealth of elites

Human resources development to achieve a “reinvention of lifestyles” to accompany the digital revolution

In order to achieve the goals of 3,000 stores and 3 trillion yen in net sales set forth in Vision 2032, we will focus on building a human resources management platform oriented on the following priority issues and promote further organizational strengthening throughout the entire group.

Priority issues

- Achieve growth by repeatedly rejecting the status quo regardless of conventional industry practices and past successful experiences
- Responding to the new era of globalization and digital transformation
- Creating an environment where human resources with various knowledge and experiences can achieve self-directed growth



NITORI Group's human resources development

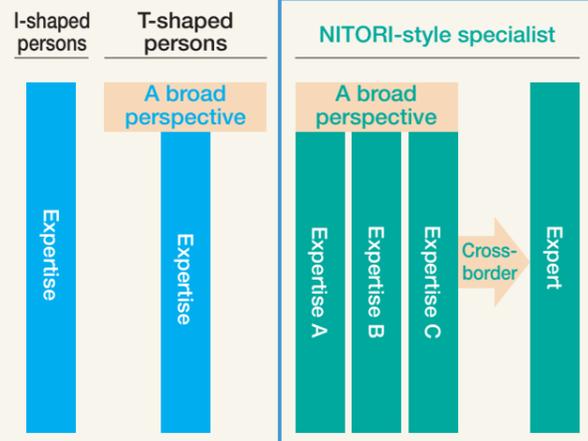
Transfer-based education

Aiming to train true specialists who can contribute to the company and society

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 those specialists, a transfer-based education in which they can experience a variety of occupations every two to three years is essential. NITORI Group's transfer-based education is an education system designed to constantly revitalize the organization and provide each person with a wealth of knowledge and extensive experience.



Enhancing human resources and creating an organization with a wealth of elites through transfer-based education that covers an extensive range of fields



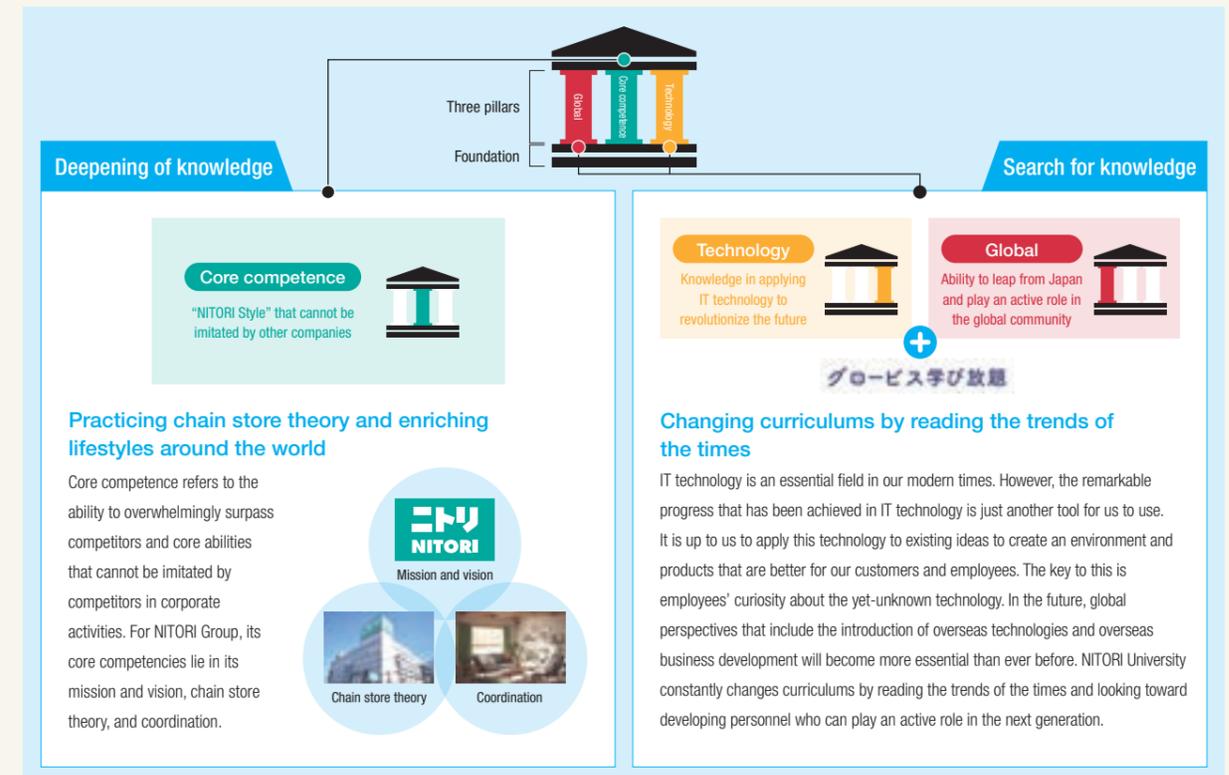
Previously, society tended to value human resources who were experts in a single field, known as “I-shaped persons” and “T-shaped persons.” However, in the modern era in which personnel are forced to solve problems that transcend the boundaries of industries and occupations, we require human resources who can apply knowledge on a broad range of fields and combine expertise in several subjects to generate innovation. NITORI Group has produced a large number of “NITORI-style specialists” who have increased the number of pillars of expertise through transfer-based education and are able to solve problems from a broad perspective. We aim for sustainable growth by taking advantage of the potential presented by being an organization with a wealth of elites.

Employee education system: NITORI University

Independent and autonomous human resources that support the future of NITORI Group through “deepening of knowledge” and “search for knowledge”



NITORI University has placed the idea of “training ‘innovation creators’ through ‘deepening of knowledge’ and ‘search for knowledge’” as the core of its education concept. In “deepening of knowledge,” we will deepen studies of the philosophy, knowledge, and experience that NITORI Group has valued thus far. On the other side, 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 and let them experience the unknown.



Deepening of knowledge

Core competence

“NITORI Style” that cannot be imitated by other companies

Practicing chain store theory and enriching lifestyles around the world

Core competence refers to the ability to overwhelmingly surpass competitors and core abilities that cannot be imitated by competitors in corporate activities. For NITORI Group, its core competencies lie in its mission and vision, chain store theory, and coordination.



Search for knowledge

Technology

Knowledge in applying IT technology to revolutionize the future

Global

Ability to leap from Japan and play an active role in the global community

グローバル学び放題

Changing curriculums by reading the trends of the times

IT technology is an essential field in our modern times. However, the remarkable progress that has been achieved in IT technology is just another tool for us to use. It is up to us to apply this technology to existing ideas to create an environment and products that are better for our customers and employees. The key to this is employees' curiosity about the yet-unknown technology. In the future, global perspectives that include the introduction of overseas technologies and overseas business development will become more essential than ever before. NITORI University constantly changes curriculums by reading the trends of the times and looking toward developing personnel who can play an active role in the next generation.

Focus

Seminars in the U.S.



Outline

The curriculum is prepared for each training stage, from the introductory course in which all second-year employees participate, to the selective advanced courses, which approximately 1,200 people attend each year.

Features and purpose

Experiencing an “enriched lifestyle” with all five senses and reaffirming the Company’s mission. We visit the U.S., where competition is fierce, to tour the chain stores that support the lifestyles of the general public and observe the latest initiatives, sales floors, and products.

Achievements

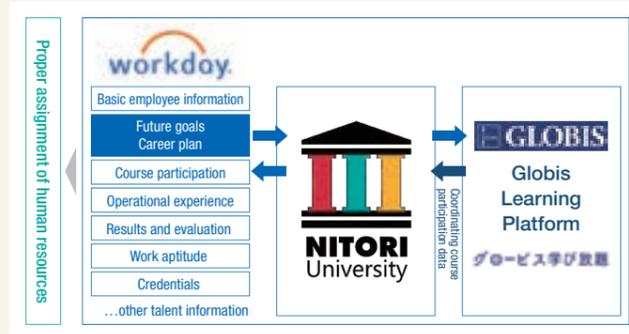
My idea of an “enriched lifestyle” was clarified through on-site tours and shopping experiences, and I was provided with the opportunity to think more about how to approach our mission. I'll immediately get to work to improve the issues we found in our own company that we were able to discover through comparison with sites in the U.S. (T.A., second-year employee, Store Operations Division)

Human resources management platform

Working together with technology to find the best assignment for each and every person

In 2019, NITORI Group established a new human resources management platform. This platform was built with the cooperation of Workday (HR and finance solutions vendor) and Globis (operating Japan's largest business school). It provides an optimal learning environment in accordance with each individual employee's orientation and career, while at the same time, promotes the unified management of personnel information, such as work history, skills, and career orientation.

As NITORI Group's business domains expand globally, a variety of knowledge and skills such as management theory and digital knowledge is becoming increasingly important for the development of future human resources, in addition to our in-house learning. While broadening employees' breadth of knowledge through Globis' study-all-you-want program and coordinating educational backgrounds that demonstrate the fields that have piqued an individual's intellectual curiosity and personal data in the human resources management system, we will apply this information in optimizing assignments to manufacturing, logistics, retail, IT, and other divisions.




An HR management system adopted by 3,200 companies worldwide, including approximately 60% of Fortune 50 companies such as AMAZON, COM, INC. and ADOBE INC. (as of February 2020). In addition to conventional personnel management, it offers the function of effectively promoting talent management such as recruitment, evaluation, training, and placement of employees. NITORI decided to introduce this system as it looks toward promoting individual growth and accelerating global business development in the future.



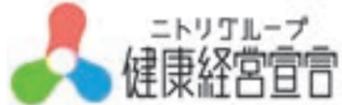
Online video course service offered by Globis. Users can study the essential skills of business in marketing, leadership, accounting, and finance through 300 courses and 2,700 videos whenever they want and as much as they want. This highly effective education method has won numerous awards, including the HR TECHNOLOGY AWARDS. At NITORI, it provides all employees with a long term plan in order to apply them in creating an organization with a wealth of elites.

Environment Creation

Health management

Aiming for an environment where employees can work in good mental and physical health

At NITORI Group, we believe that the 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. In order to improve employees' self-management and awareness of health, we have implemented initiatives including the operation of a personal health website, My Health Web, walking campaigns for employees, and NITORI physical condition improvement contest. In addition, NITORI Group was accredited for the 3rd consecutive year since 2017, in the Certified Health and Productivity Management Organization Recognition Program* (White 500) by the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi. In the 5th White Company Award, the Company was recognized in both the Employee Welfare Category and Valuable Business Model Category.



Health Management Declaration
(Established April 1, 2016)

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

Work-life balance

A company where employees can continue to work with peace of mind

We are working to enhance employee's work and private lives by enabling them to balance childcare, nursing care, illness, and work and choose their workstyle according to the life events. In 2016, we introduced a half-day paid leave system, and in 2017, a work interval system that requires an interval of at least 10 hours from the end of the workday until the next workday begins. We believe that enhancing the lives of employees can be expected to improve

work efficiency and performance. We also introduced further initiatives such as a holiday childcare cost subsidy system and childcare leave for partners, in an aim to turn NITORI Group into a family-friendly company not only for employees but for their families as well.

Improved productivity

Develop a work environment that enables employees to work more efficiently

To accompany the change in workstyles, we introduced a work-at-home system geared toward employees who work shorter hours to improve work productivity from 2016, and the telework system using satellite offices from 2018. Furthermore, from 2018, we began utilizing RPA (Robotics Process Automation) in an initiative led by the Information System Improvement Office. We hold regular internal briefings on RPA every month and have established a support site in order to stay active in following up with each department after its introduction. Currently, RPA is used in 20 departments, reducing working hours by over 45,000 hours per year, and we aim to expand it to all internal departments and reduce working hours by 80,000 hours per year by fiscal 2020. On the logistics front, from March 2019, we began using swap body containers in relay transportation. By using swap body

containers, we can improve transport efficiency, reduce the burden on drivers, improve workstyles, and promote women to play active roles.



RPA briefings

Diversity and inclusion

A workplace where diverse human resources can demonstrate their abilities

In May 2013, in order to create a more comfortable workplace, we established the Diversity Promotional Committee. Committee members lead discussions and make recommendations to the Company so that employees experiencing marriage, childbirth, child care, nursing care as well as multinational employees, etc. can choose from a diverse selection of workstyles.

while working and discuss ways of balancing both work and family as well as career plans.

Among those, we are focusing on encouraging women's active roles, expanding systems that allow women to demonstrate their individual ability and holding career support seminars from 2014. In these seminars, as a venue for our female employees to connect and exchange information, female employees of all ages and positions participate in content designed for our female executives as well as all women who are trying to raise children



Seminar promoting active roles of women

Corporate Governance

Basic approach

NITORI Holdings Co., Ltd. ("the Company") places top priority on sustainable growth and the medium- to long- term improvement of corporate value in its management. The Company believes that enhancing its corporate governance system is necessary for achieving these goals. To enhance corporate governance, the Company aims to build an organizational structure to respond promptly to any changes in the business environment, practice fair and transparent management as a listed company, and disclose accurate information to all stakeholders in a timely manner. Meanwhile, the Company will develop an internal system to establish its corporate social responsibility and corporate ethics.

Board of Directors

- Board of Directors' meetings held: 13*
- Number of members stipulated in the Articles of Incorporation Not more than 15 (not more than ten directors excluding directors who are Audit and Supervisory Committee Members and not more than five directors who are Audit and Supervisory Committee Members)
- Ratio of independent outside directors More than one-third of members shall be independent outside directors

The Board of Directors is composed of 11 directors, of whom five are independent outside directors (of whom, four are directors who are Audit and Supervisory Committee Members, including three independent outside directors).

The Board of Directors delegates the authority to make decisions regarding important business execution to executive directors including the representative director in order to focus on discussions regarding management direction and business strategies, and in turn strengthen the monitoring function of the Board of Directors.

The Company established an Internal Board of Directors to discuss important items related to the execution of duties in advance of discussion at board meetings for prompt decision-making and business execution.

In addition, the Company has introduced an executive officer system in order to respond promptly and appropriately to changes in the business environment.

Audit and Supervisory Committee

- Audit and Supervisory Committee meetings held: 10*
- Number of members stipulated in the Articles of Incorporation Not more than five

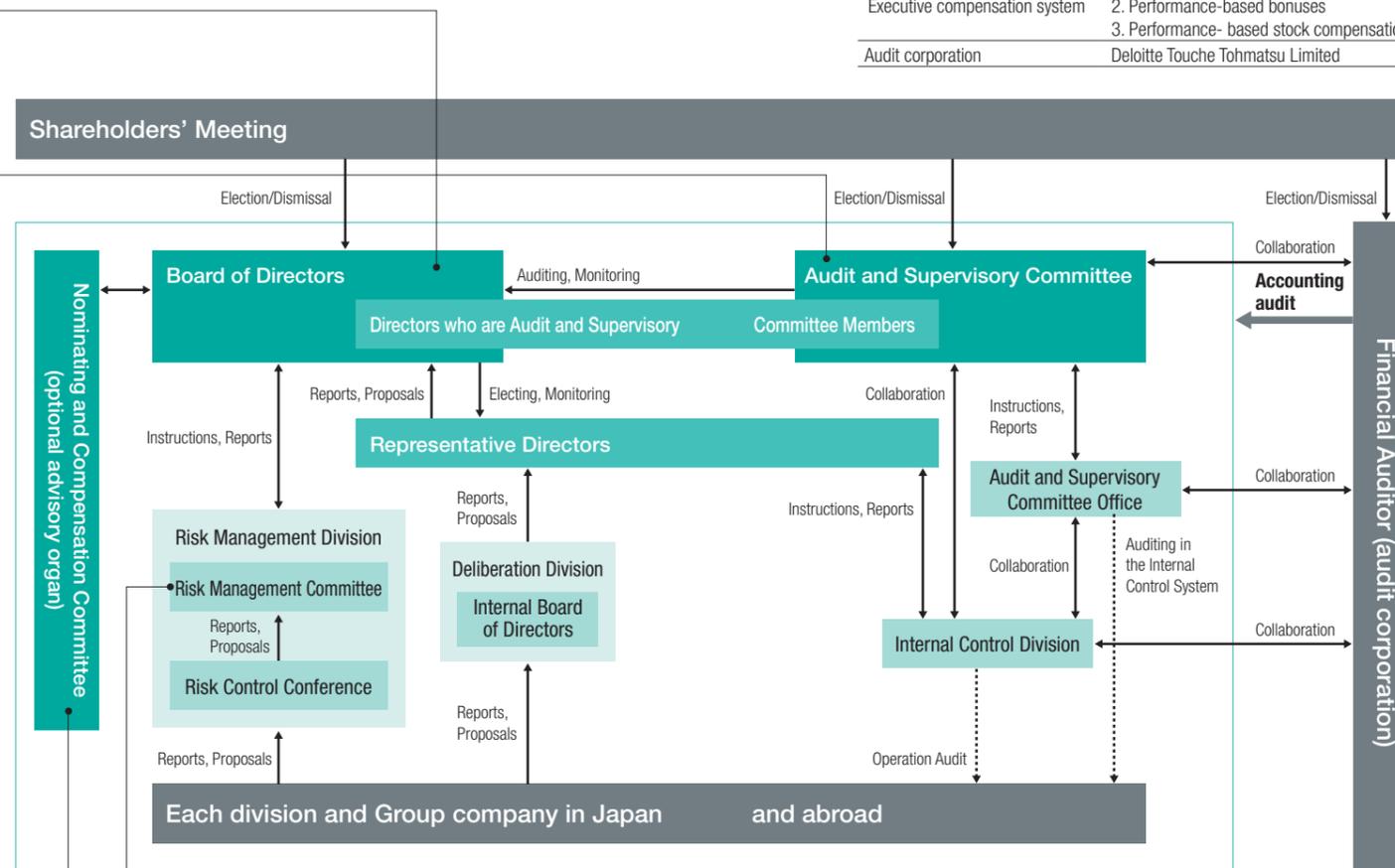
The Audit and Supervisory Committee has four directors, of whom three are independent outside directors.

Directors who are Audit and Supervisory Committee Members audit and monitor the execution of duties by the directors by participating in Board of Directors meetings and using the internal control system. Directors who are full-time Audit and Supervisory Committee Members are, in addition to the above, responsible for conducting highly effective audits and monitoring by attending Internal Board of Directors meetings and other important meetings, reading documents regarding important decisions, receiving reports from the Internal Audit Division, and interviewing relevant people.

In addition, the Audit and Supervisory Committee cooperates with the financial auditor, communicating about the financial auditor's audit policy, audit plans, and audit reports as needed.

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

Corporate governance system



Risk management

Risk Management Committee

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

Information security management system

The Company has appointed an Information Security Officer who assumes overall responsibility for the information security management system. The Information Security Officer will be responsible for directing and monitoring the organization in the building and operation of the information security management system, including identifying the status of information security throughout the entire Group and reporting security incidents and accidents to top management.

Corporate governance system overview

Primary items	Content
Organization design format	Company with an audit and supervisory committee
Number of directors (number of outside directors included)	11(5)
Term of directors	1 year (2 years for directors who are Audit and Supervisory Committee Members)
Adoption of an executive officer system	Adopted
Establishment of discretionary committees	Established (Nominating and Compensation Committee)
Executive compensation system	1. Basic compensation 2. Performance-based bonuses 3. Performance-based stock compensation
Audit corporation	Deloitte Touche Tohmatsu Limited

Compensation system

Compensation for executive directors consists of fixed basic compensation and performance-based compensation, in which the amount paid fluctuates based on the Company's performance.

Compensation for non-executive directors, in principle, consists of fixed basic compensation. Performance-based compensation as short-term or medium- to long-term incentive is not provided for non-executive directors.

- Basic compensation Compensation for directors is determined by a resolution of the Board of Directors within the maximum amount of compensation, etc. for these directors approved at the shareholders' meeting. Compensation for Audit and Supervisory Committee Members is determined through deliberation by the directors who are Audit and Supervisory Committee Members.
- Performance-based bonuses (short-term incentives) Performance-based bonuses for executive directors are decided by calculating an amount for each director based on the Company's performance, etc. and the specific amount to be paid is determined by the Board of Directors within the maximum amount of compensation, etc. for directors approved at the shareholders' meeting and in consideration of reports by the Nominating and Compensation Committee. Performance-based bonuses are not provided for non-executive directors.
- Performance-based stock compensation (medium- to long-term incentives)

Performance-based stock compensation for executive directors is decided through a process in which the Company establishes numerical targets in advance for the Company's performance during the target period every two fiscal years, and, based on the amount of stock to be granted determined in consideration of reports by the Nominating and Compensation Committee depending on the achievement of said numerical targets, the specific amount to be paid to each director is determined by the Board of Directors after the target period.

The applicable directors will continue to hold the stock that has been granted for a certain period of time based on this plan and will have restrictions imposed on their transfer for three years after delivery. Performance-based stock compensation is not provided for non-executive directors.

Nominating and Compensation Committee

- Nominating and Compensation Committee meetings held: 5*
- Number of members: 5
- Ratio of independent outside directors The majority of members shall be independent outside directors

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

The composition of directors' compensation, evaluations of the appropriateness of the performance-based compensation plan's design, establishment of targets and performance evaluations, etc. are reported to the Board of Directors after being discussed at the Nominating and Compensation Committee and then decided in turn.

* The number of meetings held in fiscal 2019.

Directors (As of May 14, 2020)

Directors



Akio Nitori
Representative Director & Chairman
(Chief Executive Officer)

Reason for appointment

Mr. Nitori, always making the most of his excellent foresight and strong leadership, has led NITORI, and the Company believes that he is qualified to continue as a director that takes responsibility of decision making related to management policies and corporate strategy and supervisory functions regarding business execution.



Toshiyuki Shirai
Representative Director & President
(Chief Operating Officer)

Reason for appointment

Mr. Shirai has had a broad range of business experience at the Company and has abundant experience and knowledge related to overall management of the Group gained from serving in positions such as Representative Director & President of Nitori Co., Ltd. from May 2014 to February 2020, and Representative Director & President of the Company from February 2016, and the Company believes that he is appropriate for the role.



Fumihiko Sudo
Director, Executive Vice President & Business System Improvement Officer

Reason for appointment

Mr. Sudo has abundant business experience, including store development operations, and has abundant experience and knowledge related to overall management gained from serving in positions such as Vice President from August 2018, and the Company believes that he is appropriate for the role.



Fumiaki Matsumoto
Director, Executive Vice President & Global Business Development Officer

Reason for appointment

Mr. Matsumoto has abundant experience and knowledge in overseas business, and the Company believes that he is appropriate for the role of director in charge of promoting and enhancing the overseas sales business of the Company.



Masanori Takeda
Director & General Manager of Global Merchandising Division

Reason for appointment

Mr. Takeda has abundant business experience and keen business insight owing to his broad experience in major operations of the Company and contributes to the promotion of product development and the expansion of overseas product procurement and sales channels. In addition, he assumed the position of Representative Director & President of Nitori Co., Ltd. in February 2020, and the Company believes that he is appropriate for the role.



Takao Kubo
Director
Audit and Supervisory Committee Member (Full-time)

Reason for appointment

Mr. Kubo has considerable knowledge regarding finance and accounting and has abundant experience covering the overall management of the Company gained from serving as Director and Corporate Auditor of the Company, and the Company believes that he is appropriate for the role.

Independent Outside Directors



Sadayuki Sakakibara
Director
* Independent Outside Director

Reason for appointment

Mr. Sakakibara was involved in the management of Toray Industries for many years and has held prominent positions including Chairman of the Japan Business Federation. With his abundant experience and considerable insight, the Company believes he will provide advice regarding the overall management of the Company and will contribute to further strengthen our corporate governance.



Yoshihiko Miyauchi
Director
* Independent Outside Director

Reason for appointment

Mr. Miyauchi has abundant experience and deep insight in corporate management gained from his extensive years of experience engaging in the management of ORIX Corporation. The Company believes that he will provide useful advice from a broader perspective for the Company's overall management by utilizing his experience and insight.



Takaharu Ando
Director
* Independent Outside Director
Audit and Supervisory Committee Member

Reason for appointment

Mr. Ando has held prominent positions, including Commissioner General of the National Police Agency, and has a wealth of experience and extensive knowledge. Based on his professional experience and knowledge, the Company believes that he will continue to contribute to further strengthen our governance and risk management.



Kazuhiro Suzuki
Director
* Independent Outside Director
Audit and Supervisory Committee Member

Reason for appointment

Mr. Suzuki is a legal professional who has held prominent positions, including Superintendent Prosecutor of the Fukuoka High Public Prosecutors Office. The Company believes that he will utilize his extensive experience and expertise and continue to provide appropriate opinions for the Company's management.



Tsuneyoshi Tatsuoka
Director
* Independent Outside Director
Audit and Supervisory Committee Member

Reason for appointment

Mr. Tatsuoka has assumed many prominent positions, including Vice-Minister of Economy, Trade and Industry. The Company believes that he will utilize his wealth of experience and expertise to strengthen the Company's corporate governance and compliance systems.

Executive Officers

Executive Vice Presidents

Fumihiko Sudo / Fumiaki Matsumoto

Senior executive officer

Akio Igarashi

Executive officers

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

Managing executive officers

Yuichi Kazeharu / Mitsuru Ohki / Hiromi Abiko

Management Status of the Board of Directors

Overview

- The Board of Directors' meeting is held once a month, in principle, and the Board of Directors makes decisions on matters set forth in the Regulation of the Board of Directors, such as matters stipulated by laws and regulations and important management matters concerning the Company and the Group and monitors the execution of duties of directors by receiving regular reports from directors on the status of execution of their duties.
- Outside directors are provided with prior distribution and explanation of materials for important agenda items in order to ensure lively discussions at the Board of Directors' meeting.
- Before each Board of Directors' meeting, an information exchange meeting is held as a venue for communication and information sharing among directors.

Primary matters subject to resolution and report (fiscal 2019)

- Decisions on policies and strategies
- Matters related to medium- to long-term management plans
- Matters related to annual budget of the Group
- Matters related to financing and investment
- Matters related to Group governance
- Matters related to delegating authority to directors for matters subject to the resolution of the Board of Directors
- Performance report on delegation to directors of matters subject to the resolution of the Board of Directors
- Matters related to nomination and compensation of directors
- Matters related to establishment and operation of the internal control system
- Report on the internal control over financial reporting
- Report on the status of execution of duties
- Matters related to Ordinary General Meeting of Shareholders
- Evaluation of strategic shares
- Feedback on dialogue with shareholders
- Matters related to the basic policies on corporate governance
- Report on the operational status of the whistleblowing system

Board of Directors' effectiveness evaluation

The Company's Board of Directors evaluates the performance of the Board of Directors based on the basic policies of corporate governance and utilizes these evaluations as a PDCA tool to implement improvements and reforms that enhance the Board of Directors' effectiveness. https://www.nitorihd.co.jp/en/ir/governance/pdf/Basic_Policies_on_Corporate_Governance.pdf

Implementation

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

Evaluation

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

On the other hand, as a result of verifying the status of improvements and progress of issues that were clarified by the effectiveness evaluation of the previous fiscal year, it was judged that although steady improvements have been made in further strengthening the Board of Director's monitoring function and strengthening collaboration to further enhance the functions of the Board of Directors and each meeting body, there are still issues to be resolved regarding deepening discussions on medium- to long-term issues of NITORI Group and prior distribution and thorough explanation of board materials.

Primary countermeasures for fiscal 2020

- Deepening discussions on medium- to long-term issues of NITORI Group
- Promoting delegation of the authority to make decisions regarding the execution of duties [continuous]
- Prior distribution and thorough explanation of board material
- Standardization and improvement of the level of materials submitted to the Board of Directors [continuous]

The Company will continue to discuss how to enhance the effectiveness of the Board of Directors, including how to improve the method of evaluation of the Board of Directors, in order to raise corporate value and achieve NITORI Group's vision.

Financial & Company Data Transition of Key Management Indicators

(Million yen) (Thousand USD)

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2019
Income/Loss											
Net sales	¥ 314,291	¥ 331,016	¥ 348,789	¥ 387,605	¥ 417,285	¥ 458,140	¥ 512,958	¥ 572,060	¥ 608,131	¥ 642,273	\$ 5,771,692
Gross profit	172,483	183,938	192,616	201,656	218,337	243,543	278,274	314,778	331,421	354,364	3,184,443
Selling, general and administrative expenses	119,818	125,987	131,066	138,583	152,029	170,503	192,497	221,400	230,642	246,886	2,218,607
Operating income	52,665	57,951	61,550	63,073	66,307	73,039	85,776	93,378	100,779	107,478	965,835
Ordinary income	53,594	59,151	62,195	63,474	67,929	75,007	87,563	94,860	103,053	109,522	984,205
Net income attributable to owners of parent	30,822	33,548	35,811	38,425	41,450	46,969	59,999	64,219	68,180	71,395	641,583
Cash flows from operating activities	34,653	43,908	41,989	46,154	52,923	57,343	77,930	76,840	81,664	96,316	865,529
Cash flows from investing activities	(26,684)	(22,925)	(21,937)	(32,376)	(43,023)	(35,899)	(42,047)	(82,751)	(30,424)	(41,464)	(372,613)
Cash flows from financing activities	(3,577)	(16,099)	(22,047)	(10,540)	(6,654)	(9,943)	(6,414)	655	(11,340)	(13,862)	(124,575)
Cash and cash equivalents at the end of the year	14,035	18,410	16,816	21,179	25,713	36,794	66,035	60,923	100,053	140,791	1,265,201
Depreciation and amortization	7,762	8,456	8,227	8,850	8,921	9,398	10,406	11,357	12,311	14,547	130,731
Capital expenditure	26,818	22,348	25,708	30,083	45,033	26,605	42,828	64,172	32,237	23,170	208,210
Financial Position											
Total assets	246,187	267,153	284,290	321,703	404,793	414,541	487,814	550,507	619,286	683,247	6,139,894
Net assets	146,038	174,949	209,764	247,898	310,531	330,968	394,778	441,668	500,192	560,861	5,040,092
Equity	145,766	174,527	209,125	247,099	309,413	329,695	393,693	440,991	499,721	560,571	5,037,488
Key Management Indicators											
Gross profit to net sales ratio (%)	54.9	55.6	55.2	52.0	52.3	53.2	54.2	55.0	54.5	55.2	55.2
SG&A expenses to net sales ratio (%)	38.1	38.1	37.6	35.8	36.4	37.2	37.5	38.7	37.9	38.4	38.4
Operating income to net sales ratio (%)	16.8	17.5	17.6	16.3	15.9	15.9	16.7	16.3	16.6	16.7	16.7
Rate of return on equity (ROE) (%)	22.0	20.9	18.7	16.8	14.9	14.7	16.6	15.4	14.5	13.5	13.5
Equity ratio (%)	59.2	65.3	73.6	76.8	76.4	79.5	80.7	80.1	80.7	82.0	82.0
Ordinary income to total assets ratio (ROA) (%)	23.1	23.0	22.6	20.9	18.7	18.3	19.4	18.3	17.6	16.8	16.8
Payout ratio (consolidated) (%)	11.8	13.1	13.8	14.3	14.6	15.3	15.2	16.0	16.0	17.0	17.0
Price earnings ratio (PER) (Times)	13.6	11.2	10.6	13.3	20.2	19.4	22.7	30.7	23.1	26.1	26.1
Per Share Information											
Net income per share (EPS) (Yen, USD)	274.44	305.95	325.83	350.27	376.14	425.10	540.93	574.49	608.05	635.42	5.71
Net assets per share (BPS) (Yen, USD)	1,329.34	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	44.79
Dividend per share (Yen, USD)	32.5	40	45	50	55	65	82	92	97	108	0.97
Other Data											
Number of shares issued at the end of the year	57,221,748	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
Stock price at the end of the year (Yen, USD)	7,460	6,850	6,890	9,340	7,600	8,260	12,250	17,625	14,050	16,560	148.81
Total market value	426,874	391,968	394,257	534,451	869,770	945,303	1,401,933	2,017,067	1,607,931	1,895,184	17,030,771
Number of stores in Japan	237	258	286	312	346	383	428	467	505	541	541
Number of stores overseas	7	10	14	19	27	37	43	56	71	66	66
Net increase in number of stores	27	24	32	31	42	47	51	52	53	31	31
Total sales floor area (m ²)	1,185,134	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	2,099,373
Total number of employees	12,504	14,358	15,272	16,884	19,092	20,759	22,111	24,816	27,506	29,936	29,936

(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 FY2007.

2. Translation into US dollars has been made at the exchange rate of 1 USD to 111.28 yen.

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

Solid financial foundations will allow us to invest for growth in a proactive and flexible manner, and thus enhance corporate value



Masaomi Zenji
General Manager, Accounting & Finance Division

1. Results and financial policies in fiscal 2019

Q You have achieved your 33rd year of consecutive growth in sales and profits in fiscal 2019. Please tell us your view on the results and the financial policies of NITORI Group.

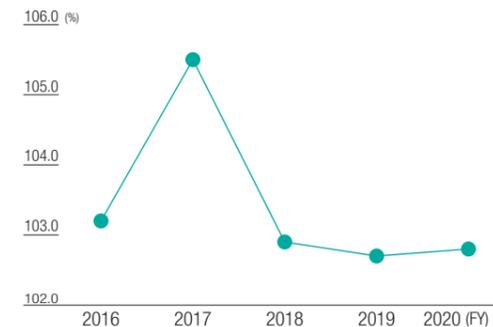
A I believe the fact that we achieved our 33rd year of consecutive growth in sales and profits is proof that we are maintaining the pace of our growth as we look to achieve the long-term vision of NITORI Group. Growth at existing stores was the biggest contributing factor to our top-line (sales) growth. Year on year, sales at existing stores increased 2.8%, exceeding our initial forecast of 2.3%. Fiscal 2019 was a year of significant fluctuation, including a positive start to the spring period of high demand, when people start new chapters in life, and a rush of demand prior to the consumption tax hike in October that exceeded expectations, followed by a slump owing to a setback in demand following the consumption tax hike. Ultimately, however, we achieved a year-on-year increase in sales at existing stores. In fiscal 2019, products not significantly affected by the weather, such as kitchen products and cleaning products, as well as washing machines, refrigerators, and other appliances performed well and contributed to sales, in addition to seasonal products as in previous years. In terms of profits, in addition to the increase in profits from higher sales, profits also increased owing to the success of ongoing measures to reduce costs and measures to address the risk of fluctuations in foreign exchange rates. Fluctuations in the USD-JPY rate significantly affect the gross profit of NITORI Group as imports make up approximately 90%

of our procurement, almost all of which are denominated in US dollars. We appropriately hedged this foreign exchange risk in the current period, which contributed to higher profits.

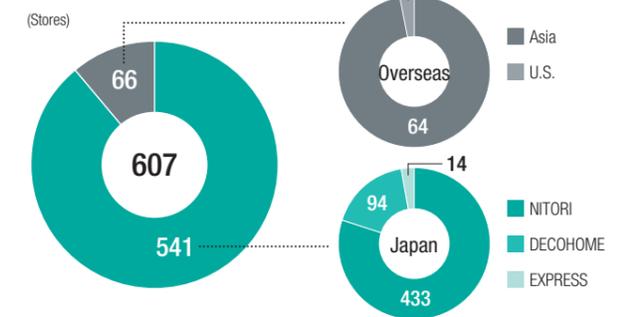
We opened 44 new stores in the current period, bringing our store network to 607 stores as of the end of the period. At present, we are fully covering store opening expenses with internal funds, and are not raising any funds externally, including bank loans.

The retail business is based on day-to-day cash transactions, and it is important that each store steadily increases sales. Fortunately, NITORI Group has maintained year-on-year growth in sales at existing stores, and has also increased profits, allowing us to allocate the increased operating cash from growth in sales at existing stores to new store openings, etc. In this environment, we are able to cover the funds required for growth in existing businesses (organic growth) with internal funds. In terms of our financial position, I believe it is important that we build and maintain sound financial foundations based on sufficient internal funds so that we can raise funds through borrowings, issuance of bonds, etc. in a nimble manner and at low cost when needed for future M&A and other initiatives.

Year-on-year change in existing store sales



Store openings in fiscal 2019 and number of stores as of the end of fiscal 2019 in Japan and overseas



2. The role of finance in achieving our medium- to long-term vision

Q Please tell us about 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.

A We intend to achieve a store network of 1,000 stores by 2022, but first, we plan to open 45 stores in Japan in fiscal 2020. In terms of future store openings, we intend to increase the number of DECOHOME store openings, in addition to NITORI store openings. At present, we open stores as tenants, so we are able to keep store opening costs low. In addition, we have slowed the pace of new store openings of NITORI (China) Holdings Co., Ltd. in fiscal 2019 and intend to do so in fiscal 2020 also, as we strengthen our foundations ahead of restarting double-digit store openings in fiscal 2021. We also intend to continue using internal funds for the funds required to open these stores, both in Japan and overseas. Depending on the speed of new store openings, we

will also consider the option of expanding our store network through M&A as an additional strategy to achieve our target of 3,000 stores by 2032, in which case we will need to procure external funds. We are primarily considering raising funds through borrowing, namely issuing corporate bonds, but we are also considering share exchanges using treasury stock, and issuing bonds and listing shares in overseas markets in a manner suited to the expansion of our overseas development. As we expand our store network overseas, an increasing number of our transactions will also be denominated in foreign currencies, so I think the creation of global fund management systems, including the management of foreign exchange risk, will be an important issue for us.

Q Please tell us about how you view the risks caused by the rapidly changing business environment and measures to address the impact of these risks on business results.

A Foreign exchange risk exists in financial markets. As I mentioned before, fluctuations in the USD-JPY rate significantly affect our business results. As a company, NITORI hedges foreign exchange risk as much as possible, but there may be some cases that we cannot address such risk with hedges, particularly with the recent rapid fluctuations in global trends, when it is difficult to make forecasts about the future. With regard to the risk of an increase in interest rates, we do not have any outstanding borrowing at present, so this risk does not directly affect us. Increased interest rates will lead to increased costs if we were to borrow funds in future, so

we must build and maintain sound financial foundations to enable us to procure funds with favorable terms.

We closely follow trends in custom duties for trading purposes. Imports make up approximately 90% of our procurement, so trends in customs duties in each country directly impact our cost of sales. NITORI Group must consider whether to pass on the increase in costs by raising the prices at which our products are sold, or absorb the increase in costs internally, or use a combination of both to address the impact of increased costs. NITORI Group is probably most significantly impacted by country risk related to business with oversea

countries, which accounts for the majority of our product procurement and market. The recent novel coronavirus pandemic has placed renewed emphasis on the risk of relying on one country on processing a product.

In Japan, we face risks from labor shortages among truck drivers and increasing distribution costs in line with Japan's aging society. NITORI Group will implement various initiatives to tackle these issues, including rebuilding our

distribution system by creating new distribution bases, redeploying distribution bases, etc., and enhancing logistics efficiency through one-man delivery, more compact packaging, and other initiatives.

3. Key Performance Indicators (KPIs)

Q What KPIs are prioritized when looking at factors such as growth and capital efficiency?

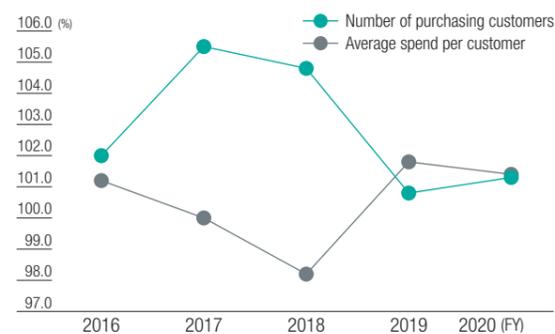
A First, the key premise here is that NITORI Group is still growing, as I mentioned before, so we must focus all our efforts on business development for further growth and securing the necessary funds for investing in business development. In the future, strategies focusing on development not just in the domestic market but also on the expansion of our overseas businesses will be the key for NITORI Group. I believe that focusing on fully utilizing our potential to increase corporate value, in terms of an absolute amount rather than efficiency of funds as a ratio, will contribute to returns for shareholders and all other providers of funds.

There are various KPIs, but at NITORI, we place the greatest emphasis on the number of purchasing customers and the number of items purchased. These indicators show the growth of our company, and at the same time they show our contribution to society and are consistent with the Group's mission of enriching homes around the world.

We are also constantly aware of capital efficiency. For example, the average ROE of NITORI Group over the past five years has been 14.9%. The cost of equity is 5.1%, resulting in a spread of 9.8%. Whether this percentage is high or low is likely to change depending on whether a comparison is made

with global peers or just those in Japan. The ROE of NITORI Group is driven by our net income margin, which is high among companies in the retail industry. On the other hand, our financial leverage is low and it would be possible to lower our cost of equity by borrowing to increase our debt, but at NITORI Group, we prioritize building and maintaining a sound financial foundation, and since we are able to cover funds for existing growth investment with organic growth, I think there is no need for us to blindly increase debt with unnecessary borrowing.

Year-on-year comparison of number of purchasing customers at existing stores and average spend per customer



4. Investment for growth

Q You mentioned that internal funds will be allocated to growth investment, but could you tell us about the specific content of this investment?

A In addition to investment plans related to store openings, we are also currently implementing plans such as the following:

Strengthening production systems (Vietnam)

In addition to the furniture business, we are also expanding our plants ahead of the launch of the fabric business. Construction

has already started, and we intend to begin shipments in fall 2021. The amount of investment will be approximately 6.0 billion yen. Although it does not fall under capital expenditure, the Company's plants are notable for the fact that labor expenses comprise a relatively high proportion of costs. Local personnel expenses are rising and the management of labor expenses will be an issue for us, including measures to increase the retention rate.

Rebuilding our distribution network (Japan)

NITORI Group uses 28 distribution centers in Japan (DC: 11, TC and XD: 17). Most of these distribution centers are leased, with only a few owned by NITORI Group. For this reason, distribution centers are not always optimally located, requiring unnecessary distribution between centers and leading to increased costs. We are implementing a plan aimed at achieving optimal locations of distribution centers by shifting to centers owned by ourselves. This will also lead to a reduction in rental fees and allow us to reduce distribution expenses by introducing the necessary materials handling equipment, contributing to a higher ratio of operating income to net sales.

We have already begun looking for suitable plots of land and we plan to complete our shift to Group-owned distribution

centers over the next five or six years. We expect the total amount of investment to be approximately 200 billion yen, and our basic assumption is that we will cover this amount with internal funds.

Investment in information systems infrastructure (global)

At NITORI Group, we are also focusing on an overhaul of our information systems infrastructure, in order to strengthen our IT competitiveness as necessary to achieve our vision of 3,000 stores by 2032 and evolve into a global corporate group with multiple store formats. In order to survive in an increasingly complex and diverse global economic environment, we must create globally optimal core systems tailored to the increasingly global nature of our businesses. Accordingly, we plan to build and introduce these systems in procurement, trading, stores, and sales areas.

For all investments, including investment in store openings, we make investment decisions after calculating the time required to recover our investment, and stringently analyzing profitability.

5. Shareholder returns

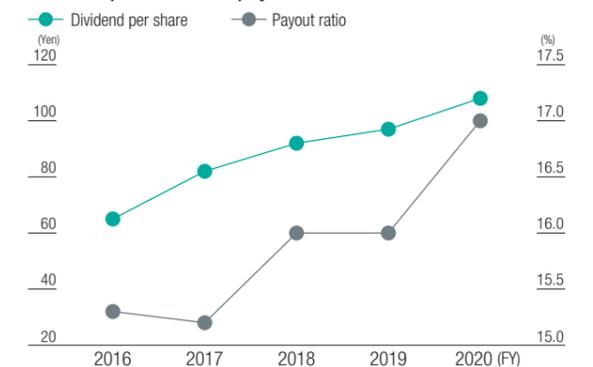
Q You mentioned that financial soundness will be prioritized and internal funds will be allocated to growth investment, but can you tell us about your approach to shareholder returns?

A In the future, we will maintain our basic policy of paying a stable dividend, while also balancing this with investment for growth. The annual dividend per share in fiscal 2019 was 108 yen, an increase of 11 yen from the previous year. This means we have increased our dividend for 16 consecutive years. The payout ratio is 17%. We are also considering enhancing our total payout ratio through share buybacks and other methods over the medium- to long-term, although we will need to balance this with investment for growth.

As a company that is still growing, with 33 consecutive years of growth in sales and profits, I believe NITORI Group will be able to ensure total returns to shareholders, not just through dividends and share buybacks, but also indirectly through an increase in the share price based on the market's valuation of our company, by investing for growth and thereby securing and increasing profits on an ongoing basis. We ask for shareholders'

continued support to enable us to maintain our shared growth trajectory.

Dividend per share and payout ratio



ESG Information Environment Society Governance

Approach to ESG

As global efforts centered on ESG and SDGs accelerate, NITORI Group believes that it is essential for its sustainable growth to also focus on these changes and respond in a flexible manner. We are aware of the importance of this external environment, and have gathered, sorted out and enhanced disclosure of information on NITORI Group's initiatives related to ESG and SDGs, in addition to creating systems to further strengthen our activities in this area. We will control initiatives centered on ESG and SDGs in our business activities in a systematic manner, based on discussions that include senior management, and create greater shared value, thereby achieving a sustainability management in a manner characteristic of NITORI Group.



Contribution to SDGs

We believe it is important that we utilize our unique business model based on the customer's perspective to contribute to achieving SDGs through our business activities. Of the targets in the 17 goals, we understand that there are high relevance and compatibility with 12 goals (3, 4, 5, 7, 8, 9, 10, 11, 12, 13, 15, and 17), and we are thus promoting our initiatives aimed at achieving these goals.

Environmental issues

NITORI Group's approach and priority areas

We are working to optimize all stages of our supply chain by utilizing NITORI Group's unique business model that integrates manufacturing, distribution, IT and retail. We have also planned initiatives in two areas – “addressing climate change” and “creating a recycling-oriented society” – and are focusing on resolving these issues through our businesses. A company that enriches homes around the world must also be a company that contributes to conserving the global environment. In our efforts to address the environmental issues we are facing, we are committed to reducing our business risk and identifying opportunities to develop green products, which will contribute to sustainable growth aimed at achieving Vision 2032.

Environmental data

Environmental issue	Counter-measure	Initiatives	Evaluation indicator	Results of initiatives			
Addressing climate change	Reduction of greenhouse gas emission volume	Development and sales of environmentally friendly functional products (green products)	Annual units sold	<ul style="list-style-type: none"> N Cool series: 8.76 mn units N Warm series: 5.33 mn units (fiscal 2019) 			
		Enhanced loading efficiency with downsizing of product packaging	Smaller packaging sizes for soft products	Number of SKUs	FY2017	FY2018	FY2019
			Number of SKUs and reduced cubic meters	77	67	199	
		Initiatives to enhance transportation efficiency in distribution processes	Proportion of mattresses for beds with compressed packaging in product mix (%)	Proportion of units sold in product mix	56%	71%	81%
			Energy usage in distribution by unit (kℓ)	* Unit = Crude oil equivalent (kℓ) of energy usage (GJ) / annual net sales	2.91	2.90	2.78
		Delivery efficiency of delivery truck	CO ₂ emission volume per store in Japan involved in distribution	CO ₂ emission volume per store in Japan (t-CO ₂)	90.3	88.1	83.4
Mileage per delivery truck (km)	91.62		90.92	89.51			
	Year-on-year mileage per delivery truck (%)	98.6	99.2	98.4			

Environmental issue	Counter-measure	Initiatives	Evaluation indicator	Results of initiatives
Creation of recycling-oriented society	Reduction of environmental burden with 3Rs	Activities at SIAM NITORI	Number of recycled plastic bottles	Approx. 200 million (converted to 500ml plastic bottles) (Total number during the period from joining NITORI Group in May 2018 to February 2020)
		Activities other than at SIAM NITORI	Usage volume of recycled polyester	<ul style="list-style-type: none"> Usage volume of recycled polyester in soft products: Over 18,000t annually Composition ratio in virgin polyester materials: 43%
		Initiatives aimed at effective use of timber resources at NITORI FURNITURE VIETNAM	Usage rate of raw materials (yield) (%)	Timber usage rate (yield): 95% (usually around 50%)
		Recycling of cushioning materials for packaging Shift to the use of molded pulp	Amount of scrap materials reused Amount of reduction in polystyrene wastage	<ul style="list-style-type: none"> Over 430,000 MDF sheets annually (Converted based on MDF size: t3×1220×2440 mm) Amount of reduction: 3,994 kg YoY amount of waste: 72.3% (fiscal 2019) Reduced polystyrene waste by a total of 38t through this initiative since fiscal 2017

Occupational health and safety

NITORI Group's approach

NITORI aims to comply with applicable laws, regulations and rules related to occupational health and safety, and to maintain and enhance safe and comfortable workplaces, taking into consideration the physical and mental wellbeing of our employees.

Taking this approach as our guiding principle, we have set forth concrete rules and stipulations for our business activities.

Planned initiatives

Initiative theme	Initiatives	Results of initiatives	Future plans
Prevent serious disasters	Measures to prevent heatstroke	<ol style="list-style-type: none"> Installed large fans <ul style="list-style-type: none"> Installed fans (four sets of 7m blades) in four locations * Reduced effective temperature by approximately 4 degrees Celsius Introduced air-conditioning in warehouses <ul style="list-style-type: none"> Introduced air-conditioning in four sales offices and CSC locations Installed 50 yen vending machines <ul style="list-style-type: none"> Installed vending machines selling sports drinks and tea for 50 yen in 21 locations Clothing with cooling features <ul style="list-style-type: none"> Introduced clothing with cooling features on a trial basis at 11 locations, in order to prevent people becoming unwell because of heatstroke * Distributed two sets to each person Installed container showers in Kyushu DC on a trial basis <ul style="list-style-type: none"> In order to limit increases in temperature in containers while performing devanning operations * Number of people suffering from heatstroke reduced to 61.4% of number in previous year 	<ol style="list-style-type: none"> Expand large fan installation <ul style="list-style-type: none"> Currently considering increasing locations where large fans are introduced Expand air-conditioning installation in warehouses <ul style="list-style-type: none"> Currently considering increasing locations where air-conditioning is introduced Expand 50 yen vending machine installation <ul style="list-style-type: none"> Currently considering increasing locations where 50 yen vending machines are introduced Expand introduction of clothing with cooling features <ul style="list-style-type: none"> Creating an environment where these clothes can be used in 13 locations
	Safety measures	<ol style="list-style-type: none"> Revise safety standards and rules <ul style="list-style-type: none"> Definitions will be clearly indicated and guidance provided to sites Create a culture of safety <ul style="list-style-type: none"> Conduct training on safety, including other companies (subcontractors) Conduct and continue onsite risk assessments Revise helmets <ul style="list-style-type: none"> Helmet do not use polystyrene as a shock absorption material, thereby reducing the extent to which helmets becoming dirty and reducing discomfort * Lighter, more breathable, and better from a hygiene perspective Enhance shock-resistant area and protect from shocks around the entire circumference, thereby enhancing safety Improve walking paths and construct signs <ul style="list-style-type: none"> Improved walking paths at three locations and displayed signs in four locations in order to visualize guidance in buildings and risks 	<ol style="list-style-type: none"> Create booklet of safety standards <ul style="list-style-type: none"> Provide portable copies of safety standards for employees Further promote creation of a culture of safety <ul style="list-style-type: none"> Continue training related to safety and risk assessment Conduct safety training for forklifts Continue Safety Creation Committee with participation from onsite employees * Measure to prevent accidents occurring on a daily basis
Introduction of URC roll box pallets*	<ul style="list-style-type: none"> Replaced approximately 16,600 units at Home Logistics centers and stores Measures to address decline in productivity caused by lack of jigs and ensure stable operation 	<ul style="list-style-type: none"> Plan to replace remaining 7,300 units or so in fiscal 2020 	

* A new type of safe roll box pallet that does not fall over easily.

Responsible Procurement

NITORI Group's approach

NITORI Group is focusing on responsible procurement in its supply chain as a company which operates globally. In particular, we prioritize quality inspections, management of raw materials and packaging materials, conservation and protection of the natural environment, prohibition of forced labor, child labor, and discrimination, etc., and have entered into supplier contracts based on our "Basic Entrustment Contract for Product Manufacturing" and "Quality Assurance Manual." In addition, we are aiming for sustainable growth with suppliers by explaining and sharing our ideas to create a culture of product safety, such as the importance of fulfilling their work environment and social responsibilities, through the implementation of quality improvement education including guidance in plant management, etc., to overseas supplier managers.



10.3 (Summary)
Ensure equal opportunities, etc. and take corrective action on inequalities in accomplishment through the elimination of discriminatory laws and practices as well as the promotion of appropriate related regulations.

List of activities

Activities	Initiatives	Details	Evaluation Indicator	FY2017	FY2018	FY2019
Risk assessment	QAV1 (Quality Assurance Visit 1)	Audit and evaluate new suppliers and judge whether to start business (incorporate the FMEA method)	Number of QAV1 implemented	148	143	163
Product safety	Development Technology Evaluation Meetings	Evaluation meetings to prevent problems on newly developed products	Total number of evaluation meetings held	1,254	1,291	952
	QIM (Quality Improvement Meeting)	Analysis work and meetings to determine the cause and countermeasures of damaged and defective products and implement PDCA	Number of QIM held	581	583	510
Quality control	Compensated technical support for suppliers and NITORI Juku	Compensated technical support on management, production, processes, and quality control	Number of companies implementing compensated technical support	8	11	12

We promote quality reform based on four steps of process management: "1 Development 2 Manufacturing 3 Inspection 4 Repair," and endeavor to create a culture of product safety.

1 Product safety information inclusion

Development Technology Evaluation Meetings

We aim to include production safety from the planning stage and establish production safety in the manufacturing process.

We will improve the skill of overseas staff, promote localization through the introduction of various types of testers, and promote the shift to overseas operations through implementation at plants.

Development Technology Evaluation Meetings

Composition ratio of actual performance by country

	2018	2019	2020	YoY
Tokyo Headquarters	77.1%	75.7%	63.0%	83.2%
Shanghai + Shenzhen	13.6%	17.9%	25.0%	139.4%
Ho Chi Minh	9.3%	6.4%	12.0%	188.8%
Overseas total	22.9%	24.3%	37.0%	152.3%

2 Design information protection

Improvement in the level of supplier management and investigation of causes by defective analysis

Provide further guidance on plant management to cultivate NITORI model plants

Jointly work with several suppliers to grow specific technical fields in a short period of time

Implement QAV2 for suppliers releasing many non-conforming products

- Implementation of compensated technical support, NITORI Juku, and QAV2
- Implementation of QIM (in-house analysis measures)

Collect actual products, check actual products, and ascertain actual situations (problematic content) → Request improvement and prevent reoccurrence

3 Product safety check function

Prevention of defective product release by inspecting incoming products from overseas

- Inspection of incoming products at each DC in Japan

Number of imported containers (annual): **175,000** containers

[Total number of products inspected] About 630,000 products
* Total of all categories

- Prevention of release of products exceeding guideline values of hazardous substances (formaldehyde, etc.)

Measure the emission amount of formaldehyde at the product stage. Started from 2008

* Constant temperature and humidity chamber (three chambers available)

[Evaluation threshold] 0.08ppm or less
(Adopted guideline values of the Ministry of Health, Labour and Welfare)

4 Market quality

After-sales follow-up with CSC* function covering Japan

Closer, deeper, and longer toward our customers

- The only function in the industry of repairing furniture and gathering information
- A pillar of one-year, three-year, five-year, and 30-year warranties

25 bases across Japan: 400-person system

Number of repairs in fiscal 2018: **About 15,000 orders**

Customer orders

* Customer Service Center

Social Data

Personnel Data

Employee data	2017	2018	2019
Number of full-time employees	4,437	4,688	4,965
Percentage of women (%)	26.6%	27.2%	31.8%
Number of employees	29,681	31,031	33,055
Percentage of women (%)	62.1%	63.1%	63.4%
Type			
Regular employment	4,437	4,688	4,965
Non-regular employment	25,244	26,343	28,090

Global human resources strategy	2017	2018	2019
Number of participants in U.S. seminars	1,301	1,169	1,134
Gender			
Male	910	740	728
Female	391	429	406

Diversity & Inclusion	2017	2018	2019
Childcare leave, childcare leave for partners	125	139	152
Shorter working hours (pregnancy, childcare, nursing care)	123	145	144
Nursing care leave	2	8	10
Percentage of paid leave taken (%)	83.9%	85.1%	87.5%
Average overtime hours (hours per month)	22.9	20.4	16.7
Women in management positions			
Percentage (%)	12.3%	12.8%	13.4%
Number	250	286	305
New graduate women hired			
Percentage (%)	47.2%	42.2%	47.8%
Number	238	227	277
Percentage of employment of persons with disabilities (%)	2.55%	2.52%	2.85%

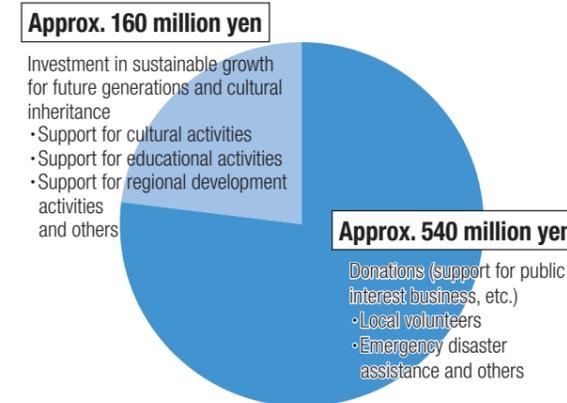
* Total numerical values of Nitori Holdings, NITORI, Home Logistics, Nitori Facility, and N+

Social Action Program Data

Donation and support for social action programs in fiscal 2019

Total amount: Approx. 700 million yen
Total number of cases: 47 cases

Breakdown of social action expenses (yen)



Focus –disaster assistance–

NITORI Group procures and delivers emergency relief supplies to shelters and temporary housing at the request of the government and local municipalities when natural disasters, such as earthquakes and heavy rainfall, strike in various locations. In addition, based on the belief that resuming regional store operations as soon as possible is the most important way to support stricken areas, NITORI Group is united in working to create a system to work on restoration so as to be capable of resuming operations at an early stage even if it is temporarily difficult to maintain the operations.



13.1 Enhance resilience and adaptability to risk and natural disasters due to climate change in all countries.

Governance Data

Composition of Directors	2017	2018	2019
Total number of Directors	10	11	11
Outside Directors	4	5	5
Female Directors	0	0	0

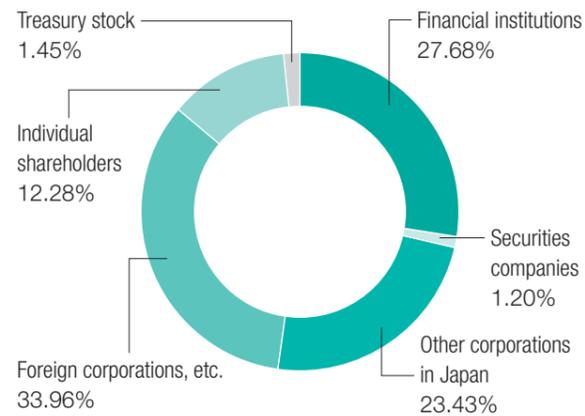
Status of Board of Directors Meetings held	2017	2018	2019
Number of meetings held	13	13	13
Average attendance rate of Directors (%)	95.6%	94.6%	96.4%
Average attendance rate of Outside Directors (%)	92.3%	94.2%	95.2%

Company Stock Information (As of February 20, 2020)

Outline of Shares

Total number of authorized shares: 288,000,000
 Total number of issued shares: 114,443,496
 Number of shareholders: 20,598
 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
 Ordinary General Meeting of Shareholders: May
 Administrator of shareholder registry: Sumitomo Mitsui Trust Bank, Limited

Distribution of Share by Type of Shareholder



Stock Price and Turnover



Major Shareholders (As of February 20, 2020)

Name	Number of shares owned (thousands)	Ratio to the total number of issued shares (%)
NITORI Trading, Ltd.	20,799	18.44
The Master Trust Bank of Japan, Ltd. (Trust account)	5,674	5.03
Japan Trustee Services Bank, Ltd. (Trust account)	4,931	4.37
JP Morgan Chase Bank 385632	4,198	3.72
NITORI International Scholarship Foundation	4,000	3.55
North Pacific Bank, Ltd.	3,860	3.42
Akio Nitori	3,410	3.02
Momoyo Nitori	3,078	2.73
Nippon Life Insurance Company	2,056	1.82
National Mutual Insurance Federation of Agricultural Cooperatives	2,007	1.78

Notes: 1. The numbers presented in "Number of shares held" above are calculated based on the list of shareholders.
 2. The Company's 1,656,132 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 Japan Trustee Services Bank, Ltd. are shares held in securities investment trusts and retirement benefit trusts.

Company Information (As of February 20, 2020)

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: +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)	¥642,273 million
Ordinary Income (Consolidated)	¥109,522 million
Capital Stock	¥13,370 million
Number of Employees (Consolidated)	29,936 (including 15,599 part-time employees)

NITORI Group List (As of February 20, 2020)

