

INTEGRATED REPORT 2018

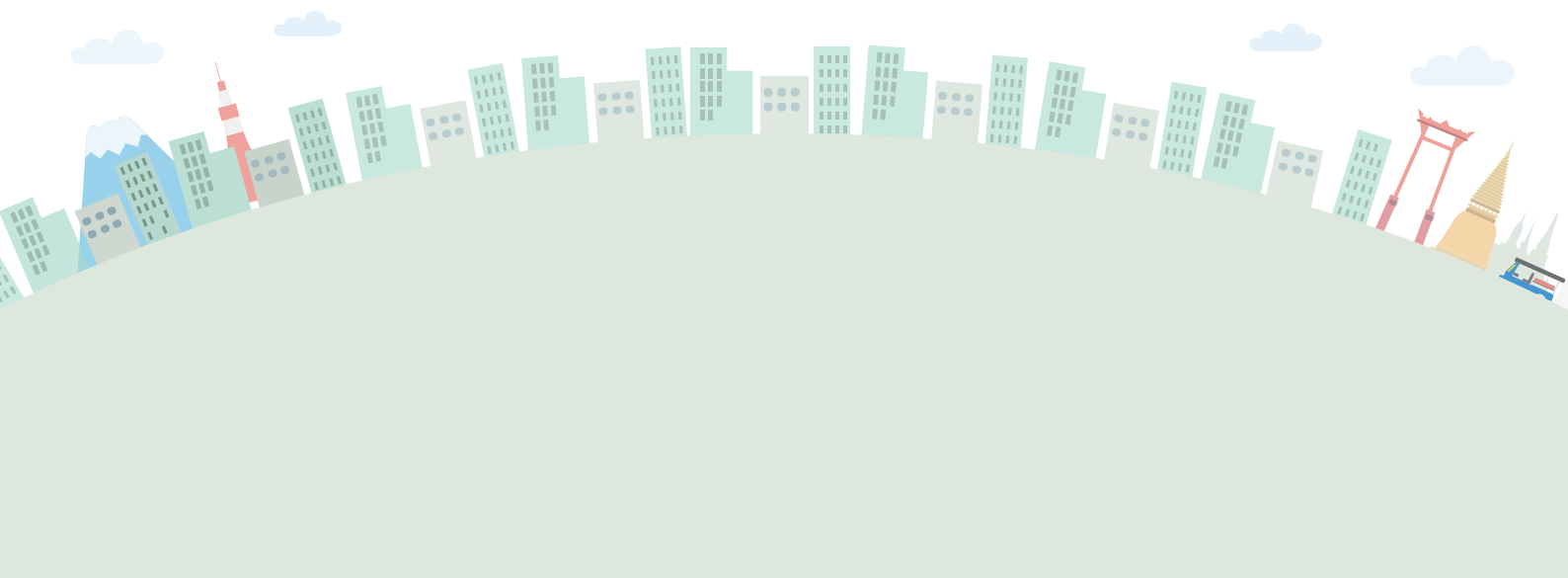




Origin of Company Name

“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 some words about the importance of striving to make each new day better than the previous day on his wash basin and read these words each morning to admonish himself.

This name was chosen in 2001 from among 2,236 employee entries.



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Editorial Policy

In fiscal 2018, the ARATA Group issued its 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. The report presents information that is highly important to the Group, including the Group's business activities, financial information, and non-financial information critical to explaining the growth strategies in the medium-term management plan, both compactly and also based on integrated considerations.

From next fiscal year onward, the Group will continually revise the content of the report, in the hope of enhancing it as a tool to facilitate dialogue with all stakeholders.

Reference guideline

International Integrated Reporting Council (IIRC) "The International Integrated Reporting Framework"

Organizations covered

ARATA CORPORATION and Group companies

Period covered by the report

April 1, 2017–March 31, 2018 The report includes some activities in fiscal 2018.

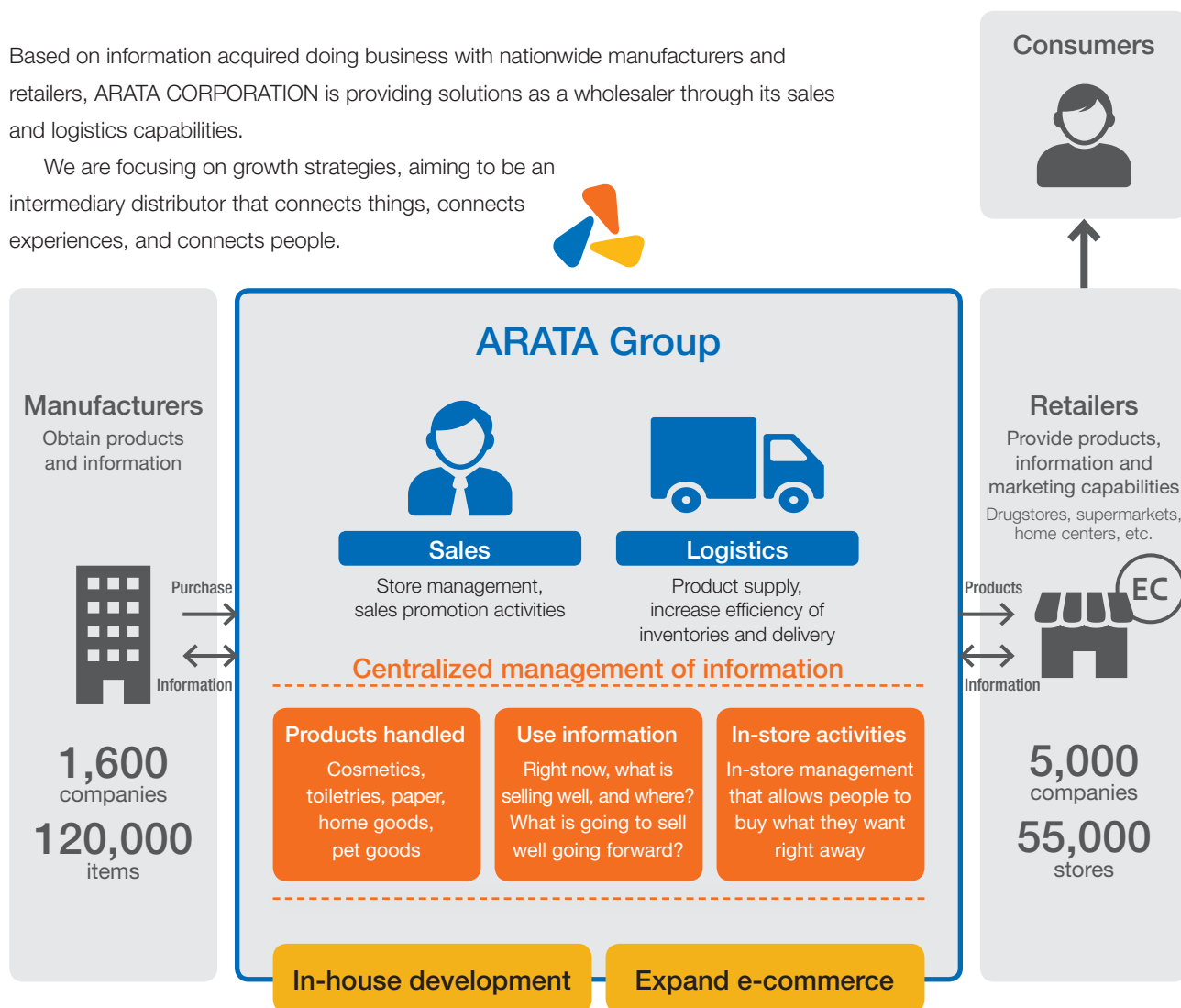
Forward-looking statements

This report contains forward-looking statements about future plans, strategies and operating performance forecasts. These statements are based on reliable information that is currently available. 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 from the Company's outlooks.

The ARATA Group is one of Japan's largest wholesale trading companies in the daily goods and cosmetics category.

Based on information acquired doing business with nationwide manufacturers and retailers, ARATA CORPORATION is providing solutions as a wholesaler through its sales and logistics capabilities.

We are focusing on growth strategies, aiming to be an intermediary distributor that connects things, connects experiences, and connects people.

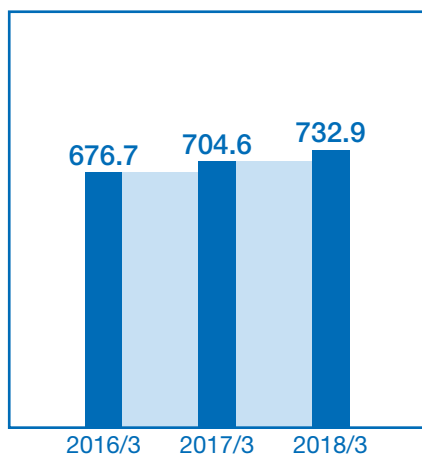


Group Companies

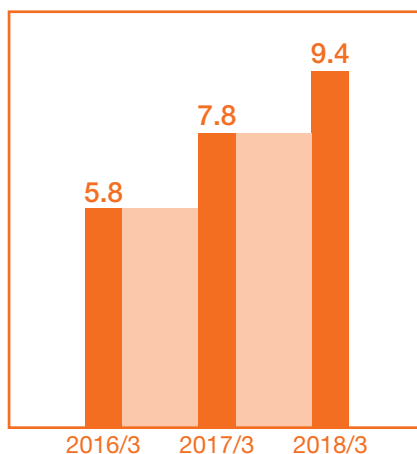
Company Name	Business
● Fashion Arata Corporation	Wholesaling of cosmetics, cosmetics accessories, light clothing, etc.
● Japell Co., Ltd.	Wholesaling of pet-related products
● Japell Partnership Service Co., Ltd.	Retail sales of pet-related products, grooming services, recruitment of franchise stores
● Pet Library Ltd.	Sales of pets, pet food and pet goods, pet grooming, boarding, pet insurance services
● ISM CORPORATION	Store management company
● Living Arata Co., Ltd.	Wholesaling of home goods
● ARATA (Shanghai) Trade Co., Ltd.	Wholesaling and import/export sales of daily goods, cosmetics, pet goods, and home goods, as well as other related services
● JAPPELL (HONG KONG) CO., LIMITED	Retailing, wholesaling, and import/export sales of pet-related products, as well as other related services
● ARATA (THAILAND) CO., LTD.	Wholesale business in Thailand
● SIAM ARATA CO., LTD.	Wholesale business in Thailand
● DENTSU RETAIL MARKETING INC.	Field support services



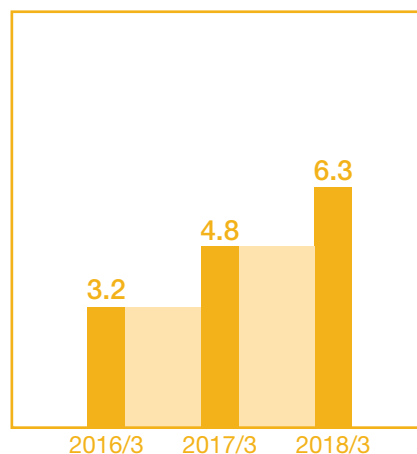
Net Sales
¥732.9 billion



Ordinary Profit
¥9.4 billion

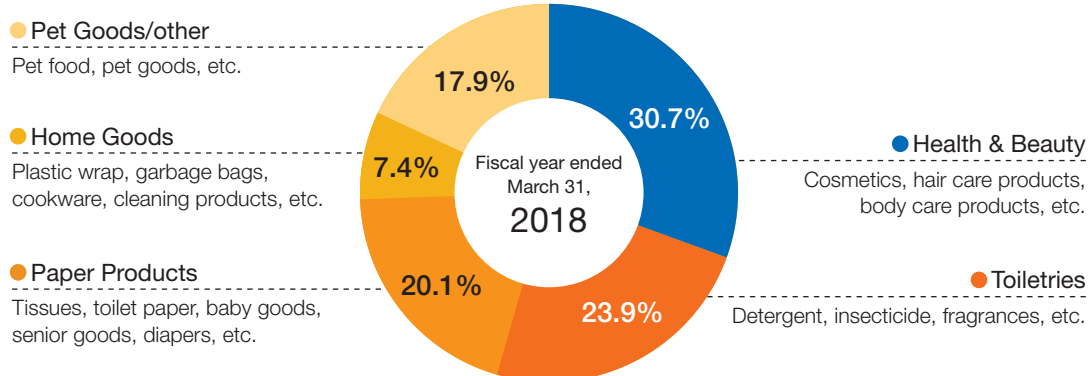


Profit Attributable to Owners of Parent
¥6.3 billion

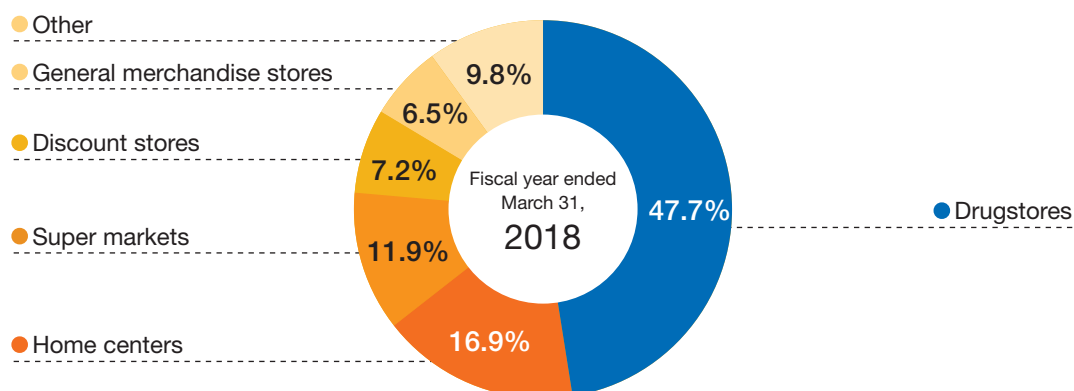


(Fiscal years ended March 31)

Sales Mix by Product Category



Sales Mix by Customer Type



Financial and Non-Financial Data (11 Years)

ARATA CORPORATION and Consolidated Subsidiaries

Fiscal year ended March 31	2008/3	2009/3	2010/3	2011/3
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Income Condition (Fiscal year) (¥ Million)

Net sales	551,751	569,687	589,858	601,949
Selling, general and administrative expenses	72,091	74,333	76,255	76,040
Operating profit	(1,565)	(1,259)	71	286
Ordinary profit	1,927	2,315	3,888	4,257
Profit attributable to owners of parent	(147)	205	1,295	1,015

Cash Flows (Fiscal year) (¥ Million)

Cash flows from operating activities	11,685	1,344	9,502	1,919
Cash flows from investing activities	(4,816)	(2,372)	(2,070)	(3,227)
Free cash flow	6,869	(1,028)	7,432	1,308
Cash flows from financing activities	(2,654)	608	(8,175)	2,697
Fiscal year-end balance of cash and cash equivalents	8,457	8,037	7,294	8,684

Financial Condition (Fiscal year-end) (¥ Million)

Total assets	178,367	183,757	183,235	191,541
Interest-bearing debt*1	65,501	68,984	61,877	65,646
Net assets	43,798	43,379	44,751	45,665

Per Share Data (¥)

Profit	(1.89)	2.74	17.26	13.52
Net assets	583.39	577.97	596.32	592.00
Cash dividend	6.00	4.00	5.00	7.00

Financial Indicators (%)

Operating profit margin	(0.3)	(0.2)	0.0	0.0
Return on assets	1.1	1.3	2.1	2.2
Return on equity	(0.3)	0.5	2.9	2.2
Equity ratio	24.5	23.6	24.4	23.8
D/E ratio (times)*2	1.5	1.6	1.4	1.4

Capital Investment (Fiscal year) (¥ Million)

Capital investment	5,225	4,169	2,697	4,625
Depreciation and amortization	2,237	2,752	2,836	2,983

Non-Financial Indicators

Number of employees	2,992	2,941	2,970	3,010
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*1: Interest-bearing debt = short-term loans payable + lease obligations + corporate bonds + long-term loans payable

*2: D/E ratio = interest-bearing debt ÷ equity



2012/3	2013/3	2014/3	2015/3	2016/3	2017/3	2018/3
606,705	616,327	651,954	638,792	676,743	704,610	732,914
64,858	60,559	62,258	62,151	65,030	65,683	67,618
4,174	3,726	4,472	2,461	5,699	7,384	8,857
3,915	3,605	4,388	2,469	5,811	7,842	9,439
1,628	1,768	2,435	1,124	3,244	4,863	6,361
(720)	9,959	1,481	21,955	7,594	12,637	11,649
(4,575)	(4,054)	(5,878)	(6,775)	(3,360)	(3,155)	(2,924)
(5,295)	5,905	(4,397)	15,180	4,234	9,482	8,725
5,257	(7,699)	7,246	(13,990)	(1,791)	(9,948)	(4,501)
8,645	6,857	9,731	11,001	13,399	12,923	17,136
202,506	206,699	221,202	211,840	219,689	222,974	244,381
71,976	66,284	75,117	62,428	62,232	56,077	47,301
47,324	49,044	51,041	53,911	55,941	59,613	71,472
21.12	22.93	31.60	72.96	210.43	330.95	399.12
613.56	635.91	661.84	3,496.31	3,627.53	4,054.51	4,285.43
8.00	8.00	10.00	50.00	55.00	65.00	75.00
0.7	0.6	0.7	0.4	0.8	1.0	1.2
1.9	1.7	2.0	1.1	2.6	3.5	4.0
3.4	3.6	4.8	2.1	5.9	8.4	9.7
23.4	23.7	23.1	25.4	25.5	26.7	29.2
1.5	1.4	1.5	1.2	1.1	0.9	0.7
4,548	4,931	7,809	7,943	3,845	4,383	6,828
3,348	3,631	3,975	4,317	4,526	4,452	4,353
2,977	2,960	2,924	2,917	2,914	2,926	3,023



Contributing to a new structure – proactively progressing to the second stage

Nobuyuki Hatanaka

Representative Director and
Chairman & CEO



Putting a Unified Face on the Company

Unifying the varied corporate cultures of a diversity of businesses and developing synergy

ARATA CORPORATION has been busily transforming its structure into that of an integrated company that can accommodate a multitude of businesses under a single unified vision. As this first stage of consolidation is completed, we are preparing for the second stage, which will bring a new phase of growth. Since I was appointed as the company president in April 2007, we have been working to acquire and integrate the leading wholesalers in each region where the Company operates, striving to leverage the individual characteristics of each local firm and foster growth. However, in order to expand further, it will be necessary to develop a more unified approach to our corporate discipline, corporate culture, and business approach. The “corporate face” that ARATA presents to stakeholders has sometimes been inadequate and inconstant, while the attitudes and expectations of Group companies have not always meshed effectively.

As the company president, I have a responsibility to provide a unified vision, and to standardize the Company's

approach so that manufacturers and retailers will understand what ARATA represents. We need to present a unified face that all customers and stakeholders can depend upon.

The turning point in our history was the Company's listing on the Tokyo Stock Exchange's Second Section in 2011, and the upgrade of our listing to the First Section in the following year. Although ARATA had been listed on the JASDAQ and was traded over the counter for years, the greater scrutiny and higher expectations of the Tokyo Stock Exchange presented greater challenges and hurdles to management, while also raising the risk that the Company might become an acquisition target. Consequently, we debated the pros and cons of the Tokyo Stock Exchange listing in detail.

The decision to proceed with this share listing on the Tokyo Stock Exchange reflects a firm commitment to pursue stable and healthy growth, to provide appropriate financial disclosure, and to more fully meet our social responsibilities as a corporation. Strong leadership and clear direction is needed in order to achieve these goals, but I believe that ARATA will benefit from the higher visibility, taking its place as a valued and more widely recognized company.



■ Revisiting the Purpose of Wholesaling

Providing a reliable supply of goods in normal times and even in the wake of natural disasters

When the Great East Japan Earthquake struck the Tohoku region in March 2011, it forced us in the wholesale industry to re-examine the underlying purpose and role of our companies, and their social responsibility in times of natural disaster. “Wholesalers” play a critical role in delivering a steady supply of goods to people in every corner of the country. Particularly in the wake of natural disasters, such as the Great East Japan Earthquake and subsequent earthquakes in Kumamoto and Tottori Prefectures in 2016, it is essential to recognize that this role is our most fundamental responsibility to the people we serve. Many people have a difficult time understanding exactly what it is that “wholesalers” do. However, in times of disaster, when a nationwide distribution network is essential in order to get badly needed relief supplies to the victims, it becomes clear to everyone just what an important role “wholesalers” play.

Following the merger which created ARATA we have borne the responsibility of preserving the traditions and the rich trove of experience accumulated by many individual wholesale companies from across Japan. By leveraging this know-how we can ensure that products always reach the customers who need them, no matter when, and no matter what conditions prevail.

■ Initiatives for Change in the Second Stage of Company Growth

Not simply perpetuating past practices, but cultivating new roles and businesses

When I was appointed CEO of ARATA in 2017, I handed over the role of company president & COO to Hiroaki Suzuki, whose management philosophies and balanced approach are very similar to my own. This created a new management structure which I believe is ideal in order to carry the Company into a second stage of growth. Following the merger, our first imperative was to consolidate the disparate operations, and begin to harvest the benefits of synergy. Now that this has been at least partially achieved, I think it is important to begin finding ways to leverage the basic skills and diverse experiences of every one of the Group's employees.

Over the past ten years, we have been working to develop synergies and examine new ways to solidify ARATA's operating base. Now that the foundation is in place, a more balanced management approach is needed in order to best utilize the abilities of our very diverse workforce.

In recent years, the market needs and expectations of “wholesalers” have changed greatly, as has the role of the Company's chief executive. Retailers and manufacturers are experiencing changes as well, as part of a shift in the fundamental nature of the distribution industry. Tourists and longer-term visitors to Japan now account for a larger share of domestic demand, and the entire market has become more international. Thus, as we develop basic strategies for the second stage of corporate growth, it will be necessary to pay closer attention to consumers throughout Asia. In short, it is not enough to simply extend or amplify the customs and practices of the past. We need to seek new roles and functions that transcend the traditional role of a “wholesaler” in the commercial supply chain.

■ Enhancing Corporate Value for the Longer Term

As CEO, I aim to promote change by forming alliances in diverse industries and acquiring new human resources

The business environment is changing rapidly, in step with changes in consumer attitudes, a more international customer base, and a metamorphosis of retail genres. Today, the retail sector includes a multitude of segments from department stores and supermarkets to mass merchandise chains, home centers, convenience stores, drug-stores, and more recently, the emergence of e-commerce and online retailers. It is no longer possible for a “wholesaler” to succeed by simply following the patterns and practices used in the past.

The critical questions for management, today, are: “What are we? What is our purpose?” If we hope to find answers and make the necessary changes quickly, the Company will need to acquire e-commerce and AI skills, pursue alliances in a multitude of related industries, and acquire new personnel who can support these rapid changes.

Working closely with President Suzuki, I will strive to draw upon my knowledge and experience to provide the leadership, vision and management coordination that can lead ARATA through this transformation swiftly and successfully.

烟中伸介

Enhancing efficiency and developing a more profitable structure for the ARATA of the future

■ Cherishing a Balance between Actual Operations and ARATA as a Whole

The role of management is to create strategies based on experience and knowledge in both management planning and actual operations

Since April 2017, when I was appointed company president and COO, I have been working in close cooperation with Chairman Hatanaka to formulate the management strategies that will guide ARATA in the second stage of its growth, and establish a new foundation for sustainable growth.

I would like to give stakeholders a brief summary of my previous experience and career, as a basis for understanding the direction I hope to take the Company in the future. I got my start in the Company as a sales representative, and advanced to positions in the Product Department, as well as sales manager and branch manager. Following the merger, I held the positions of Product Department manager and President of the Chubu regional branch. These experiences have given me insights relating to many aspects of company operations, and a familiarity with both operations and management, not only at the Head Office but also at local branches. For those who spend most of their career at the Head Office, it can be hard to stay in touch with the conditions at the local level. I think experience has given me a good understanding of both management concerns and actual operations.

As I take the reins from Chairman Hatanaka, as COO, I will follow his advice to “stick closely to your own values, and strive to maintain a sense of balance.” For me, the key to maintaining balance is to remember the perspective of people in local offices, while developing policies to guide the entire organization. One of the most important roles of management is to identify and recognize the value that each office, employee and company facility provides, and to make the most of these assets.

■ Strengthening Sales Support and Wholesaling Capabilities

Exercising our strengths and responding to change by setting Companywide priorities for local management

ARATA's two main strengths are its sales capabilities and sales support functions. The Company handles five main categories of products, including health & beauty products, toiletries and paper products. ARATA ranks as a market leader in each of these categories, with a powerful nationwide distribution network that supplies over 5,000 retail corporations and some 55,000 stores.

But the Company offers far more than just distribution scale. Our marketing functions include promotional tie-ups with TV broadcasters and online social network services, design support to develop in-store displays, store management, sales management, promotional functions, and more. The Company's ability to cooperate with retailers and develop and propose marketing plans are unparalleled among domestic wholesalers, setting ARATA apart from competitors. Of course, the Company also faces many challenges. Since the merger, the Company's policy of placing emphasis on local initiative has left the onus on local branches and offices.

In recent years, this management policy has been complicated by rapid change in the business environment. Changes in the makeup of markets and customers, internal change prompted by the Company's nationwide expansion, and shifting alliances among customers have all contributed to a growing gap between management expectations and market trends. For this reason, it will be necessary to strengthen the coordinating ability of the functional divisions at company headquarters and take steps to address the mismatch.





Hiroaki Suzuki

Representative Director and
President & COO

■ Administrative Reform to Establish a Highly Profitable Structure

The Administrative Reform Division has been established to introduce ESG reforms, improve efficiency and elevate profitability

Immediately after the merger was completed, we introduced a set of standardized policies, rules and operating manuals to cover operations throughout the Company. This thorough reform of our operating manuals and procedures was the first step towards making ARATA more responsive, and able to deal swiftly with market change. Beginning in fiscal 2018, we established the Administrative Reform Division to begin redesigning administrative work across the Company and revising the workflow, with the ultimate goal of improving efficiency and establishing a highly profitable earnings structure.

In recent years, there have been dramatic changes in consumer tastes and behavior, as most consumers become fickle about products and less loyal to brands. People tend to focus more on necessities, and less on the latest “must have” item or trend. Even as manufacturers continue to develop new products, they are discovering that traditional marketing methods may not generate much of a response, and more direct marketing appeals or promotions are necessary to attract demand.

For example, DENTSU RETAIL MARKETING INC. (DRM), an affiliate that ARATA created jointly with the advertising conglomerate DENTSU INC., is leveraging the advertising know-how of DENTSU to develop direct marketing and sales promotion campaigns featuring famous personalities, to target consumers via social networks and related media. In the future, we are planning to devote management resources to expand operations like DRM, increasing personnel and creating new subsidiaries in this sector.

Continued on P.10



My mission as COO is to visualize what ARATA will be in 10 years, and then make that vision a reality

In addition to pressing ahead with these reform efforts, I believe it is important that we also redouble our efforts in Environmental, Social & Governance (ESG) activities. Nowadays, the activities of a large corporation are subject to close scrutiny by the society in which it operates. As a listed company, ARATA has a particularly heavy responsibility to meet the expectations of the communities in which we operate.

With regard to corporate governance, we have already appointed two outside directors and two outside auditors to ensure that objective, external perspectives are considered in all key management decisions, and we are steadily taking measures to increase transparency and disclosure. We have bolstered CSR functions, creating the new CSR Division to take over the role previously handled by the CSR Committee. The CSR Division manager oversees the creation of specific CSR themes and objectives, and division personnel ensure that these themes are effectively implemented.



■ Sharing Our Vision for the Next Decade

Developing and assigning human resources effectively to create a stable profit structure

Looking ahead, ARATA plans to strengthen both distribution capabilities and sales promotion functions, in order to better fulfil our role as a wholesale company. However, when imagining the type of company ARATA will be 10 years in the future, it is clear that we cannot rely on these wholesaling capabilities alone. Many retailers have already developed logistics and distribution functions of their own. The Company cannot expect to achieve growth within the narrow confines of wholesale operations. In addition to marketing and delivering products, the Company needs to be able to offer comprehensive solutions to manufacturers and retailers, establish product development and production capabilities of our own, and enhance our skills in publicity and advertising, so we can appeal directly to consumers. Only by developing new capabilities and new businesses will ARATA be able to continue growing its businesses.

The first priority is to establish a stable and highly profitable earnings structure. We also need to attract, train and efficiently allocate personnel, while cultivating a slimmer management structure. Above all, if we are to address these challenges effectively, it is my responsibility to clearly communicate my vision for the Company to employees and other stakeholders. Each employee needs to develop their own goals and benchmarks, placing greater emphasis on a goal-oriented working style. And of course, it is essential that we provide a rewarding work environment that will encourage these reforms in working behavior.

Over the past 10 years, ARATA has been addressing the issues of consolidation and structural reform to build the foundation for a highly profitable structure. Over the next 10 years, my mission is to envision the sort of company that ARATA must become in the longer term, and begin taking measures to redesign the Company in that image. I look forward to working with all of ARATA's stakeholders to achieve this goal.

須崎裕明



Medium-Term Management Plan

Our new medium-term management plan began in the fiscal year ended March 31, 2018. In line with the basic strategy, the entire ARATA Group is working as one towards achieving the plan's targets.

1 First Stage

Strengthening the management base for a next generation-type wholesaling business, focused on profit improvement, business reform, and integration and unification

2

Second Stage

Pursuing new possibilities in the wholesale business looking a decade ahead

Three Basic Strategies



Continue to formulate a growth strategy

Aggressive growth strategy to broaden the wholesale business



Lay the foundation for the future

Focus on investment strategy and development of personnel



Further strengthen the management base

Establish an organizational framework capable of handling changes

..... The basic concept of the medium-term management plan for the entire ARATA Group

Connecting things, connecting experiences, and connecting people.

We will not only deliver products, but also offer new proposals that help all consumers enjoy comfortable lives.

The above concept will be shared throughout the ARATA Group, and the Group will push forward to achieve its targets.

..... Medium-Term Management Plan—Targets for the final fiscal year (fiscal year ending March 31, 2020)

Net sales	Ordinary profit	Profit attributable to owners of parent	ROE
¥760.0 billion	¥10.0 billion	¥6.0 billion	9% range
<div>Mark Up</div>			
¥780.0 billion	¥10.5 billion	¥6.8 billion	9% range

1. Continue to formulate a growth strategy

Category Expansion

In the first stage, our business centered on five major categories.

In the second stage, where we will pursue new possibilities for the wholesale business looking a decade ahead, we will work on measures to expand our categories with an eye on executing M&As as well. By expanding our categories, we will further grow and stabilize the wholesale business, which is the core of our business operations.

Health & Beauty

We will strengthen our sales activities in line with the needs of working women to “reduce time” in conjunction with the increase in the female employment rate, deepen our collaboration with Group company Fashion Arata and jointly develop private labels and exclusive merchandise as a part of our efforts to pursue expertise in Health & Beauty.



Fashion Arata Corporation

Headquarters	East 21 Tower, 6-3-2 Toyo, Koto-ku, Tokyo 153-0016, Japan
Representative	Representative Director and President Yutaka Ohashi
Business	Wholesaling of cosmetics (skin care, makeup, and body care), cosmetics accessories, light clothing, etc.
Strength	The ability to provide expert and precise suggestions for the cosmetics category, which has a large number of items and many distinctive products.



Home Goods

While household products only account for 7.4% of ARATA's net sales on a category basis, our market share in this category is over 10%. We are working to strengthen sales with an aim to be the top wholesaler of household products in terms of net sales. Through our activities, we will provide products that are highly beneficial for consumers and at the same time communicate the value of the products themselves, thereby educating people about the richness at the core of people's lives, such as cooking and cleaning, which are unfortunately becoming weaker with each passing year.

Over-the-Counter Pharmaceuticals

As the population continues to age, efforts in the health-care category are absolutely essential. We have been dealing in over-the-counter pharmaceutical products for some time, but we would like to further increase the range and volume of products we handle. Although there are many rules and regulations concerning logistics for over-the-counter medicines, we are working to expand sales in the healthcare category by taking advantage of our sales capabilities closely tied to regions and companies that we have cultivated through the wholesaling of daily goods and cosmetics.

Pet Goods

By consolidating the handling of pet-related products into Group company Japell, which is the leading wholesale company for pet products, we will offer customers high-quality proposals utilizing a high level of expertise towards customers. Japell is capable of making comprehensive proposals for pet-related merchandise, including living animals, and can therefore provide support for a retailer's entire lineup of pets.



Japell Co., Ltd.

Headquarters	3-105 Momoyama-cho, Kasugai-shi, Aichi 486-0802, Japan
Representative	Chairman and CEO Haruki Kataoka President and CEO Akihito Mizuno
Business	Wholesaling of pet-related products
Strength	With an expansive product lineup ranging from food and supplies to living organisms, as well as know-how accumulated as a trading company specializing in pet-related products, Japell can comprehensively design a store's pet department.

Trading-company
core business

Store
business

Overseas
business



Covering a Wider Area

ARATA currently has business sites nationwide from Hokkaido to Kyushu, and our business activities are tailored to local needs.

In June 2018, we brought the Kyushu-Minami Center online. We had previously covered all of Kyushu with the Kyushu-Kita Center in Fukuoka, but we decided to open this new center in line with the business continuity plan (BCP) and with the aim of diversifying risk.

The Kyushu Logistics Concept



Kyushu-Minami Center

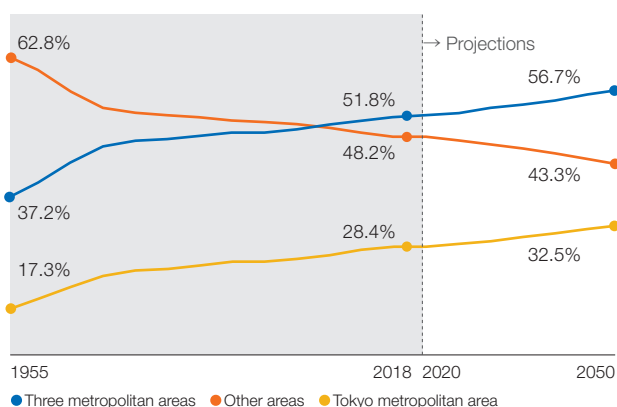
We have two large logistics centers, one in Fukuoka and one in Kagoshima. Having two logistics centers diversifies the risk of operational stoppages during an emergency.

We will also bolster our operations in the Tokyo, Nagoya, and Osaka areas.

Currently, more than half of Japan's population is concentrated in the three metropolitan areas of Tokyo, Osaka, and Nagoya, and the trend of the population being concentrated in these three metropolitan areas is expected to become even more pronounced in the future.

We have organized our corporate framework keeping ahead of society's trends, and are fulfilling our social mission of delivering life's necessities.

Population Trends



Initiatives by Business Format

Japanese society is expected not only to have a declining population in the future, but as the population ages individuals are expected to shop and be active closer to where they live. As a result, we believe that commercial zones will shrink in size going forward.

In response to the need for "one-stop shopping," where people can get everything they need in a single store, drugstores have been boosting their business by offering more food items.

In addition to the difference in formats, such as drugstores, supermarkets, home centers, and other kinds of stores, the products that people want differ according to the people who live in each commercial area.

ARATA will provide our proprietary big data analytics and commercial zone analytics data to retailers, and will make plan proposals for retailers to deal with the shrinking commercial areas.

In addition to sales floor proposals, we are also implementing PDCA cycles after delivering products, including the final preparation for store operations, subsequent checks of sales, and improvements following feedback by group company ISM CORPORATION, to help retailers boost their sales.

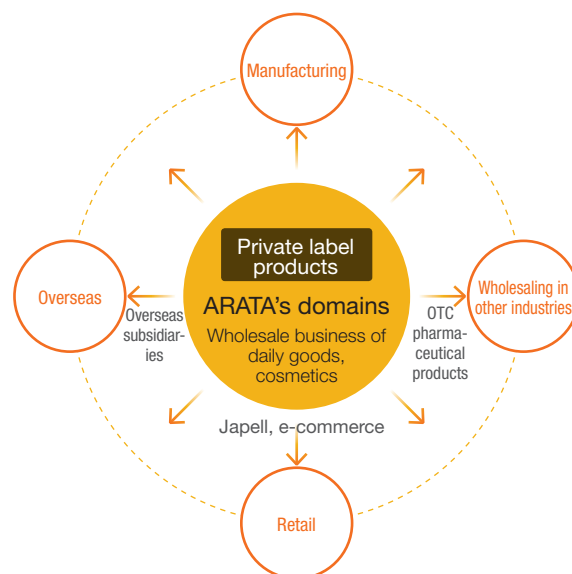


ISM CORPORATION

Headquarters	East 21 Tower, 6-3-2 Toyo, Koto-ku, Tokyo 153-0016, Japan
Representative	Representative Director and President Jun Tachikawa
Strength	Through regular visits by dedicated sales staff to the same stores, as well as collaboration with the DENTSU Group, the company provides the following four solutions: <ul style="list-style-type: none"> 1. Sales floor design and management 2. Sales floor analysis and proposals 3. Link stores and media 4. Social contribution through expansion of product sales The company contributes to cost reductions and higher sales for both retailers and manufacturers.

2. Lay the foundation for the future

Beyond the framework of ARATA's current daily goods and cosmetics wholesale business, we are looking to engage in manufacturing, wholesaling in other industries, retailing, and business overseas, and we are laying the foundation for future growth and searching for pathways to the future.



Overseas Business

ARATA's customers are rapidly globalizing as Japanese companies increasingly expand their overseas business operations. In particular, the Asian market is expected to grow going forward, and there is strong demand for Japanese products in this region.

ARATA is expanding into China and Thailand, taking full advantage of the capabilities we have cultivated over the years.

Currently, our main local subsidiaries are the ones we have established in China and Thailand, and they are engaging in talks with companies that they could possibly partner with in order to develop businesses that match local business customs. Also, in Thailand, we are engaged in the wholesaling business as Japanese retailers enter the local market, and we are offering very popular Japanese products, mainly cosmetics, to the local market.

In terms of cross-border EC, in which demand is rising in recent years, business with cross-border EC operators in China has been our main emphasis. We are providing products as a wholesaler to local subsidiaries in Japan established by Chinese companies, and we are receiving many inquiries, just like we are in the domestic e-commerce domain.

In the future, especially in China, Internet companies are expected to further prosper more than brick-and-mortar stores as IT advances continue. We will promote initiatives with an emphasis on expanding business with Internet companies, including cross-border EC companies. In Thailand, we are aiming to increase our customer base of local retailers in addition to Japanese companies.

In the medium to long term, we are also considering expanding our business to the entire ASEAN region, depending on how our business activities progress in China and Thailand. Also, we are considering not only developing a wholesale function overseas, but by possessing both retail and manufacturing functions, we are looking into boosting our presence in local distribution and retail markets.

E-Commerce

The e-commerce market is expanding year by year, and the size of the consumer e-commerce market in Japan was ¥16.5 trillion in 2017.

Today, in the domestic e-commerce space, we mainly handle daily goods and cosmetics.

Unlike brick-and-mortar stores, when it comes to online sales through EC sites and other sites, there are no physical constraints with respect to where to place and keep products. On the flip side, consumers demand a large selection of products.

Leveraging our strengths in handling some 120,000 products, in order to respond to demand unique to e-commerce, such as for products that are heavy, bulky, or are handled by only a few stores, we will make investments in IT systems and to enhance logistics capabilities in a strategic manner.

In addition, brick-and-mortar store product data, which ARATA has accumulated over many years, is very useful marketing data for e-commerce companies, and companies are expecting us to use this data to provide product suggestions and advice.

Global B2C EC Market Growth Rate (2017)

	Country	Market size (US\$100 million)	Y-o-Y
1	China	11,153	35.1%
2	US	4,549	16.3%
3	UK	1,126	17.1%
4	Japan	953	6.0%
5	Germany	651	11.3%
6	South Korea	563	20.9%
7	France	488	16.9%
8	Canada	340	29.9%
9	Australia	215	12.3%
10	India	209	42.1%

Source: Prepared based on eMarketer, Feb. 2018 (amounts excluding travel and tickets)



Products Developed In-House

We are developing private label products that offer new added value to consumers' lifestyles.

Initially, our private label was named “addgood,” and we began developing and selling mainly general-purpose products that retailers nationwide could offer, thereby addressing the needs of retailers who are unable to have their own private labels, either for economic or profitability reasons. By outsourcing production to manufacturers, we are also helping to ensure the stable operation of manufacturers' production facilities. We believe that being able

to create added value for manufacturers, retailers, and ourselves is our distinctive characteristic as well as the strength of our own product development.

Currently, we have more than 450 kinds of items, and they are branded according to categories.

We will continue to expand sales and work on the development of high-value-added products that can contribute to the improvement of retailers' sales prices.

In the future, in order to introduce more products to retailers, we will also develop “power items” that symbolize ARATA's private label products.

Brands



(Clesh)
Cosmetics overall



(Crevi)
Cosmetics accessories,
travel containers



(CARELAGE)
Hygiene-related products



(Fabrush)
Clothing detergent, fabric
softener



(Wash Lab)
Kitchen-related cleaners



(House Lab)
Home-related cleaners,
home goods, pet goods

Product Introductions



cureamino
revitalizing shampoo

cureamino
revitalizing conditioner

These are products developed jointly with Ajinomoto Healthy Supply Co., Inc. This is an antioxidant* + amino acid shampoo and conditioner set created under the concept of protecting hair from damage and oxidation on top of a base quality of being gentle to hair.

* Contains a moisturizing ingredient (histidine) which prevents product oxidation



Fabrush deodorizing spray
(for clothing and fabrics)

Perfect Graft deodorizer
gel for spaces

Chemically absorbs and dissolves bad odors with a patented technology called the “graft polymerization method” which deodorizes malodorous molecules through a chemical reaction. This product eliminates the need to worry about the way something smells. Patent Number 5322360

3. Further strengthen the management base

Optimizing the Overall Supply Chain

The mission of ARATA's logistics operations is to reliably deliver products to retailers nationwide at all times. We are undertaking various challenges to pursue the optimization of the entire supply chain based on the idea that independently coordinating the overall optimization of the supply chain is an important role of the wholesale business.

Investing in Logistics Centers

We have established a nationwide network infrastructure, centered on 11 large logistics centers with annual shipment value of at least ¥15 billion. We have started using automated pallet warehouses (1) in our large logistics centers. Products shipped from automated warehouses in cases are sent to case sorters, and then organized by company, delivery route, and store.

On the other hand, items shipped in units smaller than a case are picked out on an assigned floor by AiMAS (2), a cart with a scale. Scanning the product's barcode prevents the wrong product from being picked, while weight detection used in conjunction with the scale prevents the wrong quantity from being selected. Moreover, we can prevent the product from being sent to the wrong recipient based on which scale performs the detection. This system has resulted in ultra-precise shipping operations, with a delivery error rate of less than 1/100,000.

After the picking process is completed by AiMAS, the collapsible containers are temporarily stored in the collapsible container automated warehouse (3). From there, just as with products in cases, the containers are organized by company, delivery route, and store, and then delivered to retailers.

In addition, products returned from retailers are sorted according to manufacturer and product by our 10 returns sorter machines (4) nationwide according to the settings of each manufacturer, product, etc., allowing us to return products efficiently.

We invest in our logistics centers and material handling equipment on an ongoing basis so as to be able to use large logistics equipment to offer accurate and high-quality logistics services matching the needs of manufacturers and retailers.

Over the past decade, we have opened many large logistics centers, including the Saitama Center (2008), Chiba Center (2008), Ishikari Center (2011), Konan Center (2013), and Kitakami Center (2015). On June 4, 2018, we brought the Kyushu-Minami Center online.

The Kyushu-Minami Center is an important site not only as a part of the BCP in the Kyushu area, but also as a business base where we will introduce logistics equipment as a measure to deal with the shortage of personnel, which will become an even more serious issue in the future.

Also, in order to handle the increase in sales in the Tokyo metropolitan area, the largest market in Japan, we have launched a land acquisition plan and a concept project, targeting an operational launch in 2021.

ARATA's Logistics Network



Logistics Function

Addressing Changes in the Logistics Environment

The environment surrounding logistics is changing significantly, including manifesting a shortage of personnel and the growth of the e-commerce market. As improvements in efficiency and fine-tuned responses to diverse needs are required, the industry is gradually starting to see a wider use of technologies utilizing IoT and AI to manage ordering, inventory, and deliveries, as well as advanced logistics equipment such as warehouse work robots.

Amid these changes in the environment, for the first time as a company, we introduced a depalletizing robot (5) equipped with AI technology at the Kyushu-Minami Center. Cameras mounted on the robot recognize cardboard boxes of different sizes and automatically replenish the products. The use of this robot is expected to save labor, and we are looking into introducing this type of robot at other logistics centers as well.

Also, due to diversifying needs, logistics staff must now possess a higher level of knowledge and skill than before. They must not only understand the situation facing each manufacturer and retailer, but also possess abundant category knowledge, including foods and pharmaceutical products, due to the expansion of logistics conducted under contract, as well as have knowledge about overseas exports. To this end, as a measure to bolster our personnel development, we are encouraging staff to seek certification through tests by the Japan Vocational Ability Development Association for basic logistics knowledge and logistics management (levels 2 and 3), and in fiscal 2017 about 150 of our staff passed these tests. Physical demands are becoming less strenuous with the introduction of advanced logistics equipment, so by helping staff acquire skills, we will develop personnel capable of responding to the environmental changes which will take place even faster going forward.



(1) Automated pallet warehouse
Efficient storage with high, middle, and low pallet racks



(2) AiMAS
A picking cart equipped with weight inspection capabilities. A total of 2,525 of these carts are being used nationwide



(3) Collapsible container automated warehouse
Arranges randomly transported collapsible containers by company, etc.



(4) Returns sorter machine
Sorts returned products according to settings from each manufacturer, etc.



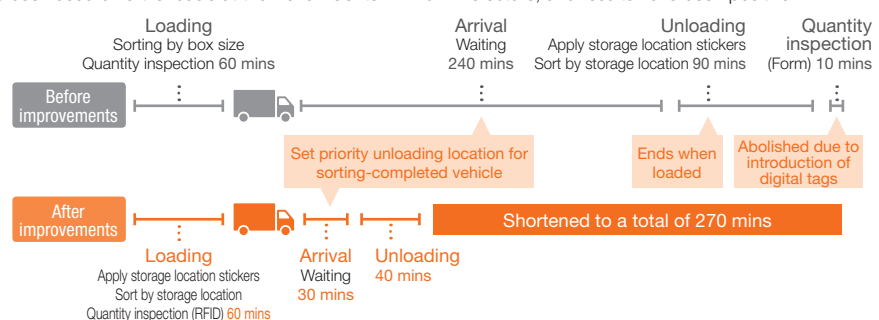
(5) デパレタイズロボット
搭載されたAIが商品を識別して補充を行う

Reducing Waiting Times during Truck Deliveries at Logistics Centers

Long waiting times for delivery vehicles at logistics centers (long working hours for drivers) has become a societal problem. In order to reduce waiting times, ARATA is working with manufacturers and logistics service providers on new initiatives. One of these initiatives is the introduction of a system to rationalize the way products are received.

By using information obtained in advance to boost the efficiency of sorting work, having trucks reserve warehouse entry times, using automated inspections, and other measures, this system significantly reduces the time required for the process that includes receipt, inspection, sorting, and transport. The system has been used on a trial basis at the Konan Center in Aichi Prefecture, and results have been positive.

The Japanese government has also expressed interest in this system. For example, this successful case was the topic of a presentation given at a meeting of the Council on the Promotion of the National Movement to Improve Productivity held at the Prime Minister's Office on February 15, 2018. This is a beneficial system that could be widely used in logistics centers in the near future.



3. Further strengthen the management base

Positioning in Medium-Term Management Plan

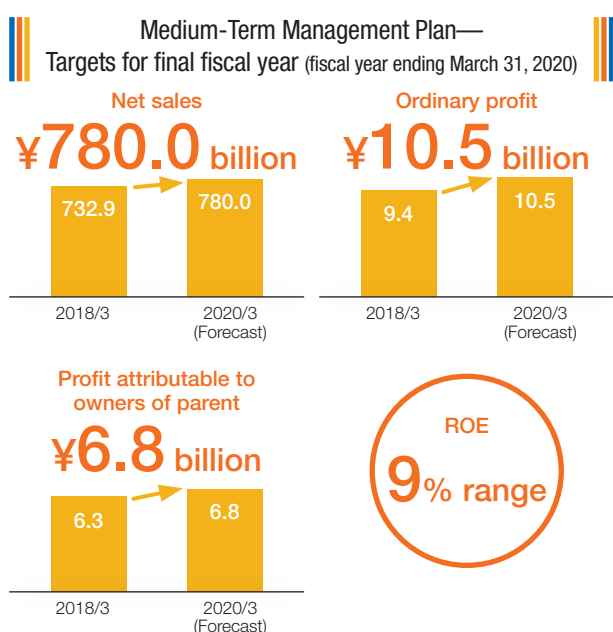
Reaching higher in the second stage

Under the previous medium-term management plan, which had its final fiscal year as the fiscal year ended March 31, 2017, amid the consumption tax rate hike and other dramatic changes in the environment including increasing international customer consumption in Japan, we steadily made progress on the following four basic strategies.

- (1) Increase profitability
- (2) Increase productivity
- (3) Enhance human resources, benefits, and training and development systems
- (4) Strengthen the governance system

During the final fiscal year of the management plan, we had a record-high performance for the second consecutive year, and achieved the medium-term management plan's targets, which had been revised upward.

In addition, we have formulated a new medium-term management plan starting from the fiscal year ended March 31, 2018, and have positioned efforts thus far as the first stage and future efforts as the second stage. In the second stage's medium-term management plan, under three basic strategies, we have established the numerical targets of net sales of ¥780.0 billion, ordinary profit of ¥10.5 billion, profit attributable to owners of parent of ¥6.8 billion, and ROE in the 9% range.



Stabilize Management, Increase Efficiency

Improving cash flow by reducing total assets

Along with strengthening the profit-earning capability of our core businesses, we are working to increase management efficiency with a focus on the balance sheet.

Establishing KPIs for ROA, we have begun to improve the number of turnover days for accounts receivable, product inventories, and accounts payable, and we are working to reduce total assets.

The objectives of this effort are to increase cash flow by improving the debt balance, to reduce interest-bearing debt to set the D/E ratio at a sounder level, and to increase management stability and efficiency.

We have revised our operations so as not to have excess inventory by using a new ordering system to make purchasing orders more precise, while we are also collaborating with the marketing function to shorten the deadlines for accounts receivable, and we are making efforts to realize appropriate payment deadlines for accounts payable by strengthening efforts with manufacturers with respect to purchases.

In this way, we will increase free cash flow through activities to improve the liquidity of receivables and liabilities, and will invest in strengthening our logistics and marketing functions with cutting-edge IT.

We will continually improve management stability and efficiency through these investing activities that increase earnings.

March 31, 2017 (Units: ¥ Million)				March 31, 2018 (Units: ¥ Million)			
Current assets 153,455 68.8%	Current liabilities 124,003 55.6%			Current assets 172,149 70.4%	Current liabilities 145,831 59.7%		
	Non-current liabilities 39,357 17.7%				Non-current liabilities 27,077 11.1%		
Non-current assets 69,518 31.2%	Net assets 59,613 26.7%			Non-current assets 72,231 29.6%	Net assets 71,472 29.2%		
Total assets		222,974		Total assets		244,381	

Notes and accounts receivable – trade: 118.4% YoY
Interest-bearing debt: 84.4% YoY, ¥8.7 billion reduction
Notes and accounts payable – trade: 116.4% YoY
Net assets: up ¥11.8 billion YoY

Equity ratio: 29.2% (+2.5% YoY)
ROE: 9.7% (+1.3% YoY)
D/E ratio: 0.7 (–0.28 YoY)



Financial/Capital Policy

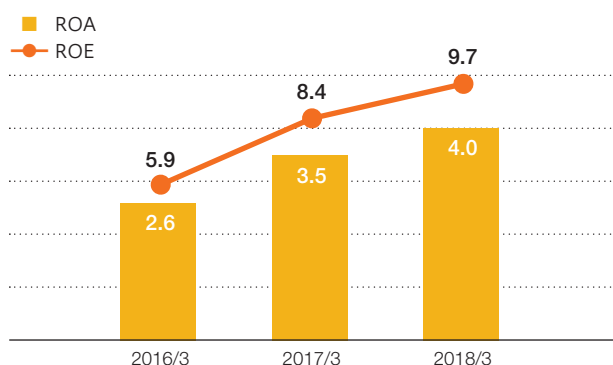
Strengthen Earnings Capability

Expanding business categories with the aim of further increasing earnings

The management targets for the fiscal year ending March 31, 2020, the final fiscal year of the medium-term management plan, are ordinary profit of ¥10.5 billion and ROE in the 9% range. With the aim of achieving the ROE target, we must of course increase management efficiency, but we also need to further raise ordinary profit.

In terms of specific measures, we will work to increase sales of home goods and over-the-counter pharmaceutical products, and study ways to expand the categories that will be the anchors of our new businesses.

ROA and ROE Trends (%)



Dividend Policy

Increasing the fiscal year-end dividend by ¥5 per share and continuing to provide stable dividends

We recognize that continually increasing corporate value and returning profits to shareholders are very important management issues.

Based on this viewpoint, decisions such as regarding dividend payments of surpluses are made based on the business environment as well as on the policy discussed below.

Our basic policy on dividends is to continually pay stable dividends, with specific dividend amounts determined based on a comprehensive consideration of factors each fiscal year, including business results, the financial situation, and future business development.

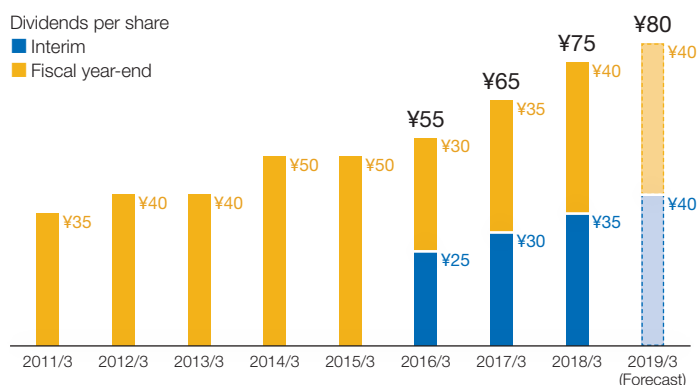
- Dividend payment timing: Interim dividend and fiscal year-end dividend (twice a year)
- Organization that decides dividends, etc.: Board of Directors resolution

* At the 8th Ordinary General Shareholders Meeting held on June 28, 2010, a resolution was passed to the effect that, in accordance with the provisions of Article 459, Paragraph 1 of the Companies Act, dividend payments shall be made based on resolutions by the Board of Directors. The objective of this was to allow for profits to be flexibly returned to shareholders by giving the Board of Directors authority to make dividend payments of surpluses, etc.

- Uses of retained earnings: To be used to bolster the Company's financial position, capital investment in areas where future growth can be expected, system integration, etc.

Shareholder Returns

Dividends per share
■ Interim
■ Fiscal year-end



- Provide stable dividends on a continual basis
- Dividend increased in fiscal 2017, and dividend increase planned for fiscal 2018 as well

Estimated for the case of using the March 31, 2018 share price of ¥5,960 and of owning one trading unit (100 shares)

Investment amount ¥596,000

Dividend per share:
¥75
(Dividend yield: 1.26%)

Shareholder incentives:
QUO Card

¥1,000 QUO Card given twice a year to shareholders who own at least 100 shares



* A share merger was executed on August 1, 2015. The dividend amounts have been calculated and stated as if this share merger had been executed on April 1, 2010.



Basing current actions on a vision of what the Company can become in 10 to 20 years

It is essential to consider what type of company we want ARATA to become, and set objectives accordingly.

Outside Director Yoshihisa Aoki

April 1974	Joined ITOCHU Corporation	April 2010	Representative Director,
June 2003	Executive Officer		Senior Managing Executive Officer,
April 2006	Managing Executive Officer		President, Food Company
April 2009	President, Food Company	March 2015	Adviser
June 2009	Representative Managing Director	March 2017	Advisory Member (current position)
		June 2017	Director of ARATA CORPORATION (current position)

■ It Is Valuable to Seek Input from Multiple Viewpoints, Including Global Perspectives

When I was first approached about becoming an outside director at ARATA I was very impressed with their slogan: “For the world, for the customer, for the company.” It bears a strong resemblance to the corporate motto of ITOCHU Corporation, where I have worked for most of my career: “Three-way satisfaction” (suggesting that one should always strive to ensure that everyone benefits from a business transaction—the buyer, the seller and the general public). I felt that the perspectives I have developed are a good match for those of ARATA, and my input can benefit these shared goals.

The Board of Directors meetings at ARATA give me the impression that their management is extremely open and responsive, with every member of the Board of Directors offering their own views and input, and management taking every viewpoint on board. I view my own role, as an outside board member with considerable experience working for a trading company, to be important. I think I can offer a third-party perspective, based on my firsthand experience and a global outlook on management, so I try to give input whenever possible, and do what I can to benefit the Company. ARATA's operations are mostly focused on domestic demand. Its know-how has been accumulated almost entirely in the Japanese marketplace, based on Japanese business practices. In today's rapidly changing market environment, it is essential that a company look ahead, envision what it aims to become several years in the future, and consider what actions need to be taken to achieve that vision. I do my best to

express the importance of this type of approach.

In the future, the markets—and indeed, society itself—will experience even more rapid change than they do today. At present, Japan is still lagging a bit behind other international economies in this process. Fortunately, I believe that ARATA management recognizes the challenges ahead, and the need to cultivate a workforce that is more responsive to change and the international market. The Company already has a very talented workforce, so I believe that the key to success is to give these people a broader range of experiences and as much opportunity as possible to develop new perspectives.

Whether we are discussing companies or individuals, when one has great potential, one just needs to receive a little advice which will then be put into practice quickly, and produce results. As the scope of one's experience is expanded, one's potential for growth and success becomes even greater.

Therefore, I think it is very important for ARATA to set its objectives. Japan's population is aging and declining, while the business environment is changing rapidly. There are limits to what any company can achieve if they restrict operations to domestic wholesale business.

It is critical that ARATA consider what type of company it aims to be in a decade or two, identify the fundamental factors and approaches that will be needed to thrive and expand, and set specific goals for the future. This requires a new way of thinking, and an effort to identify the steps one must take today, if one is to reach one's goals for 10 or 20 years in the future. Management of a recently merged corporation faces a lot of challenges, but I believe that ARATA has taken the right steps in preparing for the second stage of its development, and consequently the Company has excellent prospects for the future.



Basic Approach

ARATA's management philosophy specifies that it must play a part in the distribution economy and moreover exhibit a strong frontier spirit, in addition to maintaining its efforts to "continue to serve the world." In line with this management philosophy, the ARATA Group is proactively developing its businesses and improving its corporate value.

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

As a company, it is especially important that ARATA discloses its activities to all stakeholders in a timely manner and enhances the transparency of its management. In addition, in the course of conducting its business activities, ARATA recognizes that fulfilling its corporate social responsibility (CSR) is important in the same manner as improving its business performance, and the Company believes that the management oversight of the ARATA Group by these stakeholders is implemented by the Board of Directors and the Audit & Supervisory Board.

Based on this approach, ARATA believes 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.

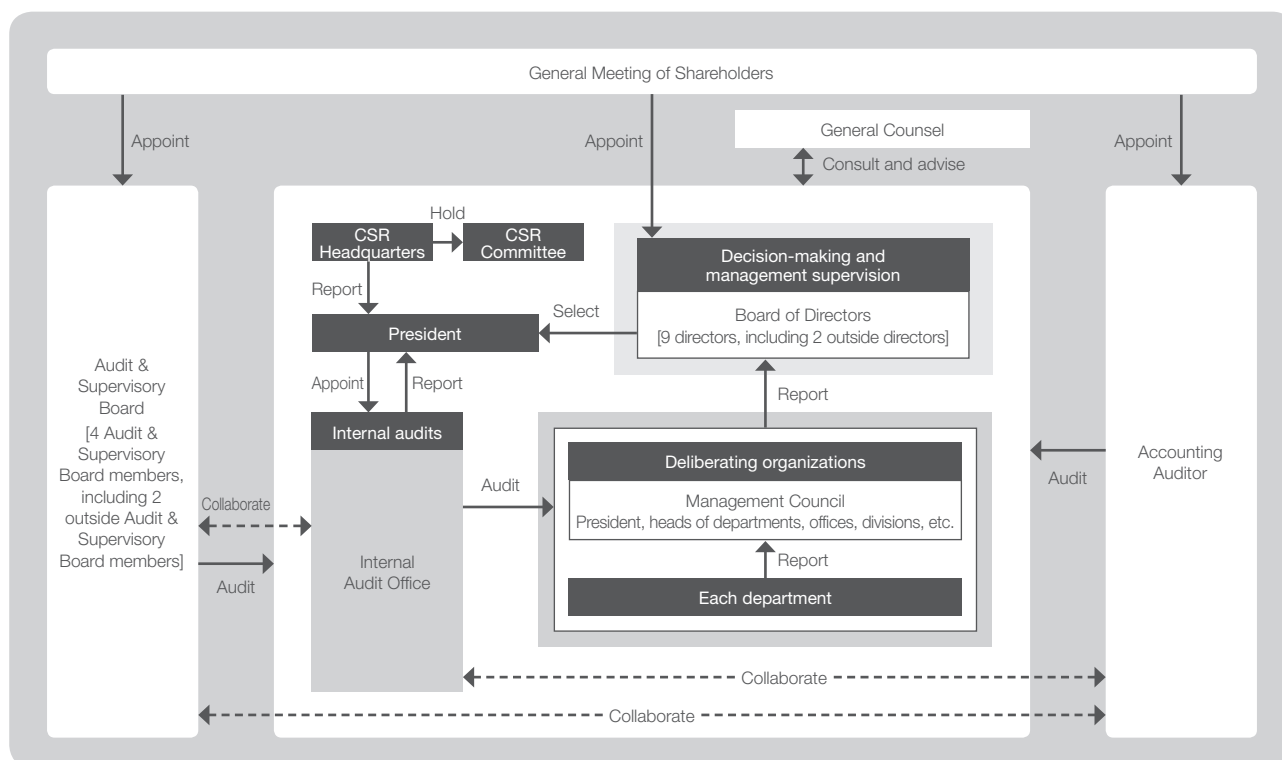
Corporate Governance System

The Board of Directors determines the management policy and important matters, and is a corporate organization made up of executive officers, consisting of nine directors.

Moreover, ARATA has adopted the system of a company with an audit and supervisory board, and audits are conducted by four Audit & Supervisory Board members, including two outside Audit & Supervisory Board members. In addition, the two outside directors and two outside Audit & Supervisory Board members satisfy the criteria for independence determined by the Tokyo Stock Exchange, and as independent officers they ensure the transparency and objectivity of the Board of Directors. ARATA is working to revitalize the Board of Directors by further improving transparency and ensuring discussions are held from an objective standpoint.

Regarding internal audits, ARATA has established the Internal Audit Office as a department directly under the president, and the Company is working to further improve its corporate value by building an internal control system.

Corporate Governance Framework



* In April 2018, ARATA established the CSR Headquarters that is responsible for overall CSR.

■ Directors and Audit & Supervisory Board Members

In conducting business activities, ARATA recognizes that it is important to fulfill its CSR, including compliance, environmental measures, and respect for human rights, while also improving its business performance. ARATA believes that the management oversight of the Group by stakeholders is conducted by the Board of Directors and the Audit & Supervisory Board. The Company believes that the roles of directors and Audit & Supervisory Board members are to secure the sound and sustainable growth of the Company and to establish a good corporate governance system that deserves the trust of society.

■ Outside Directors and Outside Audit & Supervisory Board Members

In addition to having adopted the system of a company with an audit and supervisory board, ARATA appoints two outside directors. ARATA believes that this is currently the best system, under which outside directors provide the directors with a degree of supervision, assistance and advice regarding the performance of their duties, and Audit & Supervisory Board members audit the appropriateness of their directives and business execution.

There are no personal, capital, or business relationships or other interests between any of the outside directors or outside Audit & Supervisory Board members and the Company.

■ Remuneration of Executive Officers

Regarding the remuneration of directors, ARATA believes that the Board of Directors will decide the remuneration of directors after considering the business environment, profitability of the Company and each director's contribution.

Furthermore, ARATA believes that the Audit & Supervisory Board will decide the remuneration of Audit & Supervisory Board members from an independent perspective.

In addition, excluding outside directors and Audit & Supervisory Board members, ARATA has introduced a stock benefit trust (BBT) as a stock remuneration system, abolished the retirement benefits system for directors, and clarified the relationship between remuneration of directors, executive officers and others and share value of the Company. By sharing the risks and rewards of stock price fluctuation with shareholders, the Company will raise awareness regarding contributing to the improvement of medium- to long-term performance and increasing corporate value.

Reasons for Appointment of Outside Directors and Outside Audit & Supervisory Board Members

Position	Name	Reason for appointment
Outside director	Yoshihisa Aoki	At ITOCHU Corporation, Yoshihisa Aoki gained experience overseeing corporate management as a representative director and senior managing executive officer. As the Company can benefit from his objective judgment and guidance concerning appropriate business execution in management, it has decided he is the right person to properly perform the duties of outside director.
	Hideo Ishii	Hideo Ishii has been active in various industries, such as banking, real estate, and those related to corporate pensions, and at Japan Investor Solutions & Technologies Co., Ltd., he gained experience overseeing corporate management in general as president. As the Company can benefit from his objective judgment and guidance concerning appropriate business execution, it has decided he is the right person to properly perform the duties of outside director.
Outside Audit & Supervisory Board member	Satoshi Hiramitsu	Satoshi Hiramitsu is qualified as a certified public accountant and the Company will be able to benefit from receiving his advice from a professional viewpoint.
	Takashi Doi	Takashi Doi is qualified as an attorney at law and the Company will be able to benefit from receiving his advice from a professional viewpoint.

Total Remuneration by Type and Recipient and Number of Recipients

Recipient	Total remuneration (¥ Million)	Type of remuneration (¥ Million)			Retirement benefits	Reserve for executive BBT	Number of eligible recipients (People)
		Basic compensation	Stock options	Bonuses			
Directors (excluding outside directors)	232	187	—	8	—	37	7
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	15	15	—	—	—	—	3
Outside executive officers	24	24	—	—	—	—	5



Internal Control

ARATA has established an internal control system to ensure the effectiveness and efficiency of business and the reliability of financial reporting, to comply with the laws and regulations related to business activities and to preserve assets.

Compliance

Regarding reporting systems, ARATA has established a hotline within the Company and a compliance counter outside the Company, and it responds appropriately to inquiries or reports from employees and others concerning systematic or individual violations of laws and regulations, etc. ARATA is working to strengthen compliance management, especially by striving for the early detection and correction of illegal acts.

Risk Management System

The Company emphasizes the original individuality of each branch, and has its own management policy for each branch based on the Company's management goals. Therefore, how to deal with risks occurring at each branch is a priority issue.

At the Management Council, which meets monthly as an administrative organization supervising the Company's business execution, each branch office reports on the details of business execution and results, confirms and examines the degree of achievement of management targets, and prevents illegalities and mitigates risks by checking the status of compliance.

The minutes of the Management Council are reported to the Board of Directors and the Internal Audit Office, and important matters are decided through deliberation by the Board of Directors.

Recommendations Arising from Violation of Article 4, Paragraph 1, Item 3 of the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors ("Subcontract Act")

ARATA received a recommendation based on the Subcontract Act from the Japan Fair Trade Commission on March 7, 2017.

The recommendation expressed the Japan Fair Trade Commission's judgment about the reduction in the subcontract payment owed to a supplier who had commissioned the manufacture of private brand products. From January 1, 2017, the Company corrected the violation and returned the full stipulated financial amount by March 7.

In order to act on the recommendation seriously and enforce its content, the Company attends lectures by lawyers, has joined the Fair Trade Institute, arranges for lecturers to conduct in-house seminars, etc. In the future, the Company will continue to thoroughly educate all employees by regularly holding these seminars.



■ ■ Establishment of CSR Division

In April 2018, with the aim of strengthening our CSR with a focus on contributing to society, we reorganized the CSR Committee and established it as the CSR Division. In addition to implementing the CSR activities that we have been carrying out in until now, the CSR Division will also be in charge of compliance and corporate governance. We will fulfill our corporate social responsibilities by enhancing our activities and we will aim for further sustainable growth.

■ ■ CSR Priority Issues

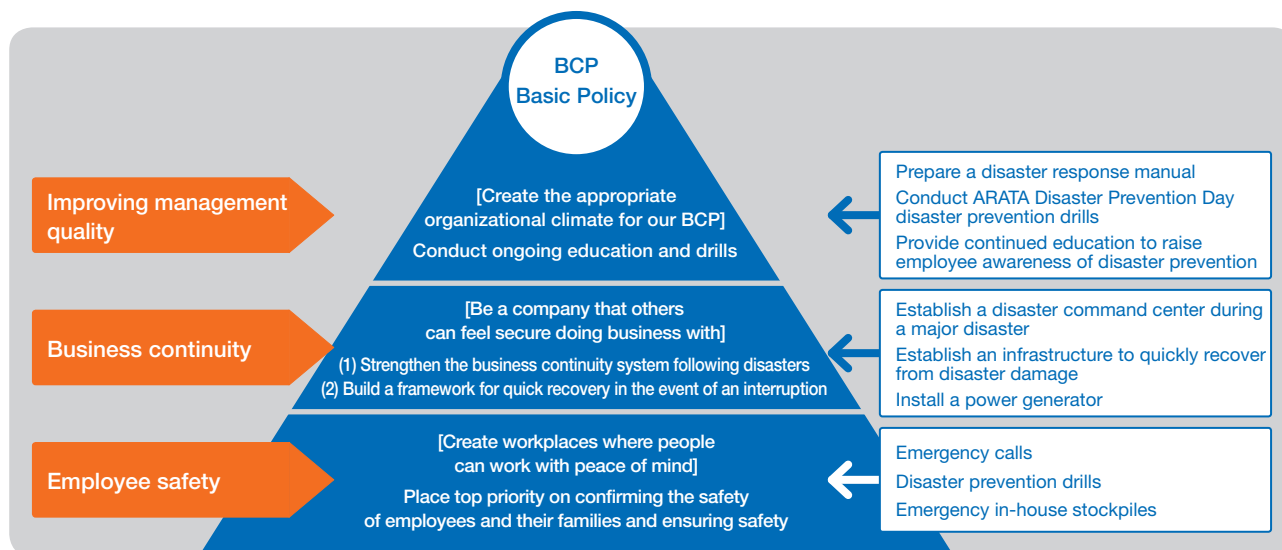
The CSR Committee held many discussions regarding initiatives that are important to both ARATA and society, and formulated CSR priority issues. We determined our ideal situation with respect to the 21 initiatives we established. Going forward, we will manage our targets based on our priority issues, and implement concrete measures to achieve them.

Related issues	Initiatives	Ideal situation
The Environment		
	● Initiatives to reduce our environmental burden	In our corporate activities, by practicing environmental countermeasures based on our own standards, we are contributing to the realization of a society in which sustainable development is possible and where both global environmental conservation and economic growth are achieved.
	● Initiatives to enable eco-friendly wholesale operations	By aiming to establish a wholesale business that is friendly to the environment and by realizing supply chain management with a focus on eco-friendliness, we are contributing to the realization of a society in which sustainable development is possible, and where both global environmental conservation and economic growth are achieved.
	● Initiatives with respect to environmental management	By building and operating a system in which environmental activities go through a PDCA cycle and the environmental burden is reliably reduced, we are contributing to the realization of a society in which sustainable development is possible and where both global environmental conservation and economic growth are achieved.
Corporate Posture		
	● Initiatives concerning corporate governance	With transparent corporate management and proactive information disclosure, we are achieving corporate growth and development, have happy employees, and are fulfilling our social responsibilities.
	● Initiatives to achieve a healthy corporate culture	As a specific mechanism to encourage all executive officers and employees to act in accordance with our corporate philosophy and corporate ethics, the ARATA Policies and the ARATA Corporate Conduct Guidelines are well understood and followed throughout the ARATA Group.
	● Initiatives to ensure protection of intellectual property	We are protecting our intellectual property rights and respecting the protection of the intellectual property rights belonging to ARATA as well as to other companies.
	● Initiatives to ensure fair competition and business	We are promoting proper corporate management by complying with all laws and regulations related to competition and business transactions, and by engaging in fair and impartial business.
	● Initiatives to ensure compliance	We are promoting proper corporate management by firmly complying with the ARATA Policies, the ARATA Corporate Conduct Guidelines, the related Insider Trading Management Regulations, and other rules throughout the ARATA Group.
	● Initiatives to enhance internal controls	We are promoting proper corporate management by analyzing predicted risks, and by having the internal control system function as a means of preventing and avoiding such risks.
	● Initiatives to ensure information security	We are earning the trust of our stakeholders by strictly implementing security management, such as dealing with cyberattacks and combating data leakage, and by putting in place a system that allows us to continue business even in the event of a fire or other type of disaster.
Our Stakeholders		
	● Initiatives to increase the efficiency of the overall supply chain	We are creating a comfortable life for all stakeholders by boosting the efficiency of the entire supply chain.
	● Initiatives to ensure fair marketing and information disclosure	We are helping to provide a comfortable life by proactively and properly providing appropriate information to all stakeholders.
	● Initiatives concerning stakeholders overall	We understand the needs of stakeholders through stakeholder engagement, and are building relationships of trust by reflecting those needs in our corporate activities.
	● Initiatives for shareholders	We are maintaining growth in response to the trust our shareholders place in us, and are continuing to return profits at a level that is among the highest in the industry. In order to promote proper corporate management, we are striving to clarify responsibilities and improve management capabilities. We are proactively disclosing management information and promoting corporate management that is trusted.
	● Initiatives to respect human rights and prohibit discrimination	We are contributing to the realization of a bright and open society free of discrimination by endeavoring to raise awareness of human rights in the workplace and creating a workplace environment where each employee's individuality and abilities are respected.
	● Initiatives to ensure the respect of diversity	People are working together while trusting and respecting one another, regardless of differences in age, gender, nationality, type of employment, or presence/absence of a disability.
	● Initiatives to create inviting and pleasant workplaces	We are providing fair workplaces for self-actualization with an emphasis on autonomy, and are fostering a corporate culture that allows people to have a dream and acquire confidence and pride. In addition, we are forming a robust organization that offers freedom, and where people respect each other's values.
	● Initiatives to ensure work safety	We are establishing an environment that places top priority on the health and safety of our employees, and are providing a comfortable environment.
	● Initiatives to properly utilize and develop human resources	We are forming an organization that is the leader in the distribution industry, in which people are not merely satisfied with their current situation but strive to improve their own abilities and are constantly taking on new challenges.
Society		
	● Initiatives for conducting social contribution activities	By contributing to a range of activities that address the needs of local communities and society, such as for children, the elderly, cultural activities, and sports activities, we are building relationships of trust, and contributing to a healthy and robust society and to the improvement of health and hygiene standards for people.
	● Initiatives concerning our BCP and IT-BCP	We recognize our role as a company that handles life's necessities, and are continuing to contribute to society even during times of disaster or during a crisis.



■ Contribution to Society

In the event of a natural disaster such as a major earthquake, or in the event of a crisis which causes serious damage, in order to ensure the safety of people and to fulfill our social mission as a wholesaler, we have established the following basic policy and have formulated a BCP.



Build a system to ensure stable business even during times of emergency

● IT-BCP

In order to deliver goods, we are building a framework to protect valuable information assets and related networks from disaster damage, and to promptly recover from any disasters that may occur. We have established a backup center in preparation for any disaster damage.

● Initiatives to stably supply goods by coordinating information during emergencies

When the Great East Japan Earthquake struck, ARATA was a hub for information about any product shortages at retailers we do business with, as well as for information on the status of production and inventories at manufacturers who had suffered damage, and we delivered goods to where they were needed. Going forward, anticipating that such a situation could occur, we are holding discussions with manufacturers and others in advance about how to respond during an emergency, and we are working with external parties as well in order to be able to have a system which allows ARATA to quickly become a logistics hub during an emergency.

■ Contribution to the Environment

ARATA supports the “3Rs” being promoted by the Ministry of the Environment to protect the environment. We are working together with retailers and manufacturers to implement initiatives so that consumers will choose products that lead to a reduction of waste.

● What are the “3Rs”?

The 3Rs refer to Reduce, Reuse and Recycle. The aim behind the 3Rs is to reduce garbage, and realize a society in which the earth’s limited resources are efficiently and repeatedly used (= recycling-oriented society).



From 2017, in cooperation with the Ministry of the Environment, under the title of the “Choose! 3R Campaign,” we conducted a sales campaign of target products at about 1,150 stores representing 19 companies, including supermarkets and drugstores across the country. In order to continue this initiative going forward, a signing ceremony was held between Ministry of the Environment Vice-Minister Tadahiko Ito and a group of manufacturers on March 7, 2018. Chairman Hatanaka of ARATA participated in the event.



Vice-Minister Tadahiko Ito, five manufacturers, special supporter “Kamen Joshi (Masked Girls)” and ARATA Chairman Hatanaka participated in the signing ceremony.

We think that human resources are very important assets in order to realize medium- to long-term corporate value improvement.

We are building a human resources system that allows each and every employee to demonstrate their strengths, and additionally focusing on efforts aimed at developing personnel who support the organization's sustainable growth.

■ Rebuilding the Human Resources System

As the population declines, and with the falling birthrate and aging population, the way that people work has become increasingly diverse. ARATA aims to realize diverse working styles and wants to establish a workplace environment in which employees who approach their work with enthusiasm and motivation are able to demonstrate their respective strengths.

To this end, from fiscal 2018, we plan to rebuild the human resources system we have been using so far. Specifically, we will look to establish remuneration levels and personnel evaluations that match specific occupations. Regarding fields requiring special skills, we will adopt a differentiated remuneration system for each occupation, such as evaluating employees under a remuneration system specific to that field, and we will make changes to the system so that employees in each field are able to receive appropriate evaluations and remuneration.

We will also consider our retirement system, so that motivated and enthusiastic employees can work without concern for their age, and can fully demonstrate their abilities. We are reviewing our uniform retirement age of 60, and are considering raising the maximum retirement age to 70, and are contemplating a system that allows employees themselves to choose the way they work between the ages of 60 and 70.

Regarding hiring, we are advancing discussions on frameworks not bound by existing systems, such as area hiring in which employees will only work in a certain location, as well as hiring management-level personnel who possess advanced expertise in company management.

By designing systems that match the way that each employee wants to work, we will encourage employees to further develop their abilities as well as boost employee motivation.

■ Promoting the Active Participation of Women

Leveraging the motivation and abilities of female employees is critical in order for ARATA to realize sustainable growth. We are focusing on creating an environment where female employees can balance work with the life events that are particular to women, and in which they can build a career without even thinking about quitting work.

Specifically, along with other measures, we will extend the period of leave due to childbirth, and establish new departments with work duties and systems in place to allow women to ease back into work after returning from leave.

Action Plan Based on the Act on Promotion of Women's Participation and Advancement in the Workplace

In April 2018, we formulated the Action Plan Based on the Act on Promotion of Women's Participation and Advancement in the Workplace.

[Target]

Aim to increase the ratio of female managers by about 1.5 times over five years.

[Initiatives to Achieve Target]

- (1) Increase the ratio of female hires
- (2) Provide career training with the objective of developing managers
- (3) Implement measures aimed at workstyle reform

■ Global Hiring

ARATA is expanding business overseas, and we have established subsidiaries in China and Thailand. We believe that hiring and promoting diversified human resources, including local hiring, is absolutely essential in order to further globalize our business going forward. We currently have several locally hired staff, mainly at our local subsidiary in Thailand, and we also hire foreign national employees at our Head Office.

In the future, we will also consider hiring foreign nationals as part-time employees at logistics centers after suitably enhancing the workplace environment. We will pursue global hiring, aiming to create innovation not bound by existing values through exchanges between diverse human resources.



Corporate Information

● Corporate Data

Registered Company Name:	ARATA CORPORATION
Head Office:	East 21 Tower, 6-3-2 Toyo, Koto-ku, Tokyo 153-0016, Japan
Date Established:	April 1, 2002
Capital:	¥7,026 million (As of March 31, 2018)
Stock Listing:	Tokyo Stock Exchange (Stock code: 2733)
Shareholder Registry Administrator and Special Account Management Institution:	Mitsubishi UFJ Trust and Banking Corporation
Number of Employees:	2,096 (Consolidated: 3,023)
Website:	URL: http://www.arata-gr.jp/

● Members of the Board and Audit & Supervisory Board Members (As of June 27, 2018)

Nobuyuki Hatanaka	Representative Director and Chairman & CEO
Hiroaki Suzuki	Representative Director and President & COO (Concurrently) General Manager of Sales Management
Yoichi Suzuki	Representative Director and Vice President, General Manager of Administration
Yuzo Ono	Director and Managing Executive Officer, General Manager of Logistics
Takahiro Furiyoshi	Director and Managing Executive Officer, General Manager of Business Development (Concurrently) Manager of Development Strategy
Toshiyuki Omote	Director and Managing Executive Officer, General Manager of Sales
Haruki Kataoka	Director, Representative Director and Chairman of Japell Co., Ltd.
Yoshihisa Aoki	Outside Director
Hideo Ishii	Outside Director
Mikihisa Ito	Standing Audit & Supervisory Board Member
Taketoshi Saito	Standing Audit & Supervisory Board Member
Satoshi Hiramitsu	Outside Audit & Supervisory Board Member
Takashi Doi	Outside Audit & Supervisory Board Member

* Director Akira Shimawaki and Outside Director Takashi Nakagawa retired at the conclusion of the General Meeting of Shareholders held on June 27, 2018.

● Company History

2002	April:	Established the holding company ARATA CORPORATION together with Daika Kabushiki Kaisha, Ito-I Co., Ltd. and Sunvic Co., Ltd. and listed on the JASDAQ
	September:	Made Tokukura Co., Ltd. into a subsidiary through a share exchange
2004	April:	Transitioned from a holding company to an operating company
	June:	Moved Head Office from Minato Ward, Tokyo to Funabashi City, Chiba Prefecture
	August:	Made Kisei Co., Ltd. into a subsidiary through a share exchange
2005	April:	Merged with subsidiary Kisei Co., Ltd. and its subsidiaries Kisei Service Co., Ltd. and Dorf Co., Ltd.
	December:	Made Japell Co., Ltd. into a subsidiary through a share exchange
2006	October:	Merged with SISCO Co., Ltd.
	November:	Established DENTSU RETAIL MARKETING INC. together with DENTSU TEC INC., a wholly owned subsidiary of DENTSU INC., NEC Corporation and Dai Nippon Printing Co., Ltd.
2007	April:	Established ISM CORPORATION as a subsidiary
	December:	Acted to acquire treasury stock with the aims of improving capital efficiency and returning profits to shareholders, acquiring 4,066,750 shares through a tender offer
2008	September:	Started service of sending planograms (information for shelving) together with CS YAKUHIN CO., LTD., CYBERLINKS CO., LTD., and NIPPON SOGO SYSTEMS, INC
2010	March:	Concluded a business cooperation agreement with NIPPON ACCESS, INC. and Alfresa Holdings Corporation
2011	March:	Listed stock on the Second Section of the Tokyo Stock Exchange
2012	February:	Established 凱饒泰(上海)貿易有限公司 in Shanghai, China as a subsidiary
	March:	Listed on the First Section of the Tokyo Stock Exchange
	August:	Acquired shares of Ichino Co., Ltd. (currently Living Arata Co., Ltd.) and made the company into a subsidiary
2013	October:	Established ARATA (THAILAND) CO., LTD. in Bangkok, Thailand as a subsidiary
2014	July:	Moved Head Office from Funabashi City, Chiba Prefecture to Koto Ward, Tokyo
2015	March:	Established joint venture SIAM ARATA CO., LTD. with Saha Group Co., Ltd. in Bangkok, Thailand
2016	June:	Issued 1st unsecured convertible bond-type bonds with share acquisition rights and 120% call option attached



Stock Information

● Stock Information (As of March 31, 2018)

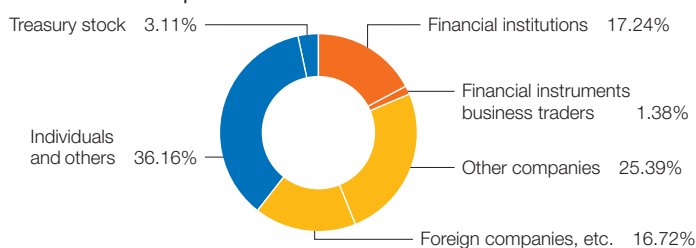
Stock Data

Number of shares authorized: 30,000,000

Number of shares issued: 17,417,840

Number of shareholders: 3,454

Shareholder Composition



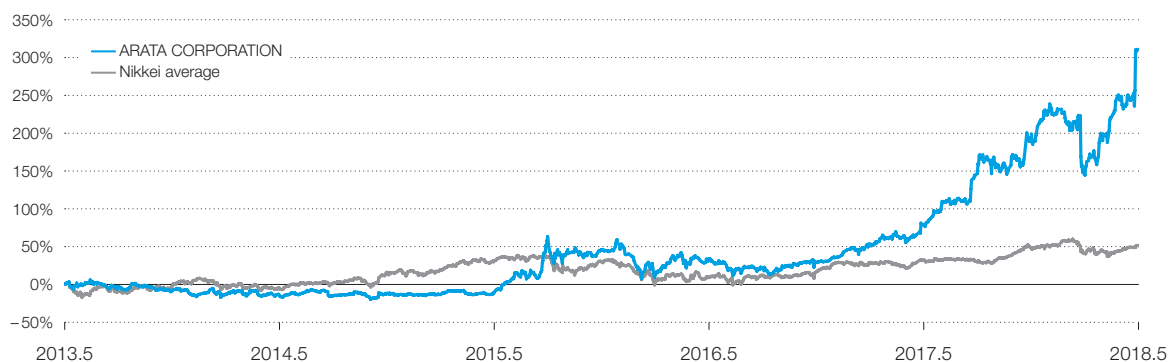
Principal Shareholders

Name of shareholder	Number of shares held (Thousands)	Shareholding ratio (%)
OTOWASYOKUSAN. Co., Ltd.	1,081	6.41
ARATA Employee Shareholding Association	1,055	6.25
Lion Corporation	721	4.27
Japan Trustee Services Bank, Ltd.	646	3.83
The Master Trust Bank of Japan, Ltd.	627	3.72
Nobuyuki Hatanaka	461	2.73
The Government of Norway	384	2.27
Gomei Kaisha Kisosei Shoten	344	2.04
Vet's Choice Japan Corporation	240	1.42
Unicharm Corporation	225	1.33

Notes:

1. ARATA holds 542,000 shares of treasury stock, but is excluded from the above principal shareholders.
2. The investment ratio is computed after the deduction of the 542,000 shares of treasury stock.

Stock Price Chart



* Changes based on the stock price in May 2013

● ARATA Websites

Corporate website:
<http://www.arata-gr.jp/>

Shareholders and investors information:
<http://www.arata-gr.jp/ir/>



