

INTEGRATED REPORT 2020



New Changes from **ARATA**

The dream is to spend enriching and comfortable time every day for many years to come.
We want to be a company that can make people's "dreams come true."
ARATA will change your life.
A new daily life.

**Realize your dreams.
Change your daily lives.**

TO OUR STAKEHOLDERS



Hiroaki Suzuki

Representative Director and President,
Executive Officer

Thank you for taking the time to read ARATA's Integrated Report 2020.

ARATA was founded in 2002 as a wholesaler handling a wide range of everyday items that make everyone's lives more comfortable, such as cosmetics and pet goods.

The basic mission of wholesalers is to support the everyday lives of consumers, helping them to purchase what they need.

Considering that life has changed drastically in recent years due to natural disasters and a pandemic, our mission has taken on even greater significance.

We leverage all of our strengths to deliver a diverse array of products supplied by manufacturers to retailers in every part of Japan—no matter the time of day or the season. We aim to continue to be a company that serves society.

There is much more we would like you to know about ARATA.

We have created this integrated report to communicate what we are doing to "make each day new," and to describe the character of our Company, our activities, and what grounds our business. We also hope to show how these attributes have changed over time, and how we see them developing in the future.

We hope that our stakeholders will have a deeper understanding of our Company after reading this report. We humbly ask for your continued support and encouragement.

ARATA's Management Philosophy

"Continue to serve the world"

ARATA CORPORATION was formed by consolidating the long histories and traditions a number of powerful wholesalers from across Japan into a single entity. We strive to contribute to Japanese industry and the local regions where we operate as we shoulder a part of the distribution economy. We therefore fulfill this role with a strong "frontier spirit," remembering the importance of cooperation, mutual trust, and humility at all times while maintaining initiatives that "continue to serve the world."

Origin of Company Name

"ARATA" means "making each day new" in Japanese. This was described in a story in the ancient Chinese book *Great Learning*, about Tang Wang who engraved words on his wash basin about the importance of striving to make each new day better than the previous day and read these words each morning to admonish himself. This name was chosen in 2001 from among 2,236 employee entries.

Concept behind Our Logo

The three wings on our logo represent our clients, the retailers; our suppliers, the manufacturers; and ourselves, the wholesalers.

The logo is designed to look like an "a" for ARATA. It expresses our desire to serve society through optimized distribution, where we, as wholesalers, "turn the wheels" of supply chain management along with manufacturers and retailers to build an extremely low-cost distribution structure that constantly brings satisfaction to consumers.



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Editorial Policy

In the fiscal year ended March 2018, the ARATA Group issued an inaugural integrated report, aiming to communicate to shareholders, investors, and all other stakeholders in an easy-to-understand manner the management strategies targeting an increase in corporate value.

This report presents information that is highly important to the Group, including the Group's business activities, financial information, and nonfinancial information critical to explaining the growth strategies in the medium-term management plan, both compactly and based on integrated considerations.

The Group will revise the content of this report every year in the hope of enhancing it as a tool to facilitate dialogue with all stakeholders.

Reference Guideline

Guidance for Collaborative Value Creation (Ministry of Economy, Trade, and Industry)



Organizations Covered

ARATA CORPORATION and Group companies

Period Covered by This Report

April 1, 2019–March 31, 2020
The report includes some activities in fiscal year ending March 2021.

Forward-Looking Statements

This report contains forward-looking statements about future plans, strategies and operating performance forecasts.

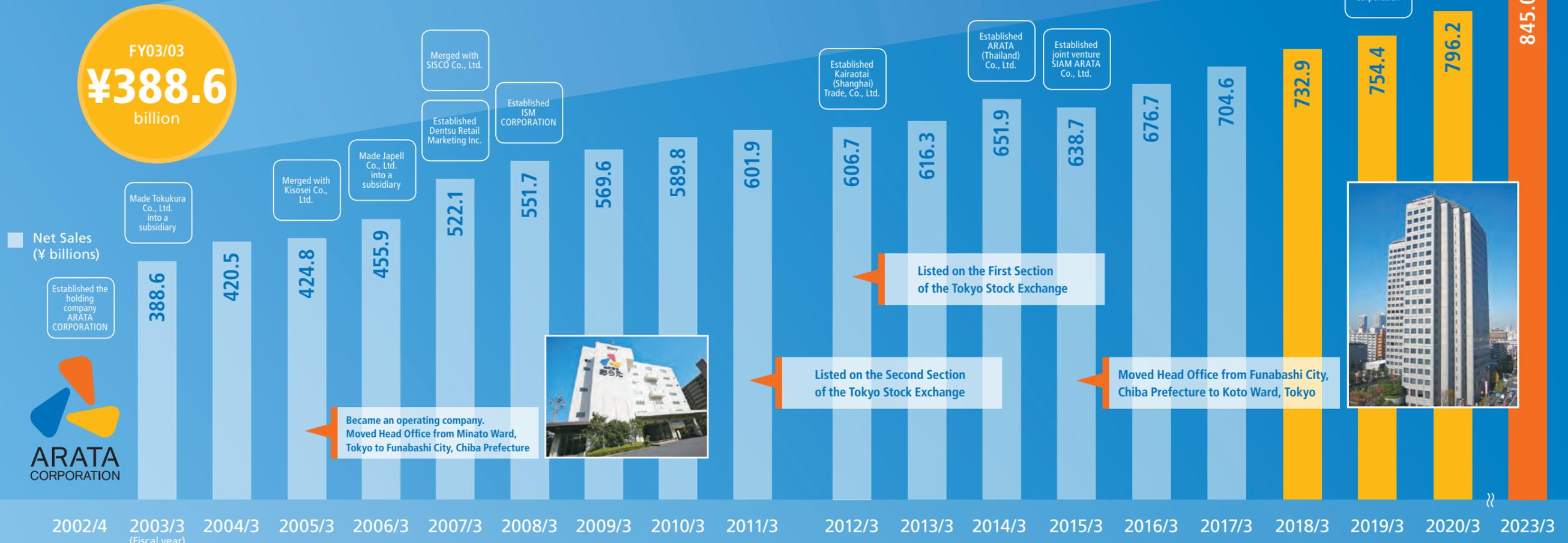
These statements were based on reliable information available at the time. As such, these statements include risks and uncertainties, and ARATA CORPORATION bears no responsibility for the accuracy or completeness of these statements. Please note that actual results may differ substantially from the Company's outlook.

HISTORY

The Course of ARATA's Growth

ARATA was formed by consolidating a number of powerful wholesalers from across Japan, incorporating their long histories and traditions into a single entity. Since our founding, we have expanded our area of coverage and the categories of the products we handle, while strengthening our abilities by establishing new Group companies. We are developing our growth strategy as we deliver daily necessities to retailers across Japan.

Medium-Term Management Plan 2023 FY23/3
Target:
¥845
billion



ARATA's First Stage

Strengthening the management base to become a next-generation wholesaler with a focus on improving earnings, reforming operations, and integration

Expanding the Scale of Operations

Leading regional wholesalers came together to form a nationwide wholesaler. With a view on growth for the future, they reorganized into a single company to strengthen their presence in certain areas and to increase the categories handled.

Strengthening Our Abilities

Established a subsidiary specializing in retail support to build an efficient supply chain as a way to strengthen our abilities for responding to the needs of retailers and manufacturers.

Advancing Growth Strategies

Developing innovative strategies for further growth by expanding the business beyond Japan. This included establishing new companies in other Asian countries, such as China and Thailand, to meet overseas requirements for high-quality Japanese products.

ARATA's Second Stage

Pursuing New Possibilities for Wholesalers Looking 10 Years Ahead

To "continue to serve the world" amid a significantly changing society, we have formulated a vision looking 10 years into the future. We will pursue new possibilities as we move on to the next stage.

ARATA's Value Creation Story

By creating social value, we intend to improve our corporate value. Realizing our vision will benefit people's lives.

VALUE CREATION

Lifestyle changes

Demographic changes

Innovation

Economic situation

Natural disasters, extreme weather events, pandemics

Group features and strengths

Human capital

Approximately 3,000 employees

Manufacturing capital

National network

Financial capital

Ability to generate cash flow

Intellectual capital

Ability to propose products based on a database of products handled

Social relationship capital

Trust-based relationships with about 1,200 manufacturers and about 3,500 retailers

Symbiotic relationships with the community

3R activities

Reduce number of returns

Make logistics more efficient

Reduce energy consumption

Reform the HR system

Nurture the next generation

Priority CSR themes

||

Materiality

Reinforce the management base

Business Model



Long-Term Management Vision
Realize your dreams.
Change your daily lives.

Medium-term management plan

- 1) Increase growth
- 2) Improve productivity
- 3) Strengthen healthy management

Wholesale trading companies in the cosmetics and daily goods category

Business Activities

Year ending March 31, 2023 (target)

Net sales: ¥845.0 billion

Operating profit: ¥11.5 billion

Ordinary profit: ¥12.0 billion

ROE: 9% level

Economic value creation (outputs)

Creating sustainable corporate value

Stakeholders

Customers
Providing a reliable supply of goods
Discovering better products
Enjoying shopping

Employees
Job satisfaction

Supply chain
Sustainable virtuous cycle
Increased efficiency = cost reduction

Local communities
Comfortable lifestyles

Shareholders and investors
Improved long-term corporate value

Global environment
Lower energy use
3R activities
Reduce number of returns

Realization of shared value (outcome)
||
Impact on the external environment



Infrastructure to support growth

Continuing to Serve the World

Message from the President



Realize your dreams.
Change your daily lives.
Making dreams come true
by achieving our
new long-term vision.

Hiroaki Suzuki

Representative Director and President,
Executive Officer

Regarding the Previous Medium-Term Management Plan (Fiscal Year ended March 31, 2018 to Fiscal Year ended March 31, 2020)

Outstanding Results for Growth Strategy and Strengthened Management Base

We largely achieved the targets set in the previous medium-term management plan, except the target for ROE. Above all, we were able to achieve sales far exceeding our sales target. Ordinary income has also increased by approximately 30% compared with the fiscal year ended March 31, 2017, or before the start of the medium-term management plan. We believe that steady execution of our strategy factored into these successes.

Among the planned growth strategies, the strategies for each business category in particular met with success, as consolidation of the pet business into the subsidiary, Japell Co., Ltd., led to increased efficiency and demonstrated expertise, and Pet supplies expanded overall. Results were also

clear in the figures for household goods. For the Health & Beauty category, which we focused on in the fiscal year ended March 31, 2020, we believe that initiatives with new business partners and an expansion of products handled due to integrating with Fashion Arata Corporation are contributing to the growth of the entire category.

Looking at strengthening the management base, we secured a commitment line to stabilize fundraising and consolidated business operations as planned. We successfully improved companywide efficiency, including promoting the automation of routine work with RPA (robotic process automation).

For our CSR initiatives, the number of stores implementing 3R activities in collaboration with the Ministry of the Environment is increasing every year. For logistics, the effects of participating in “white logistics” and reducing returns are being seen year after year. We have been able to implement initiatives to promote our growth strategies and strengthen our management base almost exactly as planned.

Changes in the Business Environment during the Previous Medium-Term Management Plan

Handling Unexpected Circumstances without Suspending Logistical Operations

In recent years, natural disasters have become more severe and grown in scale compared with those in the past. Up until now, we have focused on countermeasures for earthquakes, but it has become necessary to now take countermeasures against floods and typhoons as well, and we recognize the importance of BCPs more strongly than ever. At the same time, the logistics environment has become more severe, with rising costs and difficulty in securing delivery vehicles and hiring part-time employees growing over the past three years.

In the fiscal year ended March 2020, the final year of the previous medium-term management plan, COVID-19 caused major changes in working styles, although the level of disruption differed depending on the type of job. Sales activities and business negotiations that used to be conducted face to face are now largely done online, and the way we work is completely different now compare with before the pandemic.

However, as a company that handles life’s necessities, we cannot suspend our logistical operations. Therefore, there is a particularly strong need for our Logistics Department to come up with ways to combat COVID-19. I think that we should improve the automation of our system, including by make our logistics centers better, thoroughly implementing infection countermeasures, and managing employee health at logistics centers.

We consider it our mission to sustain operations and continue delivering products safely. For that goal, we strengthened the BCP structure under the previous medium-term management plan. These measures bore fruit during the COVID-19 pandemic by allowing us to respond flexibly to the new situation.

Review of Our COVID-19 Strategy

Maintaining the Course while Carefully Reviewing the Results

Environmental changes are more difficult than ever to predict. The pandemic has created an opportunity for us to consider how we should change the way that work is done in every department, rather than narrowly focusing on countermeasures.

It is also necessary to review strategies taken in response to environmental issues. We are making some revisions to our strategy of reinforcing cosmetics, but the overall direction remains unchanged. The spread of COVID-19 has caused a significant decrease in overseas tourists, the closure of some of our retailer partners’ stores, and changes in lifestyles, leading to a decline in demand for makeup and cosmetics. Given this situation, I think there are points for review, such as the priority given to each of our measures and their relative scale. However, I also think the impact of the pandemic will be temporary, except when it comes to overseas tourists.

Cosmetics sales have temporarily fallen, but the ground is fertile for an expansion in this category. I feel that the impact of COVID-19 is nearing a minimal level, considering that the measures we have taken so far to expand the cosmetics business have succeeded in penetrating the market.

Background to Long-Term Management Vision 2030

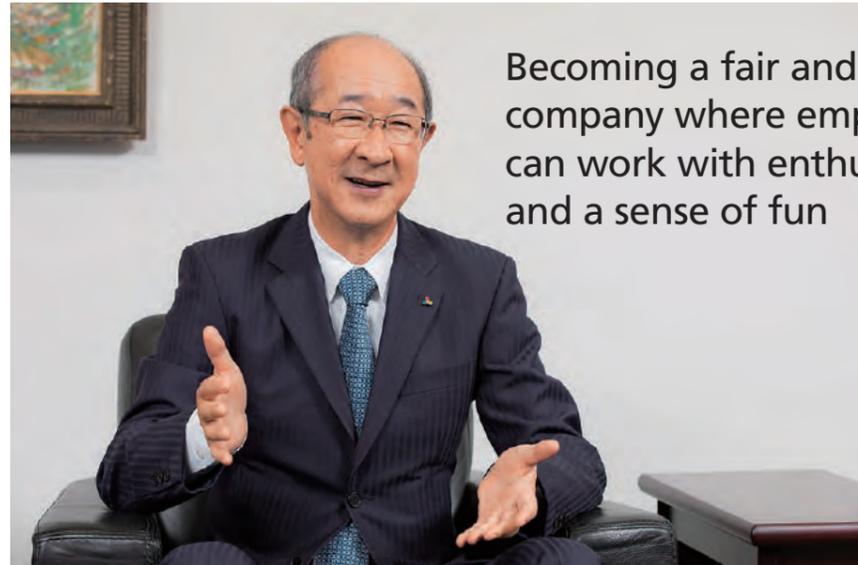
Being a Company that Helps Realize People’s Dreams

Up to now, we have formulated medium-term management plans covering three-year intervals. However, three-year spans mean that we have to formulate short-term plans focusing on metrics such as sales and profits.

On the other hand, there are societal crises such as a decrease in the domestic population, consolidation of retail businesses, and variations in demand due to major lifestyle changes. As we set our sights on future growth, I think we need to emphasize the way we want our Company to be in ten years’ time—our long-term vision—and set the direction of our policies based on that vision before achieving results according to three-year medium-term plans. Therefore, we decided to establish a long-term management vision based on the slogan “Realize your dreams. Change your daily lives.” We want to be a company that helps people realize the dream of “spending enriching and comfortable time every day for many years to come.” This slogan expresses ARATA’s desire to change customers’ lives for the better.

We are also targeting sales of ¥1 trillion by 2030.

Message from the President



Becoming a fair and robust company where employees can work with enthusiasm and a sense of fun

Our Ideal Structure in 2030 Becoming a Robust, Fair, and Fun Company

Developing a fun and enthusiastic work environment, while being fair and robust

I would like us to expand into new business domains over the next 10 years, while keeping wholesale as our mainstay business, but not our only business.

We plan to speed up the growth of our overseas operations. Though it will be difficult to move Japan's style of wholesale operations to overseas markets, I think there are a number of other opportunities, for example, having our own products and stores without being overly involved in wholesaling. As a leading partner for this purpose, we signed a comprehensive business alliance agreement with a Guangzhou Zhong Shang Investment Holding Group Co., LTD. in September 2020. We will consider strategies for the Chinese market centered on the functions of our company and this public investment group.

In addition, we have an intangible asset: the data we accumulated by developing a goods-centered business. Even if having this kind of data is a matter of course for our industry, it is a valuable information asset looked at from the outside, and we consider this data as something that will create business opportunities.

For store operations, retailers face various issues and we aim to encourage store management to evolve into something we call "store realization," centered on ISM Corporation, a subsidiary, to help resolve these issues. We have also

accumulated over 10 years of know-how in product development. Further, it is conceivable that we will dramatically change our marketing and sales methods to break away from the wholesale private brand model and establish an attractive, unique brand.

The expansion of the business domain as described above will make ARATA more robust and more attractive, and will create challenges for our employees. I believe that such a "robust, fair, and fun company" is what we want to become by 2030.

New Medium-Term Management Plan

Strategies and Targets for 2030

The basic strategy of the new medium-term management plan is to carry out competitive sales activities and operate with low costs. We plan to accomplish this through a combination of labor-saving logistics centers that leverage the latest technology and product development/sales floor proposals based on marketing that takes into account changes in lifestyles and values due to the progress of digital technology.

Regarding product development, currently it is important for us to deliver products that meet the needs of consumers who have a heightened awareness of hygiene. However, things will one day return to the way they were before. We will assess and respond to this demand as it changes.

Concerning logistics, we will invest at the total level of

¥30 billion over three years for new centers in the Tokyo metropolitan area and the Kansai region. We are also planning to introduce current logistics equipment into the new centers to save labor and reduce personnel levels. In addition, we plan to promote the introduction of equipment to improve the efficiency of logistics in existing centers and to boost the productivity of our logistics overall.

Looking at our human resources system and organizational reforms, we are also investing in the creation of a system that can handle the diversifying working styles brought about by the impact of the COVID-19 pandemic.

Although it is difficult to make forecasts due to the influence of COVID-19, the numerical targets in our new medium-term management plan consider the amount of investment it will take to respond to changes in the environment with a view to the situation 10 years from now.

CSR Activities

Becoming a Company That is Good for Both Employees and the Environment

Continuing with our initiatives under the previous medium-term management plan, we will add to the systems that create an environment where female employees can continue to work with motivation over the long term. Moving forward, I think it will be important to establish a system that allows all employees, including male employees, to use the system

according to their working styles. As a result, the number of motivated managers should increase, along with the proportion of female managers.

Concerning our contributions to the environment, we plan to continue implementing the 3R campaign in collaboration with the Ministry of the Environment, as well as reduce the number of product returns. To boost the efficiency of the entire supply chain, we will conduct activities targeting a recycling-oriented society, in cooperation with retailers and manufacturers. We also plan to systematically contribute to regional communities, setting a theme and a budget for that purpose.

Please look forward to our progress in achieving our long-term management vision: "Realize your dreams. Change your daily lives."

Medium-Term Management Plan 2023 Targets

	2020/3 (Results)	2023/3 (Targets)
Net sales	796.2	845.0
Operating income	9.3	11.5
Ordinary profit	10.1	12.0
ROE	8.8%	9% level

(¥ billions)

Aiming for Medium- to Long-Term Growth

We formulated Long-Term Management Vision 2030, which indicates the direction the Company should take over the next 10 years, so that all employees can work together based on clear management aims in the midst of major changes in the social environment. Going forward, we will set three-year medium-term management plans to mark milestones in the realization of our Long-Term Management Vision and we will work toward further growth.

Long-Term Management Vision 2030

Realize your dreams.
Change your daily lives.

The dream to spend enriching and comfortable time every day for many years to come.
We want to be a company that can make peoples' "dreams come true."
ARATA will change your life. A new daily life.



ARATA's Ideal Shape in 2030

Numerical Targets

Achieved sales of
one trillion yen by 2030

The Value That ARATA Provides to Society

- 1 A company that offers job satisfaction for employees
- 2 A company that creates virtuous cycles in the supply chain
- 3 A company that continues to deliver rich and comfortable daily lives to consumers
- 4 A company that operates in an environmentally friendly manner



Medium-Term Management Plan 2023

Strategies to Achieve the Long-Term Management Vision

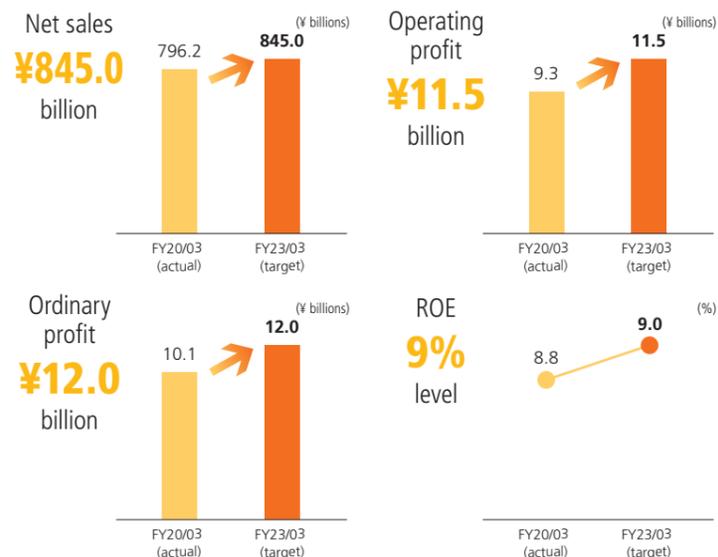


Investment Plan

Invest at the level of
¥30 billion over three years



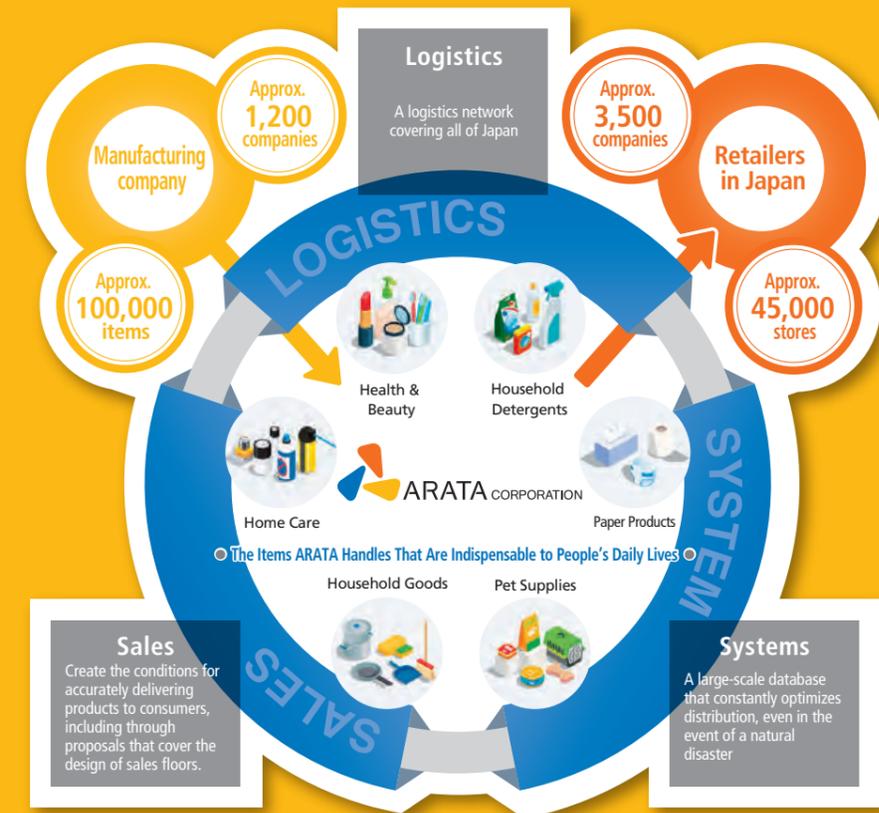
Targets for the Final Year of the Medium-Term Management Plan (FY23/03)



ARATA's Role During the COVID-19 Pandemic

The Company, which handles life's necessities, strives to fulfill the social mission of delivering products whenever they are needed.

In 2020, our operating environment changed dramatically as the result of COVID-19. Regardless of these conditions, we maintain our management philosophy of "continuing to serve the world." We place importance on dealing with a wide range of retailers and manufacturers and on achieving uninterrupted operation at logistics centers to flexibly respond to changes in the environment.



Demonstrated strengths in product procurement

Handling the wide range of categories and items provided by our many business partners (approx. 1,200 companies). Procuring products from new business partners.

Achieving quality assurance through careful product selection

Delivering to retailers only those products that are confirmed by our procurement staff. Delivering safe products that put consumers' minds at ease.

Engaging in a wide range of transactions based on our social mission

Well-balanced handling of transactions in a wide range of business formats throughout Japan that flexibly responds to major environmental changes.

Measures to prevent infections and sustain operations at logistics centers

- Sterilizing with alcohol and other disinfectants; taking workers' temperatures
- Staggered commute times to avoid crowds; staggered breaktimes
- Sterilizing common areas
- Ensuring social distancing
- Opening windows for constant ventilation
- Distributing masks, face shields, and protective clothing
- Selecting a company to do decontamination work as a test so that the Company can quickly resume logistics operations after an employee is infected

Consolation for part-time employees

Increase the hourly wages as consolation for part-time employees who work at logistics centers even during the state of emergency

We will continue to procure the products that people need in a steady way and deliver them to retailers throughout Japan.

Expansion of Growth Potential

Sales

We aim to be the company of choice for retailers, having unique assets that our competitors do not have and a well-balanced, “weakness-free” structure that flexibly responds to major changes in the business environment.

Director and Executive Vice President,
and General Manager of Sales

Toshiyuki Omote



The COVID-19 pandemic has brought about huge and unprecedented environmental changes in Japan and the rest of the world. The biggest change caused by the pandemic is a decrease in how often people leave their homes. E-commerce and home delivery businesses were already on a growth trend, but the pace of their growth is now expected to accelerate, in part due to brick-and-mortar retailers entering these businesses. We think it necessary to deal with these changes head on, after considering the best ways to cope with them.

Our mission is to continue to deliver the products people need (as indicated by purchasing trends), even in the face of unpredictable changes in the business environment. To fulfill that mission, we believe it is essential to avoid creating any weaknesses. We exchange opinions with manufacturers about short-term plans (covering six to twelve months ahead). We also discuss with them what their target consumers want,

what they are dissatisfied with, and changes in the environment. Sharing long-term policies and building strong relationships with manufacturers is necessary to encourage balanced growth in the product categories that we handle.

Given our aging and declining population, we will continue to consider active seniors and working women as our target demographics. However, the COVID-19 pandemic has significantly changed the lifestyles of every demographic. These changes are creating temporary difficulties in relation to cosmetics, but over the long term we intend to reinforce this category. We will emphasize a balance in product categories and how to avoid creating weaknesses so that we can propose products that make life richer and more comfortable, while determining the changes in the lifestyles of our target customers.

[Obstacles to growth]

We will also equip ourselves with the functions needed to meet the expectations of our retailer partners and link together the elements of those functions

We cannot continue to be the company of choice for retailers unless we provide functions that always meet their expectations as they undergo change. It is important to constantly keep track of what retailers are looking for and to make evidence-based proposals to meet their expectations.

Therefore, our “analysis function” is indispensable. The Sales Promotion Division, a specialized analysis unit, works under the Sales and Sales Planning Department to strengthen analysis-based proposals. Their analysis is useful in determining and forecasting the circumstances surrounding COVID-19. A weekly analysis of POS data gives us insight into demand trends and has made it possible for us to promptly respond to these trends.

Further, we will work closely with leading retailers in every region of Japan, making analysis-based proposals tailored to their individual businesses and implementing a PDCA cycle based on the resulting sales.

In addition to analysis, we have other functions that are useful assets, such as our Group companies, ISM Corporation and Dentsu Retail Marketing Inc.

These assets are highly useful by themselves, but we can make them indispensable to retailers by combining them with our role as a wholesaler. I see the question of how we should provide these functions as an important issue to be addressed as we move forward.

Providing Information through Online Meetings

Close cooperation with retailers helps us learn about the accelerating changes occurring in their businesses. Face-to-face business negotiations had been the standard until the COVID-19 pandemic. However, we now hold business negotiations online, and the effect is faster turnaround times from the discussion of ideas to putting them into practice on sales floors.

In addition, holding online meetings within the Sales Department leads to more active communication, characterized by, for example, many of our young employees sharing information on the successful sales they have made and products that are performing well.



Employee Comments

The big advantage of online meetings is that you can easily indicate the points you want to emphasize because everyone is looking at the same digital materials. After making a proposal to retailers, we can immediately share information on products that have performed well, which helps to reduce lost opportunities.

Of the products that I presented, one that received a particularly good response from salespeople in the Sales Department was clean wipes for eyeglasses. Since the product had a cute pattern on the side, I suggested that we position it in the beauty care section instead of the usual section. Also, I pointed out that since masks are in widespread use due to the COVID-19 pandemic, this product can satisfy demand from people who have problems with their glasses clouding up and it has antibacterial properties so it can be used to wipe down smartphones.



(Source: Proposal materials shared at a meeting.)



Risa Kanai
National Chain Stores
Division,
Sales & Sales Planning
Department,
Head Office

Initiatives for Strengthening Cosmetics Sales

In cosmetics, which requires specialized knowledge, the Cosmetics Business Department takes the lead in providing information to strengthen our ability to make cosmetics proposals and on working to increase sales.

Enhancing “Product Power in Cosmetics”

We are further strengthening our collaboration with cosmetics manufacturers and steadily increasing the number of products developed in-house as well as products for exclusive distribution. Moreover, the entire company is working as one to grow further as a cosmetics wholesaler by rapidly proposing trendy products to retailers and helping them with their in-store displays.



CAROME. (for exclusive distribution) A makeup series produced by Akemi Darenogare

Cosmetics Showroom Proposals

We have three showrooms nationwide. We renovate the showroom at the head office every six months to closely follow the rapidly changing trends in cosmetics.

The display shelves and showrooms are important assets for the Cosmetics Business Department; they are where we can make proposals so that customers can see and touch the products.



Total Proposals following Current Trends

Salespeople are concentrated in the Cosmetics Business Department and every branch office has a dedicated cosmetics team. Salespeople visit salesfloors and share real-time information throughout the company on metrics, such as the sales of certain products. The specialized cosmetics support team then compiles the information into reports that show trends at a glance and provides these to retailers.

In addition to providing materials to retailers, we also display products in our showrooms in line with our proposals. We make proposals for entire salesfloors, not just individual products.

There are also new types of demand created by the COVID-19 pandemic. We meet the expectations of retailers by rapidly deploying products on salesfloors that meet this demand. Examples of these products include skincare products for irritation caused by masks as well as fingernail and hair color products.



Expansion of Growth Potential

Globalization and the Pursuit of E-Commerce

Pulling down barriers with a sense of urgency.

We will deliver superior products that please our customers in Japan and those around the world.

Director and Managing Executive Officer,
General Manager of Business
Development Department (concurrently)
Manager of Development Strategy
(concurrently) Manager of EC Business

Takahiro Furiyoshi



The size of the e-commerce market (B2C merchandising) in 2019 exceeded ¥10 trillion annually, making it larger than the drug store market (¥6.8 trillion) and bringing it close to that of the convenience store market (¥12.2 trillion). Due to the shadow cast by COVID-19 in 2020, the number of new entrants into the e-commerce field increased, as is the number of players looking to expand their operations.

Consumer purchasing trends have changed significantly, and the e-commerce ratio has risen to 6.76%. E-commerce is expected to continue to grow as a sales channel.

In overseas markets, high-quality Japanese products are in high demand, especially in China and the ASEAN countries. However, language barriers exist, and despite better and newer products being released one after another, purchases are in practice limited to the products where brand recognition

is strong among people visiting or living in Japan.

Due to the influence of COVID-19, the number of overseas visitors to Japan has decreased sharply. However, these kinds of barriers will come down when international travel resumes and there are once again many overseas visitors. I think there will be an opportunity to let the people of the world know about excellent Japanese products when we resume our role as the main distributor of information about these products.

We will investigate changes in the business environment, accept them, and then strive to expand our business not only in Japan, but turn our attention overseas as well. We aim to have the people of the world use the products that we handle in a way that brings them joy.

[Obstacles to growth]

Quickly respond to changes in the business environment through synergies between departments

The Business Development Department has three divisions: the E-Commerce, the International Business, and the Business Development Divisions. The area covered by all of them continues to grow. For this reason, collaboration among the three divisions, rather than each working independently, is more important than ever.

Specifically, our overseas business, centered on China and the ASEAN countries, is closely related to the international business managed by the Business Development Division. When we enter the China e-commerce market, we use the know-how gained through initiatives with domestic e-commerce companies. This will provide opportunities for new business development and the development of marketing expertise.

Our strengths in light of the rapidly changing market environment are our ability to unify operations under the Business Development Department and to make comprehensive decisions with a sense of urgency while communicating among the three divisions and using their particular know-how.

Currently, the Business Development Department has relatively low sales when compared with the Company as a whole. However, for ARATA's continued growth, every division of the Business Development Department must make its presence felt and grow with a sense of urgency. As the projects we are currently working on and those we plan to take on bear fruit over the next ten years, we will grow these businesses with the aim of creating another earnings pillar.

Business Strategy under Long-Term Management Vision 2030

International Business Division

The Chinese market is essential for overseas business development. In September 2020, we entered into a comprehensive business alliance with Guangzhou Zhong Shang Investment Holding Group Co., LTD, an excellent partner with operations deeply rooted in China.

Through this alliance, I believe that we can practice high-quality logistics supply chain management in both countries. The scope of the alliance will include selling high-quality Chinese-made products in Japan and will not be limited to wholesaling.

Moreover, our ASEAN strategy will be in full swing. This includes the Kingdom of Thailand, where we entered in 2013, and Vietnam, where we decided to enter in October 2020. Until now, we have grown overseas country by country, in other words, focusing on one country at a time. However, moving forward, we will promote dynamic business development by growing regionally, centered on China and the ASEAN countries.



Guangzhou Zhong Shang Investment Holding Group Co., LTD

- **Date of establishment** December 7, 2006
- **Businesses*** OEM sales for in-house factory manufacturing; agency sales and operation of imported cosmetics; development and manufacturing of health/personal care goods and cosmetics
- **Capital** 50 million yuan (about 800 million yen)

*Including group company businesses

ARATA VIETNAM COMPANY LIMITED

- **Date of establishment** October 2020
- **Businesses** Wholesaling and other businesses in Vietnam
- **Capital** 15,065 million dong (about 70 million yen)
- **Investment ratio** ARATA CORPORATION 100%

E-Commerce Division

As a wholesaler, we have been refining the distribution of goods. However, now that information is becoming as borderless as goods, the coming era calls for distribution of information as well.

We have an enormous asset in the valuable data we have accumulated over many years. We still use this data for analysis to make proposals. However, we need to build a new business that uses data in other ways.

E-commerce is expected to continue growing, but logistical challenges are expected to increase in tandem with the growth in sales. Our business is mainly B2B. Looking to the future, however, I think we will need to research and consider other businesses, such as B2C, B2E, and D2C.

I believe that building experience in product development and marketing for e-commerce will become a Company strength.

Limited edition, own-product designs for bundled products for e-commerce companies



When designing our own products, we will move to simple designs that fit into daily lifestyles, and offer these products first to e-commerce companies.

Bathwater cleaning agents

Business Development Division

For cross-border e-commerce in the Business Development Division, I think it is necessary to actively develop markets, including through sales promotions and logistics, as we focus on the Chinese market.

The Business Development Division is also responsible for the development of new businesses.

New businesses we are considering include using key opinion leaders (KOLs; the Chinese version of influencers), WeChat, and other ways to raise awareness of attractive Japanese products that are not yet known overseas. We are also considering the idea of gathering attractive products from around the world and selling them in Japan.

Expansion of Growth Potential

Logistics

We will contribute to the efficiency of the entire supply chain, while adopting a broad perspective that goes beyond our industry, by fulfilling the Logistics Department's main responsibility: delivering products

Executive Officer, General Manager of Logistics Department

Hironori Maekawa



Continuous operation of logistics centers is important for the stable delivery of life's necessities. The impact of COVID-19 had us once again realize this fact, and served as an opportunity to reaffirm the issues facing our business.

Our highest priority for having our logistics centers operate continuously is ensuring the safety of our employees and part-time workers.

We take countermeasures against infections in our logistics centers, including measuring body temperatures, continually supplying face shields and masks, sterilizing common areas, staggering break times, and designing pathways to avoid congestion.

Further, we have selected decontamination companies for every logistics center in advance so they can be called in if there is an outbreak, in this way minimizing the time an affected center will be idle. In addition, we ordered a decontamination test for one site so that we could understand the process. This has helped us to prepare so that we can rapidly respond to an outbreak. As of December 2020, all centers have been in operation—without stopping for a single day.

I believe that the Logistics Department's most important task is creating an environment where all employees can work safely and comfortably, whether under a pandemic or not.

[Obstacles to growth]

The personal development carried by our Logistics Department, which holds the key to optimizing the entire supply chain

We hold regular meetings with leading local logistics companies. We are building good relationships with these companies by sharing issues and carefully discussing solutions with them, ultimately studying and implementing initiatives that improve efficiency and reduce costs for both parties. I believe that this regular relationship-building has helped us respond to the increase in trucks that occurred due to panic buying during the pandemic.

As we do not use our own trucks for deliveries, cooperation with logistics companies is absolutely essential. Our policy is to implement companywide initiatives for improving dialogues with logistics companies and resolving issues together with them.

We are also working with several major manufacturers to improve processes: from ordering products to their arrival in stores. In 2019, we completed the introduction of "arrival reservation systems" in the Tokyo metropolitan area and the Chubu region to promote "white logistics." We are working to introduce this system at all of our bases. We also aim to collaborate with retailers to deal with the increasingly severe shortage of drivers.

Further, it is our duty as an environmentally friendly wholesaler to

improve transportation efficiency and reduce CO₂ emissions through measures that improve the truck loading rate.

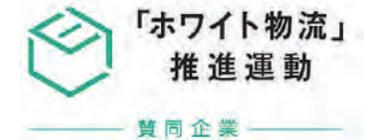
In addition to discussions with retailers, manufacturers, and logistics companies to solve social issues and issues within the industry, we also collect information through exchanges with wholesalers in other industries. The logistics operations of wholesalers are called on to play a key role in supply chain optimization, building the most efficient logistics systems possible, while cooperating with players from various fields.

Moving forward, I believe that personnel development will be an important issue for the Logistics Department. We are working with the General Affairs and Personnel Division to rebuild the training system to develop future executives. We plan to start this program in earnest from the next fiscal year.

People are needed to respond to changes in the environment. We need and will strive to develop personnel capable of sorting through large amounts of information in a changing environment and determining how to apply the various logistics equipment and the latest IT technology to optimize our business.

Better Working Conditions for Drivers

We support the "white logistics" campaign being promoted by the Ministry of Land, Infrastructure, Transport and Tourism; the Ministry of Economy, Trade and Industry; and the Ministry of Agriculture, Forestry and Fisheries. We are promoting these initiatives to improve the efficiency of our logistics, to cut waiting times for truck drivers, and to reduce the time required for handling cargo.



Initiative	Details	Effect
Cooperate with manufacturer on proposals for improving distribution	<ul style="list-style-type: none"> ● Palletize and use ordered lots ● Reduce cargo handling by direct shipments from factories ● Improve loading rates 	<ul style="list-style-type: none"> ● Record order lots and factory direct delivery ratios by location and evaluate them monthly ● Improve loading rates to reduce the number of trucks ● Improve loading efficiency, shorten cargo handling and inspection times by forming cargo
Introduce a reservation system for warehouse entry times	<ul style="list-style-type: none"> ● Introduce and expand the truck reservation system to reduce cargo waiting time 	<ul style="list-style-type: none"> ● Introduce TSUNAGUTE Co., Ltd.'s system. Eleven bases in operation across the Tokyo metropolitan and Chubu areas. Continue horizontal growth ● Reduce waiting time for incoming vehicles by 30–80%
Using pallets to shorten the time required to unload shipments	<ul style="list-style-type: none"> ● Promote shortening of unloading times by palletizing delivery by storage floor ● Collaborate in palletizing flat-stacked deliveries 	<ul style="list-style-type: none"> ● Work at two bases. Reduce inspection and sorting time from 60 minutes to 30 minutes on average ● Reduce unloading time from an average of 90 minutes to a maximum of 20 minutes
Plan deliveries to avoid congestion	<ul style="list-style-type: none"> ● Reduce waiting times ● Stagger shipping and delivery times to improve operational efficiency 	<ul style="list-style-type: none"> ● Implement night deliveries for multiple companies ● Improve delivery productivity and loading rates, shorten vehicle travel times
Promote the documentation of shipping contracts	<ul style="list-style-type: none"> ● Promote the documentation of transportation contracts 	<ul style="list-style-type: none"> ● Completed a review in 2019 ● Clarify billing details, receive feedback from shipping companies ● Create a contract template to be used for new contracts at all bases

Personnel Development in the Logistics Department

To respond to increasingly sophisticated logistics needs, we encourage employees to acquire related knowledge and skills. We provide education and training for them, and are developing personnel with an eye to the future.

In addition, the operation of logistics equipment requires a broad base of knowledge, as does conducting operations aimed at improving the overall efficiency of manufacturing, distribution, and sales. Therefore, we actively hire mid-career employees to incorporate new knowledge and skills from the outside into our operations, in this way building a structure where we can meet a diverse range of needs.

Moreover, we accept technical intern-trainees from overseas and aim to create a workplace where diverse personnel can play active roles.

Logistics-related Education and Training

Logistics examination	Encourage employees to take certification exam in the field of logistics based on the vocational ability evaluation criteria set by the Ministry of Health, Labour and Welfare
Foreman training	In-house training to become a foreman in the Logistics Department
In-house national forklift convention	Hosted in-house national convention for improving forklift skills and safety measures



Logistics examination candidate recruitment flyer



Training foremen



In-house national forklift convention award ceremony

Message from the Vice President

Management that Achieves Success 10 Years from Now: Move Dynamically!

Yoichi Suzuki

Representative Director and Vice President, Executive Officer and General Manager of Administration Department



Changes in the Business Environment Are Now Apparent

With the spread of COVID-19 worldwide, it seems likely that many aspects of the business environment will change.

It is thought that people's awareness of hygiene and natural disasters will sharply improve, labor-intensive work will decline, and demand will shift toward digitization.

As a result of people looking for safer, more secure, and more comfortable lives, we expect there to be more emphasis on fulfilling the UN's SDGs goals, such as environmental conservation for sustainable social development, in addition to merging the virtual and the real in society.

Changes have also occurred in the supply chain, which includes everything from product development to sales activities. There have been changes in the products that sell well. Simultaneously, there have been changes in where

consumers buy products and how they buy them.

There have been changes in the products that are in demand due to people's tendency to stay home and the need for products related to infection countermeasures. At the same time, E-commerce channels are seeing an increase in sales because people's movements are restricted.

I think the shortage of masks due to the rapid increase in demand for them made many people realize that the supply of life's necessities is being significantly affected by the global supply chain, not just the domestic one.

Now Is the Time to Move Dynamically

In the past, many industries intended to globalize, and business grew because of expanding domestic demand as the world economy expanded every year. During this time, we looked at changes versus historical growth trends, repeating a cycle of making slight adjustments as results came in above expectations from the previous fiscal year.

The scale of our success in achieving sales and profit growth using this way of operating grew faster than we anticipated.

The spread of COVID-19 is likely to have a prolonged serious impact on the economy, and we can expect the negative interest rate policy to continue for the time being.

However, this unusual negative interest rate situation will eventually be corrected if the economic environment changes.

The COVID-19 pandemic has given us the opportunity to review our business structure, something we had difficulty doing up to this point. The timing is right for us to approach our business by focusing on selection and concentration, searching for promising new businesses that will drive growth while aiming to structure our company in a way that is resistant to downturns.

Competition among companies is becoming fiercer, and digitization is progressing at breakneck speed. We do not have the option of maintaining the status quo when there are such dramatic changes in the environment. We must instead move dynamically and with unwavering determination to invest and innovate in our business.

Invest ¥30 Billion for Larger Goals

To increase our corporate value, it is necessary to invest in growth businesses while setting quantitative targets for these investments and pursuing ways to achieve these targets. Under the current Medium-Term Management Plan 2023, total investment for three years is set at ¥30 billion.

We will aim to build new logistics centers that can handle the diversification of sales channels; strengthen our health, hygiene, and cosmetics product development business; and reinforce our business operations in China, Thailand, and Vietnam to build a supply chain covering Japan and the rest of Asia. Operating cash flow and income from sales of fixed assets (sale of cross-shareholdings, sale and liquidation of real estate) will cover the necessary funding for these initiatives. At the same time, looking at shareholder returns, we will respond flexibly to increases in shareholder value, setting a basic policy of providing stable dividends as well as a plan for increasing dividends.

Aiming for Management that Achieves Success 10 Years from Now

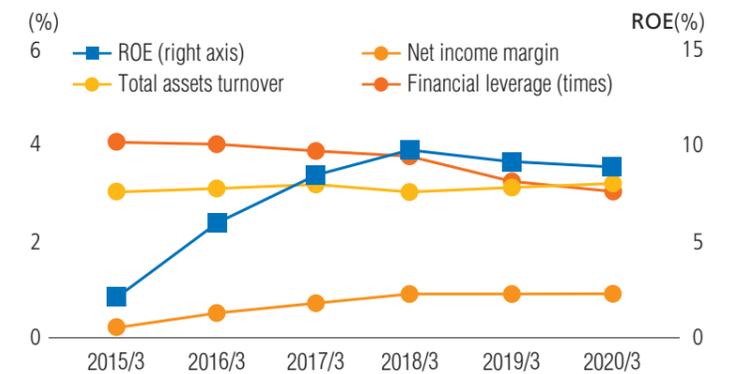
In August 2020, the Company announced the Long-Term Management Vision 2030, which indicates the direction we should take over the next ten years. We aim for further growth amid significant fluctuations in the business environment due to COVID-19. We will clarify our management principles and have all employees work together to achieve the three-year medium-term plan to bring us closer to realizing the Long-Term Management Vision.

We will work on making changes with an eye on where we want to be in the next ten years without being fixated on the short-term results. We will set priorities after trying to determine what will change and what will not and by identifying the essential elements of our business. We will avoid being overly impatient, instead pursuing management that executes the necessary investment neither too early nor too late, but at the optimum time. We call this kind of management "Management that Achieves Success 10 Years from Now."

Return on Equity

With improved profit as our ultimate objective, we will increase operating profit and the total asset turnover ratio, realizing higher profitability and efficiency.

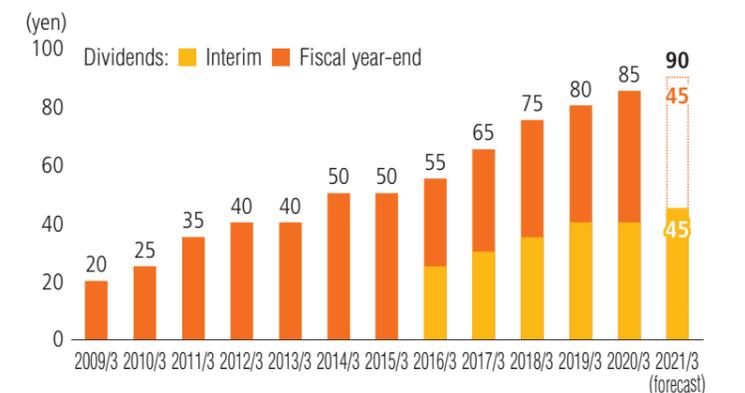
We strive for balance in financial leverage, aiming for an equity ratio of 35%.



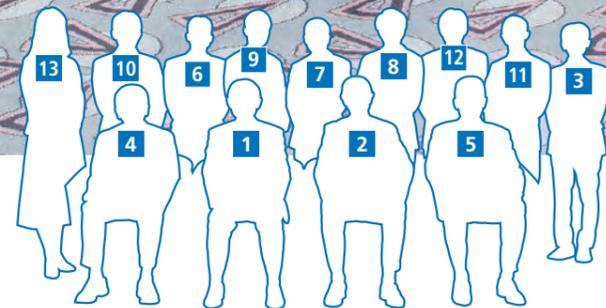
Dividend Policy

We place the highest management priority on returning profits to our shareholders, while striving for continual improvement in our corporate value.

Our basic policy is to maintain stable dividends while comprehensively considering factors such as annual results for each of our businesses, our financial condition, and future business growth.



* Note: The Company conducted a reverse stock split on August 1, 2015. However, dividends per share are calculated as if the reverse stock split had occurred at the beginning of the fiscal year ended March 31, 2009.



Directors

1 Nobuyuki Hatanaka

Executive Chairman

Nobuyuki Hatanaka has been responsible for the Company's management since assuming office as Representative Director and President, Executive Officer in 2007. He strives for expansion and growth of the Company's business, and has led the Company on the current growth path.

From 2017, he took charge of the Group as Representative Director and Chairman & CEO, and since 2019 has been showing the right direction for the Group as Chairman of the Board of Directors, while leading deliberations informed by the opinions of Outside Directors as Chair of the voluntarily established Nomination and Compensation Committees.

4 Toshiyuki Omote

Director and Executive Vice President, and General Manager of Sales

Toshiyuki Omote has held several managerial positions in the Sales Division. Since 2010, he has served as Executive Officer and Manager of National Chain Store Division of the Sales & Sales Planning Department, and has played a large part in strengthening the Company's sales activities and in achieving business growth.

In his current role as Director and Executive Vice President, and General Manager of Sales, he works on the strategies for expanding business and profits by strengthening the sales abilities, as he has been doing to date.

7 Yoshihisa Aoki

Outside Director

As a Representative Director at ITOCHU Corporation's Food Company, Yoshihisa Aoki has extensive experience and deep insight into global corporate management.

He has served as outside director since 2017, has offered strong advice on the entire range of management, and has been engaged in enhancing the Company's corporate governance.

2 Hiroaki Suzuki

Representative Director and President, Executive Officer

Hiroaki Suzuki has worked in the sales and product divisions since joining the Company, and has extensive business experience and knowledge within the Company.

He assumed the office as Representative Director and President, Executive Officer in 2017, and has led the Company's management since then. He has steadily built an excellent track record and has produced successful results. In addition, he contributed to achieving the targets of the Company's new medium-term management plan that started from the fiscal year ended March 2018.

5 Takahiro Furiyoshi

Director and Managing Executive Officer, General Manager of Business Development Department (concurrently) Manager of Development Strategy (concurrently) Manager of EC Business

Takahiro Furiyoshi has worked in the Sales Division and is well-versed in logistics sites, and has specialist knowledge in the field. Since 2015, he has played a significant part in the expansion of the business as General Manager of Sales.

Since 2017, he has been Director and Managing Executive Officer, and General Manager of Business Development Department in development of new businesses and growth of the overseas business, which will be the pillars of future operations.

8 Hideo Ishii

Outside Director

Hideo Ishii served as Director and President at Japan Investor Solutions & Technologies Co., Ltd., and has experience in overseeing the entire business of a company. He has served as Outside Director since 2018. As a corporate manager, he makes judgments and expresses opinions, from objective viewpoints, on the execution of the Company's business.

3 Yoichi Suzuki

Representative Director and Vice President, Executive Officer and General Manager of Administration Department

Yoichi Suzuki has worked mainly in the administrative division and has extensive experience and knowledge within the Company. He assumed office as Representative Director in 2007, and has strengthened the management base including the administrative, business planning, and system divisions.

In his current roles as Representative Director and Executive Vice President, Executive Officer and General Manager of Administration, he is working on enhancing the administrative division, improving the CSR structure, and promoting IR activities to increase the Company's corporate value.

6 Akihito Mizuno

Director President and CEO of Japell Co., Ltd.

Since 2016, Akihito Mizuno has served as President and CEO of Japell Co., Ltd., the leading specialist wholesaler of pet products and a subsidiary of the Company. He has been instrumental in driving the company's business growth and raising the position in the industry. Appointed as Director of the Company in 2020.

9 Akira Iwasaki

Outside Director

Akira Iwasaki has served as executive officer and CIO at several companies related to finance and systems. He has a wealth of knowledge and experience in general management, as well as systems and IT, therefore he is capable of providing judgment and comments on Company matters, including corporate management and the Systems Division, for effective business execution from an objective viewpoint. Appointed as an outside director of the Company in 2020.

Audit & Supervisory Board members

10 Mikiyama Ito

Standing Audit & Supervisory Board member

As Director and Managing Executive Officer, President of Kyushu Branch, Deputy General Manager of Sales & Sales Planning Department, and Manager of International Business Division, Mikiyama Ito has experience in both sales and general management. He is in charge of subsidiaries, understands how the Group's business operates as a whole, and has full knowledge of a wide range of business operations. These characteristics enable him to be even more effective in monitoring general management and in his auditing duties.

11 Taketoshi Saito

Standing Audit & Supervisory Board member

As an Executive Officer and President of the Kitakanto Koshinetsu Branch, Taketoshi Saito took charge of sales and general management, and has full knowledge of a wide range of business operations. These characteristics enable him to be even more effective in monitoring general management and in his auditing duties.

12 Satoshi Hiramitsu

Outside Audit & Supervisory Board member

Satoshi Hiramitsu, having significant specialized knowledge as a Certified Public Accountant, has been monitoring the Company's business as a whole and has contributed to effective audits as an outside member of the Audit & Supervisory Board of the Company since 2012.

13 Tomoko Sakamoto

Outside Audit & Supervisory Board member

Tomoko Sakamoto has rich experience as an attorney at law as well as significant insight into corporate legal affairs. Accordingly, she can monitor and audit the Company's management from an independent standpoint by leveraging these abilities. Appointed as Outside Audit & Supervisory Board Member of the Company in 2020.

Executive Officer

Senior Managing Executive Officer

Toshio Nakagawa President of Kansai Branch

Managing Executive Officer

Yutaka Ohashi Head of Cosmetics Business Department

Shigeo Aihara General Manager of CSR, General Manager of Human Resource Department, Manager of Personnel Division

Hitoshi Takiguchi President of Hokkaido Branch

Hidetaka Hatanaka General Manager of Product Merchandising Department

Yoshiro Uryu General Manager of Corporate Strategy Planning Department

Seiichi Kochiya President of Capital Area Branch

Senior Executive Officer

Yoshihisa Morishima President of Chubu Area Branch

Executive Officer

Futoshi Imazu President of Kyushu Branch

Hironori Maekawa General Manager of Logistics Department

Shichiro Izaki Logistics Supervisor of Kansai Branch

Hideyuki Yamada General Manager of IT Planning Department

Hidehiro Tanaka Manager of International Business Division, Business Development Department

Koki Nakagawa President of Chushikoku Branch

Roundtable Discussion among the Chairman and Outside Directors

Achieving Our Management Vision

The Role of ARATA's Corporate Governance

Chairman of the Board of Directors

Nobuyuki Hatanaka



Outside Directors

Yoshihisa Aoki

Hideo Ishii

Akira Iwasaki

The Role of Governance and Issues in Strengthening Our Corporate Structure

Nobuyuki Hatanaka In August 2020, we formulated Long-Term Management Vision 2030, the direction we should take to be the company we want to be 10 years from now. To realize this vision, it is essential to take a broad perspective and incorporate a wide variety of opinions into our management activities. This is why I think it is important to have outside directors.

Yoshihisa Aoki Chairman Hatanaka's resignation from his executive officer role in 2019 has given birth to a trend of separating executive officers from directors, which I think has strengthened governance. I also feel that the chairman listens carefully to various opinions and is striving to change the Company for the better by steadily incorporating the best points.

Hideo Ishii I agree. We have also voluntarily set up the Nomination Committee and the Remuneration Committee. These committees evaluate the effectiveness of the Board of Directors and actively take up the opinions expressed in those evaluations to help improve Board operations. Our management is able to reflect the knowledge and opinions of different industries through this process.

Akira Iwasaki It's only been a short time since I became an outside director, but I was surprised at ARATA's approach of using the opinions of outside directors to become a better

company. I personally have become very fond of ARATA as a company, and I would like to devise ways to strengthen governance to help with growth.

Having Outside Directors Develop a Deep Understanding of Our Business Strategy

Yoshihisa Aoki I believe that outside directors exist to help the company develop for both better business performance and management. However, without being familiar with the internal workings of a company, it is difficult to give opinions that will be useful. To prevent this from happening, the details of complicated projects that ARATA is undertaking are explained to us before Board of Directors' meetings. I think that ARATA has taken steps to help us improve our understanding of the Company, such as providing opportunities to exchange opinions at Board meetings. I personally visit the Company as much as possible to try to communicate with the officers and employees and to understand the management of the Company in concrete terms.

Akira Iwasaki I always read Board of Directors' meeting materials in advance, and sometimes ask questions via email if I find some content difficult to understand due to technical terms or for other reasons. I know I tend to emphasize this due to my background in IT, but I think we should go further

ahead in creating systems that allow information to be shared in advance.

Hideo Ishii The Nomination and Remuneration Committees provide opportunities for management, especially for the officers, to meet with outside directors. This gives us an idea of the respective personalities and abilities of the Company's officers and the current state of the company.

Nobuyuki Hatanaka I would like to continue to increase opportunities for contact with employees. As we move forward, developing executives who can exercise leadership and drive the Company forward will require exposing them to more than the limited communities of the Company or the industry. I think that creating a place where employees can talk about management with people from outside the company is an essential condition for the development of capable executives.

The Importance of Outside Directors in the Decision-Making Process

Nobuyuki Hatanaka As companies take on more and more roles, it is essential for management to have a broad base of knowledge. For that reason, having outside directors meet with management is essential because outside directors can judge the qualities of executive managers from a different perspective than the Company's internal standards. Executive

Chairman of the Board of Directors

Nobuyuki Hatanaka



Outside Directors

Hideo Ishii



Outside Directors

Akira Iwasaki



Outside Directors

Yoshihisa Aoki



Roundtable Discussion among the Chairman and Outside Directors



managers also benefit from these meetings by coming to new realizations.

Yoshihisa Aoki ARATA's Nomination and Remuneration Committees have adopted interesting methods.

Previously, at the initiative of the chairman, a committee meeting was held to find out how executive candidates evaluate employees. I participated in this meeting and asked about the underlying ideas that employee evaluations are based on. It was a very easy-to-understand and interesting meeting. What was particularly interesting was that Mr. Hatanaka, who chaired the committee, took the initiative in discussing the validity of the evaluation standards.

As an instructor, I participate in training sessions for a wide employees, including new employees and managers. From my point of view, I can appreciate the close attention that ARATA pays to the development of executives.

Hideo Ishii As outside directors, we are also involved in the evaluation of management and officers through the Nomination and Remuneration Committees, and I think that fact effectively helps to diversify the evaluation criteria. For personnel evaluations, there is something called a "360-degree evaluation" where people in other departments evaluate their peers, and the Nomination and Remuneration Committees do something very similar to this. In recent years, ARATA is keenly aware of career development based on fair evaluations of everyone working for the Company, whether they are employees, managers, or officers. I think this is a very good thing for the Company.

Akira Iwasaki Having outside directors from different industries and types of business on our committees should

produce a wide range of opinions. I think that if we can skillfully incorporate these differing opinions, including into evaluations, we will be able to create extra value.

Since there are many opportunities for outside directors to participate in ARATA's committees, I feel that the company is expecting a lot and this encourages me to approach my role with a serious attitude.

What We Need from the Next Generation of Management to Improve Corporate Value

Nobuyuki Hatanaka I think there are various answers, depending on how we view it, to the question of what we need from the next generation of management. However, I think that in addition to pure ability, a person's "humanity" is indispensable. The person's level of commitment—how sincere they are and how seriously they take their role as a manager—is extremely important. I think that messages resonate with employees when they are delivered by someone with a clear and earnest commitment to their work.

Also, I consider a high degree of familiarity with IT and the ability to create IT-based systems to be important qualities for management in the future.

Akira Iwasaki I agree. I am just starting to talk to systems personnel about IT. I think there are many things to work on, and we will consider each of them, including assigning relative priorities.

Hideo Ishii Internationalization is also important. That said, I think a person who is interested in IT, AI, internationalization, and other topics and who can listen to the opinions of various people then make decisions with the big picture in



mind is the kind of person the Company is searching for when looking ahead to the next 10 years.

Yoshihisa Aoki We are in a chaotic time; we do not know when and what will happen. From now on, the ability to respond quickly to unexpected events will become even more important, and I think we require training on this front.

I think ARATA has the ability to quickly analyze the market under the continuing COVID-19 pandemic, then determine what to do, and carry out plans as quickly as possible. I see the results of this kind of response in the Company's performance during the current fiscal year. In the future, I think it will be necessary to further refine and foster the Company's ability to adapt to a wide range of circumstances.

ARATA 10 Years from Now

Nobuyuki Hatanaka One of the things I realized during the COVID-19 pandemic was that we are doing work that is closely related to people's lives. No matter the time or place, as long as there are people living in a particular area, companies will continue to provide them with information and products that meet their needs. Things, of course, will change little by little, but I'm convinced this business category will continue to exist as long as the fundamentals underpinning people's lives remain unchanged.

Yoshihisa Aoki That is certainly true. I think that delivering goods to consumers and supporting their lifestyles will remain a societal need. That is why I feel ARATA has the potential to further develop moving forward. I'm really looking forward to seeing how the Company develops over

the next 10 years.

Hideo Ishii With the COVID-19 pandemic, we have confirmed that ARATA is a company that is closely connected to the daily lives of consumers and that we play an indispensable role in society. There is a clear need to formulate plans and strategies for how the Company will grow over the next 10 years, but the future certainly looks bright.

Akira Iwasaki I think that there are still many ways that ARATA can generate new ideas when it comes to mechanisms for delivering goods to consumers. Considered in this way, I believe there is plenty of room for growth in this industry, this business category, and at ARATA specifically.

Nobuyuki Hatanaka We must not remain passive in our current position in the logistics industry. I am confident that as long as we continue to develop over the next 10 years, we will see more growth and will be able to secure profits as well. Effective governance is essential for that to happen. When considering what our company, originally the result of a merger, should base management on, there is of course our management philosophy and company motto to refer to. However, the clearest and easiest way to understand the foundation of our management lies in good governance.

Yoshihisa Aoki Yes, that's certainly true. I feel the same way. **Nobuyuki Hatanaka** In such a business environment, I think that the outside director system, which allows us to acquire excellent people who are highly skilled in their respective fields, is a really good system.

Through our outside director system, we are striving with determination to take our Company to a higher level over the next 10 years. We would like to ask our outside directors for their cooperation in various ways, and we look forward to their continued support.



Corporate Governance

Basic Approach

ARATA's management philosophy requires that we fulfill our role as a wholesaler in the distribution industry with a strong "frontier spirit," remembering the importance of cooperation, mutual trust, and humility at all times, while maintaining initiatives that "continue to serve the world." In line with this management philosophy, the ARATA Group is proactively developing businesses and improving corporate value.

As part of this philosophy, the ARATA Group believes that improving corporate value means improving business performance through sustained business activities and carrying out the responsibilities expected by stakeholders.

As a company, it is especially important that ARATA quickly discloses information on activities to all stakeholders

and enhances the transparency of management.

In addition, in the course of conducting business activities, we recognize that fulfilling our corporate social responsibility (CSR) is as important as improving business performance, and the Company believes that the management oversight of the ARATA Group by stakeholders should be implemented by the Board of Directors and the Audit & Supervisory Board.

Based on this approach, we believe that the role of the directors and Audit & Supervisory Board members is to secure the sound and sustainable growth of the Company and to establish a good corporate governance system that deserves the trust of society.

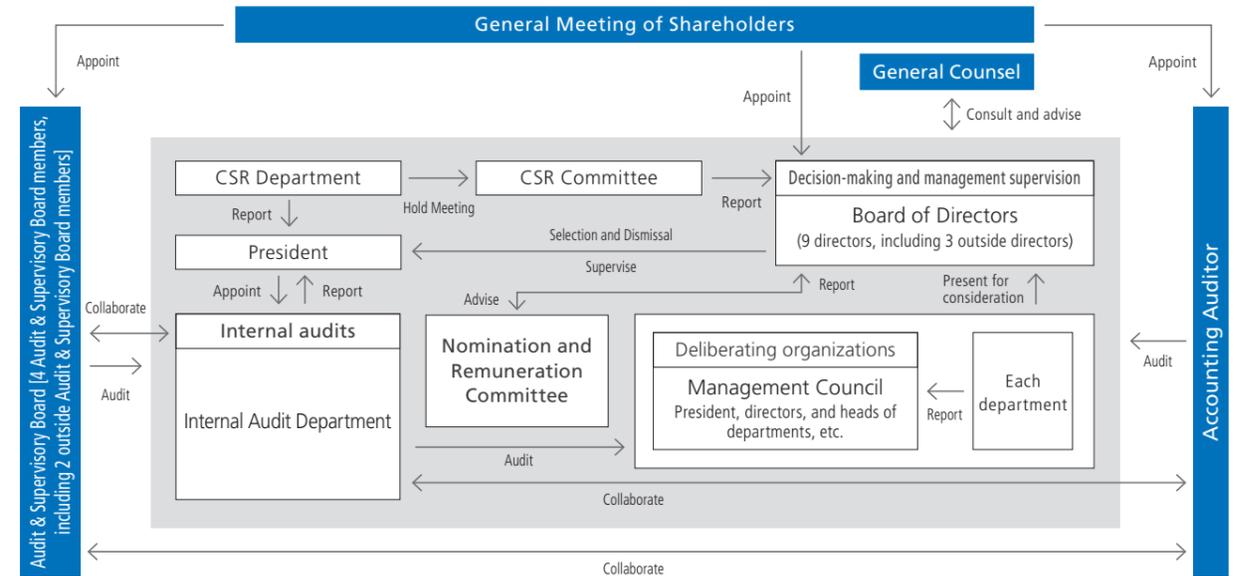
History of Corporate Governance Reform

	General Meeting of Shareholders in 2016/6	General Meeting of Shareholders in 2017/6	General Meeting of Shareholders in 2018/6	General Meeting of Shareholders in 2019/6	General Meeting of Shareholders in 2020/6
Directors	10 (including 2 outside directors)	11 (including 3 outside directors)	9 (including 2 outside directors)	9 (including 2 outside directors)	9 (including 3 outside directors)
Audit & Supervisory Board members	4 (including 2 outside auditors)	3 (including 2 outside auditors)	4 (including 2 outside auditors)	4 (including 2 outside auditors)	4 (including 2 outside auditors and 1 female auditor)
Organizational Action	Compliance Committee	CSR Committee	CSR Committee and CSR Department	CSR Committee, CSR Department Nomination and Remuneration Committee	Establish plan for interviews to train the next generation of managers

Structure of Main Organizations

	Number of Meetings Held in FY2020/03	Total	Directors	Audit & Supervisory Board members	Chairman	
Board of Directors	12	13	9 (including 2 outside directors)	4 (including 2 outside auditors)	Chairman of the Board of Directors	
Note: In addition, written resolutions (deemed Board of Directors' resolutions) occurred 10 times.						
	Number of Meetings Held in FY2020/03	Total	Outside Audit & Supervisory Board members	Chairman		
Audit & Supervisory Board	12	4	2	Standing Audit & Supervisory Board members		
	Number of Meetings Held in FY2020/03	Total	Inside directors	Outside directors	Outside Audit & Supervisory Board members	Chairman
Nomination and Remuneration Committees	4	5	1	2	2	Executive Chairman
	Number of Meetings Held in FY2020/03	Total	Directors, etc.	Audit & Supervisory Board members	Chairman	
CSR Committee	4	16	6 directors (including 2 outside directors); 6 executive officers	4 (including 2 outside auditors)	Representative Director and President, Executive Officer	

Corporate Governance Framework



Evaluating the Effectiveness of the Board of Directors

The Board of Directors analyzes and evaluates itself on general effectiveness so that corporate governance can be more effective. The Board gauges its contribution to the Company to uncover problems and to make improvements.

The Board discusses the results of their evaluation at the next Board of Directors' meeting and determines where it needs to improve.

Main Evaluation Criteria

1 Operation of the Board of Directors

- Is the Board operating more efficiently than those of other companies (outside directors)?
- Does the Board understand the Company's corporate value and assessments related to issues facing the company?
- Does the Board present appropriate strategic indicators?
- Is the Board able to effectively monitor the execution of its strategies?

2 To Improve Deliberations

- Is there enough information to make management decisions? (Is there anything requiring deliberation after multiple management reports are issued?)
- Are operations well-balanced?
- Does the explanation focus on the relevant points?
- Do meetings provide enough time for thorough deliberations?
- Do the proposals that will be reported contain suitable content?

Improvements

Example 1 Used a deliberation sheet that summarizes related materials to concisely explain all necessary information, in this way shortening the time spent on explanations and reducing the omission of essential points.

Example 2 Implemented periodic reviews of content discussed in the past.

Example 3 Held regular interviews between the Audit & Supervisory Board Members and the Chairman of the Board of Directors so that matters noticed by Audit & Supervisory Board Members are submitted as agenda items.

Risk Management

Aiming to maintain and increase corporate value as well as improve financial health, ARATA attempts to determine the various risks of operating this type of business. The Group especially strives to uncover risks that might affect our financial condition or trustworthiness. The Company protects against risks and fraudulent activity by checking for compliance in real time along with earnings and progress versus targets—at the same time as the details concerning the completion of tasks at the head office and regional offices are reported and reviewed in monthly Management Council meetings.

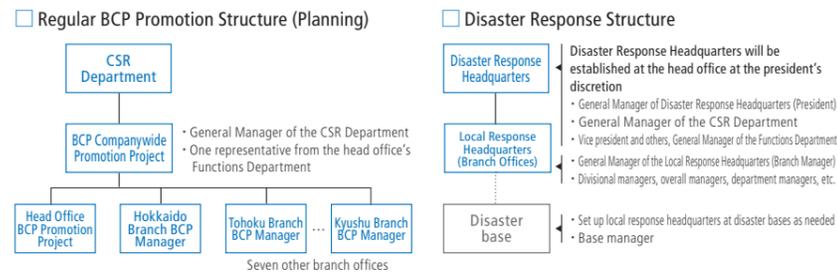
To control risks to the Group as a whole, the CSR

Department and Internal Audit Department cooperate over risk management with each Group company. In addition, our directors and Audit & Supervisory Board members concurrently serve as directors and auditors at Group companies and gather information at the Board of Directors and other meetings.

In addition, the Company maintains a system to handle emergencies promptly and appropriately. When an emergency occurs, a risk management committee, chaired by a representative director, is formed to determine the facts of the incident and to report their findings to ARATA's Board of Directors and the Audit & Supervisory Board for deliberation.

Business Continuity Plan (BCP)

We have formulated a BCP to ensure employee safety and to fulfill our social mission as a wholesaler when a natural disaster occurs, such as a major earthquake or typhoon or other crisis that could cause serious damage.



Activities in 2020

Up to the present, our BCP had focused on earthquake countermeasures. However, we are constantly reworking our plans in anticipation of various crises so that we can continue operating even amid such crises as the large-scale typhoon and flood damage that occurred in 2019 and the COVID-19 outbreak of 2020. These initiatives are centered on our companywide BCP promotion project.

Handling Typhoons and Floods

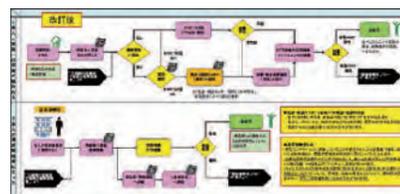
- Check hazard maps to evaluate the risk of damage to all centers and offices.
- Prepare action protocols and stockpiles based on disaster risk assessments.
- Use ARATA Disaster Prevention Day (part of the Company's disaster prevention activities) to consider how to respond in the event of a disaster.



Head office stockpiles (left) and stockpiled items (right)

Handling Pandemics

- Established a Countermeasures Headquarters and instructed all bases to implement preventive measures.
- Formulated infection prevention standards and response protocols for when an outbreak is detected.
- Prepared infection prevention products (thermometers, masks, hand sanitizer, vinyl gloves, face guards, protective clothing, etc.) and requested bases to stockpile them.
- Instructed bases to measure employee temperatures twice a day. Installed hand sanitizer. Implemented record-keeping of visitors.
- Improved work environments to avoid the "three Cs."
- Implemented staggered commuting, teleworking, and web conferencing, and held back on in-person meetings to lower the risk of infection.



COVID-19 infection prevention/spread prevention protocol flowchart

Compliance

ARATA is working to strengthen compliance across the entire Group. We indicate our position toward compliance in the *ARATA Corporate Conduct Guidelines*. We also changed the Legal section to the Legal Division in April 2020 to serve as a legal consultation center for the entire Company. This department handles compliance training, checks contracts, and provides consultation related to industry regulations, among other tasks, and promotes raising companywide

awareness of compliance through its activities.

Moreover, as part of a reporting system for compliance-related information, the Company established an internal hotline and external compliance desk. These services offer consultations and accept complaints concerning possible misconduct to discover and correct misconduct at the earliest possible date and to reinforce compliance management.

Companywide Education on Legal Revisions Conducted by the Legal Division

Since being established in 2017, the Legal Section (now Legal Division) has conducted in-house training to comply with laws and regulations related to business activities.

It was difficult to conduct group training in 2020 due to the impact of COVID-19. However, we published online explanatory materials with audio concerning our response to the April 2020 revisions to the Civil Code. We are having all employees view the materials and educate themselves on the contents.



Investor Relations (IR) Activities

We intend to help everyone in the market better understand our Company, including our domestic and overseas shareholders, institutional investors, securities analysts, and individual investors. We are undertaking several initiatives to ensure that we receive accurate valuations so that we can build long-term relationships of trust. We proactively conduct IR activities to meet these goals, disclosing information

appropriately and quickly on topics such as our management strategy and financial situation.

Due to the impact of COVID-19 in 2020, we have been holding interviews with institutional investors mainly through conference calls and web conferencing. We provide a range of information to individual investors through online seminars.

2020 Online Seminars for Individual Investors

Representative Director, Vice President, and Executive Officer Yoichi Suzuki took the stage to give presentations for various online seminars under the motto "fun and easy-to-understand seminars." Here are some of the main questions we received during the seminar, along with answers.

Seminar Cosponsored by Radio Nikkei and PRONEXUS (July 11)



Q I think the impact of COVID-19 has created demand for products produced in Japan due to import risk and quality considerations. These are of course priced relatively higher. What is your policy regarding handling?

A The most important thing for us when selecting products is quality, followed by whether it is possible to steadily supply those products, and finally the price. We make comprehensive judgments from the perspective of our social mission as a wholesaler that handles life's necessities.

Seminar with Logmi Finance (August 30)



Q Regarding shareholder benefits, you currently offer QUO cards. Are you considering offering your own private brand products?

A We have heard a variety of opinions and have considered certain products. At present, however, we offer QUO cards because they can be used regardless of gender or age. They have generally been well received.

Seminar Cosponsored by SMBC Nikko Securities and Nikko Investor Relations (September 12)



Q Could you tell us your plans for introducing robots and other automation to logistics centers?

A Automation of logistics centers is essential for stable product delivery. We will invest in logistics centers and logistics equipment over the three years covered by the medium-term management plan.

Corporate Social Responsibility

Basic CSR Approach: "Robust, Fair, and Fun"

Guided by our management philosophy of "continuing to serve the world," we aim for sustainable growth and development together with the rest of society. We must build a stronger foundation of trust with all stakeholders and cultivate the development of our entire supply chain in a way that promotes efficiency and that considers the environment. By realizing a business strategy that makes people's lives richer and more enjoyable, we can also enjoy our work. We see these business activities as part of our CSR initiatives, believing they will lead to sustainable improvement in corporate value.



The Company that ARATA Strives to Be

01

A company that employees feel is worth working for

02

A company that creates virtuous cycles in the supply chain

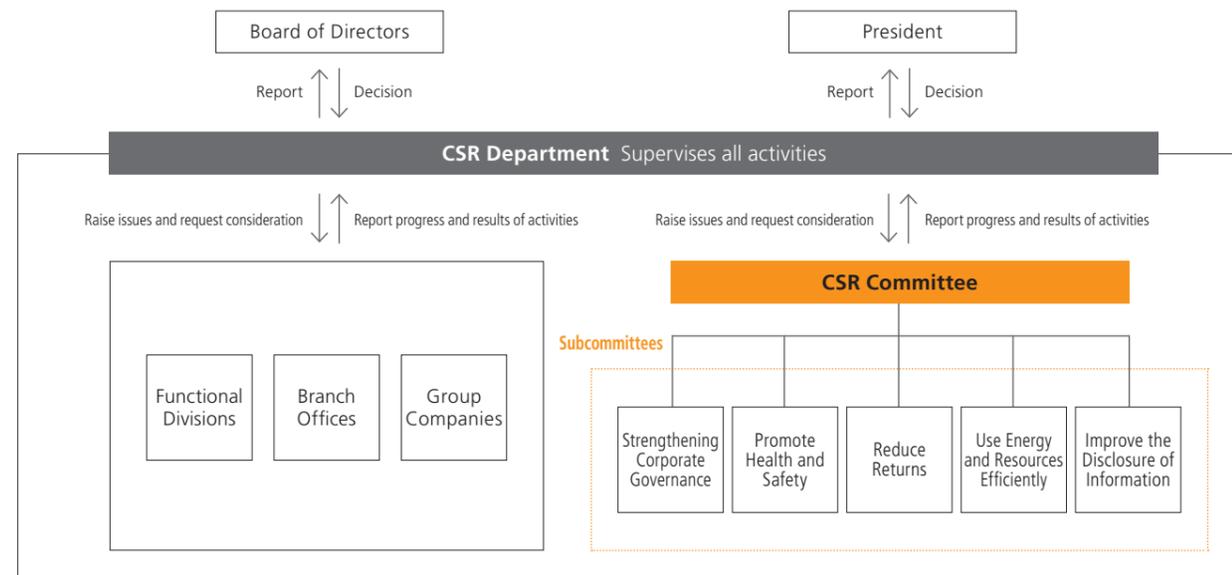
03

A company that continues to deliver rich and comfortable lives to consumers

04

A company that conducts business that considers the global environment

CSR Activity Promotion Structure



CSR Activities in the Long-Term Management Vision 2030

Mindful on our basic CSR approach, we will carry out CSR activities aimed at "creating social value" under the Long-Term Management Vision 2030. This includes contributing to resolving social issues and achieving SDG goals. We will also regularly disclose information on our CSR activities and the related numerical data on our website and in our integrated report.



Regional Communities	The Environment	Human Resources
Delivering rich and comfortable lives to all people	Helping to create an environment that fosters virtuous cycles in the supply chain	Becoming a company that employees feel is worth working for
Improve the systems that promote activities contributing to local communities	Energy savings through 3R business activities and reducing the amount of returned goods	System reforms to promote diverse workstyles

Regional Communities ▶ Delivering rich and comfortable lives to all people



The Company has many bases across Japan. We always strive build symbiotic relationships with local people and mutual aid organizations. We therefore plan to proactively strengthen ties with local communities through participation in local events. Up to today, we have participated in local volunteering and cultural activities, branch by branch. However, moving forward, we plan to be more proactive in local communities and systematically contribute more often, based on a companywide policy.

Began Supporting Solaputi Kids' Camp

What is Solaputi Kids' Camp?
Solaputi Kids' Camp was established in 2004 to help children fighting illnesses and their families by making possible exceptional memories through nature. The organization has a nature experience facility offering medical and nursing support in Takikawa, Hokkaido Prefecture.



We decided to provide continuous support for these activities, which help to realize the dreams of children diagnosed with serious diseases, based on the slogan of our Long-Term Management Vision: "Realize your dreams. Change your daily lives."

The Environment ▶ Fostering a Virtuous Cycle in the Supply Chain



In the current global environment, natural disasters caused by abnormal weather have become an important issue that we cannot ignore as we conduct business. We will contribute to the environment through our business activities as an intermediate distribution company by continuing to help reduce CO₂ levels through creating virtuous cycles in the supply chain as a concrete way to mitigate climate change.



We have played a role in connecting retailers and manufacturers and by collaborating with the Ministry of the Environment. This involves expanding the understanding and support for the 3Rs (reduce, reuse, recycle) through the Let's Choose! 3R Campaign every year as a Re-Style Partner Company.

The fourth campaign, which kicked off in October 2020, is the largest ever. It helps to boost sales of environmentally friendly products and to raise consumer awareness of environmentally friendly practices.



Number of stores participating in the Let's Choose! 3R Campaign	2017: Approx.	2018: Approx.	2019: Approx.	2020: Approx.
	1,100 stores	4,700 stores	6,800 stores	12,000 stores

Reduction of plastic based on sales volume at the time of the 2019 3R Campaign (estimated from the difference between the weight of the product container and the weight of refill packaging)

Approx. 360 tonnes



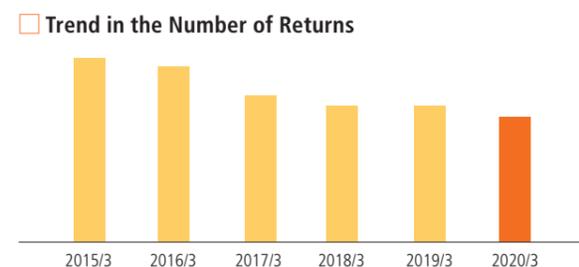
Supplying daily necessities is an industry where returns are likely to occur due to the frequent replacement of new products and existing products and the replacement of products seasonally. We use logistics equipment such as returned product sorters (see photo above) to make return-related operations more efficient. Even so, the series of operations for removing and sending back products is of course labor-intensive and costly for retailers and manufacturers, as well as wholesalers. It also carries an adverse environmental impact due to the delivery and disposal of goods.

As an intermediate distribution company, we are helping to reduce returns throughout the supply chain; We collaborate with retailers and manufacturers to formulate effective product delivery plans based on demand forecasts, to verify results, and to carry out maintenance.

A subcommittee of the CSR Committee manages monthly returns at all branch offices in a continual effort to reduce the annual quantity by two million units from the previous year.

Specific Efforts to Reduce Returns

- Forecasting demand based on analytical data
- Standardization throughout the year
- No returns

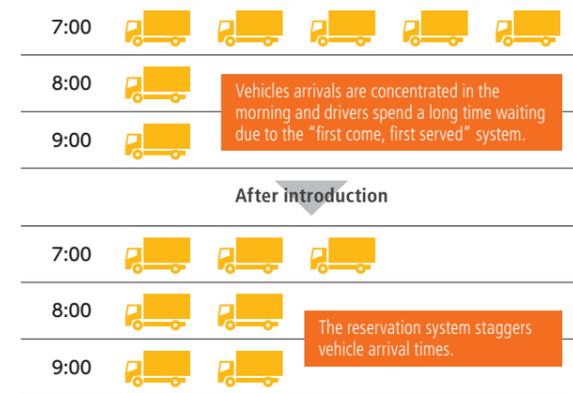


In July 2019, we announced a declaration of voluntary action to improve the working environment for truck drivers, for whom there is an intensifying shortage. We expect that this will guarantee stability in logistics—vital to the lives of citizens and economic production—while contributing to economic growth. We expect these measures to simultaneously contribute to the environment due to improved efficiency for logistics.

ARATA's implementation of better working conditions for drivers

- 1 Cooperate with manufacturer distribution improvement proposals
- 2 Introduce a reservation system for warehouse entry times
- 3 Shorten the time required to unload shipments using pallets
- 4 Plan deliveries to avoid congestion
- 5 Promote the documentation of shipping contracts

Effects of Introducing Arrival Reservation Systems



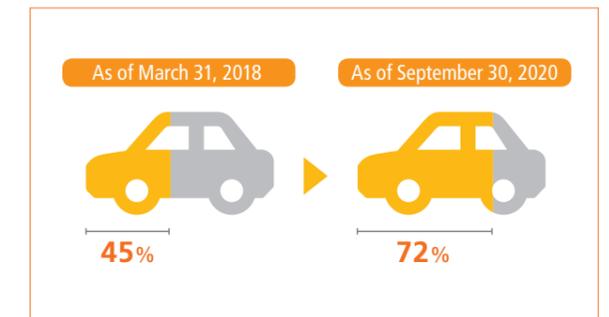
Not only does this lead to reduced emissions by cutting vehicle wait times, it also makes it possible to adjust the number of workers (based on reservation numbers), which contributes to efficiency.



Converting to Environmentally Friendly Company Vehicles
Since 2018, we have systematically switched roughly 700 company vehicles for environmentally friendly vehicles, such as hybrids.

We are contributing to reduced gasoline consumption and emissions through these activities.

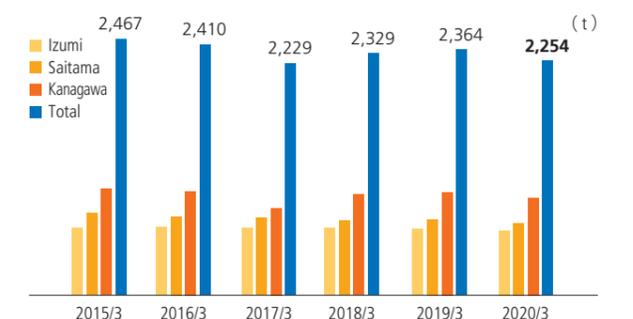
Ratio of Environmentally Friendly Vehicles



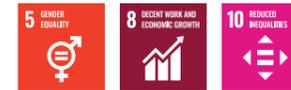
Installing solar power

Currently, we have installed solar panels on the roofs of three logistics centers, contributing to reduced CO₂ levels through renewable energy.

CO₂ Reductions Due to Solar Power



Human Resources ▶ Becoming a Company Where Employees Find Work Fulfilling



Our Company considers employees to be collaborative partners who share our goals. Based on the perspective that we cannot grow unless all our employees do as well, we place importance on the promotion of diversity in thought, values, and points of view among our employees, as well as the free exchange of opinions between them and creating a better environment.

The COVID-19 pandemic has been an opportunity for us:

Issues We Are Working On

Promoting working style reforms

- Systematizing working from home and staggered commuting times
- Looking into introducing new work systems
- Reviewing the way workspace is structured

Promoting digitization

- Enhancing the telework environment
- Expanding web conferencing systems
- Promoting paperless, workflow-oriented operations
- Electronic contracting

It reaffirmed the importance of our social mission of delivering life's necessities while ensuring the health and safety of our employees. We are promoting a drastic review of working styles and the creation of a system that creates diverse working styles to become a company that employees can feel motivated to work for over the long term.

We have established systems to support employees in every stage of life and to improve their work-life balance so that employees can continue to work for us over the long term.

Long vacations (five consecutive days)	Hourly paid system
Prenatal and postnatal leave; Childcare leave	Reduced schedules for employees engaged in childcare (until children finish third grade)
Nursing care leave	Nursing care leave system to provide care for children
Illness/injury leave	Job return (re-employment) support
Free cancer screenings	Free influenza vaccinations

Promoting Diversity

In the future, the promotion of diverse human resources without making any distinction according to nationality, gender, age, or other characteristics, will be important for corporate growth. It will also become essential for companies to create environments in which diverse employees can work over the long term amid increasing labor shortages resulting from further population decline going forward. Therefore, it is necessary to build systems and mechanisms to improve the work environment.

One of the issues that the Company must tackle is the low ratio of female managers. By creating a work environment where all employees can work comfortably, we believe that one of the results of building these systems and mechanisms will be an increase in the ratio of female managers.

In addition, we will actively promote employing seniors, people with disabilities, and people from other countries. Having diverse employees work over the long term will lead to company growth and improved corporate value.

Basic Human Resources Data

(All figures are on a non-consolidated basis, excluding temporary and part-time employees)

		2019	2020
Number of employees (persons)	Male	1,576	1,598
	Female	485	514
Number of new employees	Male	17	10
	Female	20	11
Average years of service	Male	19.6	19.7
	Female	13.6	13.3
Number of female officers		0	1
Percentage of females in managerial positions (%)		3.6	3.9
Percentage of females in career-track positions (%)		20.4	22.5
Number of employees from overseas*		9	52
Number of people with disabilities		139	145

*2020 data include technical intern-trainees from overseas

Degree of Utilization

(All figures are on a non-consolidated basis, excluding temporary and part-time employees)

	2019	2020
Paid leave use rate (%)	43	55
Number of employees taking childcare leave	28	37
Number of employees on reduced schedules	49	52
Number of employees taking leave to provide nursing care for children	85	105
Number of employees taking nursing care leave	11	36

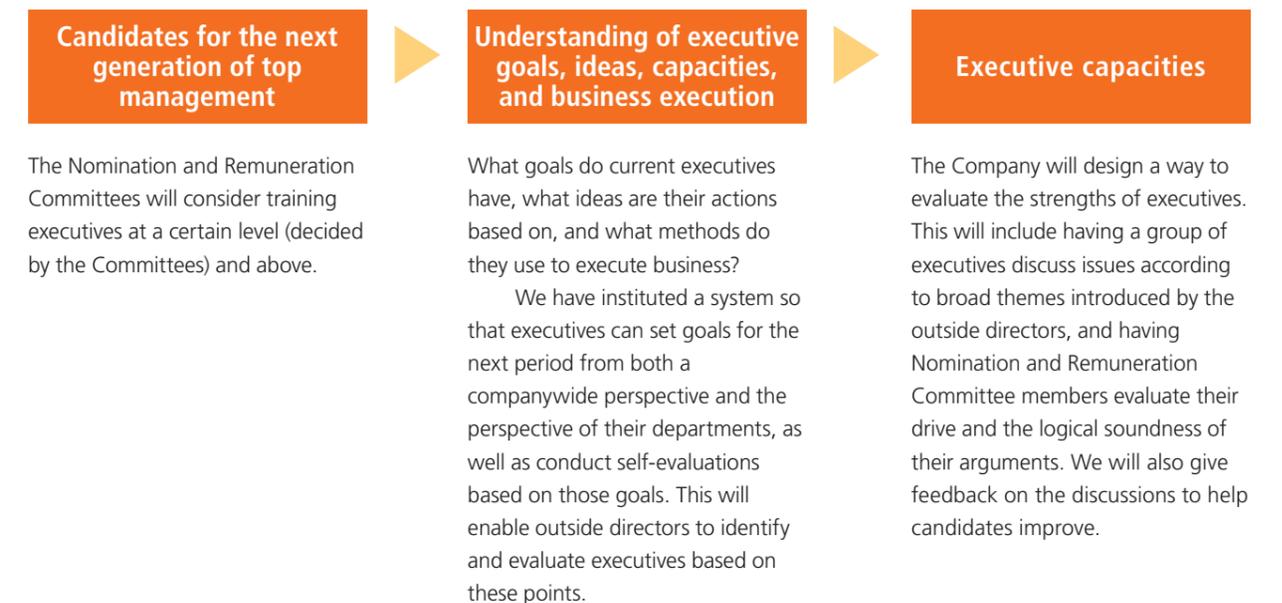
Developing the Next Generation

We believe that creating comfortable working environments to motivate employee is fundamental to the development of ARATA's next generation of workers. For this reason, we have set "becoming a company that offers job satisfaction for employees" as one of the CSR initiatives in our medium-term management plan and are striving toward realizing that goal.

Alongside developing employees who will carry the Company through to the next generation, it is also essential to foster the next generation of top management.

We established the Nomination and Remuneration Committees two years ago, and have been studying how to develop the next generation of top management.

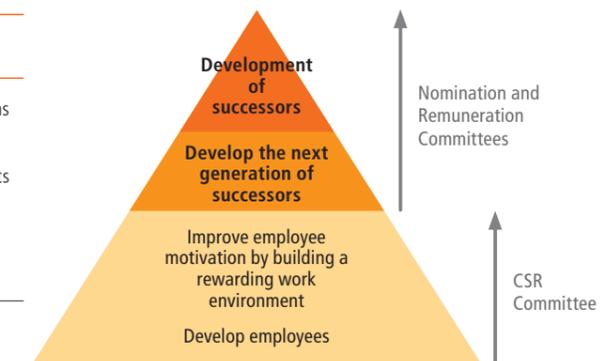
The Process of Developing ARATA's Next Generation of Top Management



The Nomination and Remuneration Committees will continue to formulate and implement measures based on the above plan for the development of the next generation of top management, who will be responsible for ARATA's development going forward.

Progress of the Leadership Development Plan

	2019/3	2020/3	2021/3
Nominate executives as successor candidates		Design and verify the successor development plan	Conduct group discussions
Executives set targets for the next fiscal year		Executives conduct self-assessment of their targets	Executives conduct self-assessment of their targets
		Set targets for the next fiscal year	Set targets for the next fiscal year



Roundtable Discussion: Outside Audit & Supervisory Board Member Tomoko Sakamoto & Female Employees

Creating a Culture Where Female Managers Are Not Seen as Something Rare or Special

Outside Audit & Supervisory Board Member
Tomoko Sakamoto



Female Employees

One of our CSR activity goals, which are based on the long-term management vision, is increasing the ratio of female managers. We talked with female employees active in management roles and Tomoko Sakamoto, ARATA's first female executive officer, to discuss where we currently stand with this goal and to expand on some of the issues with going further ahead.

(Interview conducted by Yumi Tsukahara, Public Relations/IR/Management Division)

A Workplace Leveraging Women's Sensibilities

Yumi Tsukahara I would like to start by asking our employees a question to let the newly appointed Audit & Supervisory Board member Sakamoto know more about our company. Do you ever feel that you use your "female sensibilities" in your daily work?

Rinako Shimomura To strengthen our company's cosmetics business, we established the Cosmetics Business Department in 2019, which handles a large number of cosmetics and related products. There are many things about cosmetics that only the women who use them can understand.

The E-Commerce Division meets weekly to share information on trends in cosmetics. In those meetings, we explain to male sales representatives how skincare and makeup products are used so that they can incorporate the information into their sales activities.

In addition, I think women's sensibilities are very important in the sales department because women are often the ones who make purchasing decisions for daily goods as well as cosmetics in general.

Yumi Tsukahara How about in management? Are women's sensibilities leveraged there as well?

Hiromi Iwashita A dozen or so years ago, the government set the goal of achieving a 30% ratio for female managers in 2020, and from around 2013, the time was right for ARATA to pursue that goal as well. It was around then that I became a Team Leader. When I first took on a leadership role, we didn't have many female managers that I could look up to, and I remember feeling a lot of pressure. Currently, there are times when being a manager is difficult, but I feel that it may be the case that women are better equipped to stand between executives and employees to help mediate issues and to do this while considering everyone's point of view.

Rinako Shimomura I agree. As in any organization, there are of course disparities in the power between bosses and subordinates, and I feel that women are skilled at navigating those relationships and making proposals.

Hiromi Iwashita I communicate straightforwardly how I feel about company issues and other topics with our executives, and I'm glad that the environment is such that they take seriously what I have to say.

Current Status of ARATA's Human Resources System

Yumi Tsukahara We of course have fewer female than male managers, and they have fewer years of service than their male counterparts. The length of service of women is shorter than that of men, and the difference is sizable.

What do you think it would take for ARATA to become a company where women can work for a longer time?

Akiko Otani Although the Company has a substantial support system—mothers are allowed to work shorter hours until their children finish the third grade of elementary school, for example—I feel we also need a structure that supports employees who must take on the duties of employees who are on maternity or childcare leave or those who have a reduced schedule. This should make it easier for employees to use the leave and reduced hours systems, resulting in an environment where women work for a longer time.

Hiromi Iwashita Since the department I belong to has mostly women, I would like to see a system in place that would allow us to return to the department where we were working before



Roundtable Discussion: Outside Audit & Supervisory Board Member Tomoko Sakamoto & Female Employees



Tomoko Sakamoto
Outside Audit &
Supervisory Board Member

Partner, Iwata Godo
Appointed as Outside Audit & Supervisory Board member in June 2020.



Yumi Tsukahara
Public Relations/IR/
Management Division

Handles investor relations including production of integrated reports, investor support, and other tasks.



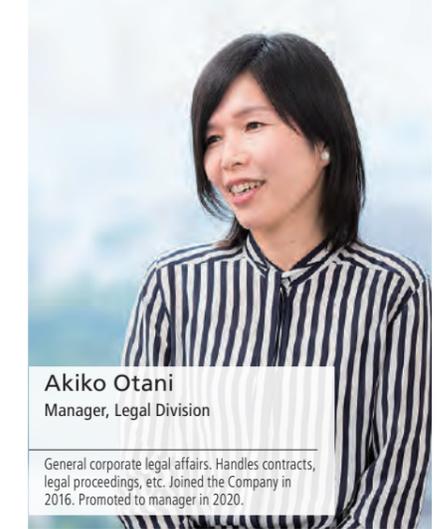
Rinako Shimomura
Team Leader,
E-Commerce Division

Handles sales to e-commerce companies.
Promoted to team leader in 2019.



Hiromi Iwashita
Manager,
Product Merchandising Division

Oversees the product procurement section.
Became team leader in 2009. Promoted to manager in 2013.



Akiko Otani
Manager, Legal Division

General corporate legal affairs. Handles contracts, legal proceedings, etc. Joined the Company in 2016. Promoted to manager in 2020.

taking maternity or childcare leave. It would be great if all of ARATA's management could share this way of thinking.

Rinako Shimomura The childcare leave system for men as well as women is beginning to be put in place. However, although the number of employees taking advantage of this system is gradually increasing in the Tokyo metropolitan area, it is not yet used in regional areas. There may be a gap between regions in awareness of the system and how to use it.

Yumi Tsukahara Along with improving the system itself, we must create a structure that makes it easier for people to use the system. As well, we need to provide information to those who want to use the system.

Akiko Otani I think nursing and long-term care for relatives deserves attention in addition to childcare. Also, we have to think about employees having health issues themselves, which can happen to anyone regardless of gender.

The Group has established a teleworking system due to the COVID-19 pandemic. I thought it would be difficult to work from home, but now that it has become an option, and I feel that being able to choose how we would like to work is a big step forward.

Thoughts on Being a Manager

Yumi Tsukahara Was there a gap between the reality of being a manager and your expectations of what it would be like?

Hiromi Iwashita It became necessary for me to think about issues from the perspective of the Company rather than only on the departmental level. I feel that I adopted a wider field of view and that there were many situations I had to size up as a whole and decide on the optimal way to deal with them overall.

Rinako Shimomura I feel that managers in the Sales

Department often make decisions at their own discretion. Becoming a manager may have made me able to give "go-aheads" more readily, without waiting for confirmation from others.

Tomoko Sakamoto I currently belong to a law firm that mainly handles corporate legal affairs and hold a position similar to that of an officer. I have to take responsibility and proceed with my work at my own discretion, but it is rewarding to look at the firm from a bird's-eye view, consider how to improve it, make decisions, and take action.

Hiromi Iwashita Around the world, it is commonly assumed that men will work until retirement, and they may see a promotion as simply one point along their career paths. On the other hand, when women think about taking on managerial positions, there are various issues they have to consider, such as being able to balance work responsibilities with childbirth, childcare, and family life. I think that many of them become managers after mentally preparing for potential hardship.

Yumi Tsukahara Certainly. I think they might tend to have relatively high awareness of the responsibility that comes with their positions. I feel that as we move forward it will be even more necessary to create an environment where women can pursue managerial positions without any hesitation.

Akiko Otani Currently in the Company, there is the impression that our outside officers are overwhelmingly male. Ms. Sakamoto, when you became an Audit & Supervisory Board member did you experience any conflict or resistance?

Tomoko Sakamoto As an outside officer, I have the clearly defined role of providing expertise as an attorney, so there has not been much conflict. Actually, I'm the only female manager at my law firm, and I feel more conflict—or maybe it's better stated as differences in the way that men and women think—in that setting.

I agree with everyone here that it's really best to have a role model. Having a role model lets someone see a future image of themselves, and I think that gives reassurance and

helps them stay motivated for the long haul.

Managers need to have a change of outlook to develop how they think about diversity.

Yumi Tsukahara Since the Company's head office is home to a number of departments that have separate functions, I believe the example set by the current female managers, not least the women here today, will promote a further increase in the number of female managers. This will in turn increase the options available to female employees about how they want to work, and should lead to developing a company culture where women in managerial positions are not seen as something rare or special.

Evaluation System that Supports the Active Participation of Women

Yumi Tsukahara What do you think about the personnel evaluation system?

Hiromi Iwashita The Human Resources Department is leading moves to correct differences in the criteria used for evaluations between different branch offices and departments.

Yumi Tsukahara It would be a good thing to improve and clarify personnel evaluations.

Tomoko Sakamoto There are many instances of employees resigning after feeling that evaluations are unfair. I think it is very important that evaluations offer a sense of fairness, regardless of whether someone is male or female, or a manager or line employee.

Hiromi Iwashita Motivation increases when employees feel they are being evaluated appropriately. I want the evaluation system to reward those who are doing their best.

Tomoko Sakamoto Evaluations affect worker salaries, so I would like to see our organization accurately evaluate the unique power that women have to offer and to support the success of their activities.

Changes We Would Like to See

Yumi Tsukahara What kind of changes would you like to see from the Company?

Akiko Otani I hope that the idea of diversity will be valued as a matter of course. I would like to see more active discussions about changing the structure of the organization so that the Company and employees can together to recognize the importance of diversity.

The Company is composed of women as well as men. There are also people who are caring for relatives and raising children. Considering this, I think it may be difficult for the Company to grow unless we allow a wide variety of working styles.

Hiromi Iwashita I agree. And in order to foster the idea of diversity, it is necessary for all managers to adopt the correct attitude, and I think that one way to accomplish this is to expand the training system.

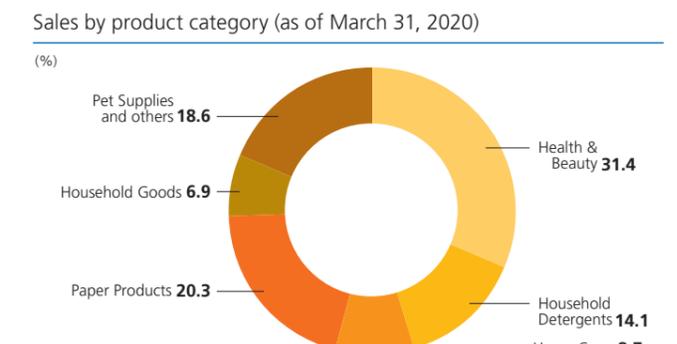
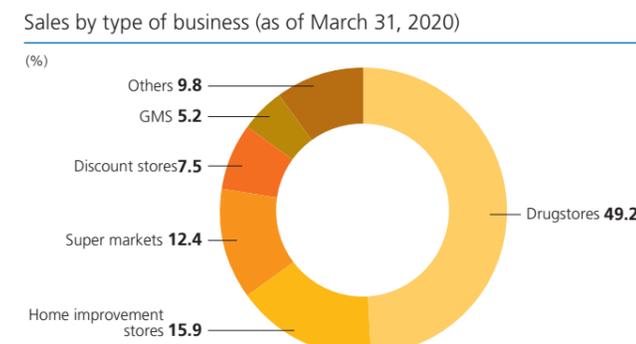
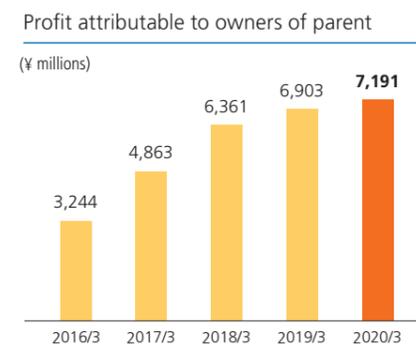
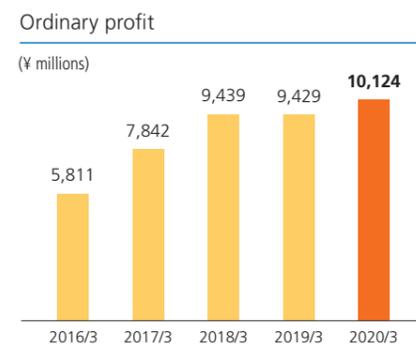
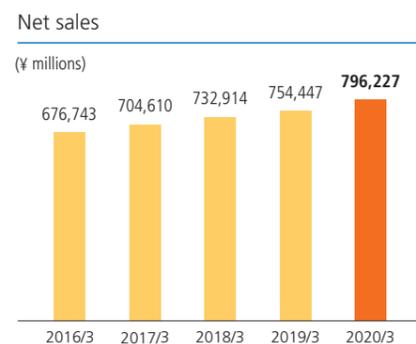
Now that the Company's online systems are well-developed, I think there may be opportunities for top management to communicate quickly with employees nationwide.

Tomoko Sakamoto As an officer, I believe that I have a role to play in conveying the points discussed here to management. We will continue to tackle management issues related to the active participation of women.

I also want to create a place where everyone here can share their voices on a regular basis.

Financial Summary

		2010/3	2011/3	2012/3	2013/3	2014/3	2015/3	2016/3	2017/3	2018/3	2019/3	2020/3
Operating Results												
Net sales	(¥ millions)	589,858	601,949	606,705	616,327	651,954	638,792	676,743	704,610	732,914	754,447	796,227
Operating profit	(¥ millions)	71	286	4,174	3,726	4,472	2,461	5,699	7,384	8,857	8,892	9,326
Operating income margin	%	0.0	0.0	0.7	0.6	0.7	0.4	0.8	1.0	1.2	1.2	1.2
Ordinary profit	(¥ millions)	3,888	4,257	3,915	3,605	4,388	2,469	5,811	7,842	9,439	9,429	10,124
Ordinary profit margin	%	0.7	0.7	0.6	0.6	0.7	0.4	0.9	1.1	1.3	1.2	1.3
Profit attributable to owners of parent	(¥ millions)	1,295	1,015	1,628	1,768	2,435	1,124	3,244	4,863	6,361	6,903	7,191
Return on sales	%	0.2	0.2	0.3	0.3	0.4	0.2	0.5	0.7	0.9	0.9	0.9
Financial Condition												
Total assets	(¥ millions)	183,235	191,541	202,506	206,699	221,202	211,840	219,689	222,974	243,698	243,614	249,712
Net assets	(¥ millions)	44,751	45,665	47,324	49,044	51,041	53,911	55,941	59,613	71,472	80,515	82,901
Equity ratio	%	24.4	23.8	23.4	23.7	23.1	25.4	25.5	26.7	29.3	33.0	33.2
D/E ratio	(times)	1.4	1.4	1.5	1.4	1.5	1.2	1.1	0.9	0.7	0.5	0.5
Cash Flows												
Cash flows from operating activities	(¥ millions)	9,502	1,919	-720	9,959	1,481	21,955	7,594	12,637	11,649	9,513	5,262
Cash flows from investing activities	(¥ millions)	-2,070	-3,227	-4,575	-4,054	-5,878	-6,775	-3,360	-3,155	-2,924	-880	-2,742
Cash flows from financing activities	(¥ millions)	-8,175	2,697	5,257	-7,699	7,246	-13,990	-1,791	-9,948	-4,501	-6,678	-3,833
Management Indicators												
Return on assets	%	2.1	2.2	1.9	1.7	2.0	1.2	2.6	3.5	3.9	3.9	4.1
Return on equity	%	2.9	2.2	3.4	3.6	4.8	2.1	5.9	8.4	9.7	9.1	8.8
Net income margin	%	0.22	0.17	0.27	0.29	0.37	0.18	0.48	0.69	0.87	0.91	0.90
Total assets turnover	%	3.22	3.14	3.00	2.98	2.95	3.02	3.08	3.16	3.01	3.10	3.19
Financial leverage	(times)	4.10	4.20	4.28	4.22	4.34	3.93	3.93	3.74	3.41	3.03	3.01
Labor cost	(¥ millions)	28,062	27,998	29,511	28,453	28,584	27,631	28,902	29,135	29,836	29,685	30,909
Ratio of labor cost to net sales	%	4.8	4.7	4.9	4.6	4.4	4.3	4.3	4.1	4.1	3.9	3.9
Packing and delivery expenses	(¥ millions)	30,677	30,492	17,345	14,848	15,776	16,012	17,572	17,888	18,834	20,255	21,965
Ratio of Packing and delivery expenses to net sales	%	5.2	5.1	2.9	2.4	2.4	2.5	2.6	2.5	2.6	2.7	2.8
Capital Investment												
Capital investment	(¥ millions)	2,697	4,625	4,548	4,931	7,809	7,943	3,845	4,383	6,828	3,325	4,988
Depreciation and amortization	(¥ millions)	2,836	2,983	3,348	3,631	3,975	4,317	4,526	4,452	4,353	4,455	4,281
Per Share Data												
Cash dividend	¥	25	35	40	40	50	50	55	65	75	80	85
Dividend payout ratio	%	29.0	51.8	38.2	34.9	31.6	68.5	26.1	19.6	18.8	20.1	20.6
Earnings per share	¥	17.26	13.52	21.12	22.93	31.60	72.96	210.43	330.95	399.12	397.71	413.03
Book-value per share	¥	596.32	592.00	613.56	635.91	661.84	3,496.31	3,627.53	4,054.51	4,285.43	4,546.87	4,861.37
Number of employees		2,970	3,010	2,977	2,960	2,924	2,917	2,914	2,926	3,023	3,016	2,984



Corporate Data

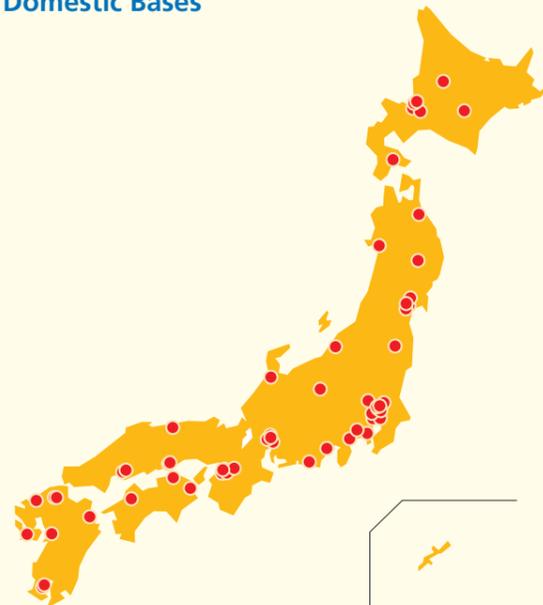
Company Outline

Registered Company Name	ARATA CORPORATION
Head Office	East 21 Tower, 6-3-2 Toyo, Koto-ku, Tokyo 135-0016, Japan
Date Established	April 1, 2002
Capital	¥8,568 million (as of March 31, 2020)
Stock Listing	Tokyo Stock Exchange (securities code: 2733)
Shareholder Registry Administrator and Special Account Management Institution	Mitsubishi UFJ Trust and Banking Corporation
Number of Employees	2,984 (nonconsolidated: 2,112)
Website	URL: https://www.arata-gr.jp/company/en/data.html



Head Office

Domestic Bases



Metropolitan area

Capital Area Branch
Higashi Kanto Office
Chiba Center
Saitama Office, Saitama Center
Kanagawa Office
Koshinetsu Office
Matsumoto Office
Tsukuba Center
Koshigaya Center
Kitakanto Center
Kanagawa Center
Yokohama Center
Misato Depo
Shiraoka Depo
Metropolitan Cosmetic Center

Kansai area

Kansai Branch
Izumi Center
Settsu Center
Koriyama Center
Kansai Cosmetic Center

Chugoku and Shikoku area

Chushikoku Branch
Okayama Office, Okayama Center
Hiroshima Office
Hiroshima Center
Tottori Office, Tottori Center
Tokushima Office, Tokushima Center
Takamatsu Office, Takamatsu Center
Matsuyama Office, Matsuyama Center
Household Goods Center

Head Office

Hokkaido area

Hokkaido Branch
Sapporo Office
Sapporo Center
Hakodate Office
Asahikawa Office, Asahikawa Center
Obihiro Office, Obihiro Center
Ishikari Center
Hokkaido Cosmetic Center

Tohoku area

Tohoku Branch
Sendai Office, Sendai Center
Akita Office, Akita Center
Hachinohe Office
Iwate Office
Minami Tohoku Office
Kitakami Center
Fukushima Center
Tohoku Cosmetic Center

Chubu area

Chubu Area Branch
Nagoya Office
Hokuriku Office, Hokuriku Center
Shizuoka Office, Shizuoka Center
Suruga Office
Konan Center
Heiwa Center
Chubu Cosmetic Center

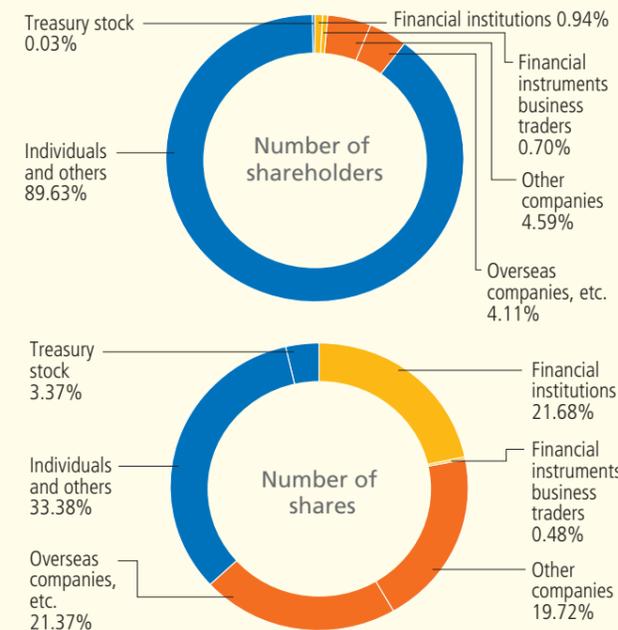
Kyushu area

Kyushu Branch
Fukuoka Office
Nagasaki Office, Nagasaki Depo
Oita Office
Kumamoto Office, Kumamoto Depo
Kagoshima Office, Kyushu-Minami Center
Kyushu-Kita Center

Share Information (as of March 31, 2020)

Number of shares authorized	30,000,000
Number of shares issued	18,027,640
Number of shareholders	3,552

Shareholder Composition (as of March 31, 2020)



Principal Shareholders (as of March 31, 2020)

	Number of shares held (thousands)	Shareholding ratio (%)
Otowa Shokusan Co., Ltd.	1,081	6.21
The Master Trust Bank of Japan, Ltd.	1,033	5.93
Japan Trustee Services Bank, Ltd.	946	5.44
ARATA Employee Shareholding Association	904	5.19
Northern Trust Co. (AVFC) re Fidelity Funds	637	3.66
State Street Bank and Trust Client Omnibus Account OM02 505002	600	3.44
Lion Corporation	481	2.76
Nobuyuki Hatanaka	459	2.64
Trust & Custody Services Bank, Ltd. (Trust Account E)	369	2.12
The Government of Norway	361	2.07

- The number of shares is rounded down to the nearest unit.
- ARATA holds 607,000 shares of treasury stock, but these are excluded from the above principal shareholders. Further, 369,000 shares held by Trust & Custody Services Bank, Ltd. (Trust Account E) related to the Board Benefit Trust (BBT) system are not included in the 607,000 shares of treasury stock held by the Company.
- The investment ratio is computed after the deduction of the 607,000 shares of treasury stock.

Share Prices



On August 1, 2015, ARATA executed a five-to-one reverse stock split and revised the number of shares making up one unit of stock from 1,000 to 100. Consequently, on September 27, 2015 the trading unit for the Company's shares on the Tokyo Stock Exchange was changed from 1,000 to 100. (Note: For convenience, share price data prior to August 2015 has been converted to include the effects of the consolidation)