

WHAT'S PALTAC



Integrated Report 2021
PALTAC CORPORATION

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Note Concerning Forward-Looking Statements

Information in this document presented by PALTAC CORPORATION (the “Company”) contains forward-looking statements regarding to the Company. Other than historical facts, these forecasts and strategies prepared under certain assumptions, and such matters include certain risks and uncertainties. As such, please be forewarned that actual results may not necessarily match these forecasts due to a variety of changes in the business environment and others causes. Please also note that even in cases where it might be desirable for the forecast information to be updated or revised due to new information, future events or other items. The Company is not obliged, and dose not have a policy of updating this document and information to the most recent.

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Corporate Data

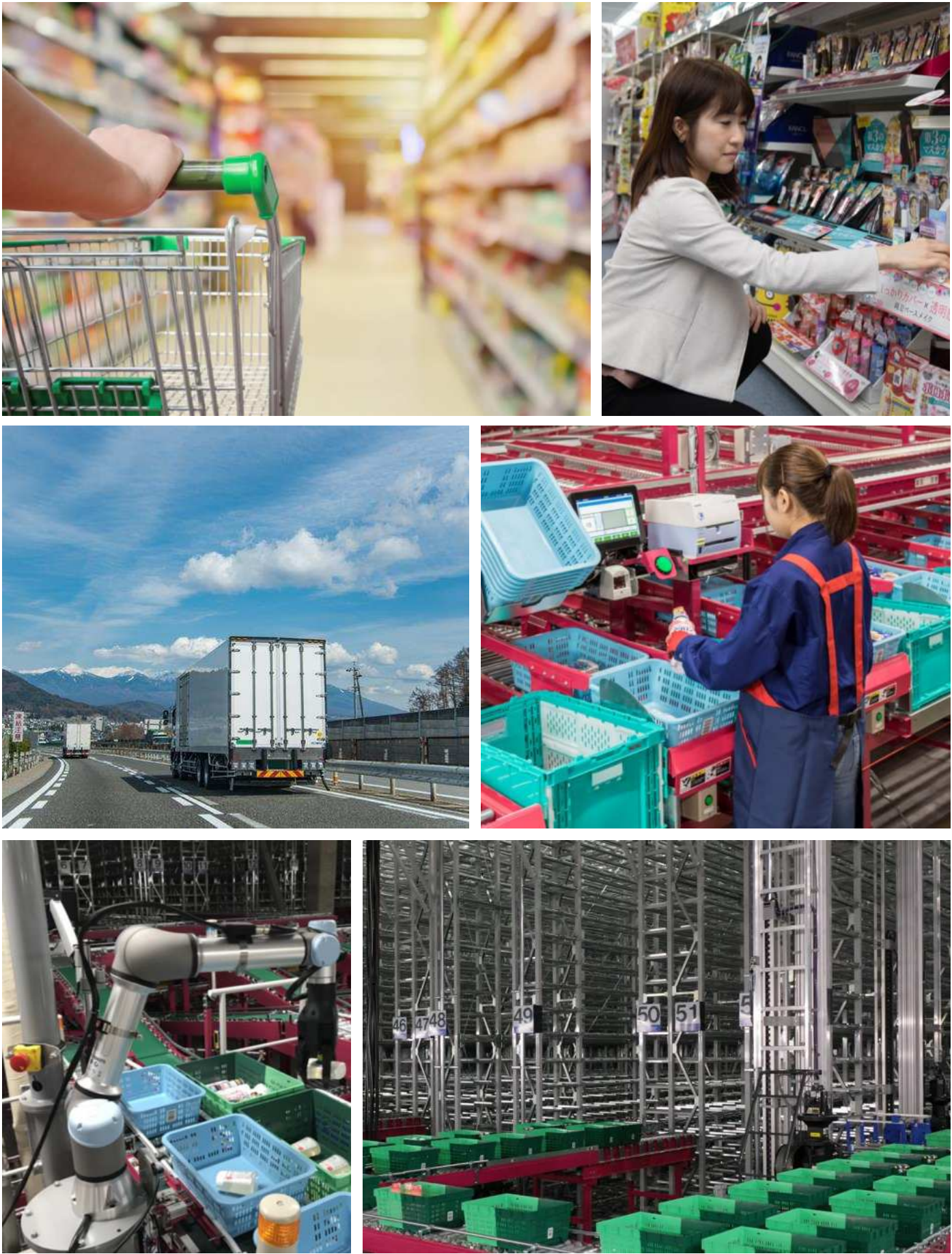
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Editorial Policy

This integrated report is intended to intelligibly convey the “value creation” for our sustainable growth and the “strengths” for realizing our value creation to stakeholders through it describes our history, corporate culture, and our approach to distribution.

Reference Guidelines

We have referred to the International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC) and the Integrated Disclosure and Dialogue Guidance for Value Collaboration advocated by the Ministry of Economy, Trade and Industry.



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“Unchanged MIND” Moving forward

since
foundation

123 years



PALTAC MIND

Our DNA

Honesty and Trust

Our Aim

We would like to strive to contribute to customer's prosperity and to create people's rich and comfortable daily lives through distribution

Our Policy

We always respect harmony with people and act with a sense of gratitude and humility

We tenaciously take on the challenge of transformation by leveraging creativity, breakthrough technology and rapid decision-making

We fulfill a role through forming collaboration, making correct decisions and acting responsibly

Corporate Slogan

Maximizing customer satisfaction and minimizing distribution costs



“PALTAC MIND” is our “philosophy” which is shared by every employee and the starting point of our actions to continue to provide new value as a company that supports social infrastructure of supply chain while keeping pace with the rapid change of society.

Feeling a deep sense of our mission Supporting “usual daily lives”

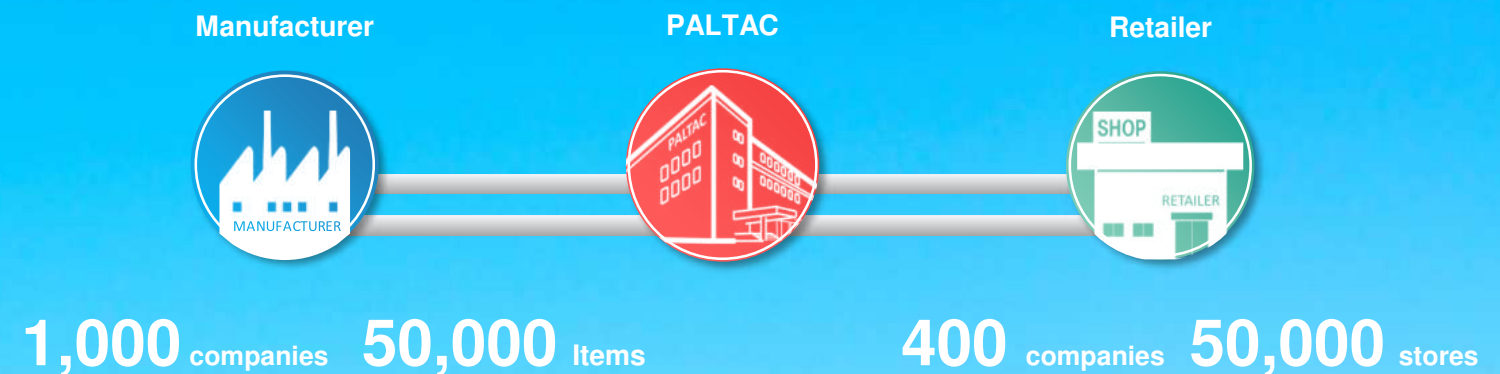
Yearly shipments

3.5 billion products

We supply 30 products per person for one year in Japan

We would like to strive to contribute to customer's prosperity and to create people's rich and comfortable daily lives through distribution

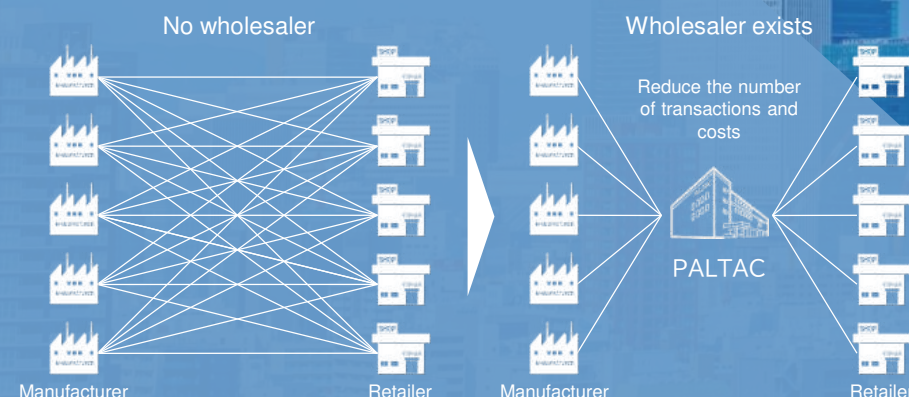
Optimizing and streamlining entire supply chain through our intermediate distribution functions



PALTAC is an intermediate distributor that handles daily necessities related to “health and beauty”. Our mission is to deliver products to retailers in a stable and efficient way in a normal condition and even in an emergency with the aim to support “usual daily lives” in which people can obtain products that will enrich their daily lives “at any time” and “affordably”. We provide retail solution including provision both effective information and sales proposals ranging from “products assortments” at stores to “store support” such as product displays based on the information analysis of sales data and market trends, as well as high-quality, low-cost logistics solution that realizes efficient distribution processes and store operations. In addition to these solutions as above-mentioned, through our own information technology (IT) enterprise system that supports foundation of these solutions, we pursue optimization and streamlining of the entire supply chain from manufacturers to retailers and thus to consumers.

Reducing costs of the entire supply chain through the intermediate distribution function

Optimization and streamlining of the entire supply chain are realized by wholesaler's collection and dispersion role at the mid-point, and consequently contribute to social costs reduction and to products delivery to consumers at stable prices.



Supplying products that are closely related people's daily lives

Cosmetics	Daily necessities	OTC pharmaceuticals	Health and sanitary related products
Shampoo / Hair color / Facial cleanser / Skin lotion / Sheet mask / Men's cosmetics / Deodorant / Lip balm / Makeup etc.	Laundry detergent / dishwashing detergent / toothbrush / toothpaste / soap / household papers / food wrap / razor / feminine care / insecticide / disposable warmer etc.	Cold remedy / headache medicine / skin disease remedy / vitamins / gastrointestinal drug / lifestyle drugs / eye drops / antiphlogistic sedative drug for external use, etc.	Baby products / supplements / functional foods, beverages / masks / disinfectants / nursing care products / contact care products, etc.

Chairman's Message



Contributing to create people's rich and comfortable daily lives

Representative Director,
Chairman, CEO

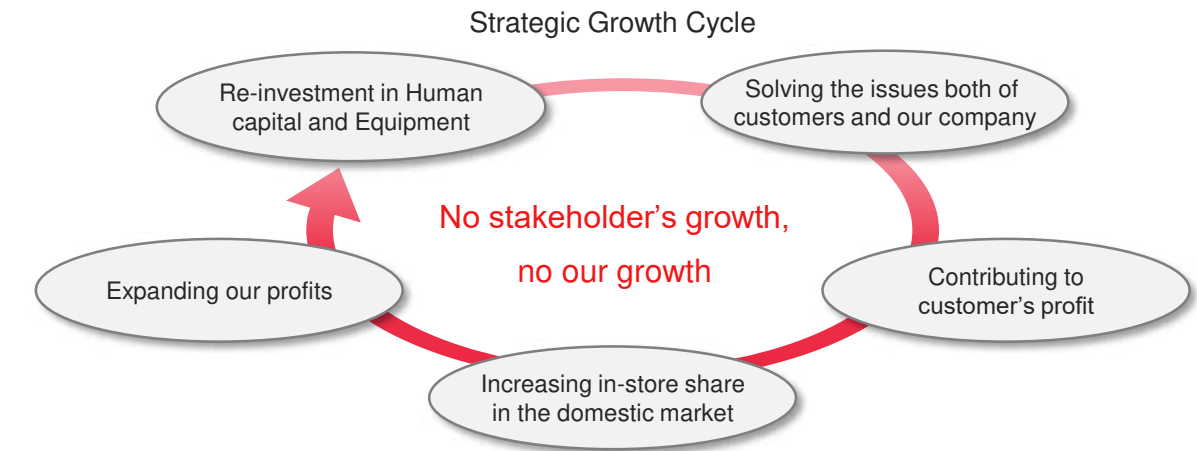
Kunio Mikita

Our philosophy for sustainable growth

Nearly a year and a half having now passed since the declare of COVID-19 pandemic by the World Health Organization (WHO). We have seen dramatic and unprecedented social changes so-called "new normal" which become common. And also, in the industry of cosmetics and daily necessities and the market of over-the-counter (OTC) pharmaceuticals in which our company operates, we are making efforts to address these changes by the whole industry. Corporate growth cannot be achieved without continuous innovation. Recently, business environments surrounding us are changing dramatically and rapidly due to the globalization, the digital innovation and COVID-19 pandemic, etc. In these environments, it's clear to me that the approach based only on conventional standards and experience would not ensure to achieve the sustainable growth. I always say that "Wholesale business is that respond quickly to various changes" and "Entities that cannot be changed themselves would not continue its existence as the Darwinian Theory suggests". And what is called "changes themselves" includes various changes, but I believe that change with coherent policy is extremely important. Responding to the change in the external business environment, through new standards,

technology, etc., we must try to change our organizations and measures with "Innovative Spirits", simultaneously we need to hold coherent policies including "What we are aiming for" and "What is the meaning of our existence". That means, thanks to unchanging policy, we are able to identify how we should be done. And we would be swept away by the changes of environments without unchanging policy. Our unchanging policy, which complied in management philosophy "PALTAC MIND", is that we position "Honesty and Trust" as the starting point for all our activities and aim to create people's rich and comfortable daily lives through optimizing and streamlining the entire supply chain. I believe that we have realized continuous growth for more than 120 years supported by all stakeholders because we have pressed ahead with our business activity with strong spirits that our growth cannot be achieved without sustainable growth of both customers and society based on the desire that we must always serve "trust and faith" prior to sales of merchandises. The RDC strategy, which was started in 1998 and was fundamental approach of our low-cost logistics model, is based on desire we make the structure of purchasing products at usual price and distributing them to retailers and

*RDC (Regional Distribution Center) : High-efficient large scale distribution center



customers at low price. This strong desire has led us to decide investment about two years of ordinary profit at that time into construction of RDC, and we pursued distributional efficiency such as bulk purchase by the large trucks, logistics processing to pay attention to retail store, etc. As a result, we could earn customer's trust and succeed to create a virtuous growth cycle. Currently, amid such a tide of ESG and SDGs, every day we can see the word "sustainability", and I feel our philosophy, which have been passed down through generation, naturally aligns with principles behind the sustainability. And I think that the state, the business, yourself and even environment would not be able to pursue profits for long to the detriment of certain people or things, and history also told us such fact. In this fast-paced era, centering "unchanging policy", I believe, we will move forward with whole stakeholders to realize sustainable growth of society through making efforts to address the change of society by our "Innovative Spirits".

Values created by diversity

And also, I think, it's necessary to ensure diversity for the corporate growth. In the changing external environment, by mutual respect for diverse thinking and combining them, we can create a new value and that is a short way to address these changes. In the past history, our many mergers and acquisitions resulted in gathering of and harmonizing with diverse people and

corporate cultures. Moreover, as the Research and Development Department was established, new talents was gathered from advanced technology field where is unthinkable in the traditional wholesale industry, and our diversity has been further improved. I hope that people from various background thinks and acts independently under the common understanding for "PALTAC MIND" and will be able to open a new chapter in our history. But, from the standpoint of career development of female employee, more effort is yet needed to us. While we promote development of systems such as supporting childcare exceeded legal standards, return-to-work system, etc., at present percentage of female employees is approximately 20% and percentage of female in management positions is approximately 6%. Although the apparent figures are not reflected all of facts, to create an environment that enables diverse personnel to play an active role, I realize, in addition to set up the structure, we must all face up squarely to workstyle reforms. Developing new culture and structure would not something that happens overnight, I explain the importance of workstyle reforms and strives to promote awareness of them through not only meetings of the board of directors but also other meetings. Going forward, I think, we want to focus on initiatives with suggestions and supports from all stakeholders including outside officer with the objective which individual potential and significant powers created by integrating individual potential should be driving force for sustainable growth.

President's Message



Moving forward with the supply chain

Representative Director,
President, COO

Seiichi Kasutani

Opening words

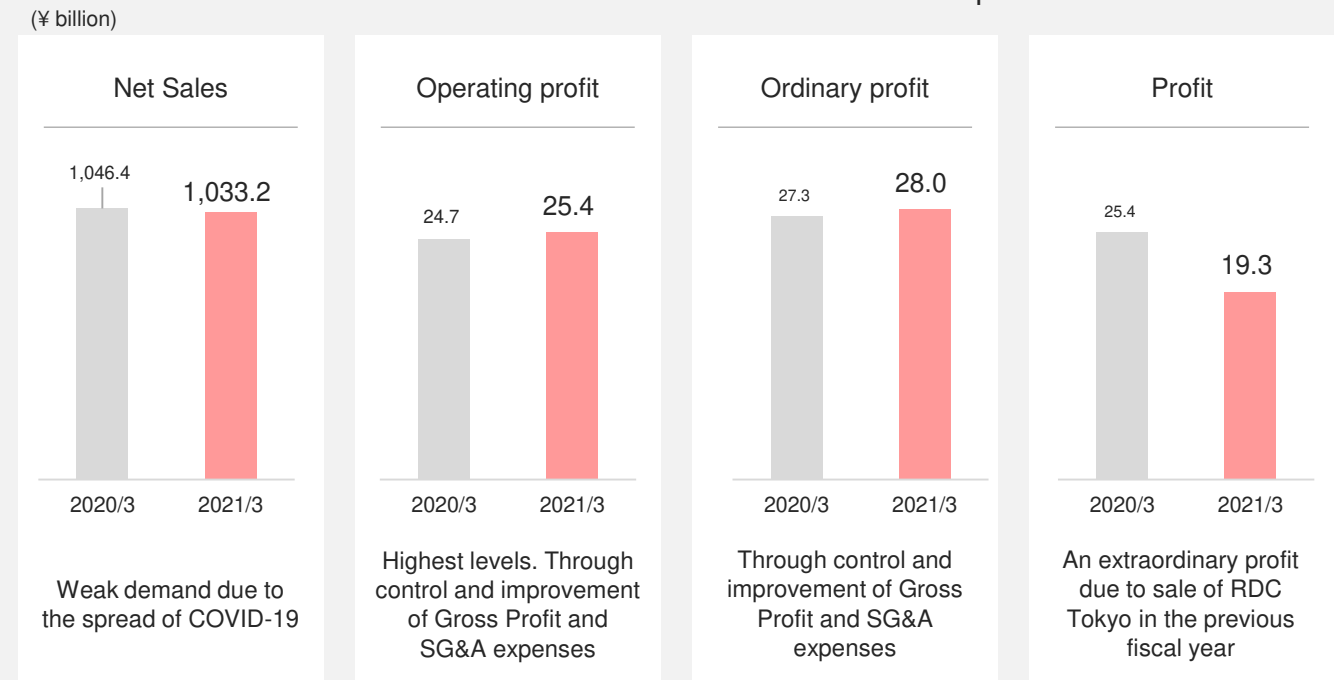
PALTAC have a history of over 120 years, and are enterprise responsible for distribution of products essential for dairy lives. And it is our belief that we must commit to operate our business with an awareness of weight of our history and our social responsibilities as an enterprise. I understand that my role is remaining true to the philosophy "PALTAC MIND", comprehending recent changes of environment and reflecting these understanding in our medium-term management plan and yearly strategic plan, and of course carrying out our mission and working toward sustainable growth with our employees. As the manager of our company, I'm playing a leading role. And, through conducting our business, I want to pass on our history, culture and the meaning of our existence to the younger generation.

A review of results of FY2021/3

In the fiscal year ended March 2021, our operation struggled under challenging environment, unlike any experienced before, caused by the increase in cost of employee and delivery arising from labor shortage and COVID-19. Even during tough environments, I think, responding to challenging conditions and seizing the good opportunity in these fact are our true values. During the COVID-19 pandemic, to accomplish our mission which is ensuring stable supply of daily necessities, we put in place systems to ensure employee's health and safety. And, as "TEAM PALTAC", fully leveraging our combined power of all employees including part time workers, we could supply daily necessities. That was a valuable experience amid harsh environment because it made me realize our strength once again. Our operating results fortunately remained at a level that ensure continuity of sound business operation because we mainly handle products essential to daily lives. However net sales declined year on year due to decrease in sales of cosmetics category and OTC pharmaceuticals category, which are our favorite areas, arising from extinguishment of inbound demand and refraining from going outside and uncertainty where conventional ideas would no

FY2021/3 Earnings Results Highlights

Operating profit recorded highest levels
Focused on control of Gross Profit and SG&A expenses



longer apply. Even in such a situation, we continuously acted on improving productivity which is our key initiative, as well as we made efforts such as improving sales approach, distribution system and product lineup, etc., responding to COVID-19 pandemic. As a result of that, sales decreased but operating profit reached a record high. I'd like to offer my sincerest thanks not only to all stake holders in our supply chain for their earnest support but also to our employees for their untiring effort.

As an enterprise supporting life infrastructure

February 2021 earthquake off the coast of Fukushima prefecture resulted in extensive damage to RDC Miyagi that is close to the epicenter. If we were operating RDC taking a risk, we would be able to recover while RDC was running. But we put priority on our employee's safety and decided temporal closedown of RDC Miyagi and aimed to completely recover by using utility of alternative shipment function which established to date had

been confirmed as part of BCP. As a result, by using alternative shipment from our another distribution center, we were able to completely restored RDC Miyagi in about two weeks. That success of alternative shipment was possible because of not only hardware such as facilities, but also software such as "collaboration" of each company division and "cooperation" through playing a vital role. We can easily put these efforts into the phrase, however actually It's not easy to execute. Under difficult environment, I could see our employees who had exercised their full potential through collaboration and cooperation and realized alternative shipment. I'm very proud of them and re-recognized importance of "collaboration and cooperation". I sure that we could not have supplied products to the people stably relying on our own capabilities. Going forward, I think, we hope to deepen our collaboration and cooperation of entire supply chain and to contribute to create people's rich and comfortable daily lives by supporting such social infrastructure as distribution of daily necessities.

Review of 2021 Medium-term Management Plan

VISION2021 "1 trillion-yen Link with the future"
~ The logistics innovation through aggressive investment ~

■ Priority Initiatives

We placed top priority on addressing "decrease in the working populations" which hinders growth of the industry as a whole and promoted the initiatives as mentioned below.

Re-investment of the profit

A breakthrough logistics model

High-quality and high-productivity

Developing talent and organization

Results link with the next growth

Established sales system that enabled us to address wide-ranging issues and needs

Established "Store Support Headquarters" "EC Division" for strengthening the system to sell
Established "SCM Headquarters" to improve productivity throughout the supply chain

Strengthened logistics systems to build sustainable distribution

Achieved a doubling of the productivity of personnel by the new logistics model
Improved productivity at existing centers to support profit generation

Established business base to support value creation

Launched new initiatives digital transformation (DX)
Created systems to leverage diversity
⇒ Introduced a new personnel system, employment at the age of 70 and flexible work styles

VISION2024 "For a bright future" ~ Moving forward with the supply chain ~

With its position as an intermediate distribution platform
Showing our full potential, Trying to address unprecedented changes in business environments and Solving various issues

Keywords to achieving the vision

collaboration・cooperation

reinforce of systems

Addressing the unprecedented changes in business environments

"Strengthening retail solution capabilities"

Pursuing "secure and safety" and "high-efficiency"
"Strengthening logistics solution capabilities"

Ensuring provision of added corporate values
"Enhancing IT system and Promoting digitalization"

As a foundation for our sustainable growth
"Developing talent and organization"

Advancement of ESG and Contribution to SDGs

Numerical targets(FY2024/3)
The lower row : Compare with FY2021/3

Net Sales

¥1,125.0 billion

+¥91.7 bn [+8.9%]

Operating profit

¥29.0 billion

+¥3.5 bn [+13.8%]

SG&A expenses ratio

5.29%

[△0.10%]

Overview of the New Medium-term Management Plan

Following the medium-term management plan "1 trillion-yen Link with the future" for the fiscal year ended March 2021, we have formulated a new three-year medium-term management plan "For a bright future" for the fiscal year ending March 2022 to the fiscal year ending March 2024. Under the previous medium-term management plan, we focused on the issue of decline in the working populations which inhibited the industry-wide growth, and challenged logistics innovation through aggressive investment. As a result, profits achieved record high and, in addition, we acquired three significant results would lead to the future. First, we have established new sales system enable us to meet the issues and needs of retailers which are our customers through implementing new functions, such as Store Support, SCM and EC. Second, we ensured high-efficient shipment capacity through investment in a new logistic model enables discontinuous improvement of productivity and further improved productivity in the existing distribution centers and we could strengthen logistic system aiming for the establishment of sustainable distribution base. And third, we started new approach to digital transformation in the near future, as well as advanced creation of initiatives which enable us to

utilize diverse talents, and thereby we could establish business base to support value creation. Under the new medium-term management plan, we want that we will nurture three results which acquired in the previous medium-term management plan as seeds for the sustainable growth and will be able to harvest big fruits. The environments in the supply chain become increasingly diverse and complex, such as labor shortage arising from decline in working populations, changes in consumer behavior and workstyle due to COVID-19 and addressing issues of distribution including White Logistics Movement, moreover acceleration of movement to solve the social and environmental issues including climate change with heightened awareness of ESG and SDGs. We must respond promptly to diverse and complex environments, to do so, I think, "collaboration and cooperation" initiatives are the keys to our successful growth lies in whether we can promote those initiatives. This is because not only tackling issues which are challenging for individual companies are accumulated, but also "collaboration and cooperation" with entire supply chain promptly provides substantial results. More than anything, every companies involved in the supply chain and

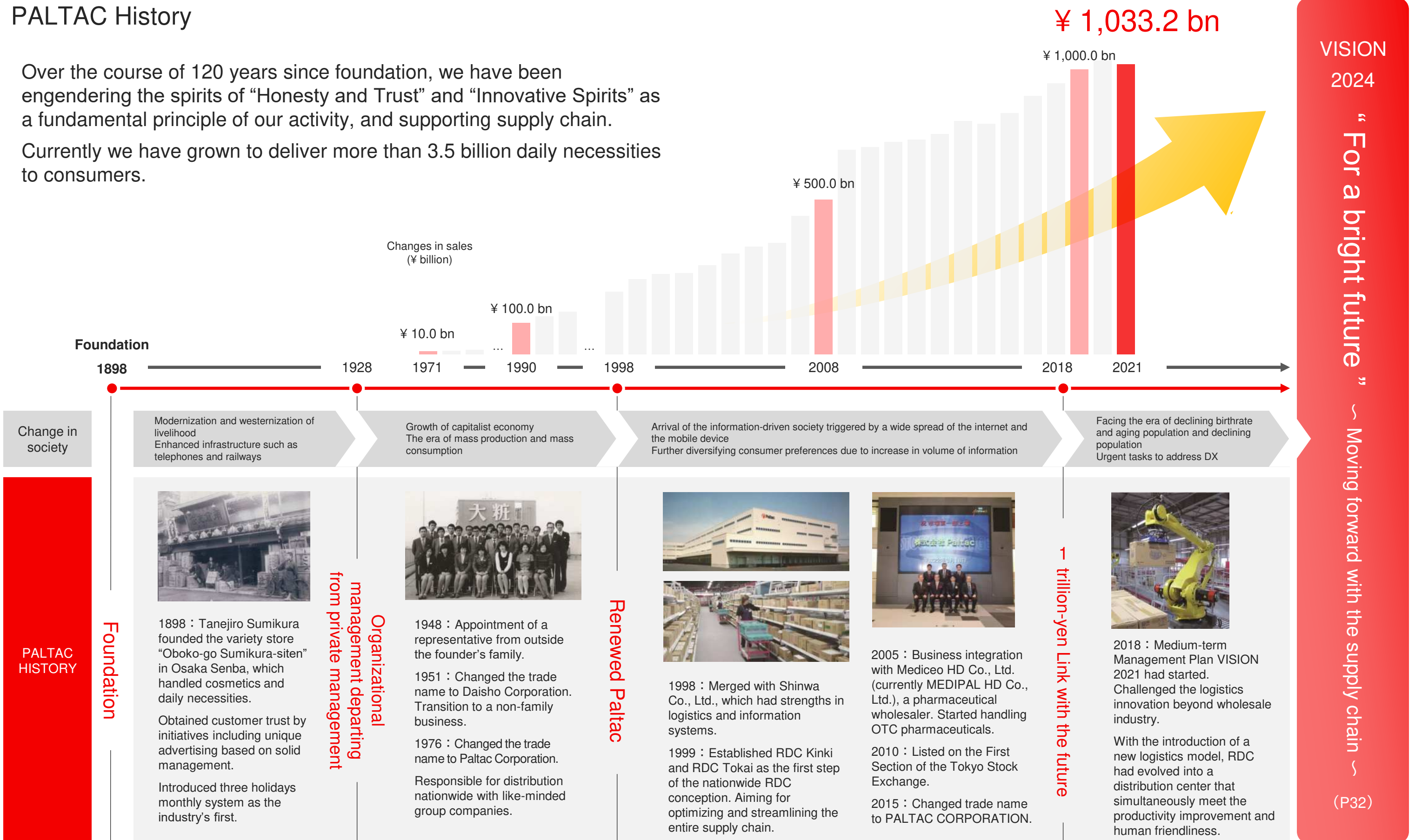
consumers will be able to benefit from them. In order to promote these initiatives through "collaboration and cooperation" with entire supply chain, we believe that thoroughly polishing up our intermediate distribution capabilities must be essential. And through updating our functions such as Store Support Headquarters, the SCM Headquarters and EC division established in the previous management plan by using digital technology and strengthening our overall capability "TEAM PALTAC" by internal "collaboration and cooperation" aiming for synergy effects, we would like to effort to promote our key strategies. Key strategies are "Strengthening retail solution capabilities" responding to various challenges which retailers are facing under unprecedented changes of business environments, "Strengthening logistics solution capabilities" to pursue "secure and safety" and "high-efficiency" aiming to achieve our mission that continuing to stably supply dairy necessities, "Enhancing IT system and Promoting digitization" which is essential key strategy to support the function of providing values, "Developing talent and organization" which execute our strategies aiming to achieve vision as source for growth. And through executing these strategies,

we will try to "enhance ESG activity, and achieve the SDGs" to create social environment and economic value. Detailed explanation about these strategies is described the following pages. We feel it becomes more important to consider the aspect of environment in executing these strategies. Particularly with regard to climate change, Japan Government has set a new goal to cut greenhouse gas emission in about half by 2030 and to net-zero by 2050. To achieve these goals, companies must accelerate effort to reduce carbon emissions through breakthrough ideas by "collaboration and cooperation" with entire supply chain. By improving and promoting awareness of the environment issues throughout our company, we would like to establish the system of internal "collaboration and cooperation". We continue to reinforce our function by "collaboration and cooperation" initiative and to provide excellent value to all stakeholders including not only our customers but also environment, and thereby achieving expand of market share and sustained profit growth through earning our customer's trust and move forward toward the bright future in which we can grow with all stakeholders.

PALTAC History

Over the course of 120 years since foundation, we have been engendering the spirits of “Honesty and Trust” and “Innovative Spirits” as a fundamental principle of our activity, and supporting supply chain.

Currently we have grown to deliver more than 3.5 billion daily necessities to consumers.



In 1898 Foundation

History of “Honesty and Trust” was born in Senba Osaka

Unique ideas and customers first policy

On December 1, 1898, in Senba Osaka, Tanejiro Sumikura (founder) opened “Oboko-Go Sumikura-Shiten” which serve variety goods (cosmetics such as face powder, ripsticks, etc. daily necessities such as soap, dental powder, etc.) . History of about 120 years has started from this. Tanejiro who was born in a family run the variety store was taught the management policy of Senba merchants “Sanyo, Saikaku and Shimatsu”. When our company founded, because funds were scarce, we could not prepare sufficient products and could unavoidably be forced to start our business under situation in which the road ahead was still very difficult. In order to overcome this challenging situation, Tanejiro took thoroughly solid measures. He did not purchase any products which sales had bleak prospects and focused on the transactions with small business customers in cash, while giving consideration for raising products turnover rate and working capital turnover rate. In the beginning, there were only three employees. To embark our business on the sustained growth trajectory, first we tried to improve awareness of this small store and to improve customer service. In specific, they tried to use illustration like a caricature as advertise

contents, and to actively offer himself for customers in remote geographies through devising newspaper ads and new year greeting cards in which Tanejiro’s picture was installed and to appeal his friendliness beyond the business relationships. Sumikura-Shiten became the first entity in Osaka to advertise on electric poles. With regard to improving customers service, they try to attach the good and bad aspect of items and precaution to each cosmetics that were handled particularly large volume and to provide the latest information on new merchandises. Thanks to unique advertisement and their dedicated customer service, their trust was becoming higher every day and sales expanded steadily. And also, Tanejiro respected employee’s health and introduced original system of “three-holiday monthly system” at that time when it was taken for granted that employees got a holiday once a month in the Senba area Osaka.

Rooted in the core business, Built customer’s trust

In 1905, in the post Japanese-Russo War (the War) reconstruction, Japanese economy was brisk

Founder
Tanejiro Sumikura



Advertisement at that time



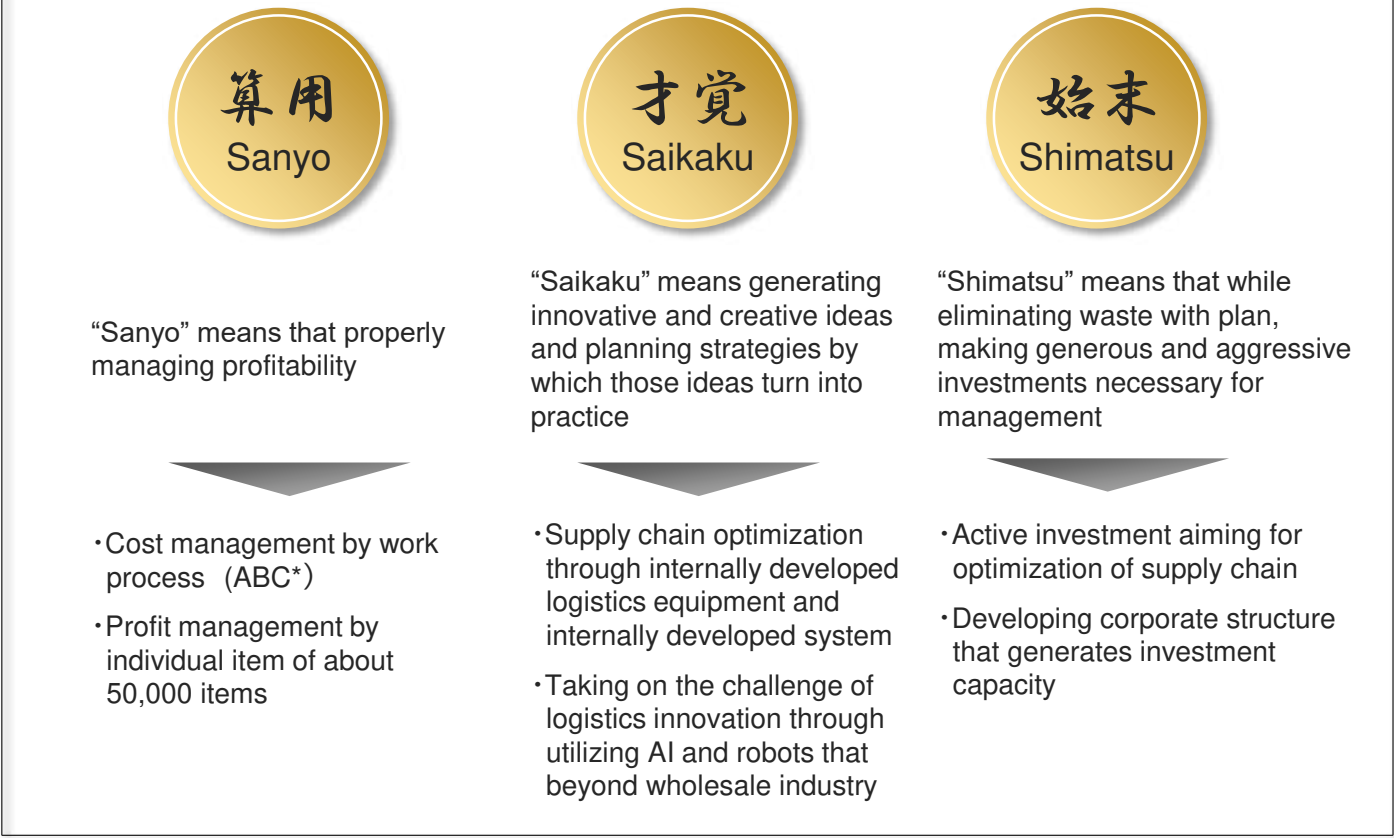
New year greeting cards printed with portrait



An information of holiday expansion published in newspaper



Inherited belief



and cosmetics industries had been entering a new era of solid progress. At the same time, we faced intense business competition. Many competitors, in order to succeed amid intensifying competition, pursued profit maximization with quality of merchandises taking a back seat. Under overconfidence to economic expansion following the War, aiming for a big payout, investment for new businesses accelerated, and but their core business aside, many managements came to depend too much on speculation. However, Sumikura-Shiten, without any speculation, maintained its policy which is to bring the fine products more cheaply rooted in core business. Oftentimes in a situation to be ridiculed, but Tanejiro had strongly held his belief “we must reinvest earnings from business in the future development of that business”, and that was one of policies since foundation. By these customer first policies “Sumikura business practices” we naturally won the customer’s trust. They grew until they called the “His merchandises are

undoubtedly best” and their sales steadily continued to increase. Also, because they did not sell and buy on credit their financing was stabilized and credibility from manufacturers had further enhanced. There had been a flood of offers from manufacturers and number of items which we handled had reached 3 thousand. At the competition of variety goods held In that time, products we handled was won the prize and their social reputation further rose. Tanejiro was nominated for official of Osaka Cosmetics Association. In those ways, our management system which was steady in every aspect brought sense of relief to customers and Sumikura-Shiten business had been in stead growth mode ever since. Our sound management strategy had evolved to the current PALTAC. And belief of merchant in Senba Osaka “Sanyo, Saikaku and Shimatsu” has passed forward over the year and has become source of PALTAC our strength to create values.

*ABC (Activity Based Costing) : A methodology for more precisely allocating overhead costs by assigning them to activities. Company can execute business activity based on accurate cost structure.

In 1928, started nationwide development through trust

Recovered from the World War II (the War),
Made effort to pursue logistics innovation

Enhanced employee's sense of participation for organizational management

In the early years of Showa period, the time of operate relied on only personal trust was over, and the time in which company's trust was considered important had come. Sumikura-Shiten was reorganized Sumikura-Shoten as joint-stock company in 1918 and Sumikura-Shoten Corporation as a stock company in 1928 aiming for departing from private management. At the time of the stock company's establishment, investment ratios are family 80% and employees 20%. From this time, employees invested in the company and participated in management, management by all of the company has been the source of PALTAC's basic management stance.

Employee's Struggle for recover from the War

After reorganization, Sumikura-Shoten Corporation pursued further business growth and expanded their results steadily. But consumption of cosmetics drastically decreased due to refrain from make-up, because Japan embarked the Pacific War and the people's living fell into extreme poverty. In 1945, Osaka turned into burnt field by the air raids on Osaka. Headquarter of Sumikura-Shoten Corporation was completely destroyed, and all stocks burned out. Small office in which interior wall was gutted, only survived and they quickly recovered. It's difficult to make forecast of recovery. As they shared a sense of crisis "If nothing is done, Sumikura will disappear", awareness that "we younger employees must rebuild glorious Sumikura through doing everything

Scenery of new year shipping at Minamikuhojijimachi



in our powers", had been heightened. After working time, they gathered at the cafe in Kitahama and repeated active discussion to overcome these conditions and started activities for recover. In the time of confusion after the War, every companies were hard to work to gather products under background of supply shortage. And to do so, illegal and black-market transactions were widespread, and many companies devoured greedily any profit that could be taken, and products were sold at price for five times than the normal. But Sumikura-Shoten pursued transaction at normal price. Without aiming to pursue immediate gains, Sumikura-Shoten set their prime importance on trust. By these thinking and approaches they built a true trust with customers. And under condition where product shortage occurred again due to the oil crisis of the 1970s, we ensure purchased the enough products through cooperation with manufacturers. It had been several years since the War, the excise tax which was raised due to government policy of procurement of expenses for the War had been gradually decreased. We were released from the controlled economy and free and open trade was backed. In the Kyuhoji area Senba, the former townscape was restored, and business was brisk.

Sumikura-Shoten's business recovery had settled down and along with this our sales network had been rebuild and improved and sales department worked to carry out sales activities. Sumikura's sales staff helped not only to bring the products but also unpacked the box and to dispose wooden box and waste when customers male staff was away from that store. Naturally, we earned appreciation from customers. In the "aware of employees" of that period, it was described that "business activity is not just to merely sale and buy the products but also to have a power to move someone's soul". The key to successful expanding sales channel was exactly "a power to move someone's soul".

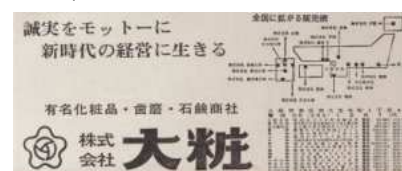
From family business to business enterprise, the birth of "Daisho"

In 1949, since retirement of sickly president of founder family, we had changed our trade name to "Daisho Corporation" which means to sale cosmetics in Osaka. Despite opposition from our customers because of disappointment of disappearance trade name "Sumikura" which had been in used for a long time, with their consensus of "make a new start from starting point" we clearly had stated the breaking away from private management to within and outside of the company and we had become non-family company both in name and reality. After that, as the Japanese economy had begun to recover, Daisho moved into Tokyo and Nagoya and had achieved significant growth.

Headquarters building at the time when we had changed our trade name to "Daisho Corporation"



Our corporate advertisements at that time



For intermediate distributor that challenged logistics innovation "Paltac" was born

In 1950's, as Japan met the rapid economic growth, it entered a period by mass production and mass consumption due to increase in personal income.

Supply chain industry had reached a turning point from where they were taking new steps. In the retail industry, "volume seller" and "supermarket" emerged and opened up a store on nationwide. Major supermarket further advanced through nationwide operation and developing of chain stores. It was big change of environment in which success depended on the ability to respond quickly and reliably to the market needs. At the same time, number of product items rose, and we intended to integrated same wholesaler who shared same passion, to the group. Daisho had a strong capabilities in cost management and provided solution for improvement of business operations such as paper-work, inventory management, delivery operation, etc. Thanks to those successful initiatives, we steadily increased number of group company across the country and started organization reform and streamlining of management and tried to change from traditional wholesaler to integrated wholesale company In 1976, we changed our trade name to "Paltac". "PALTAC" means "Pioneers Alliance of Living-necessaries, Toiletries And Cosmetics". As well as "PAL" means same-minded group and we had made a new start in expressing wish that through strengthening solidarity with each Daisho group company which operated the nationwide distribution.

Company logomark at that time



In 1998 Renewed Paltac

Optimizing and streamlining entire supply chain

launched RDC conception Restructuring of logistics and IT system

In 1991, in Japan the bubble economy collapsed. In the continued severe economic conditions, restructuring of the wholesales rapidly improved and movements towards expansion of enterprise scale accelerated. We had enhanced nation-wide distribution system such as promotion of grouping and tried to promote reforming of logistics and IT system aiming for low-cost management, but it was difficult for us to promote on our own resources. In that condition, we decided merger with Shinwa corporation with depth in both distribution system and IT system at that time. Renewed Paltac was born through integration of Paltac's comprehensive capabilities of nation-wide sales network and rich lineup and Shinwa's skills in the distribution system and IT system. Since that time, we had made significant efforts in initiatives to optimize and streamline the entire supply chain and launched nationwide RDC conception utilizing large-scale and high-efficiency distribution centers. In 1999, as the first phase, we established RDC Kinki and RDC Tokai.

Since then, We had steadily strengthened operational base through active investment. RDC was equipped various functions, including automation equipment, pursuing for productivity, and the most innovative on these functions was significant change of shipment system. In order to adapt to floor layout of retail store, shipment system was changed from existing maker-based sorting to goods-category-based sorting and that change brought improvement for both efficiency of our shipment operations and efficiency of retailer's displaying operation at their stores. In 2005, in addition to cosmetics and daily necessities, we could start to deliver OTC pharmaceuticals as a result of business integration with Mediceo Holdings Corporation (currently MEDIPAL HOLDINGS CORPORATION). Providing a full lineup of health and beauty products contributed to improvement of convenience for retailers and more to further our growth.

RDC system contributing to efficient operations of retail store

< Delivery accuracy 99.999% >



We have realized delivery at extremely high accuracy by using our own functions, which does not cause errors in shipments, such as internally developed picking machines equipped with weight inspection module

Reducing inspection operation

< Shipping in a packing style that is easy to display >



Body Soap / Bath products

OTC pharmaceuticals

Packaging and delivering product by each category



Bath products

Body Soap

Shampoo / Conditioner

Shampoo / Conditioner

Stacking Folding Containers automatically based on product display locations

Reducing the burden of unloading and display work through shipping the Carry bundled with folding containers

Ensuring a smooth transition to display work
Minimizing distances to walk for operations ⇒ Reducing time of displaying operation

Internally developed system that realizes an efficient distribution system

In conjunction with development of RDC conception, we tried to replace our enterprise resource planning (ERP) system aiming to ensure smooth business operation including operation of distribution center. Usually, as for RDC, aspect of hardware attracted interest, but in practice, aspect of software such as IT system is important in order for the efficient operation of RDC. We had believed that it was essential to construct IT system by ourselves, and developed our own system without dependency on outsourcers and could boost productivity of RDC. And result of construction of our own system was useful for speed and low-cost development of following updating.

Second initiative was construction of cost analysis system “ABC” in 2002. We had become the first in wholesale industry to implement and realized visualization of operating profit of each customer, that was previously impossible. In this system, we have clearly understood issues of each customers and could offer effective proposals of improvement. Moreover, “ABC” also is effective for us to discover our own issues and improve by analyzing each operation. Thanks to this solution process's cycle, we have enhanced cost-control accuracy. Recently, through improving “ABC” system itself and combination with operation support tools, that accuracy has been further enhanced.

Internally developed system that realizes an efficient distribution system



Contributing to efficient operation of large-scale distribution center

- Developing seamless distribution process from receiving to shipping
- Realizing appropriate allocation of human resources based on the accurate prediction of operations
- Streamlining operation at the distribution center through internally developed logistics equipment (Number of patents obtained:19 (As of the end of March 2021))



Visualizing costs to increase the accuracy of improvement activities

Calculating the cost of each process from receiving operation to shipping operation at the distribution center. Repeating the cycle of discovering and improving bottlenecks



Developing tools to support sales and purchasing departments

Improving the efficiency and quality of various operations through utilizing digital technology

20

PALTAC CORPORATION INTEGRATED REPORT 2021

PALTAC CORPORATION INTEGRATED REPORT 2021

21

For a bright future

At present, companies just have to act on diversifying and complex social environment, such as labor shortage caused by the decline in the working populations, response to a new normal brought by the COVID-19 pandemic, frequent natural disasters arising from climate change. Over the period, we have consistently pursued to optimize and streamline the entire supply chain, and from 2016 developed new logistics model with a combination of existing distributive know-how and cutting-edge technologies including artificial intelligence (AI) and robotics, and that enable us for doubling of the productivity of personnel and is friendly to employees.

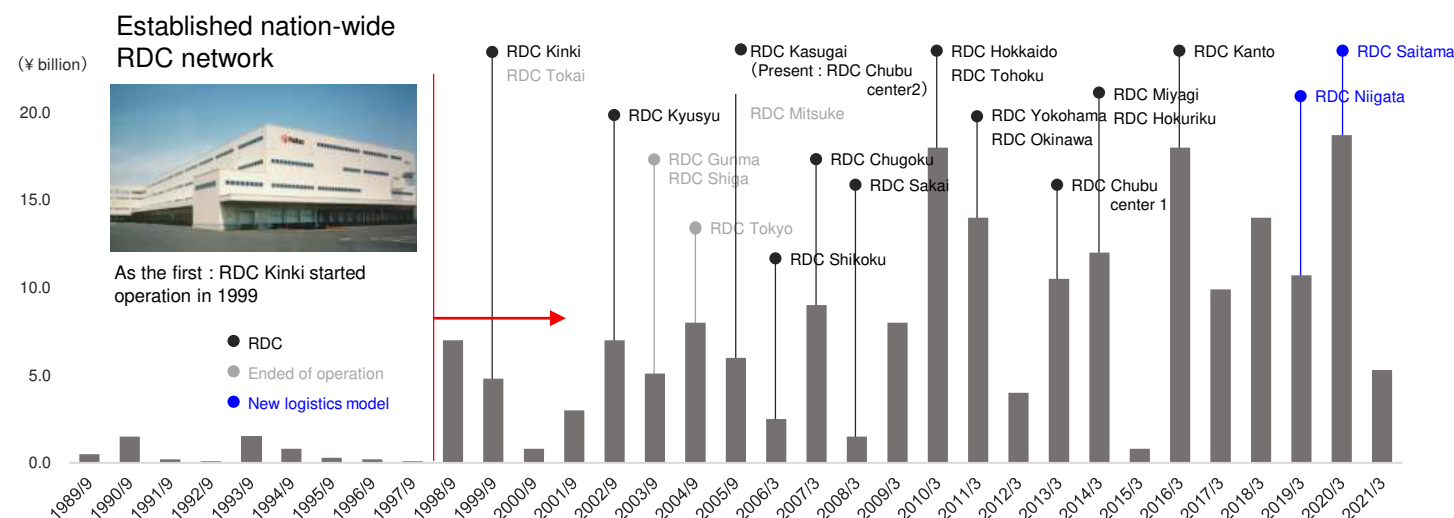
And also, from April 2021, we have formulated a three-year medium-term management plan 2024 “For a Bright Future : Moving Forward with the supply chain”. Under this medium-term management plan, we will continue with initiatives for addressing diversifying and complex social environment and are taking on the challenge of contribution to solve the various customer’s issues. Since our founding, while have been committed to customer first policy, we have taken up business very seriously for over 120 years, particularly within two decades, have continued to make effort to optimize and streamline the entire supply chain though without changing our business model,

we have ensured successful business growth through being quick to understand changing needs. Going forward, as an intermediate distributor handling daily necessities, we will continue to strive to create people’s rich and comfortable daily lives in cooperation with all partners of supply chain.



Continuing to supply products even in the spread of COVID-19 while thoroughly taking measures against infection

Changes in capital investment and establishment of RDCs



History of the Returnable Box

The Returnable Box which used for packing products, has adjusted that appearance to adopt to changes in social environments and to ensure both distribution efficiency and environment-friendly.

“The Box made of woods”



At the time of our foundation, we were delivering products in wooden boxes. Because the weight of the box was about 75 kg, we were unable to carry it on shoulder. So, when we moved these boxes, we were carrying them by fixing one corner as the supporting point and rolling them. Its measure was called “COROGAS”.



“The Box made of cardboard”



Since around 1950, we have replaced from “Wooden box” to “the Box made of cardboard” in the background of the conservation of wood resources. The new Box is lighter than conventional wooden box and made packaging and shipping operations much efficient. On the other hand, there remained challenges in terms of both cost and environment, the cost of purchasing materials including tapes used for packaging, the workload for finishing empty box after delivery, and that the Box become industrial waste after they had been opened.



“Folding Containers”

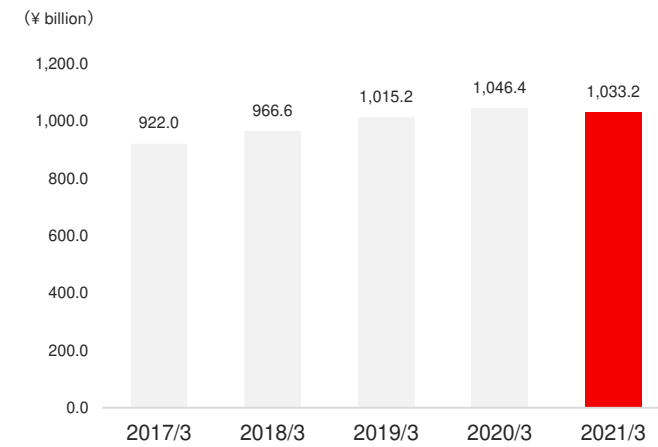


In around 1980, when major retailers promoted development of chain stores, needs for efficient distribution and environmental conservation greatly increased. At the same time, the Box has been replaced from “made of cardboard” to “folding containers”, which dose not request for packaging materials and can be used repeatedly, moreover helps to improve the efficiency of operations at distribution center. Following the major retailers, which is promoting development of chain stores, wholesalers have begun to use folding containers. Currently, most of the products shipped piece by piece are delivered in folding containers. Since then, the folding container has been continuously improved. Currently, it has evolved into one that is light and thin by using less plastic, remains high permeability that you can see what is inside, and can be recycled through being manufactured without impurities.

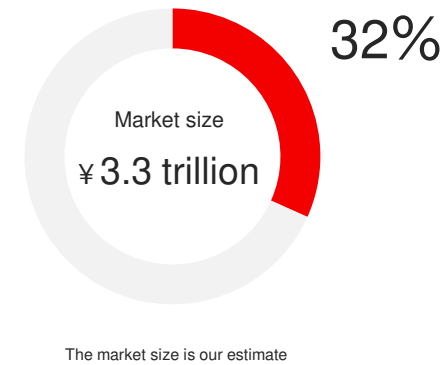


Financial and Non-financial highlights

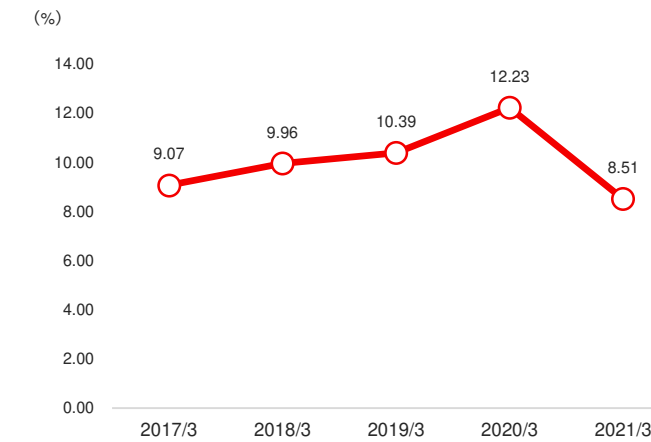
Net sales



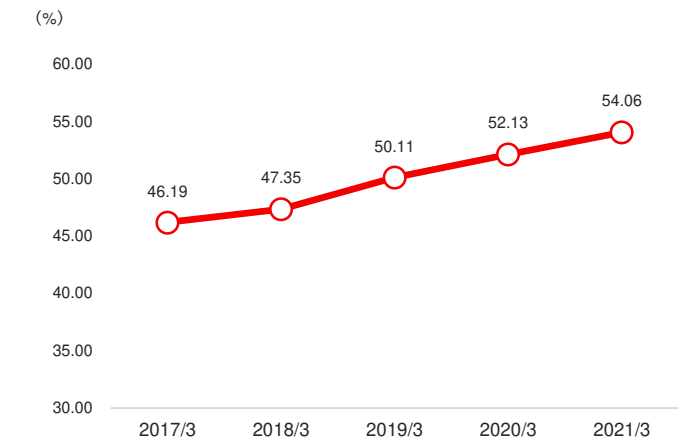
Market share



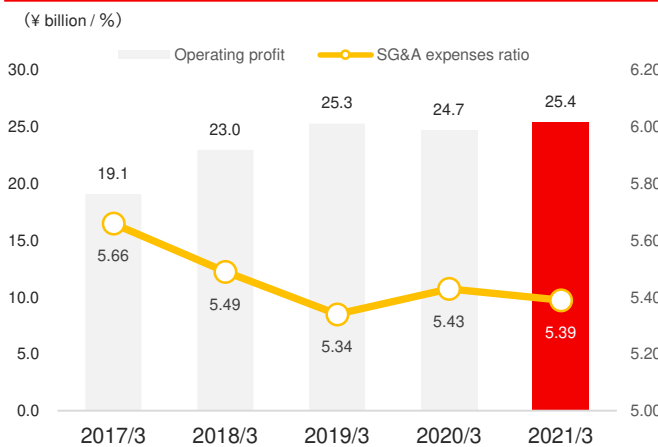
ROE



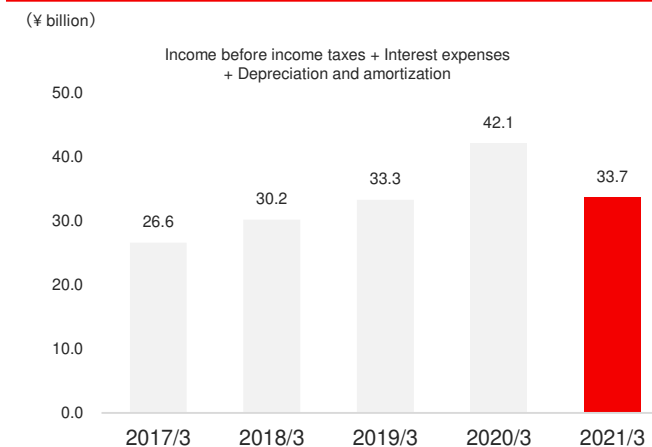
Equity ratio



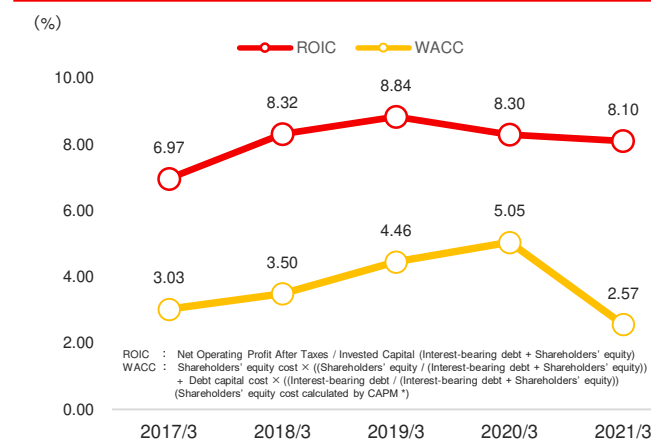
SG&A expenses ratio / Operating profit



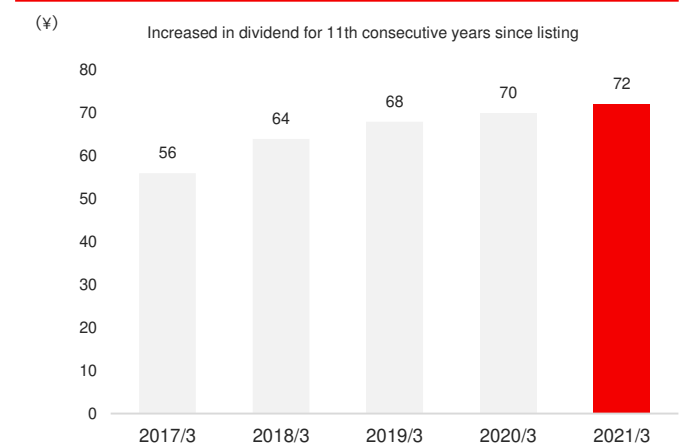
EBITDA



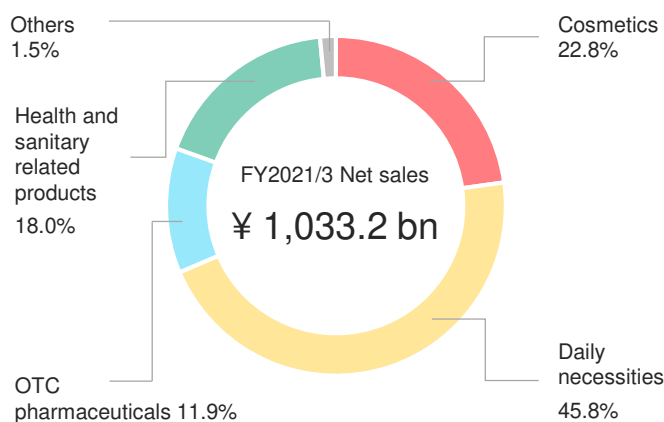
ROIC / WACC



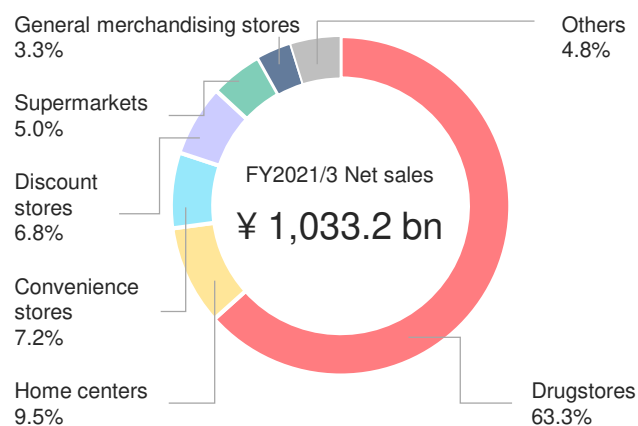
Cash dividend per share



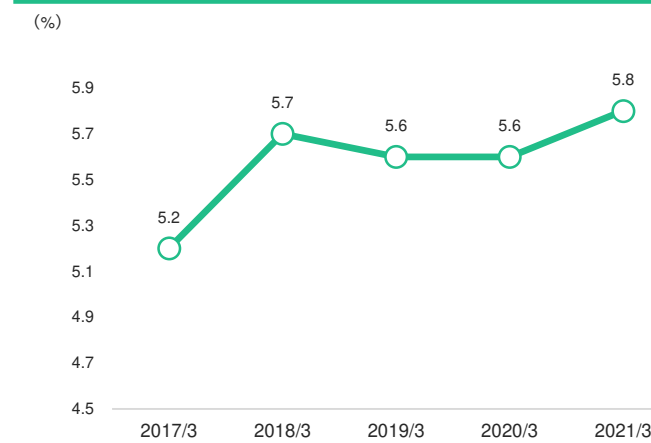
Sales composition by product category



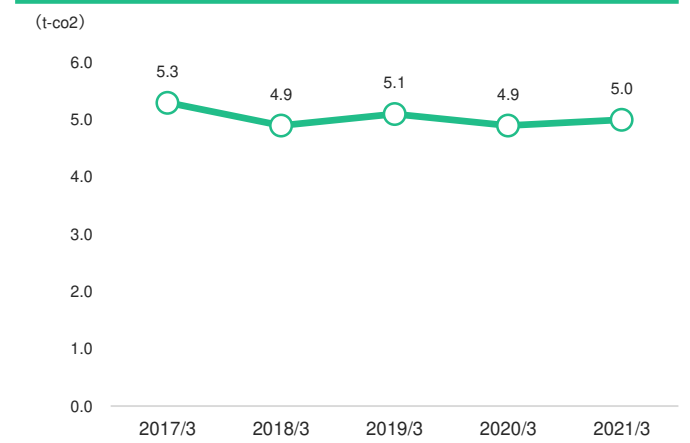
Sales composition by customer category



Percentage of female managers



CO2 emissions per 100 million yen in net sales



* The figures used to calculate WACC are as follows.
 • Risk premium : 3.76% (Average profit yield of all stocks on the First Section of the Tokyo Stock Exchange - Risk-free rate)
 • Risk-free rate : 0.13% (JGB 10-year bond yield)
 • β value : 0.65 (Regression coefficients of Nikkei Stock Average and Our stock price (as of the end of the month))

PALTAC's Value Creation

- 28 Materiality (material issues)
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- 40 Strengthening logistics solution capabilities
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- 52 Developing talent and organization
- 56 Harmonizing the environment
- 60 Financial capital



PALTAC's Materiality toward Sustainable Growth (material issues)

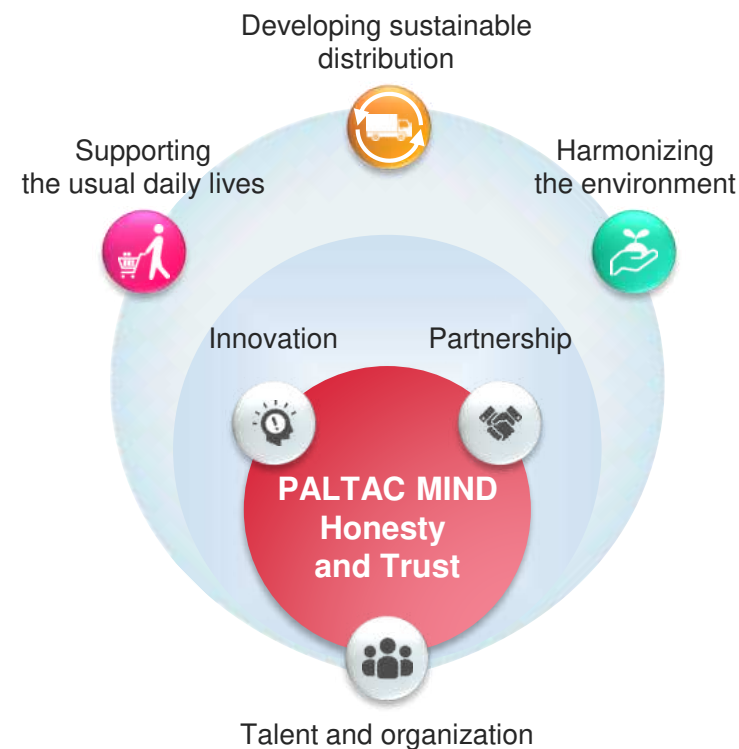
Approach to Materiality

We have identified the material issues that we should address with priority to various changes in the environment and grow sustainably with society. We categorize the material issues from the two perspectives of "Sources of Growth (issues that can refine our strengths and become opportunities for further growth by working to solve them)" and "Contribution to Solving Social Issues (issues that can be solved by leveraging our strengths)". We are positioned them as important elements in our strategy formulation and decision-making, and we will work to resolve them through our business activities. In addition, we will accurately grasp changes in the environment and review the material issues as necessary.

Identification of Materiality

We reviewed and identified the material issues when formulating the new medium-term management plan (VISION 2024) in the midst of diversified and complicated social environment, including the expansion of COVID-19 pandemic. When identifying the material issues, in addition to in-house environmental analyses, we examined and analyzed from various perspectives using the "Specific Measures to Achieve the Sustainable Development Goals (SDGs)" (published on the website of the Prime Minister's Office), as our business is mainly targeted at the domestic market.

We then identified issues highly relevant to our business and selected the material issues that should be resolved. Under the new medium-term management plan, we will resolve the material issues by steadily implementing our key strategies. In addition to realizing sustainable growth, we will contribute to the achievement of SDGs.



Environmental analysis

Particularly important environmental changes	Impact on us
Declining birthrate and aging population	Opportunity <ul style="list-style-type: none"> Increasing needs for an efficient distribution network Increasing needs for a nationwide distribution network capable of responding to retailer's M&A strategy Increased sales opportunities for seniors Expansion of the healthcare market Diversification and complexity of consumer needs Increasing importance of data utilization (sales proposal / logistics improvement) Increasing needs for a secure and safety distribution network Expansion of environmentally friendly consumption due to penetration of SDGs (ethical consumption) Increasing challenges that customer faced due to expansion of the EC business market Flexible working style utilizing digital technology
Decrease in the working populations	
Increasingly serious delivery issues	
COVID-19 Pandemic / New normal	
Climate change	Challenges <ul style="list-style-type: none"> Intensifying price competition due to domestic market shrinkage Expansion of buying power through retailer's M&A activities Increase in burden of operations which support the supply chain (manufacturing, shipping, store operations, etc.) Increase in logistics costs (personnel costs / delivery cost unit price) Uncertainty about the supply of products due to shortage of drivers Shrinking consumption due to refraining from going out and decreasing income Disruption of distribution network due to increase in natural disasters Decrease in profits due to carbon pricing, etc. Decline in competitiveness due to delay in digitalization
Digitalization	

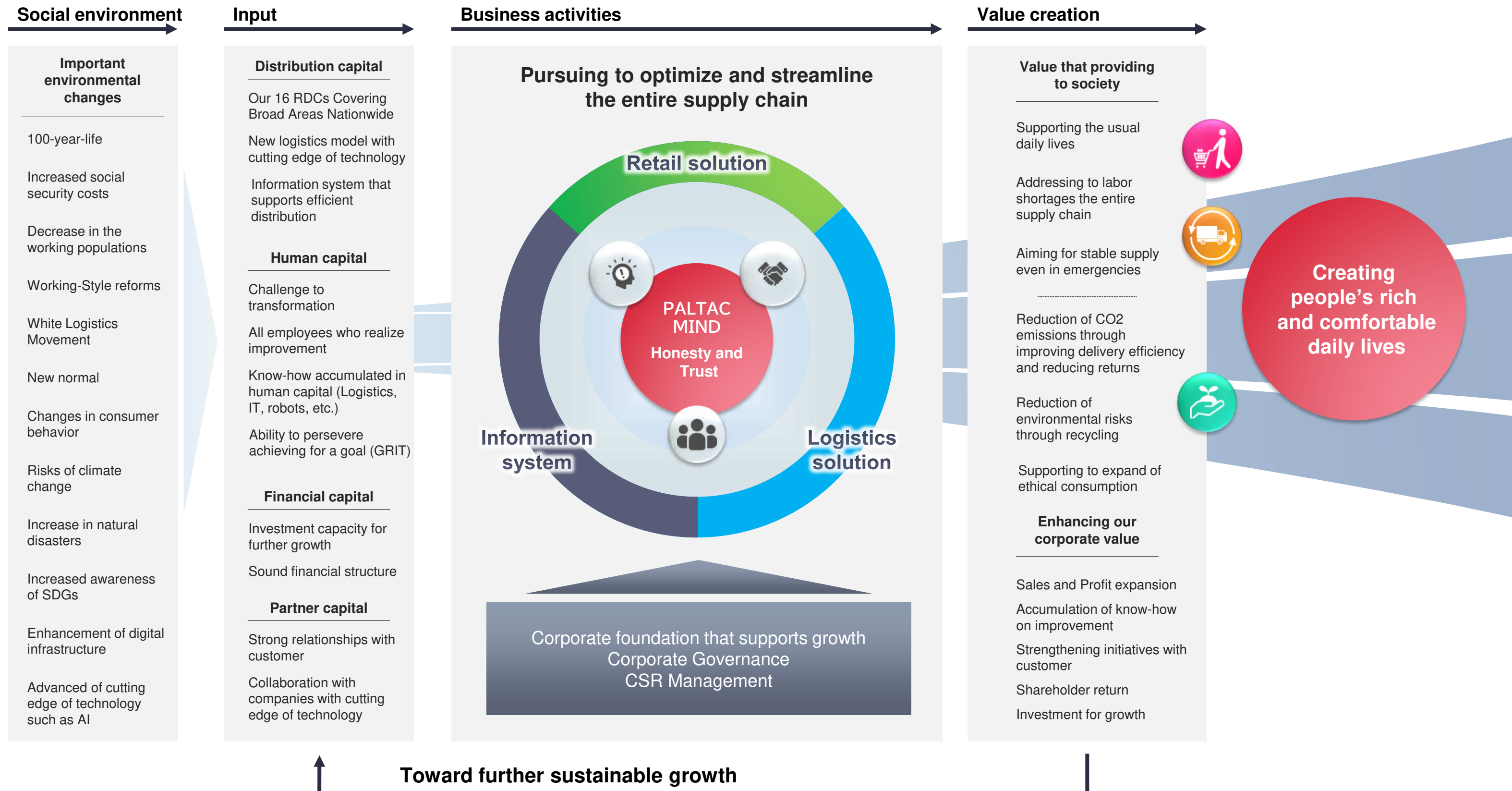
Materiality

	Issues that can be solved by leveraging our strengths	Issues that can refine our strengths and become opportunities for further growth by working to solve them
Materiality	Supporting the usual daily lives Developing sustainable distribution Harmonizing the environment	Innovation Partnership Talent and organization
Relevance to SDGs	<div> Good health and well-being Elimination of overwork in the distribution process through initiatives to optimize and streamline the entire supply chain </div> <div> Sustainable cities and communities Maintaining and continuing a social mechanisms in which daily necessities are available "at any time" and "affordably" </div> <div> Responsible consumption, production Prevention of waste generation by reducing returns Supporting for expanding ethical consumption </div> <div> Climate action Initiatives to reduce CO2 emissions and to recycle simultaneously with improving operations </div>	<div> Gender equality Promoting business reforms with an awareness of diversity, including women's success </div> <div> Decent work and economic growth Growth of each individual is the source of growth for the intermediate distribution industry which does not have proprietary own products </div> <div> Industry, innovation, infrastructure Taking on the challenge of dramatically improving productivity by actively introducing cutting-edge technologies such as AI and robots </div>

PALTAC's Value Creation Process

PALTAC VISION 2024

“For a bright future” ~ Moving forward with the supply chain ~



Medium-term Management Plan VISION 2024

Currently, the environment surrounding the industry as a whole is rapidly and complicatedly changing, as evidenced by the decrease in working populations, as well as the spread of COVID-19 infection and the increasing number of natural disasters associated with climate change. Under these environment, we believe that the importance of our mission to stably provide daily necessities which are indispensable to people's lives becomes even more important. Under the new medium-term management plan (VISION 2024), we will work to reinforce intermediate distribution functions that can address to the wide-ranging issues of our customers, and accelerate collaboration and cooperation with retailers, manufacturers, and other stakeholders. By doing so, we will respond flexibly to the needs of society and achieve sustainable growth.

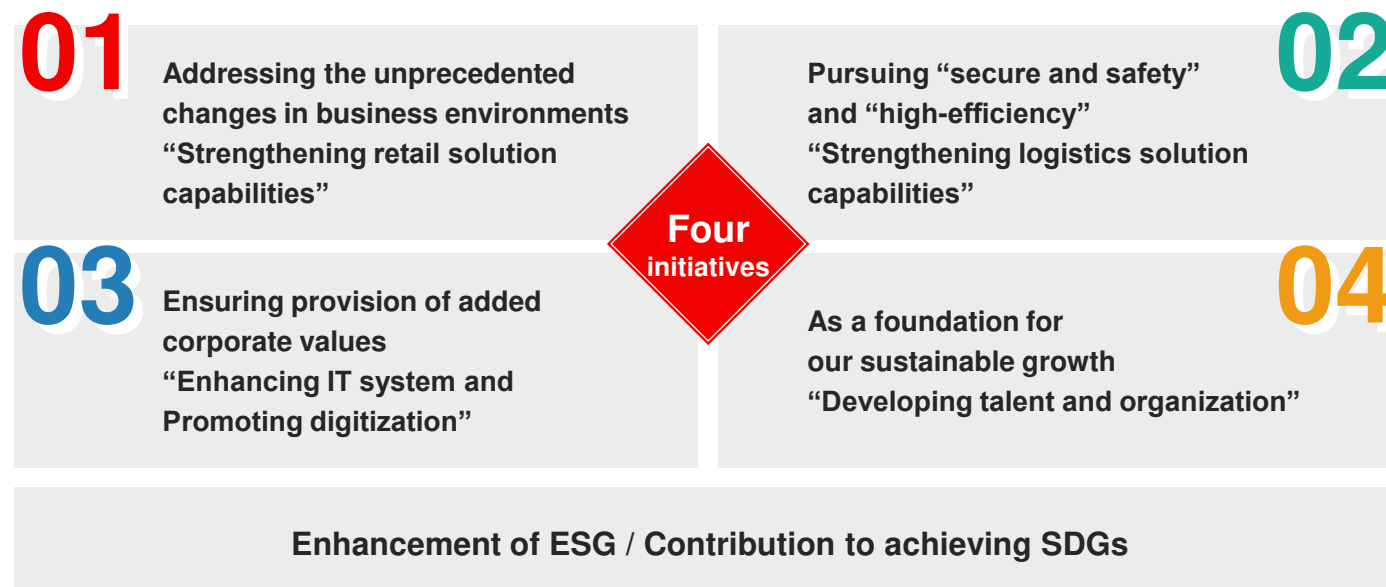
PALTAC VISION 2024

“For a bright future”

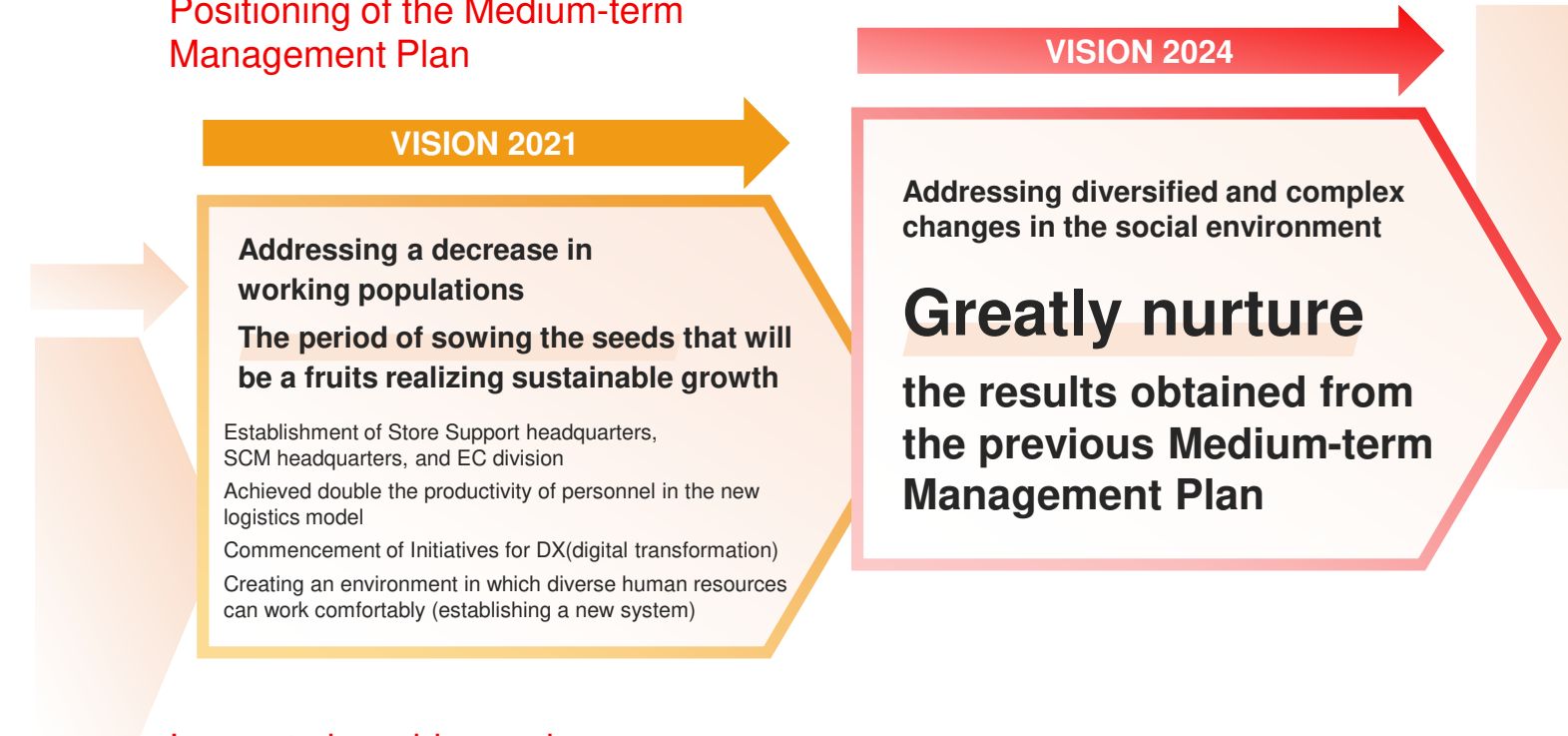
~ Moving forward with the supply chain ~

With our position as an intermediate distribution platform actively showing our values by **collaboration and cooperation**, and **reinforcement of systems**

Aiming for sustainable growth with whole stakeholders through optimizing and streamlining the entire supply chain



Positioning of the Medium-term Management Plan

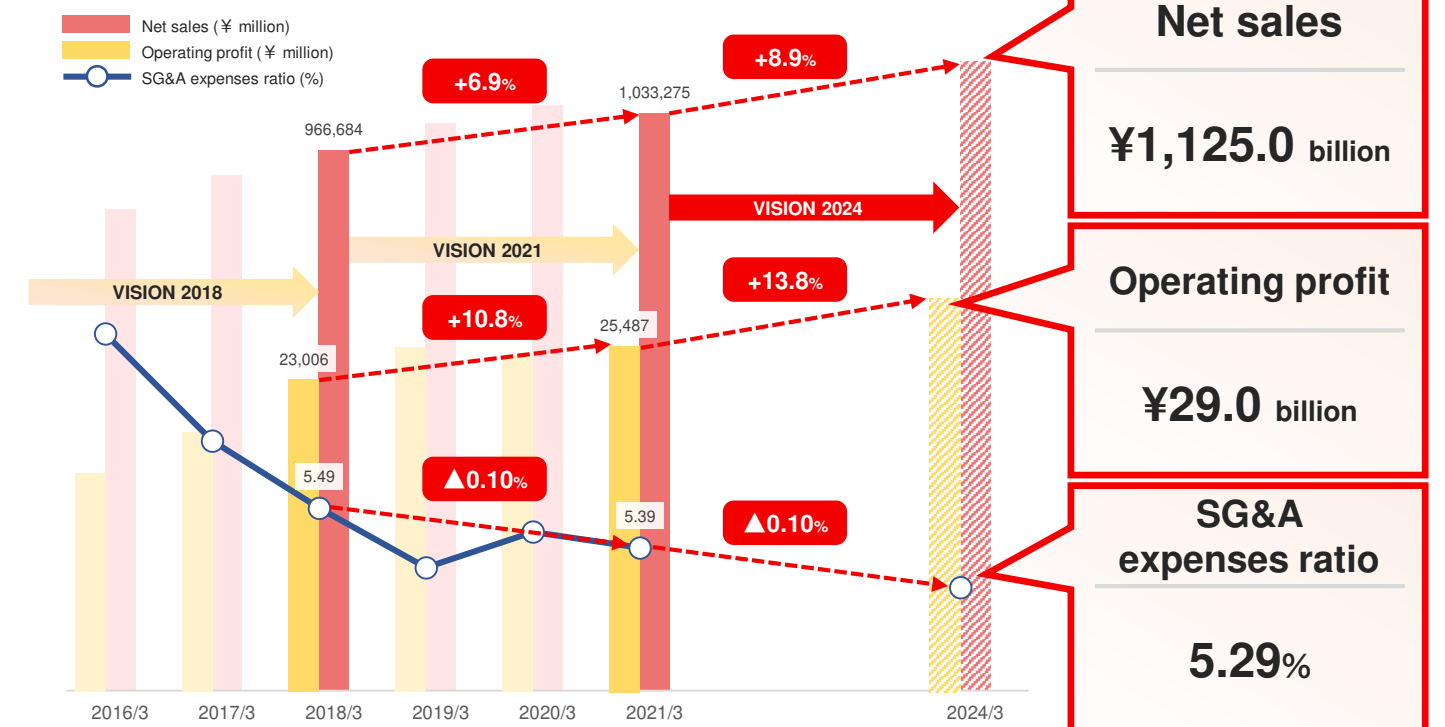


Issues to be addressed

A decrease in the working populations / COVID-19 Pandemic, New normal
Extracted delivery issues / ESG, SDGs

Numerical targets

< Assumptions used for this Financial Forecasts >
 • Assumption that COVID-19 related demand situation will not be changed (As of April 2021)
 • A recovery of inbound demand cannot be expected



01

Addressing the unprecedented changes in business environments “Strengthening retail solution capabilities”

Drastic changes called “New normal” has significantly impacted on the distribution industries. We will focus on the retail store where the products are directly served to consumers and will strengthen retail solution capabilities such as merchandising and improving productivity to address various challenges of entire supply chain by enhancing internal relationship between the Sales Headquarter and each divisions including the Store Support Headquarters, the SCM Headquarters and the EC division that were established under previous medium-term management plan.

Environmental changes to be addressed

Increased in burden of store operations by the decrease in working populations, Diversification of consumer behavior and sales channels

Value Creation

Supporting the solution of issues faced by retailers, Enriching the daily lives of consumers

Key Initiatives

Strengthening development of new functions (Store Support, SCM, EC) and evolving MD function

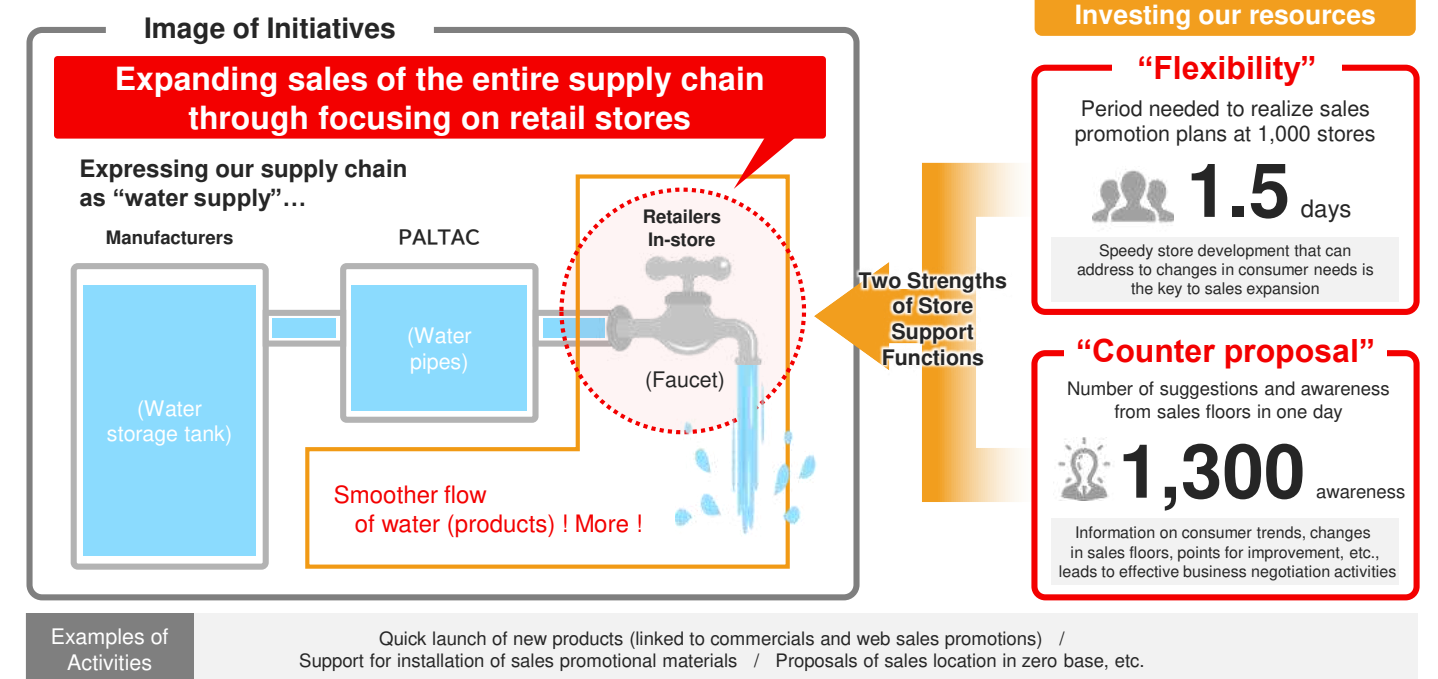
Addressing to various Issues through Collaboration and Cooperation between Each Function



Strengthening the development of Store Support function

The retail stores at where the products are sold is just our starting point Strengthening “Schemes of Sales Expansion” and aiming for industrywide sales increase

Labor shortage has a significant impact on the retail industry. At retail store, retailers are facing issues, such as decline in ratios of realization of sales promotion and adapting to rapid change in consumer behavior. To provide products which made by manufacturer to more consumers, we focus on retail store where products are sold and allocate human resources. We have a department specialized in store support, consisting of about 250 staffs. With the market trend changing at dizzying speed, through utilizing function of both “Flexibility” which enables speedy store-front promotion and “Counter-proposal” which is contribution to successful business discussion leveraging in-store information, we are trying to make attractive stores for consumers in corporation with retailers. We establish system that catches the latest trend and aim for industrywide sales increase.



Strengthening “create selling systems” through Digital technology

In addition to the two strengths, we are aiming to build an information platform (the PIT system) that allows retailers, manufacturers, and our company to share the progress of store operation and sales information in order to realize effective store activities through collaboration and cooperation. And the PIT system is equipped with a function that allows our store support staff to grasp activity status, report, and make counter-proposals using only smartphone, which leads to the creation of an efficient and comfortable working environment.



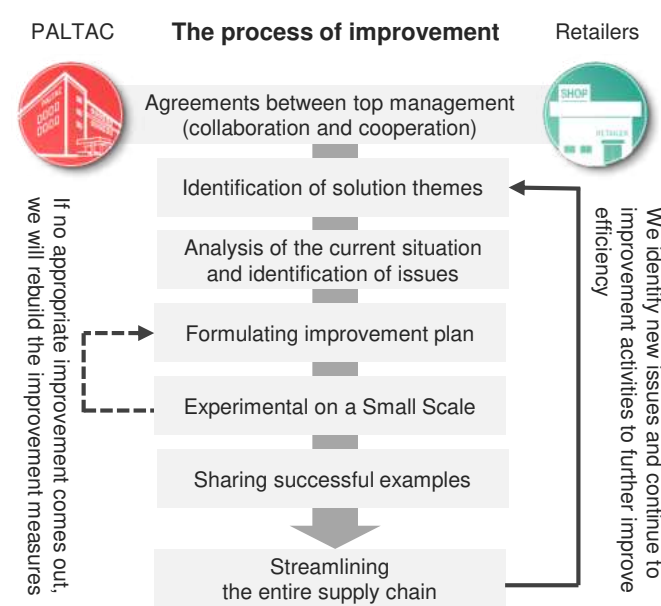
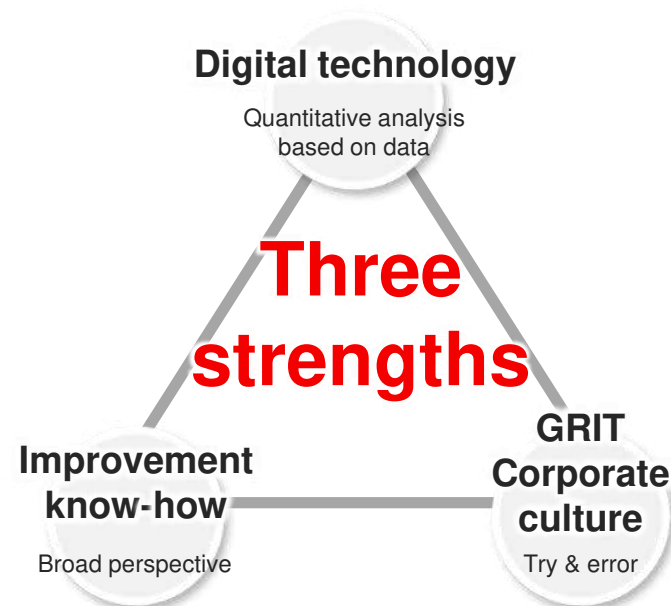
Eliminating unproductive factors “unreasonable, wasteful act and unevenness” in distribution, generating “profits” from “unproductive factors”

It is understood that productivity of Japanese various sectors is lower than that of other nations. Similarly, we think that in the distribution industry there are productivity challenges of “unreasonable, wasteful act and unevenness” factors and we see opportunities to improve productivity. Our SCM function use data analysis by digital technology and merchandising know-how, which are our strength, and find unproductive factors based on the retail store, and work to aim for improving productivity and to generating profits from unproductive factors through resolving these factors. Not confining each company in the industry to simply cutting cost and increase profits, but also providing products at reasonable price, developing attractive sales floor and improving customers service that gain higher consumer satisfaction, moreover these practices lead to ESG and SDGs activities including reducing CO2 emissions through efficient delivery, etc.

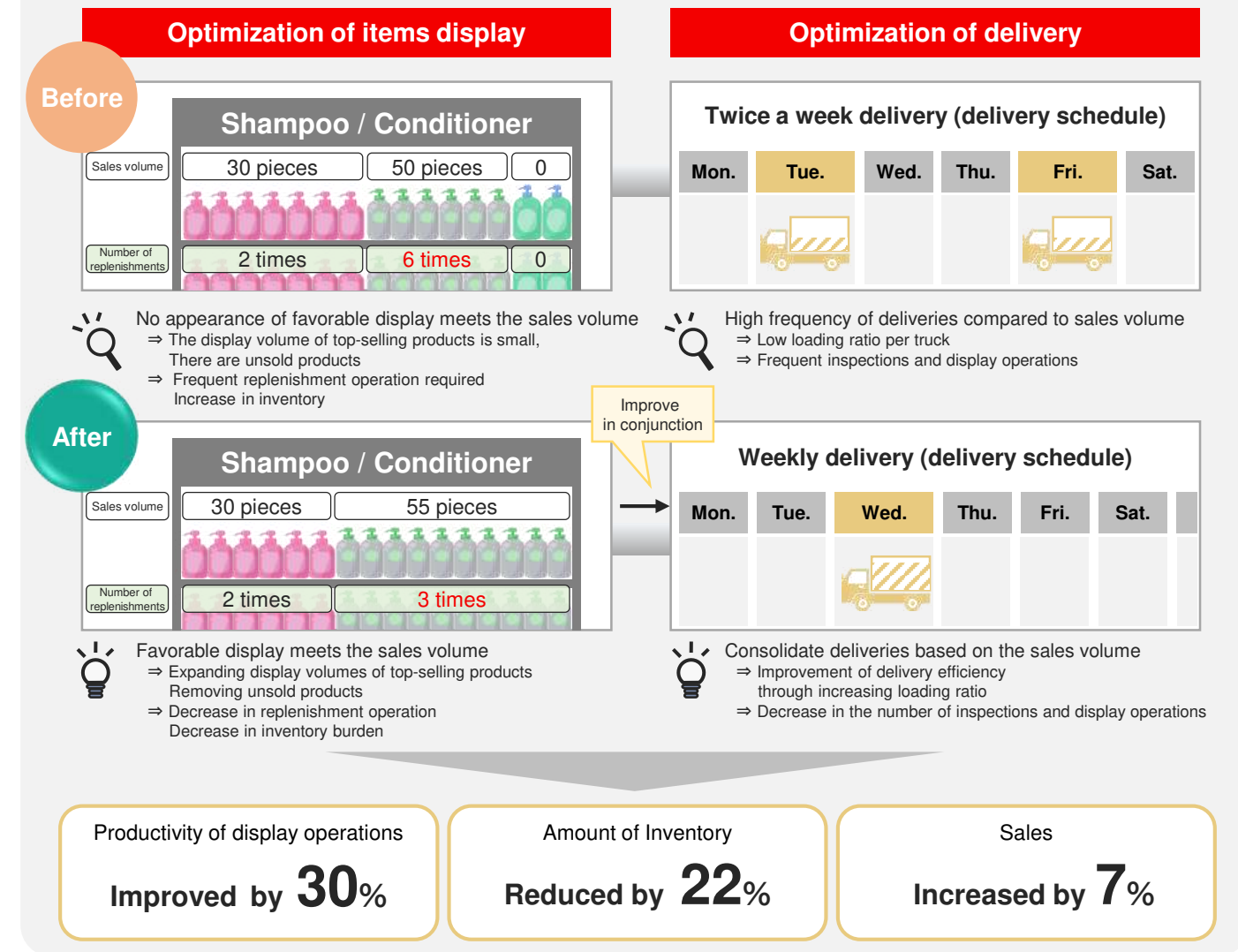
Capitalizing our strength, trying to maximize the effect

To resolve “unreasonable, wasteful act and unevenness” factors we start to visualize the issues. First, we try to visualize the issues by analysis from all aspects such as sales data, inventory data and video data of store work, etc., and to eliminate wasteful process and operation through repeated hypotheses and tests. In just a few number of verification, we may not produce results that we need to, but by taking our strength, which has been cultivated for many years, such as “Improvement know-how” and our employee’s

“GRIT”, etc., we work continuously to improve productivity and to maximize the effects. Recently, we work with retailers that our sales account 45 percent of the total, and we can see successful examples. In the exercise of those initiatives, top managements has also joined and discussed, we positively and continuously undertake initiatives which are extensive and more in-depth, contributing to retailer’s profit and further strengthening of business relationship with retailers by leveraging trust from them.



Successful examples of improvement efforts at real stores



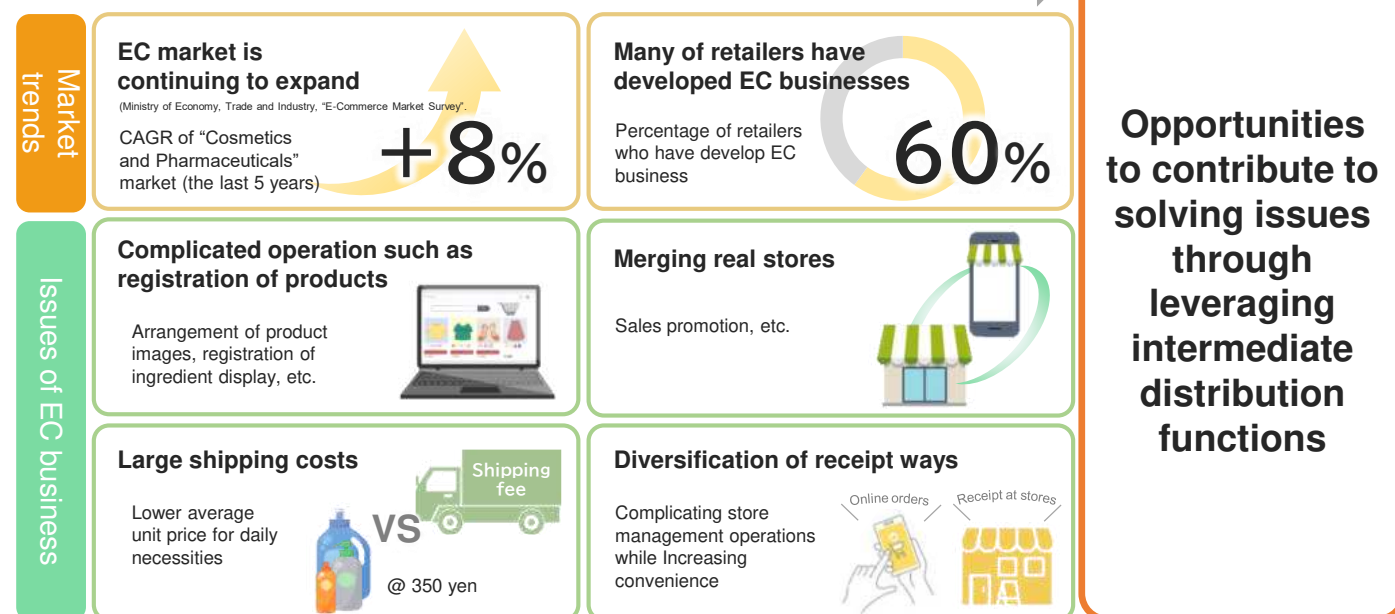
Promoting optimization and streamline of the entire supply chain, starting from “cost efficiency” of retailers Aiming for effect of Sampo-Yoshi



Striving to provide services specific to EC business

The expansion of the EC market has been further accelerated during the spread of COVID-19, and our major customers are also actively developing their EC business. However, there are various issues that differ from real stores, and become the concerns of retailers. We have judged that we want to help retailers to resolve those issues unique to EC business through our capabilities as an intermediate distributor. And we are trying to develop services specialized for EC business through setting up a specialized department.

■ Environmental analysis in the EC business



Providing four services unique to intermediate distribution

In order to solve the issues in EC business of our customers, we will try to provide "Information provision" and "Product / Sales promotion planning" about consumer's behavior in the EC market and "Operation support" for EC websites. We have also established an organizational structure that facilitates the collaboration with retailers to resolve issues. Until now, one sales representative was in responsible for both real store and the EC, but now we have established the specialized division (EC division) in January 2021 and are making efforts to resolve more critical issues. In order to respond to the

integration real store and EC (omni-channel, etc.), we will also work to cooperate with division that is in charge of real stores and to contribute to customers which addressing to consumer needs.

Information provision	Such as good-selling products and successful examples of sales methods
Product planning	Proposals for bundled products and outlet products (discontinued products), Supporting to develop EC specialty products
Sales promotion planning	Creating an opportunity for planned purchasing (Such as listing advertisement)
Operation support	Support activities for overall EC websites operations

Realizing timely proposal of products in response to drastic changes in market needs

In an environment in which consumer needs drastically changes, conventional MD is no longer applicable. Effective MD proposals require timely and much more information gathering and selection. Through internal and external collaboration and digital technology, we will try to strengthen timely merchandising by procuring new products meet the consumer's needs utilizing in-store information which are points of contact with consumers and market-wide marketing information, as well as the enormous amount of data we possess as the industry's top.



TOPIC

Held "PALTAC Fair 2021" online exhibition

Every February the exhibition is held to which retailers are invited from nationwide and there we introduce our own merchandising proposals and intermediate distribution functions. This exhibition where many manufacturers exhibit and introduce specific products, is a valuable opportunity to promoting initiatives with customers. In 2021, during COVID-19 pandemic, because it was difficult to hold with face to face, we held virtual exhibition online. By leveraging digital technology, we could offer unique value propositions with less infection risk and without cost for moving. Because of our first-ever event with this way, there were problems, nevertheless by utilizing the characteristic of online we could repeatedly explain valuable information for retailers and receive high evaluation that their understanding of products and initiatives deepened.

And also, in addition to introduction of our merchandising proposals and our functions, we introduced our thought and efforts for SDGs. To contribute to achieve SDGs, collaboration and cooperation throughout the entire supply chain is essential and as an intermediate distributor by sharing our thought we intend to promote concrete actions. Going forward, by consideration of benefits of each online and offline, we will strengthen cooperation with customers.

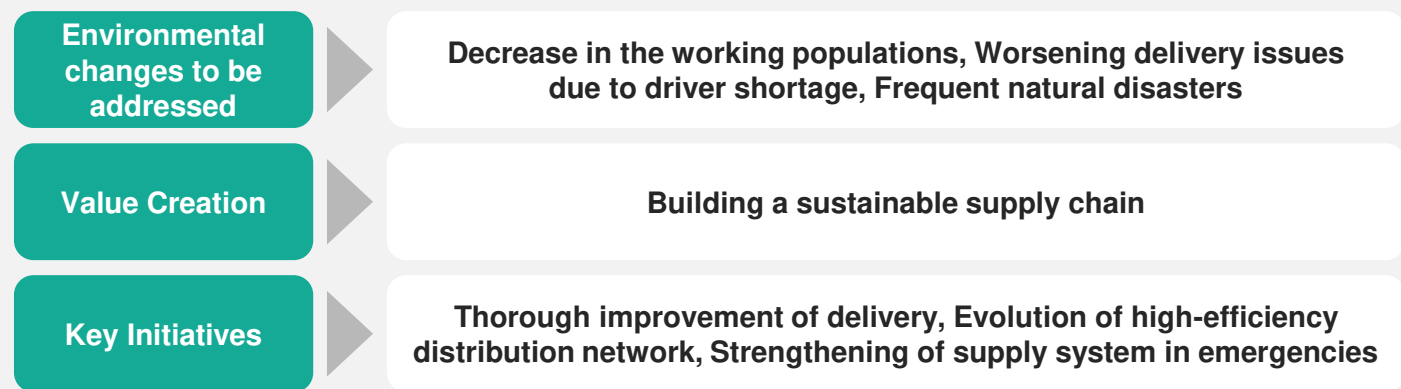




02

Pursuing “secure and safety” and “high-efficiency” “Strengthening logistics solution capabilities”

We will continue to strengthen highly efficient logistics system based on “secure and safety” that supports the usual daily lives. In order to do that, we will carry out continuous improvement activities at existing distribution centers, expand shipping capacity by new distribution centers equipped with a “new logistics model”, and solve “delivery issues” such as White Logistics Movement.



Enhancing resilience of logistics infrastructure

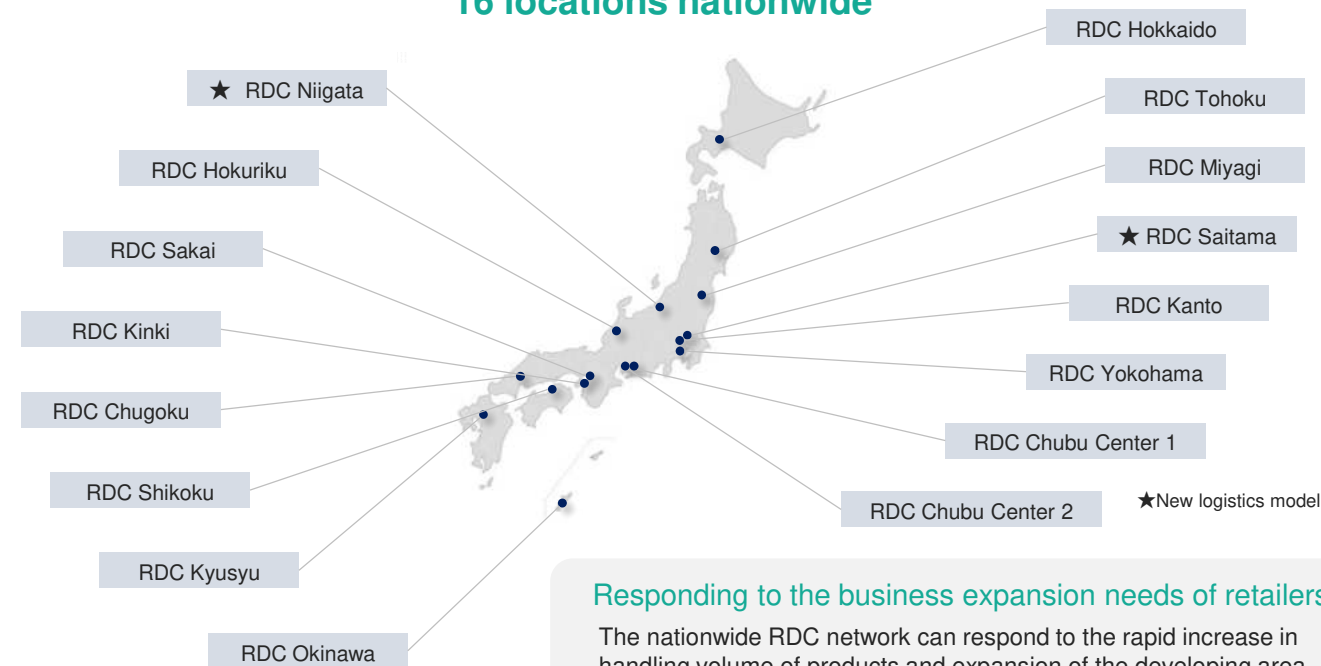


Logistics base to enhance capability of logistics solution

Developing a highly efficient and large-scale distribution center

We will aim to optimize and streamline the entire supply chain including consumers who acquire the products. We think that we not only pursue to improve productivity of our own RDC but also want to contribute to improve productivity of retailers, manufacturers and delivery companies through our capability to eliminate the waste in distribution processes. Based on above thoughts, we hold land and RDC ourselves and we design the center buildings and distribution facilities with our own know-how considering for service level at first. In addition, we provide stable, high-quality distribution services in any area through our RDC network located at 16 locations nationwide.

RDC network located in 16 locations nationwide



Responding to the business expansion needs of retailers

The nationwide RDC network can respond to the rapid increase in handling volume of products and expansion of the developing area of retailers due to aggressive openings of new stores and M&A.

Power to generate “system”

We internally construct not only layout inside of RDC which is the key factor for its productivity but also IT system that material handling equipment runs smoothly. To continuous improvement of productivity, it is not enough to improve warehouse operation, changing functions themselves through improving IT system and material handling equipment can realize that. In addition to construct at low-cost way, we acquired 19 patents and accumulate know-how through internal production. That becomes driving force for us to generate new systems.

Human resources that support internally development

180 members

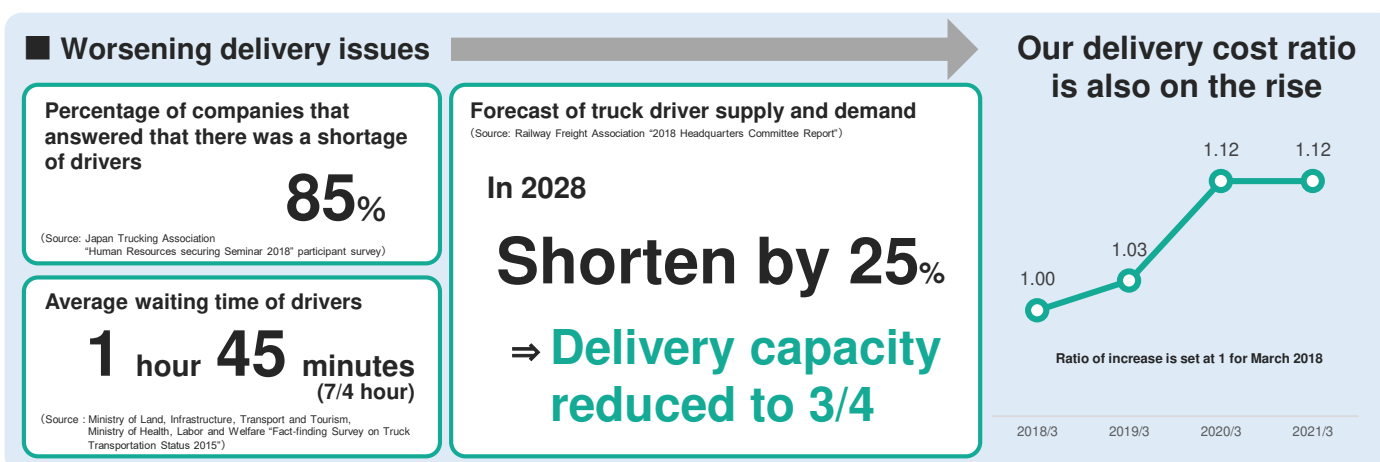
System department 108 members
R&D department 40 members
Logistics department 32 members
(As of the end of March 2021)

Number of patents obtained

19 patents

Realizing to address for both White Logistics Movement and increase in delivery costs

Addressing for delivery issues such as White Logistics Movement and Tariff, etc., arising from driver shortage have become urgent issues. For us, that provide daily necessities, not only raise of delivery costs become burden on our operation but also these issues could subject us to potential difficulties in continuing of stable supply, so challenges for improvement of delivery operation are high priority issues. Aiming for ensuring continuous distribution we have to take not an instant measure but a real solution which can provide the unified view of entire supply chain. Through these solutions, we simultaneously aim to achieve reduction of CO2 emissions.

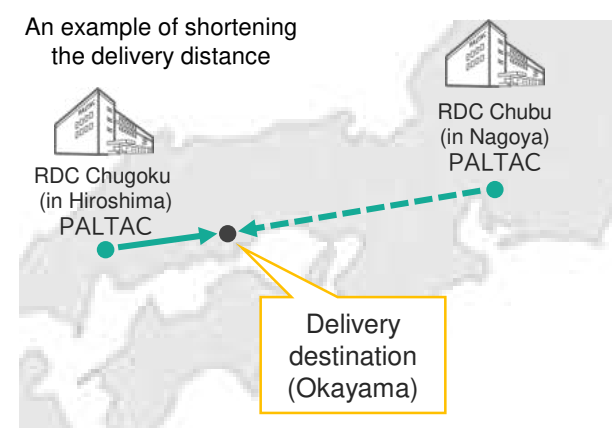


Major points of Initiatives : Improvement of loading efficiency, Reduction of trucking vacancy rate, Reduction of driver restraint time, etc.

	PALTAC (shipper)	Delivery companies	Truck drivers	Environment
Effect that we are aiming for	Delivery cost control	Improving profitability	Increasing income Improving labor environment	Reduction of CO2 emissions

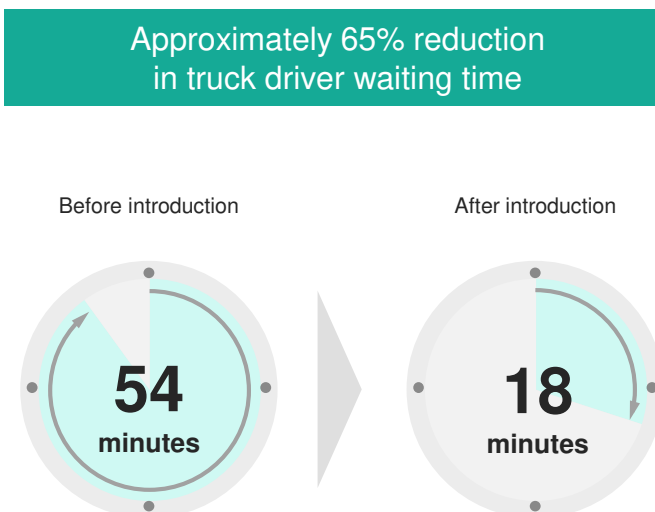
Initiatives for improvement of delivery efficiency

Initiative for improvement of delivery efficiency are not only just beginning now, but situation of customer and shipping volume, etc., are constantly changing. Under situation where the success patterns of the past are no applicable, broader vision and more flexible ideas and continuous efforts has come to be required. Currently, with all members of our company united, we commit initiatives such as reduction of transportation distance, application of free trucks and collaborative delivery under the slogan of, delivery company, drivers, our company and environment "all equally can gain benefits" and "active share of information".



Utilization of warehouse dock reservation system

By March 2021, we had introduced an internally developed warehouse dock reservation system at major RDCs nationwide. This system eliminated the process where drivers had to wait their turn in front of the center and then reduced truck wait time by about 65%. In addition, the efficiency of operation in the warehouse has been improved by systematic and appropriate allocation of labor based on the digitized entry schedules. Going forward, we will work to further promote White Logistics Movement and improve productivity by expanding the number of delivery companies that can utilize our system and improving operations.



TOPIC

Initiative in collaboration and cooperation of manufacturing, distribution and retail

On July 3, 2020, "consistent unit loading system utilizing carry" industry first system in collaboration with YAKUODO Corporation and Unicharm Corporation, received the Prize for One winner at Supply Chain Innovation Award 2020 from The Manufacturing, Distribution and Retail joint Forum. In the Industry, generally in the distribution process, pallet, basket cart and carry, etc., are used to transport products. With this collaborative initiative, instead of use of different fixtures, carry could be used consistently in distribution process from the products shipping of manufacturer, and we realized as well as efficient distribution, decrease in operation frequency such as transshipment work throughout each process in manufacturing, distribution, retail and burden reduction both of workers and drivers and working hour reduction(60% reduction compared to conventional system). We will make effort to optimize and streamline the entire supply chain and to develop sustainable distribution system through promoting White Logistics Movement.



Delivery companies



【Carry】
Logistics facility used in products transshipment process at distribution center and retail store.



In the products shipping process at manufacturer carries are set for each order unit. Transshipment operation decrease by delivering to retail store using this first packaging itself.

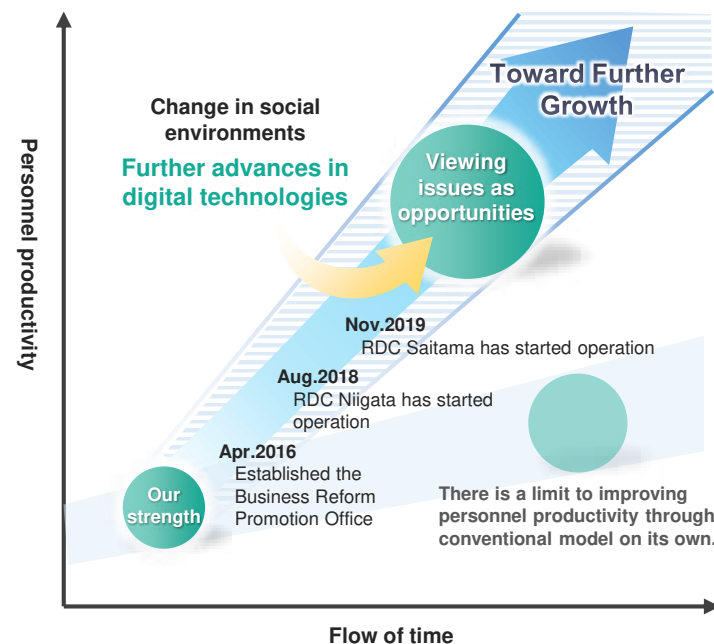
We received the Prize for "One winner" at Supply Chain Innovation Award 2021 for the initiatives to adjust inventory levels and to reduce returned products in collaboration with manufacturers and retailers.
(Please refer P57)

Please refer to our website for details of these initiatives

Disclosed on July 6, 2020 : Notice of "The Prize for One winner at Supply Chain Innovation Award 2020" <http://www.paltac.co.jp/tomorrow/index.html>

Challenge of further improvement personnel productivity

With the advancement of digital technologies such as AI and robot, we have taken advantage of this situation to expand business, and newly established Business Restructuring Promotion Division (currently Research and Development Headquarters) in April 2016 and undertaken to acquire knowledge of cutting-edge technology. Through fusing low-cost distribution know-how, we have accumulated so far and cutting-edge digital technology, we have worked to develop new logistics model for achieving greater productivity. As our first new logistics model “RDC Niigata” performed well, we have started operation of the second “RDC Saitama” in November 2019. RDC Saitama has also achieved greater productivity, and after October 2020, we have stably realized piece-picking productivity more than two times than that of existing model that we targeted. In the future, we will try to make further improvements, and also through continuous construction of new RDC improving shipment ratio of the new model which remains low at around 10 percent, we work to enhance and expand high-efficient distribution network, simultaneously ensure shipping capacity that support to sales expansion.



RDC Saitama

Aiming to raise the shipment ratios by the new logistics model

Investment plan (in the 3 years)

¥ 30 billion

[Investment area]

Tohoku, Kanto, Kansai, Kyushu

In the new medium-term management plan, we plan to establish new RDC located in Tochigi in the fiscal year ending March 2023.

New logistics model achieved productivity improvement and human-friendly center operations

【Piece picking】

Picking products that automatically flow to the work area

Ratio of operation

Walking 0%:Picking 100%



【Automatic acceptance inspection】

The inspection will be completed automatically only by putting the products that placed on the pallet into the lane

⇒ Forklift work is unnecessary, so it is safe
⇒ Completion of inspections during lane transport reduces driver unloading time



(Conventional model)

Walking to the product spot and picking them as if they are shopping

Ratio of operation

Walking 50%:Picking 50%



【Case picking robot】

Determine products on a master-less
⇒ Eliminate the need for cumbersome registrations



【Case loading robot】

Automatically load the cases into the shipping materials handling system
⇒ Be free from heavy labor



【Piece picking robot】

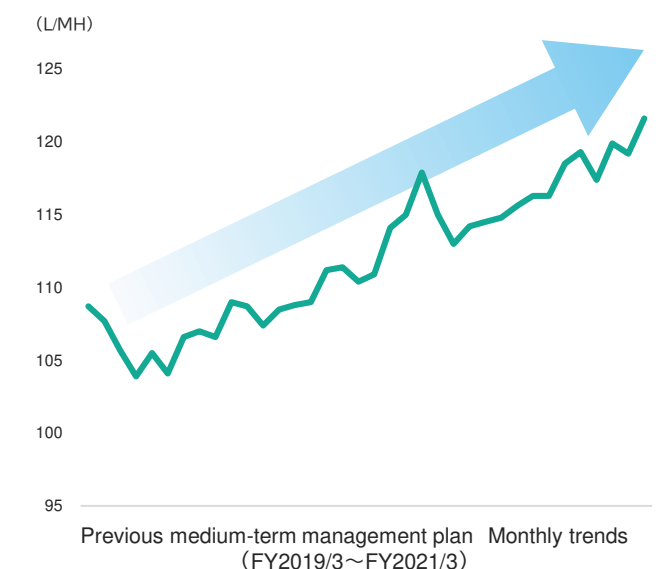
Challenging to develop automated piece picking system which is highly innovative



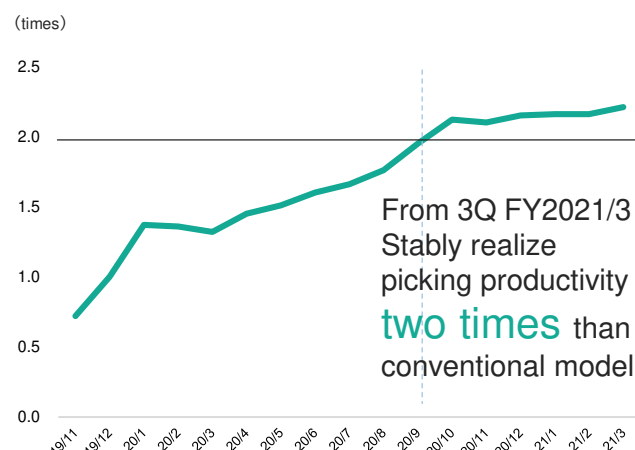
Continued improving existing RDC

We proactively pursued our company-wide improvement initiatives such as using visualized data including issues and improvement effect in improvement activity of carefully practicing PDCA cycle, and pursuing improvement on a bottom-up basis from the point of warehouse operator's views. As a result of that, we have optimized productivity by 10% under period of the previous medium-term management plan. Going forward, we will efforts to improve productivity in the existing RDC through improvement activity not only inside of our warehouse but also of the whole supply chain by internal and external collaboration.

Conventional model piece picking productivity



RDC Saitama picking productivity compared to conventional model



Strengthening the “secure and safety” logistics base that realizes stable supply even in an emergency

We believe that it is our mission to reliably deliver the “daily necessities” that are indispensable to people’s lives at all times, and we try to provide products stably under normal conditions and even in emergencies. In order to do that, we are strengthening our distribution base to respond to various issues such as natural disasters, etc. By constantly reflecting the experience of a disaster in the BCP, strengthening equipment, and building optimal operations, consumers will be able to obtain products that enrich daily lives “at any time” and “affordably”. We will work to maintain and continue the “stable supply” that supports such usual daily lives.

Functions that support BCP



Seismic isolation structure

Adopted a structure that minimizes the effects of earthquakes



Emergency private power generator

Center operation is possible for 3 days in disasters



Server duplication system

Building a system that can contribute to operate even in an emergency



Mutual shipping system

Even if one center cannot be shipped, alternative shipping is possible from another center.

Building an organizational structure in disasters

In the event of an earthquake with a seismic intensity of 6-lower or greater, we will immediately grasp the disaster situation and set up a “Disaster Countermeasures Headquarters”, in principle, at the head office as necessary. In the event of the Great East Japan Earthquake in March 2011 and the Fukushima Prefecture Offshore Earthquake in February 2021, the Disaster Countermeasures Headquarters was set up immediately after the earthquake to promptly confirm the safety of employees and their families in the affected areas and the status of the disaster. At the same time, the headquarters took the lead in implementing various measures to ensure business continuity.

Preparation of disaster countermeasure manual

We have prepared a manual that shows specific details about damage estimation, preventative measures, restoration and continuation of operations, organizational structure in emergencies, etc., and make it known to all employees.



“Disaster Countermeasures Maintenance Basic Manual”



“Earthquake Initial Action Manual”

BCP

After the earthquake off the coast of Fukushima Prefecture
(Occurred around 23:07 on February 13, 2021)



General Manager of Tohoku Branch Office

Yuji Mikami



Managing Executive Officer, General Manager of Logistics Headquarters

Kenji Nose

The earthquake off the coast of Fukushima Prefecture caused damage some of retail stores and temporary suspension of operation of our RDC Miyagi, and became an opportunity that testing our capabilities to maintain and continue stable supply for which we aim. We talked to Yuji Mikami, General Manager of Tohoku Branch Office, chief officer of operation of RDC Miyagi and Kenji Nose, General Manager of Logistics Headquarters about situation at the time and BCP measures.

– Could you tell me the situation at the time.

Mikami Yes, first I was worried about the safety of employees but quickly verified their safety with the safety confirmation system by which we implement periodical training and fortunately no one injured. At the same time, I was worried about situation of RDC Miyagi and rush to this RDC and saw scattered inventory and distortion of logistics equipment, so I understood that we could not ship. We also confirmed the situations about retailers and supply chain. Immediately started to corporation with each divisions, and we engaged in a support activities aimed at restoration of retail store and our RDC alternative shipment.

– Was it difficult that to restore simultaneously retail stores and RDC Miyagi?

Mikami It is obvious that we should do that for the customers. And it is critically important for both consumer and entire supply chain to immediately restore the retail store where the products are provided to consumers. This thought has become widespread with our corporation, and our other sites also naturally implement this practice.

– How about initial response and alternative shipment?

Mikami The Earthquake occurred late on Saturday night, but we were working relationship with headquarter including the president from early morning of following day and made more prompt and accurate judgments. Relationship and speed were key to alternative shipment which must need cooperation from our another center.

Nose As for alternative shipment, we has established system such as adjustment master of computer program and development of system in preparation for emergency. Based on lessons learned following the Great East Japan Earthquake we chose that way as best measure. On next Monday when we started operation, we could deliver smoothly from another center.

– What is the knowledge gained from measures and experience of that restore activities?

Mikami In emergency, there were challenges that we should comply with different situations at the same time, and we didn’t have enough time. Under tough situation, proactive cooperation in which we all played a role with no one who has no interest, is the most favorable experience. Through not only utilizing online meeting, but also thanks to architecture company, material handling company, construction staffs and our employees of Logistics Headquarters and another branches, who harried to the scene, we could realize prompt restoration with “TEAM PALTAC”.

Nose Company-wide cooperation is naturally. In addition, I saw coworker on site who worked hard to recover and was encouraged from them. I would like to take this opportunity to offer my thanks to Mikami san, for a late supper he prepared rice balls, and they were excellent. His sweet tenderness adds a feeling of taste.

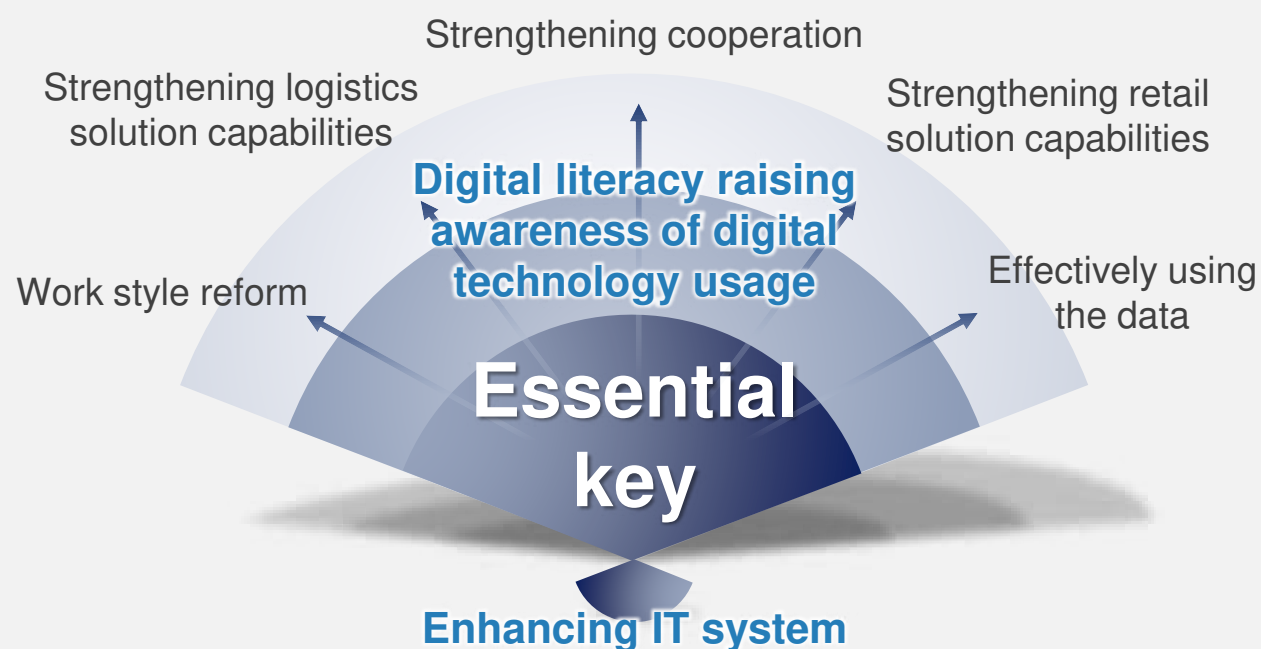
Mikami (with smile) I really wanted to cook rice balls when I watched the scene that not only our employees but also everyone in cooperating companies worked until late at night. I find myself happy to convey my feeling to you.

Nose Individuals and one department can do only limited things. It is extremely important to cooperate with sharing their thought for the same goals, and to work promptly. I think that daily mutual cooperation with customers can lead to early treatment. I realized that this experience must accumulate as our know-how and prepare for another risks. Our role is further advancing and sophisticating “system to support daily lives”.



03 Ensuring provision of added corporate values “Enhancing IT system and Promoting digitization”

Enhancing IT systems, supporting to our value creation model, is essential key to be able to realize improvement of productivity and precise response to practical needs. In addition to strengthen cyber-security addressing increasing cyber risks, we placed our priority on shifting from defensive to “Offensive IT structure” through restructuring of our IT enterprise system, retaining and developing of digital talents and so on, and adapt to changing practical needs. Moreover, we will continue to effort to transform our value creation and operating system through DX strategies for the next generation.



Enhancing IT system

Timely responding to changing practical needs through strengthening of development skills and speed

Practical needs for IT system function have rapidly changed with diversification and complication of society. Nevertheless, our IT enterprise system, which was repeatedly revised pursuing for efficiency, has brought many issues such as increasing frustration with maintenance operations and these issues made it even more difficult to meet the practical needs. Therefore, we thought that we should free ourselves from the situation with an emphasis on the “Defensive IT structure” and shifted management resources to the “Offensive IT structure” to offer added value to the customers and started restructuring of our IT enterprise system from April 2020. And along with the restructuring our IT enterprise system, we are shifting our IT platform to open-source cloud platform and advance the consolidation and abolition of the data with a view to flexibly utilizing that. Regarding to retaining and developing of digital talents who are needed to carry out our strategy, we intend to start through training to

boost of existing human resources, and then we establish the system including career path in order to raise retention of human resources who are recruited from outside, and actively hired digital talents.



Skills required for digital talents

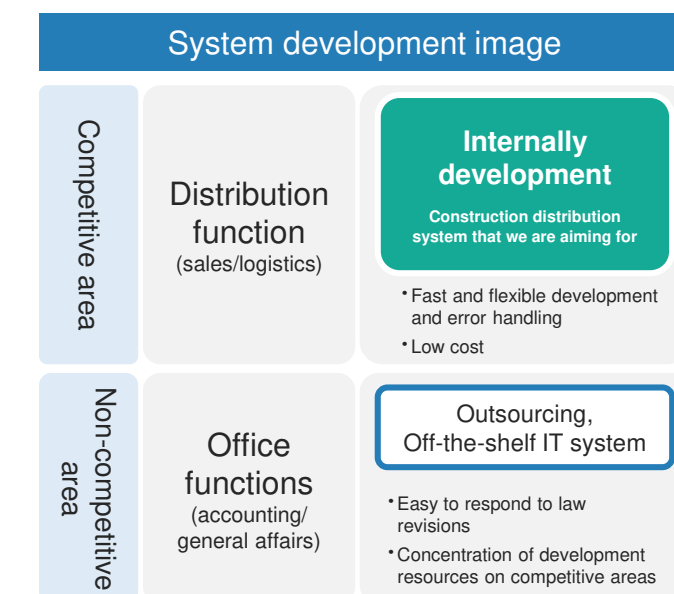


- Ability to manage the organization
- Ability to master cutting-edge technology
- Ability to identify issues

Internal development to generate our strength

We have found it most appropriate to establish IT systems which support our effective function of sales and distribution operation by our own and have internally established those systems without simply relying on the outside vender because we have in-depth understanding of our business and operation. This enables us to gain a competitive edge and helps our sustainable growth. But not all the IT systems are established by our own. Since outsourcing and off-the-shelf IT system also have some advantages, in non-competitive field such as accounting, we use outsourcing and off-the-shelf IT system and concentrate our development resource into competitive field. In the future, we are keeping close watch on the progress of digital technology and IT and effectively invest our developing resources aiming for enhancing a

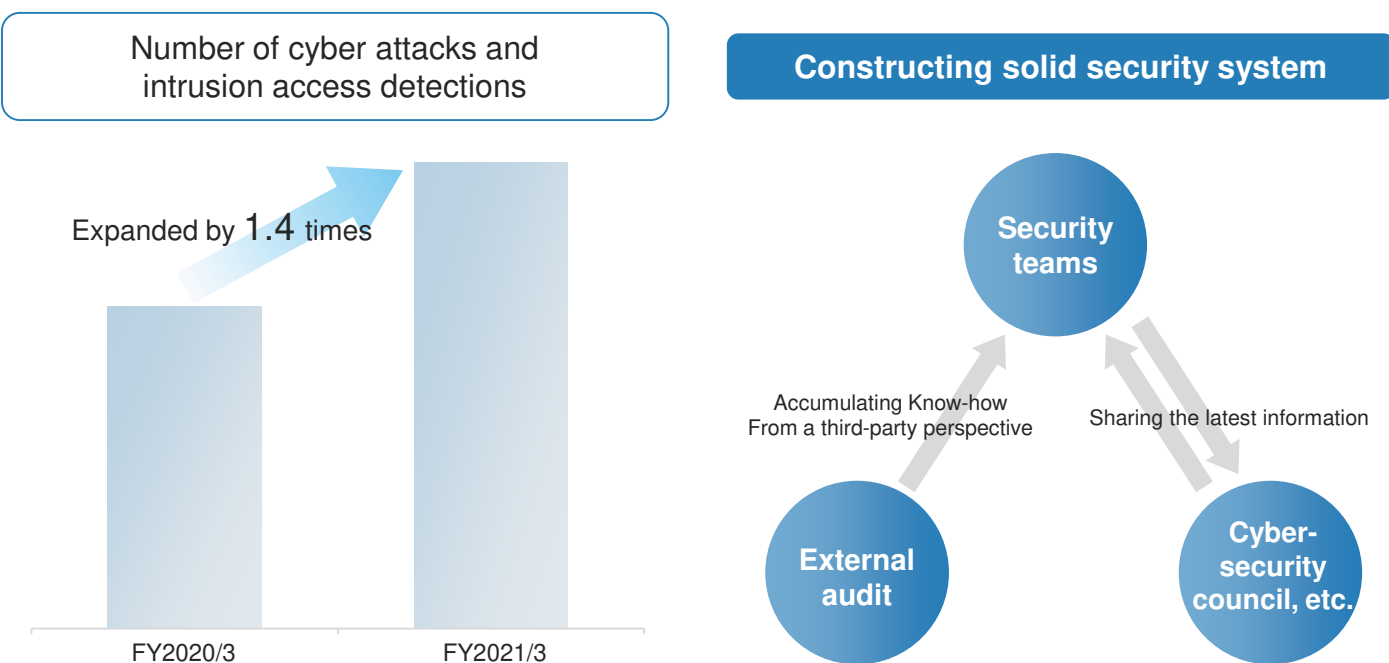
strong competitive edge.



Cyber security system

Implementing cyber security system

There are increasingly cyber risks with the progress of digital technology and IT. And also, there were some cases of companies who were damaged by the cyber attacks and not only had a financial impact but also lost their credibility. We implement digital technologies as important tools for our sustainable growth, and as an enterprise responsible for intermediate distribution of daily necessities, we are working to strengthen cyber-security addressing to cyber risks which making secure supply of products difficult. In specific, we have established a dedicated team mainly consisting of expert and qualified person of cyber security, and ensure a strong security in collaboration with Cyber Security Council and external audit and so on. And we raise awareness of the importance of ensuring security not only to system administrators but also to users and effort to establish solid security throughout the company.



Establishment of information security policy

We have established “Information Security Policy” and “Information Management Regulations” as standards for our information management, and in order to ensure thorough information management, we established an internal structure with a chief information management officer at the top and with managers and persons in charge in each department. In addition, based on the belief that the awareness of each employee who handles

information is paramount importance in information management, we regularly conduct on-line training using the common “Information Security Lecture” materials of the MEDIPAL GROUP and “Pledge of Information Management” to comprehend the points to be noticed when handling information among all employees, and raises awareness of information management in the internal network.

Promoting digitization

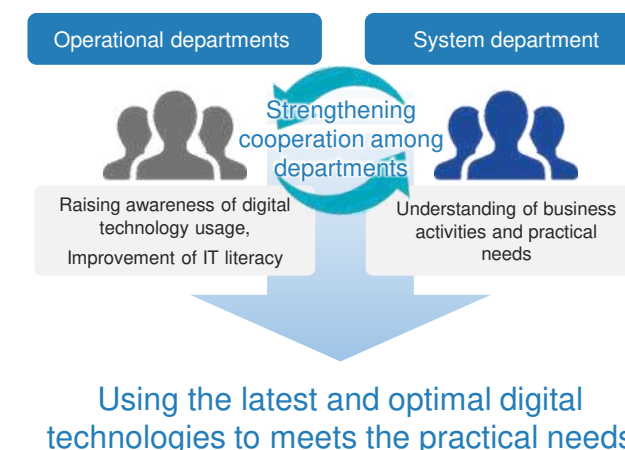
Enhancing provision of added values and Improvement of operational productivity by utilizing digital technology

We believe that provision of digital-based innovative value is truly digital transformation(DX), and we regard it as an important initiative to promote collaboration and cooperation with customers for our sustainable growth. We will work to sophisticate our business to provide innovative value in the future by accumulating efforts of digitization that are appropriate in the circumstances.



To make effective use of digital technologies

To realize DX, we recognize that it is necessary not only to strengthen the system infrastructure but also to develop an organizational system. Through efforts for digitization, we will promote understanding of the business activities and on-site needs of the System department, improve the digital literacy and digital utilization awareness of our Operational departments, which are users, and establish a system by strengthening cooperation between departments.



04

As a foundation for our sustainable growth “Developing talent and organization”

While making use of diverse talents, we will strive to promote understanding of our corporate philosophy and will improve organizational capability to steadily carry out our business strategies. With respect to human resources, we will undertake various measures to draw upon strength of our employees through supporting and encouraging them who refine individual expertise in respective workplace and position and also maintain spirit of challenges and GRIT (Guts, Resilience, Initiative and Tenacity). With respect to organization, we will efforts to strengthen integrated management of each division using digital technology and so on and to establish the structure which is formulated to enable us to demonstrate comprehensive strength.

Environmental
changes to be
addressed

Diversification and complexity of issues to be solved

Our aim

Establish human resources and organization that
capable to carry out our strategies

Key Initiatives

Penetration of management philosophy,
Creating a comfortable working environment,
Improving personal skills, Active mid-career recruitment

01 Strengthening retail solution capabilities

02 Strengthening logistics solution capabilities

03 Enhancing IT system and Promoting digitization

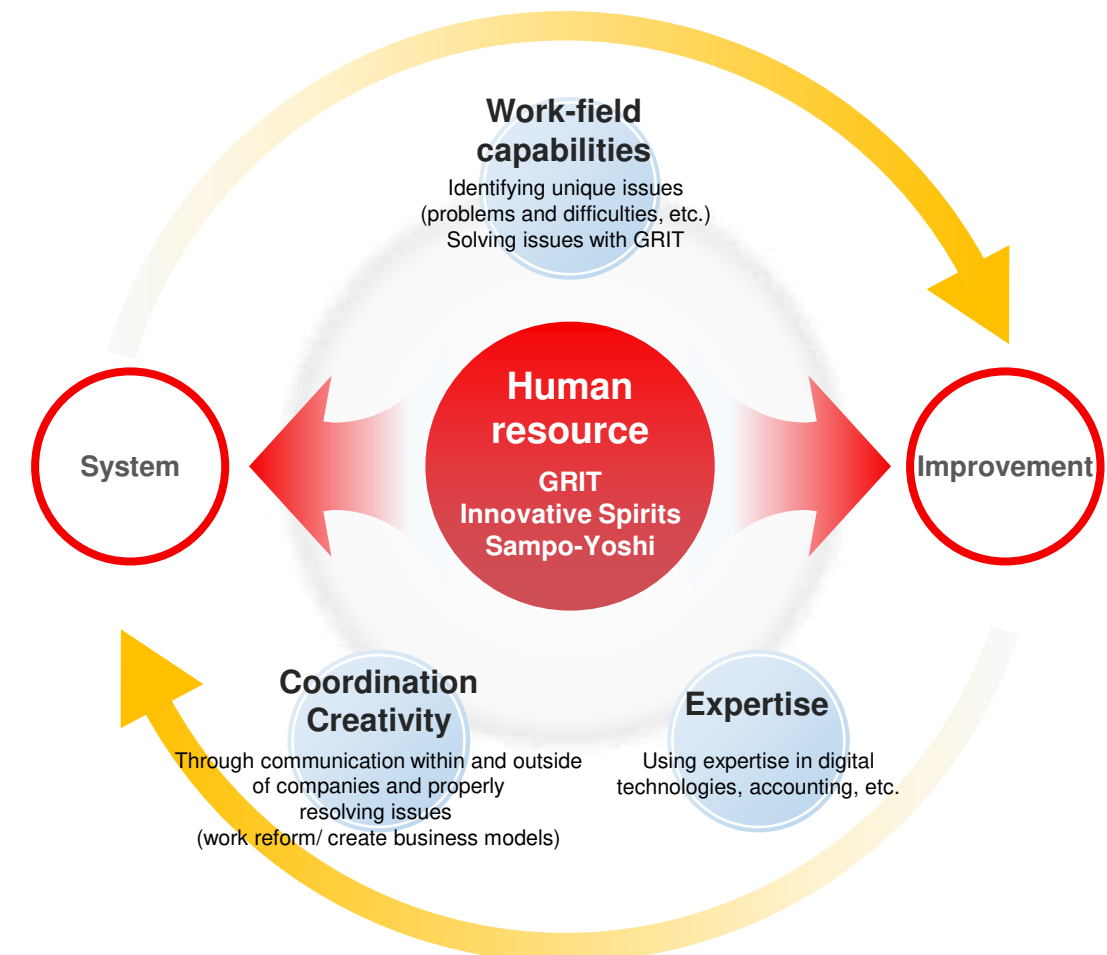
04 Developing talent and organization

**Human resource as a
significant driving force
for developing
new value creation**

Our vision

Realizing new value creation of distribution by enabling each and every employee to fully demonstrate their capabilities

“System” of high-efficient distribution on its own cannot realize optimization and streamlining of the entire supply chain. The system can function more effectively when accompanied by know-how of efficient operation and improvement of the system. We develop the system, not end, and it is necessary to update and newly creating as business condition changes. These works are exercised by power of our human resources. Amid such radical changes in social environment, human resources who have “Innovative Spirits” take on the challenges and do not give up with their strength “GRIT” and repeat the cycle of “improvement” and “creating a system”. By these activities we try to establish the optimal supply chain to fit for changes of time repeating. Going forward, in executing strategy of vision 2024 we will work to establish organization in which we create human-resource-management system for enhancing skills and appropriate allocation based on individual characteristics, and will try to create new value of supply chain.



Developing talent and organization

Diversity and Inclusion

In executing our strategy aiming to address quick and complex change, we try to secure diverse human resources. We continue to actively recruit skilled human resources such as digital talents, and we aim to become an enterprise that encourages a diverse assembly of people with varied thoughts and value perceptions to fully demonstrate their capabilities and bring out their unique potential. And all people must be given equal opportunities to play an active part in the

Creating an environment that enable diverse personnel to play an active role

We improve environment in which each employee have satisfaction and motivation and increase productivity and can grow together. To help employee achieve work-life balance, we establish "childcare and nursing care-related programs" such as shorter working hours and flex time. Now, this era is known as the 100-year time period. In the environment where approach to work and life has changed and diversified, we recognize that promotion of senior employment is important issue regarding raising the starting age for pension benefits, and we have improved personnel system in which we change retirement age from 60 to 65 on April 1, 2019. We create a comfortable work environment in which seniors work with a sense of security and motivation until they will attain the age of 65. Along with our response to the spread of COVID-19, we

Creating environments where our employees can work with peace of mind

To Create an organization and corporate culture where we will respect the fundamental human rights of individuals and that fosters enthusiasm among our employees, we create system such as program to prevent so-called power harassment and sexual harassment, providing anti-harassment training seminars and channels that can be used to report harassment. We established an examination board where an officer/employee encountering an action that could be doubted as a breach of sexual or power harassment, we conduct interviews and

workplace without regard to nationality, religion, marital status, gender, sexual orientation or gender identity, disability, or other attributes.

	2019/3	2020/3	2021/3
Percentage of female in management positions	5.6%	5.6%	5.8%
Percentage of mid-career hires	33.3%	21.3%	34.0%

* Target figure for the percentage of female in management positions : 8.0% (by the fiscal year ending March 2025)

implement work from home program and flexible working-hour program in personnel system in December 2020. Going forward, we establish business foundation in which diverse people fully demonstrate their capabilities.

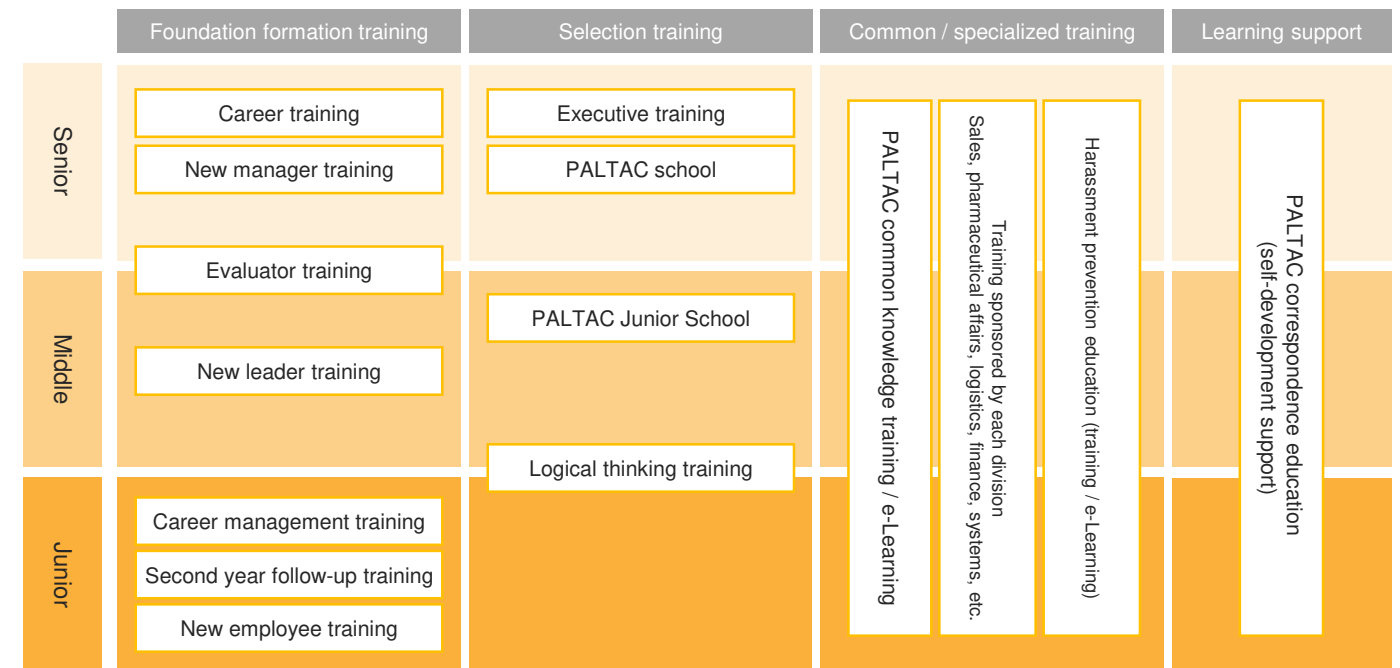
	2019/3	2020/3	2021/3
Number of users of childcare support system (childcare leave)	28	31	31
Number of users of childcare support system (short working hours)	42	52	51
Percentage of employees returning to work after childcare leave	None	100%	100%
Number of users of the silver human resources employment system (65 years old and over)	224	270	333

deliberation to internally related parties. While we work to create workplaces where employees can flourish as individuals and achieve personal growth while valuing their own lifestyle, and to help employees improve their health, enjoy peace of mind and lead fulfilling lives, we offers not only periodic medical examination but also some window for consultations including Employee Assistance Program (EAP) hotline provide counseling for both mental and physical health issues by external specialist.

Training program

To continuously contribute to the customer's prosperity and realization of people's rich and comfortable daily lives, we implement various development program responding to different career stage from the perspective of sustainable growth of human resources. In order to enable our employees to grow as professionals, we have various training such as correspondence courses based on individual needs and development programs which are carried out by each division and offer a higher degree of specialization.

During COVID-19 pandemic, we are continuously developing human resources through online training using a web conference.



Fostering next-generation executives

From the perspective of business continuity, we recognize that developing next-generation leaders is our important issue. For this reason, we established various educational systems, including training that current executive directly convey management philosophy to next-generation leaders. We also have a system in which next-generation leaders can gain a lot of experience in positions with responsibility and authority.



(Internally training "PALTAC School")

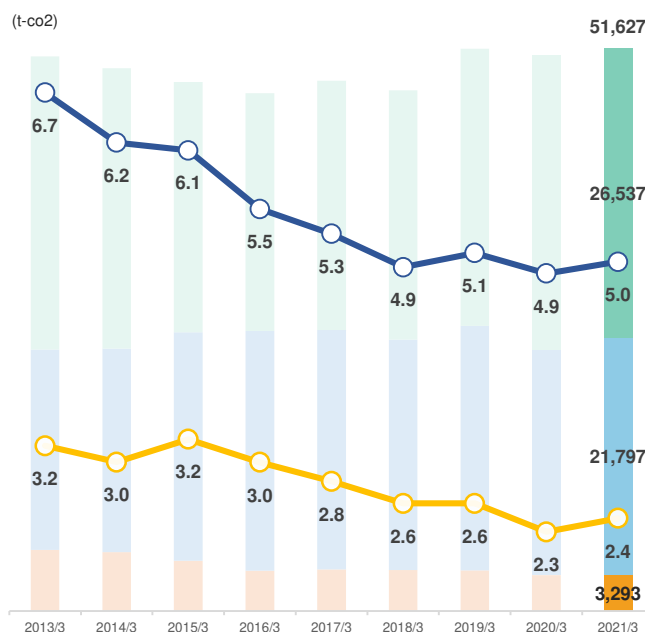
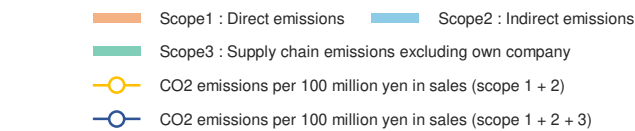
Harmonizing the environment

Creating the sustainable society through various efforts toward optimization and streamlining

Reducing CO2 emissions

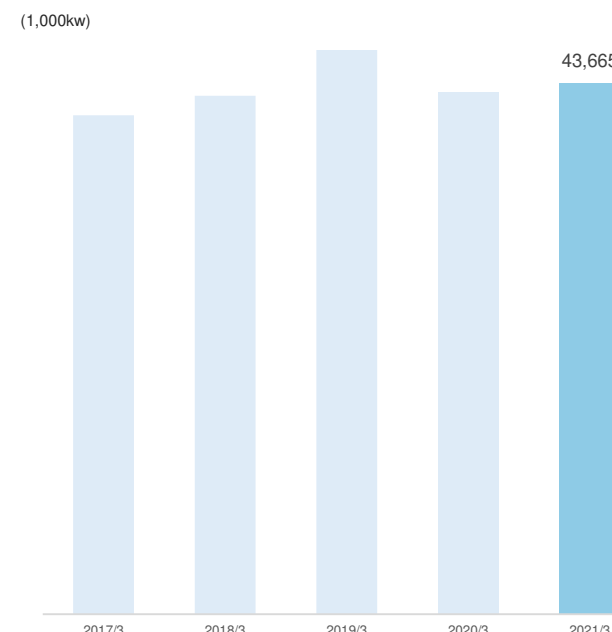
We are committed to pursue environmental conservation as an enterprise that contributes to realize people's rich and comfortable daily lives and moves forward with people and society. Aiming for the sustainable society, we work to reduce greenhouse gases through our business activities, such as reducing CO2 emissions from truck transportation by improving loading efficiency in product and optimizing delivery routes, and, reducing the amount of electricity used at business sites by switching to LEDs, etc.

CO2 emissions



* Calculation range of CO2 emissions
 Scope 1: Emissions associated with the use of own fuel
 Scope 2: Emissions associated with the use of electricity at business sites and RDC
 Scope 3: Emissions associated with truck transportation (shipments from our distribution center: GHG protocol "Category 4")

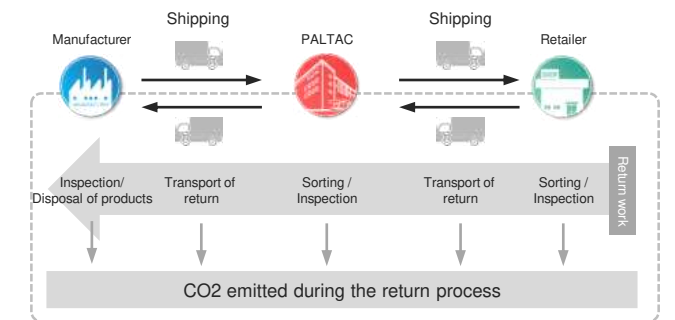
Electricity usage



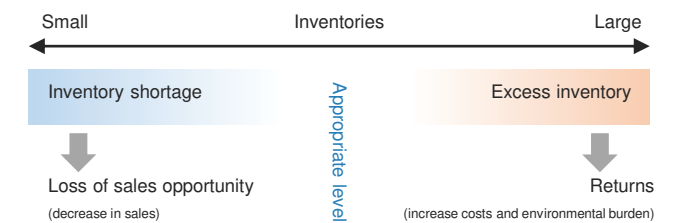
Reduction of returned products

We are working to reduce returned products in collaboration with customers aiming for sustainable distribution cycle. Returned products which occurred with conventional practices cause not only additional costs related to delivery operation but also increase in environmental issues such as CO2 emissions and products disposal. Returned products are generated by the promotion activity which meets the consumers needs and seasonal changes, so promotion activity and generation of returned products are in conflict. Maintaining stock availability through collaboration of entire supply chain is essential in order to create sales floor to match consumers needs while reducing returned products. We are trying to reduce returned products through sharing information, such as status of sales and stock of each stores, sales index change of seasonal products and renewal or elimination of products, etc., with retailer and manufacturer, and promptly and accurately executing efforts such as mutual products exchange across the stores and suspend of orders. Return ratio decreased by 25% compared with five years ago.

Returned products increase the cost and environmental burden of the entire supply chain



Promotion activity and generation of returned products are in conflict



To reduce returned products, it is important to maintain appropriate inventory through implementing timely and accurate measures in collaboration with manufacturers, distribution and retailers.

The prize for one winner at Supply Chain Innovation Award 2021

On July 9, 2021 "Maintaining stock availability and reduction of returned products in open collaboration with manufacturing, distribution and retail" initiative in collaboration with SUGI Holdings Co., Ltd. and Lion Corporation, has received the Prize for One winner at Supply Chain Innovation Award 2021 from The Manufacturing, Distribution and Retail joint Forum. In "Bottom-up approach", "Speedy" and "Open communication" collaborative system, we have realized maintaining stock availability and reduction of returned products while expanding sales through share of necessary information and systematic development and implementation of solutions which was integrated measures at retail store.

Please refer to our website for details of these initiatives.

Disclosed on July 12, 2021 : Notice of "The Prize for One winner at Supply Chain Innovation Award 2021" <http://www.paltac.co.jp/tomorrow/index.html>

Thanks to all of you, It was the second time we received this recognition since last year. In the future, we will continue to develop initiatives in collaboration and cooperation with the entire supply chain and try to resolve the social and environmental issues through optimizing and streamlining the entire supply chain.



"Bottom-up approach", "Speedy" and "Open communication"
 Maintaining stock availability and reduction of returned products



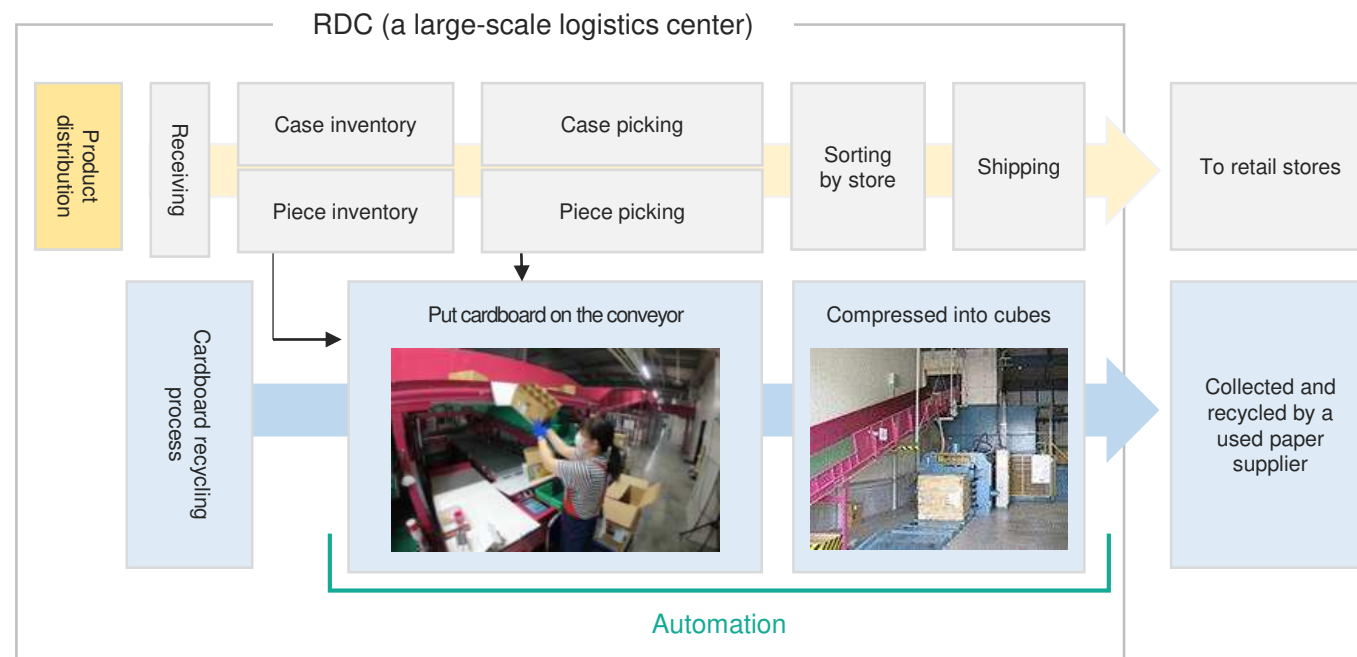
TOPIC

Harmonizing the environment

Cardboard recycling

At our distribution center, a large amount of cardboard used for packing products which were purchased from manufacturers is generated every day. We have incorporated a mechanism to efficiently recycle them as part of the center function. Cardboard is automatically aggregated in one place through a conveyor and compressed and bundled into a cube that is easy to carry. After that, it is collected by a used paper supplier and revived as recycled paper such as toilet paper.

Build a recycling system as part of the RDC function (a large-scale logistics center)



Using eco-friendly foldable container

We use eco-friendly foldable containers for product transportation. It uses less plastic and does not contain impurities such as screws, so it is easy to recycle after it breaks. In addition, the foldable container, which uses less plastic, reduces the workload and CO2 emissions from trucking.



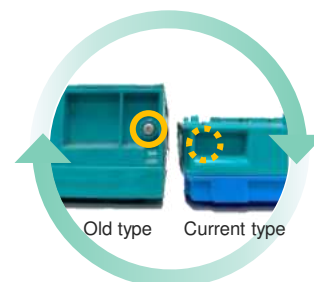
Foldable container

24% lighter



- ⇒ Reduction of plastic usage
- ⇒ Improvement of work efficiency

Easy to recycle through it does not contain screws



Contributing to the expansion of ethical consumption

Currently, as social issues become more serious, such as natural disasters and marine pollution caused by climate change, environmental friendly products are attracting more attention. From the standpoint of being responsible for intermediate distribution, we will contribute to the expansion of “ethical consumption” in which consumers select and purchase these products. The market for ethical consumption is expected to expand against the background of the penetration of SDGs, but the current situation is that it is difficult to secure a sales floor due to small market scale. In order to expand ethical consumption, it is essential to devise ways to intelligibly inform the added value of products to consumers, such as commitment to ingredients and eco friendly manufacturing methods. We will contribute to the establishment of a sustainable distribution cycle corresponding to expanding of ethical consumption trend. Specifically, we are not just simply displaying ethical products in stores, but also making efforts to create a sales floor that

make it easier for consumers to notice the value of these products, through sales promotion using digital tools and products development in consideration of environment.



Proposal of product development that collects eco-friendly products



Intelligibly informing the added value of products to consumers using digital advertising (digital POP)



Other initiatives to environmental protection

Established “Industrial Waste Treatment Manual”

As a distribution enterprise, we are actively promoting waste reduction and proper disposal in line with the principles of related laws including the “Basic Law for Establishing the Recycling-based Society”. We have created an “Industrial Waste Treatment Manual” related to waste treatment procedures, etc., and carry out waste treatment legally and appropriately based on the manual.

Introducing confidential document recycling system

Aiming for creating a recycling-oriented society to reduce the consumption of natural resources and environmental impact, we reduced the number of shredders and introduced a confidential document recycling system to facilitate the recycling of not only cardboard but also recycled paper. Unnecessary confidential documents putted into in the keyed recycling box are collected by a vendor and reborn as cushioning materials.



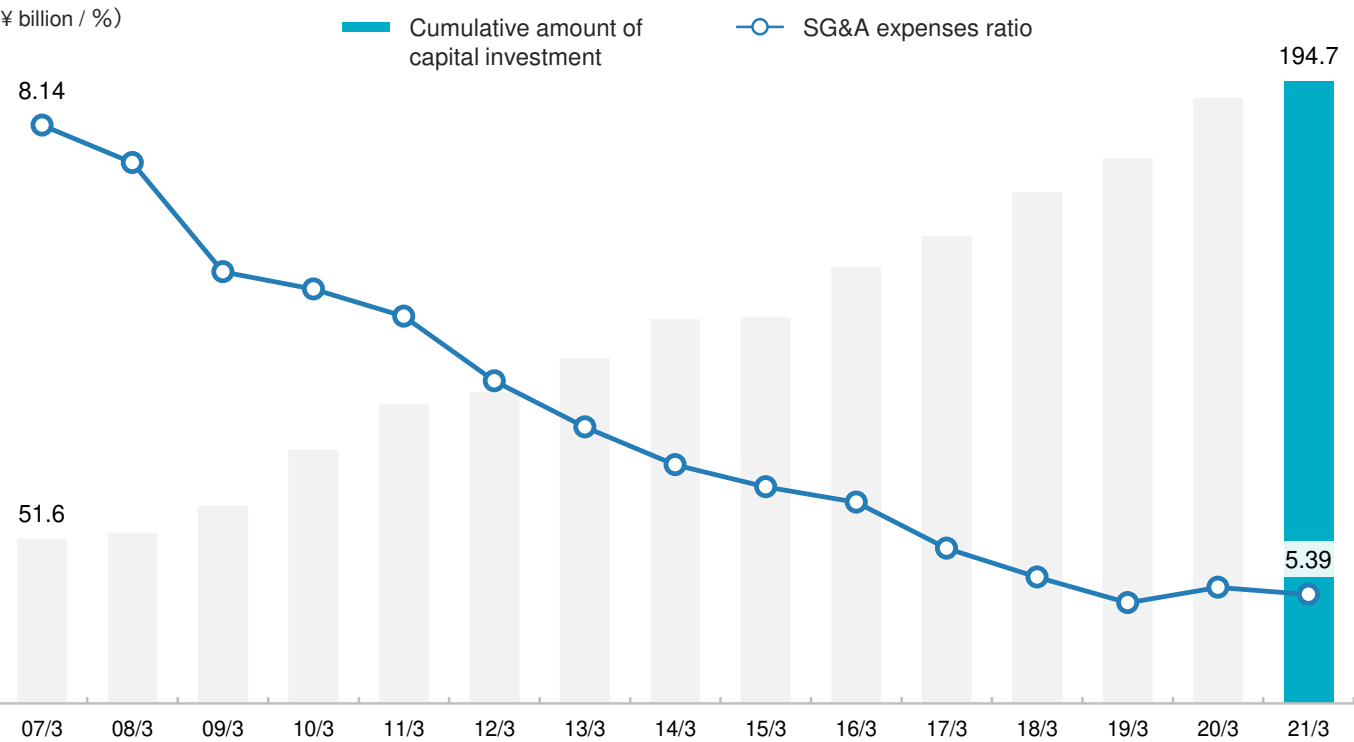


Financial capital

Business structure to generate profit
Accelerating growth cycle

Generation profit through pursuing improvement of productivity

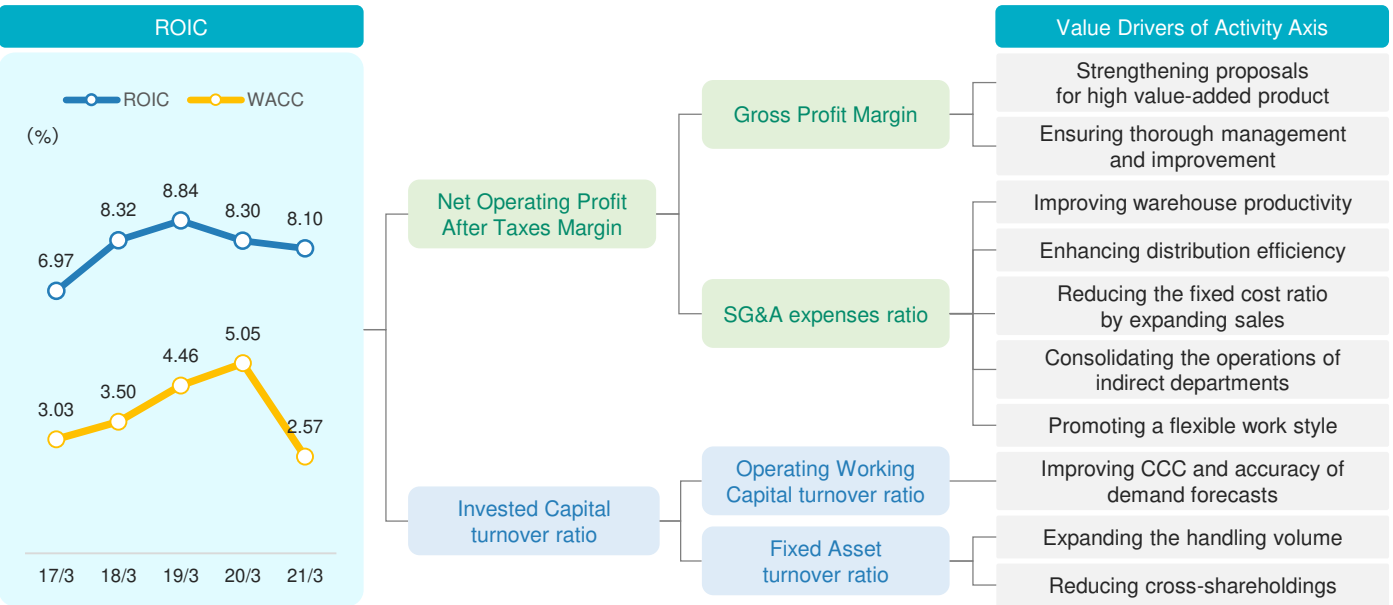
Over the past 20 years, we have actively invested earnings from our operation to optimize and streamline the entire supply chain, furthermore similarly invested, and established virtuous cycles for sustainable growth. Our strength in decreasing SG&A expenses system that combines the benefits of both system by high-efficient large-scale distribution center and IT system, and improving activities by all employees has refined through accumulating, and contribute to strengthening capability of generating profits. Going forward, we will accelerate active investment aiming for optimization and streamlining of the entire supply chain and ongoing growth cycle by pursuing improving productivity, and effort to enhance our corporate value.



*Cumulative amount from fiscal year ended September 1998

Enhancing corporate value

We are thoroughly implementing measures under KPI management to improve PL perspectives, such as pursuing a reduction in the SG&A expenses ratio, and to improve BS perspectives, such as accounts payable turnover and inventory turnover. ROIC, which represents a return on invested capital, has been above WACC. Through ongoing efforts to optimizing and streamlining the entire supply chain, we will strive to continuously increase corporate value by improving profitability and capital efficiency at the same time.



ROIC : Net Operating Profit After Taxes / Invested Capital (Interest-bearing debt + Shareholders' equity)
WACC : Shareholders' equity cost × ((Shareholders' equity / (Interest-bearing debt + Shareholders' equity)) + Debt capital cost × ((Interest-bearing debt / (Interest-bearing debt + Shareholders' equity)))
(Shareholders' equity cost calculated by CAPM *)

The figures used to calculate WACC are as follows.

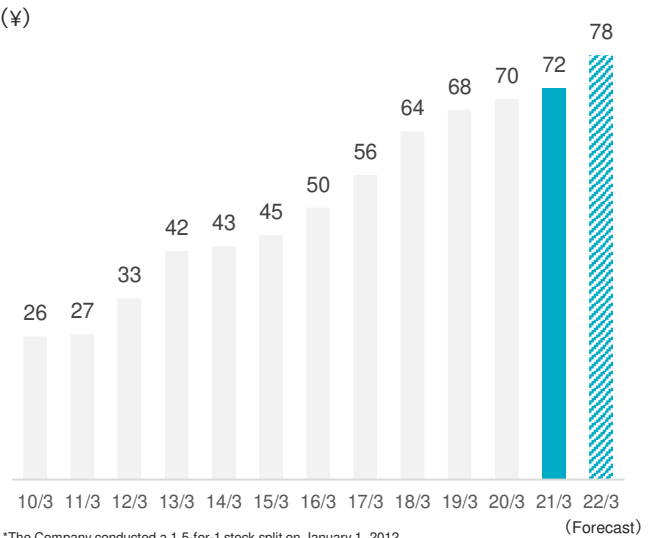
- Risk premium : 3.76% (Average profit yield of all stocks on the First Section of the Tokyo Stock Exchange - Risk-free rate)
- Risk-free rate : 0.13% (JGB 10-year bond yield)
- β value : 0.65 (Regression coefficients of Nikkei Stock Average and Our stock price (as of the end of the month))

Return to shareholders

We consider the distribution of profits to shareholders and our sustainable revenue growth to be our top management priorities. Our basic policy on profit distribution is to continuously carry out the stable payment of dividends while also maintaining robust internal reserves necessary to strengthen the financial base and achieve vigorous business growth. For the fiscal year ending March 2023 onward, the above dividend policy will remain unchanged, and with preparing a new medium-term management plan, we will target a total return ratio of 30%. Going forward, we will work to provide stable dividends and increase dividends in line with growth in earnings.

Highlights of dividend per share

Increased in dividend for 12th consecutive years since listing
(Including expected)



*The Company conducted a 1.5-for-1 stock split on January 1, 2012.
Dividend before FY2012/3 include the amount retroactively applied to the impact of the stock split.

PALTAC's Value Foundation

- 64 Management Team
- 68 Corporate Governance
- 74 CSR Management



Members of the Board

○ Number of attendance at the board of directors



Representative Director,
Chairman, CEO

Kunio Mikita

○ 17/17

Reasons for nomination

Mr. Kunio Mikita has engaged in various important posts of our Sales Division, and after assuming the position of Director in 1990, he then served as Representative Director, President from 1998 to 2010, and has served as Representative Director, Chairman since 2010. He possesses extensive experience, far-ranging insight, as well as strong leadership as a manager. We believe that he can be expected to utilize his extensive experience and track records and continue to play a full role in the oversight of management as a whole, as well as in decision-making.



Director, Senior Managing Executive Officer,
Senior General Manager of Sales Headquarters,
General Manager of Merchandise Headquarters
and Overseas Business Headquarters

Masahiro Noma

○ 17/17

Reasons for nomination

Mr. Masahiro Noma has engaged in various important posts of our Sales Division and is currently extensively working to enhance the Sales Division, Procurement Division, and Overseas Business Division as Director, Senior Managing Executive Officer, Senior General Manager of Sales Headquarters, General Manager of Merchandise Headquarters and Overseas Business Headquarters after assuming the position of Director in 2018. He possesses extensive experience and far-ranging insight as a manager. We believe that he can be expected to utilize his extensive experience and track records and continue to play a full role in the oversight of management as a whole, as well as in decision-making.



Director, Managing Executive Officer,
General Manager of Management
Planning Division

Masaharu Shimada

○ 14/14

Reasons for nomination

Mr. Masaharu Shimada has engaged in various important posts of our Corporate Planning Division by drawing on his expertise gained in finance and investment trust industries, and is currently working to enhance the Management Planning and IR Division as Director, Managing Executive Officer, General Manager of Management Planning Division. He possesses extensive experience and far-ranging insight as a manager. We believe that he can be expected to utilize his extensive experience and track records and continue to play a full role in the oversight of management as a whole, as well as in decision-making.



Representative Director,
President, COO

Seichi Kasutani

○ 17/17

Reasons for nomination

Mr. Seichi Kasutani has engaged in various important posts of our Sales Division, and after assuming the position of Director in 2017, he has served as Representative Director, President since 2018. He possesses extensive experience, far-ranging insight, as well as strong execution ability as a manager. We believe that he can be expected to utilize his extensive experience and track records and continue to play a full role in the oversight of management as a whole, as well as in decision-making.



Director, Senior Managing Executive Officer,
In charge of Administration

Akiyoshi Moriya

○ 17/17

Reasons for nomination

Mr. Akiyoshi Moriya has engaged in various important posts of our Financial Division, and is currently working to enhance the overall function of the Administration Division as Director, Senior Managing Executive Officer, In charge of Administration after assuming the position of Director in 2019. He possesses extensive experience and far-ranging insight as a manager. We believe that he can be expected to utilize his extensive experience and track records and continue to play a full role in the oversight of management as a whole, as well as in decision-making.



Outside Director
Independent Officer

Katsutoshi Yogo

○ 17/17

Reasons for nomination

Mr. Katsutoshi Yogo possesses extensive experience and far-ranging insight as a former manager of a leading Japanese automotive manufacturing company, and he has served as an Outside Director of our company since 2011. We believe that he can be expected to fulfill his role with respect to supervising the executive operations and participating in the decision-making from an independent standpoint, utilizing his extensive experience and track records.



Outside Director
Independent Officer

Katsumi Asada

○ 14/14

Reasons for nomination

Mr. Katsumi Asada served as President of a national consumer's union organization from 2011 to 2017 after joining a consumers' co-operative union, and he possesses extensive experience and far-ranging insight cultivated from running an organization at the front line of consumer issues. He has served as an Outside Director of our company since 2020. We believe that he can be expected to fulfill his role with respect to supervising the executive operations and participating in the decision-making from an independent standpoint, considering his extensive experience and far-ranging track records in addition to his long-term perspective in the field of ESG.



Outside Director
Independent Officer

Kaori Oishi

○ 17/17

Reasons for nomination

Ms. Kaori Oishi possesses expert knowledge and extensive experience gained as an attorney at law and is well versed in corporate legal affairs, and has served as an Outside Director of our company since 2017. Although Ms. Kaori Oishi has not been involved in corporate management in a role other than Outside Officer in the past, we believe that she can be expected to fulfill her role with respect to supervising the executive operations and participating in the decision-making from an independent standpoint as well as with a woman's perspective, utilizing her expert knowledge and extensive experience.



Outside Director
Independent Officer

Mineko Orisaku

<New election>

Reasons for nomination

Ms. Mineko Orisaku possesses extensive insight relating to the environment and society, having extensively served in positions such as trustee of public interest incorporated foundations and other such bodies, including her role as a member of the Tokyo Organizing Committee of the Olympic and Paralympic Games, while also managing an agency of her own along with activities as a photographer and university professor. We believe that she can be expected to fulfill her role with respect to supervising the executive operations and participating in the decision-making from an independent standpoint as well as with a woman's perspective particularly in terms of ESG and human resources development, utilizing her far-ranging insight.

Audit & Supervisory Board Members



April 1982 Joined KOBAYASHI PHARMACEUTICAL CO.,LTD.
April 2001 Joined Kobasho Inc. (current PALTAC CORPORATION)
October 2003 Representative Director, President of SEIEI CO., LTD.
(current PALTAC CORPORATION)
June 2006 Executive Officer of Kobasho Inc.
January 2008 Director of Kobasho Inc.
April 2008 Managing Executive Officer, General Manager of Shikoku Branch
Office of the Company
October 2009 Managing Executive Officer, General Manager of Management
Planning Headquarters of the Company
October 2010 Managing Executive Officer, General Manager of Merchandise
Headquarters of the Company
June 2012 Standing Audit & Supervisory Board Member of the Company
(incumbent)

Standing Audit & Supervisory
Board Member

Yukihiro Kanaoka

○ 17／17 □ 15／15

Reasons for nomination

Mr. Yukihiro Kanaoka has gained extensive experience and track records in his positions in our Sales Division and Administrative Division. After assuming the position of Standing Audit & Supervisory Board Member in 2012, he currently plays an important role in ensuring and enhancing the legal compliance and appropriateness of our business operations.
We believe that he can be expected to utilize his extensive experience and continue to play a valuable role in strengthening our auditing system.



April 1966 Joined Nomura Securities Co.,Ltd.
March 1972 Global Investment Advisory Office of Nomura Securities Co.,Ltd.
June 1973 Managing Director of Bangkok Nomura International
November 1986 Representative Director, President of Nomura International
(Hong Kong), Ltd.
June 1990 Director of Nomura Securities Co.,Ltd.
June 1994 Managing Director of Nomura Finance Co., Ltd.
May 1999 Representative Director, President of UNIMAT LIFE
CORPORATION
April 2005 Representative Director, President of UNIMAT LIBERTY
July 2008 Director, Senior Advisor of UNIMAT LIBERTY
January 2011 Advisor of the Company
June 2011 Outside Audit & Supervisory Board Member of the Company
(incumbent)

Outside Audit &
Supervisory Board Member
Independent Officer

Hideo Suzuki

○ 17／17 □ 15／15

Reasons for nomination

Mr. Hideo Suzuki possesses extensive experience and far-ranging insight as a manager, having served as Representative Director and President at various finance related companies. After assuming the position of Outside Audit & Supervisory Board Member in 2011, he currently plays an important role in ensuring and enhancing the legal compliance and appropriateness of our business operations.
We believe that he can be expected to utilize his extensive experience and track records and continue to strengthen our auditing system from an independent standpoint.



October 2002 Joined ChuoAoyama Audit Corporation (renamed to Misuzu
Audit Corporation)
January 2007 Registered as Certified Public Accountant
August 2007 Joined Deloitte Touche Tohmatsu (current Deloitte Touche
Tohmatsu LLC)
April 2017 Established Hara Certified Public Accountant Office,
Representative at the office (incumbent)
June 2019 Outside Audit & Supervisory Board Member of the Company
(incumbent)

(Significant concurrent positions outside the Company)
Representative of Hara Certified Public Accountant Office Executive Secretary,
Chairperson of Diversity Promotion Committee of
The Japanese Institute of Certified Public Accountants Kinki Chapter

Outside Audit &
Supervisory Board Member
Independent Officer

Mayuko Hara

○ 17／17 □ 15／15

(Family register name : Mayuko Arima)

Reasons for nomination

Ms. Mayuko Hara possesses extensive specialist knowledge and advanced insight as a certified public accountant and has assumed the position of Outside Audit & Supervisory Board Member in 2019
Although Ms. Mayuko Hara has not been involved in corporate management in a role other than Outside Audit & Supervisory Board Member in the past, we believe that she can be expected to utilize her specialist knowledge and insight to strengthen our auditing system from an independent standpoint as well as with a woman's perspective.



Number of attendance at the board of directors



Number of attendance at the board of Audit & Supervisory



April 1985 Joined Nippon Life Insurance Company
April 2011 General Manager of Information System Headquarters of the
Company
June 2012 Executive Officer, General Manager of Information System
Headquarters of the Company
April 2013 Managing Executive Officer, General Manager of Information
System Headquarters of the Company
January 2019 Managing Executive Officer, Management of Information System
Headquarters of the Company
June 2019 Standing Audit & Supervisory Board Member of the Company
(incumbent)

Standing Audit & Supervisory
Board Member

Takashi Shintani

○ 17／17 □ 15／15

Reasons for nomination

Mr. Takashi Shintani has engaged in various important posts of a major insurance company and our Information System Headquarters.
We believe that he can be expected to utilize his extensive experience and track records and play a full role in strengthening our auditing system.



October 2004 Registered as Attorney at Law
October 2004 Joined KIKUCHI SOGO LAW OFFICE
December 2005 Joined Law Office of Kazuya Kotera (incumbent)
June 2012 Outside Audit & Supervisory Board Member of the Company
(incumbent)

(Significant concurrent positions outside the Company)
Law Office of Kazuya Kotera

Outside Audit &
Supervisory Board Member
Independent Officer

Yohei Kotera

○ 17／17 □ 15／15

Reasons for nomination

Mr. Yohei Kotera has expert knowledge and extensive experience as a lawyer. After assuming the position of Outside Audit & Supervisory Board Member in 2012, he has played an important role in building and maintaining the compliance system for Company management.
Although Mr. Yohei Kotera has not been involved in corporate management in a role other than Outside Audit & Supervisory Board Member in the past, we believe that he can be expected to continue to utilize his expert knowledge and experience to strengthen our audit system from an independent standpoint.

Executive Officers

Senior Managing Executive Officer

Takuya Yoshida

General Manager of
Tokyo Branch Office

Yoshitaka Yamada

General Manager of
East Japan Sales Headquarters,
General Manager of EC Division

Masashi Maeda

General Manager of
Information System Headquarters

Managing Executive Officer

Masahiko Tashiro

General Manager of
Kinki Branch Office

Akinori Ito

General Manager of
MK Business Headquarters

Takeo Gomi

General Manager of
LC Business Headquarters

Hiroshi Murai

General Manager of Supply Chain
Management Headquarters,
HABA CREATION Co., Ltd.
Representative Director, President

Mitsuhiko Seki

General Manager of
Store Support Headquarters

Akihiko Fujiwara

General Manager of
General Affairs Headquarters

Hideo Ashihara

General Manager of
West Japan Sales Headquarters

Naoto Murao

Deputy General Manager of
Sales Headquarters

Yasuhito Nishiuma

General Manager of
Kyusyu Branch Office

Satoshi Akiyama

General Manager of
Yokohama Branch Office

Masakazu Mikita

General Manager of
Research and Development Headquarters

Kenji Nose

General Manager of
Logistics Headquarters

Executive Officer

Ryohei Isobe

General Manager of Tokyo Branch Office
and LC Business Headquarters

Yoshihiro Nakasone

Senior Manager of
Corporate Auditing Department

Katsumi Nakamura

Deputy General Manager of
Financial Headquarters

Sachiyo Yoshida

Deputy General Manager of
LC Business Headquarters

Makoto Konishi

General Manager of Tokyo Branch
MK Business Division

Hideki Inaba

General Manager of
Hokuriku Branch Office

Koji Yoshida

Deputy General Manager of
Overseas Business Headquarters

Naoki Sawada

General Manager of
Hokkaido Branch Office

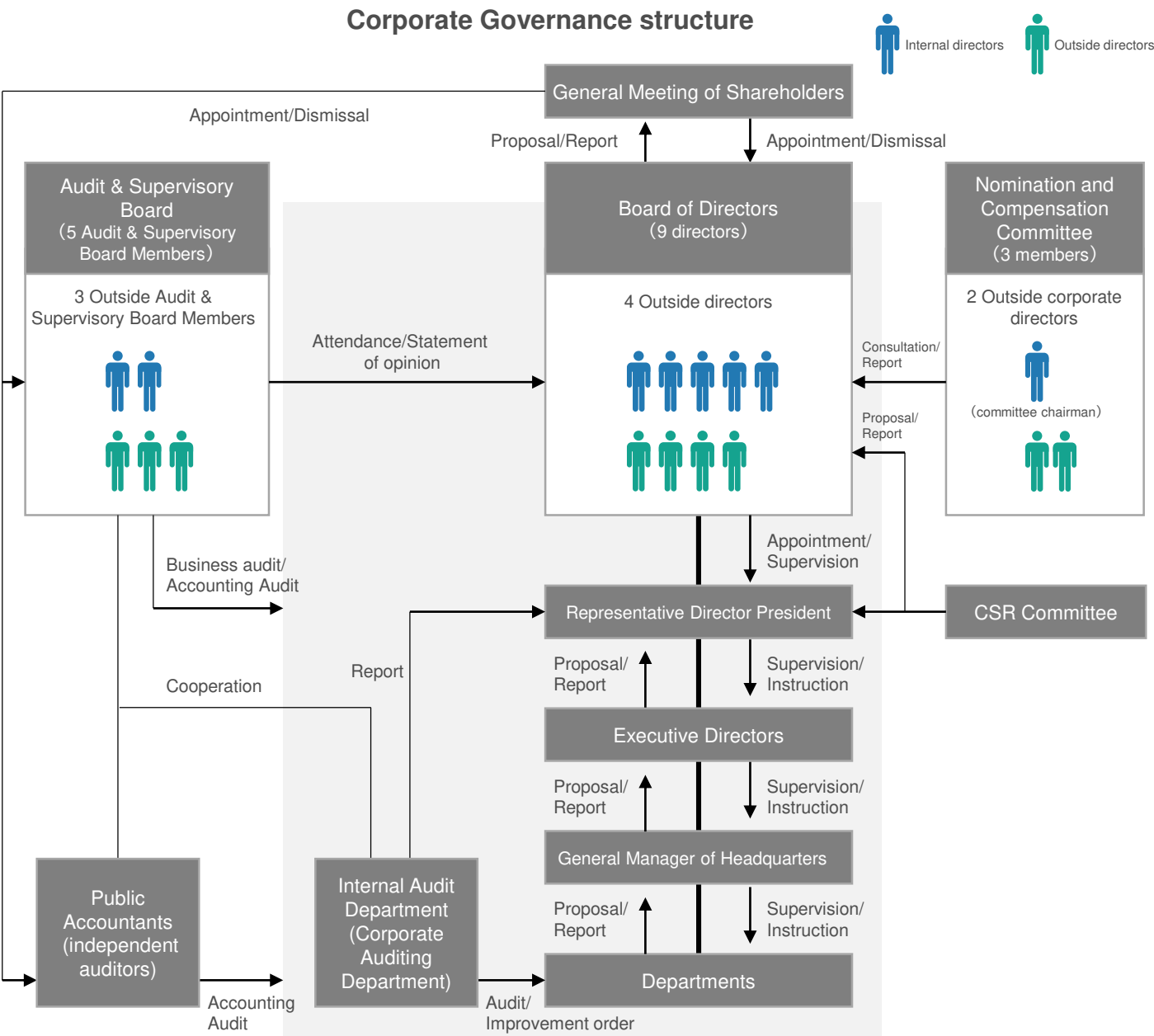
Hirokazu Takayama

General Manager of
Nagoya Branch Office

Corporate Governance

Basic policy

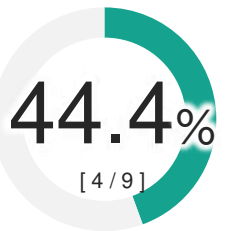
We are intermediate distributor that handles daily necessities related to “health and beauty”, and we play a social role by promoting optimization and streamlining of the entire supply chain together with our valued stakeholders, as well as improving our own productivity. In addition, we are carrying out management activities with an emphasis on sustainable growth through constructing corporate governance system which enable to ensure maintaining management transparency and soundness, as well as timely and fair disclosure and dialogue with the shareholders.



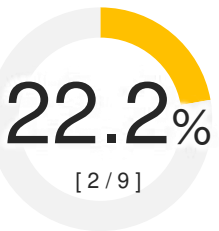
Board of Directors

The Board of Directors consists of four outside directors and five internal directors, for a total of nine directors. In the presence of our company's Auditors, as a rule the Board of Directors meets monthly to consider and to make decisions on business policy, legal matters and other important business issues, and supervise the implementation of business operations. In consideration overall balance amongst knowledge, experience and ability as well as diversity, skills requirements and roles at each director we particularly expect, is as follows. In addition, this skill matrix does not contain all the skills held by each directors.

Percentage of Outside directors



Percentage of Female directors



		Corporate Management	Industry experience/ Sales Strategy	ESG/ Sustainability	Financial/ Accounting	Personnel/ labor	Legal / Compliance / Risk Management	Logistics/SCM/ Technology
	Representative Director Kunio Mikita	●	●	●				
	Representative Director Seiichi Kasutani	●	●	●				●
	Director Masahiro Noma	●	●					●
	Director Akiyoshi Moriya	●			●	●	●	
	Director Masaharu Shimada	●		●	●		●	
	Outside Director Katsutoshi Yogo	●		●				
	Outside Director Kaori Oishi			●			●	
	Outside Director Katsumi Asada	●		●				
	Outside Director Mineko Orisaku	●		●		●		

Audit & Supervisory Board

The Board of Corporate Auditors consists of three outside auditors and two internal auditors, for a total of five auditors, and audits the execution of duties by Directors. Corporate Auditors attend the Board of Directors meeting and reinforce management monitoring functions and audit the matters with respect to any material breaches of laws and regulations and director’s competing transactions, transactions involving conflict of interests between Directors and our company. Further, the Corporate

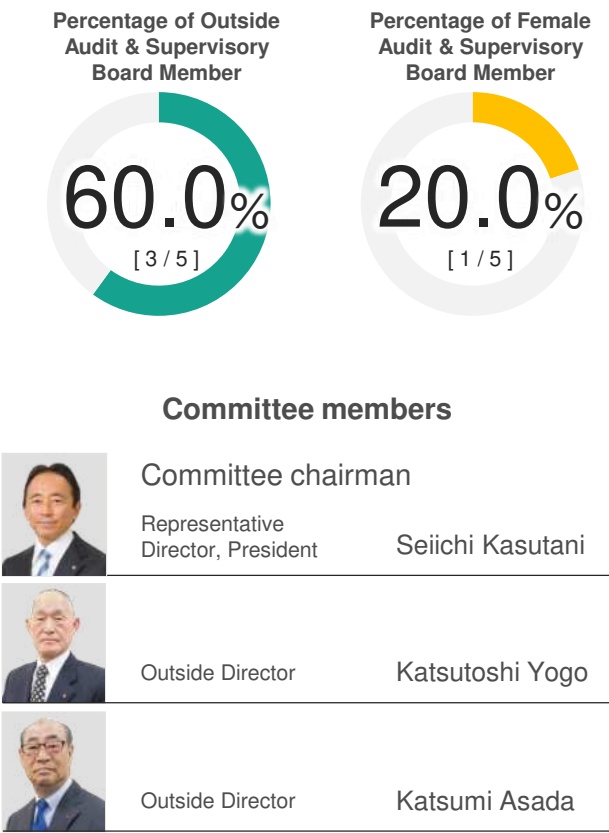
Nomination and Compensation Committee

Nomination and Compensation Committee as an advisory board to the Board of Directors consist of two outside directors Katsutoshi Yogo and Katsumi Asada and, the president Seiichi Kasutani acting as the chairman of these committee, for a total three directors. As a role of this committee, through obtaining appropriate advice from outside directors, we shall aim for ensuring fairness, impartiality and objectivity regarding to procedures for nomination and compensation of directors, and also for strengthening and improving corporate governance structure.

Support system for Outside Directors and Outside Audit & Supervisory Board Members

We provide a system that the administrative office of the Board of Directors meeting explains that agenda in advance to Outside Directors. And for part-time outside Auditors, in order to achieve their best performance in their audit functions, we also provide a system where Board of Audit & Supervisory meeting is held before the Board of Directors meeting, and they can receive explanation of the agenda of Board of Directors meeting from full-time corporate auditors and to examine that agenda.

Auditors shall communicate and deliberate with Internal Audit Division and the Independent Auditor to ensure the effectiveness of Corporate Auditor’s operations.



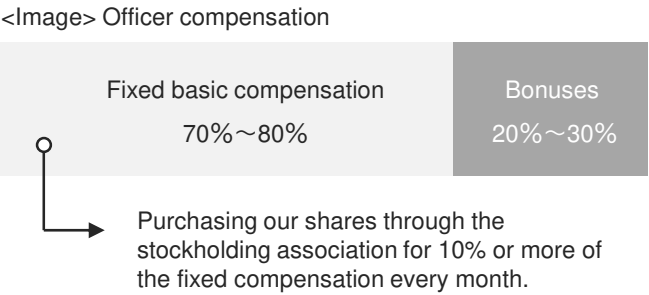
Evaluation of effectiveness of the Board of Directors

We have elected to structure our corporate governance system with a Board of Corporate Auditors, and hold a regular Board of Directors meeting once monthly with the attendance, as a general rule, of all Corporate Auditors and Directors where involves not only deliberation in a timely and appropriate manner but also lively discussions and sufficient consideration with Outside Directors and Outside Auditors, moreover, providing prior explanations when necessary. For an improving the effectiveness of the Board of Directors, Corporate Auditors and directors try to maintain close communication including giving feedback for each other.

Compensation for Directors

We set out basic policy on directors and corporate auditors compensation, shall be incentives that enables our company to attract, secure, and reward diverse and talented personnel in order to achieve our management strategy, and shall be one that maintain respective ranks in consideration of a balance amongst common practices, business performance and employee salaries based on changes in business environment and objective data. Compensation for the directors comprises fixed basic compensation and annual bonus based on each year's performance, but compensation which reflects the mid-and-long term performance is not set out. Fixed basic compensation is determined based on the significance of the position and duty of the director. Bonus is set at the level which becomes percentage of bonus in the annual compensation remained relatively steady at 20-30% and that directors with higher position would be entitled to retain higher percentage of that. We do not have any specific management indicator, but determine compensation according to internal rules in comprehensive consideration of results of operating profit, ordinary profit and SG&A expenses ratio, which are our important performance indicator, linked to KPIs in annual business plans, and even individual performance and contribution to increase corporate value. As non-monetary compensation, we provide company

housing in accordance with our regulations in order to be able offer right-person-in-the-right-place system to talented personnel who are in charge nation wide due to merger and so on. And, In order to ensure clarifying decision-making processes in relation to compensation, we have set out Nomination and Compensation Committee a majority of which is outside directors on January 21, 2019. Fixed basic compensation for director and bonus are determined by a resolution of the board of directors meeting based on the deliberations of the Nomination and Compensation Committee meeting which held prior to the Board of Directors meeting. We do not set compensation which reflects the mid-and-long term performance, but from the perspective of boosting incentives for increasing long-term shareholder value, we will appropriate 10% part of fixed basic compensation to funds for acquiring treasury stock through the shareholding association.



(Fiscal year ended March 2021)

Corporate officer category	Number of relevant corporate officers	Total amount of compensation (¥ million)	Total amount of compensation by category (¥ million)		
			Fixed basic compensation	Bonus, etc.	Non-monetary rewards, etc.
Directors (Outside directors)	11 (4)	409 (37)	298 (37)	103 (-)	6 (-)
Audit & Supervisory Board members (Outside Audit & Supervisory Board members)	5 (3)	89 (36)	80 (36)	9 (-)	- (-)
Total (Outside corporate officers)	16 (7)	498 (74)	378 (74)	112 (-)	6 (-)

Communication with shareholders and investors

We actively engage in IR activity in order to realize sustainable growth and enhance mid-and-long term corporate value by constructive communication with securities analysts and institutional investors and other stakeholders. And also, we provide company information and earnings announcement by using IR site, report our management policy and strategy through individual meeting and maintain two-way communication helps to enhance corporate value.

IR activities (FY2021/3)	Number of implementations
Financial results briefing for institutional investors and analysts	1
Conference hosted by a securities company	4
Individual meetings	148

Group governance structure

Aiming for contribution to the society, the parent company’s group MEDIPAL HOLDINGS CORPORATION with a majority share of our voting rights, operates mainly in three business areas: Prescription Pharmaceutical Wholesale Business, Cosmetics, Daily Necessities and OTC Pharmaceuticals Wholesale Business and Animal Health Products and Food Processing Raw Materials Wholesale Business. In these business areas, we operate Cosmetics, Daily Necessities and OTC Pharmaceuticals Wholesale Business. And because of the differences in the merchandise categories and in the distributional channels comparing to the other two businesses areas, there is not competition with the parent company’s group excluding our company and also, we carry out our own sales activities without any restriction. And we make all decisions on matters such as business strategy and personnel policy on the basis of

Cross-Shareholdings strategy

For sustainable growth, we hold shares of other companies as cross-shareholdings for the purpose of cultivation and expansion of business through constructing and strengthening ties of the stable and long-term relationship with customers. Our policy is to reduce cross-shareholdings basing the decision-making criterion on contribution to our growth from a mid-and-long term perspective. In accordance with this policy, we make decision on this matter by the Board of Directors meeting on a yearly basis. Specifically, based on requirements which are listed below we examine by individual stocks.

Evaluation criteria for shares held
<ul style="list-style-type: none">• Whether the purpose of holding is appropriate• Whether profits (total amount of profits from transactions and profits from dividends) and benefits that exceed the cost of capital and risks of the Company have been obtained or are expected to be obtained

independent and autonomous discussions our own. At the same time, the parent company respects our independency and protect of minority shareholders of our company. Based on the Group Company Management Regulations, the parent company believes it’s desirable, from the perspective of group management, for us to improve its corporate value through actively pursuing business development by autonomous funding and quick decision-making. Furthermore, the Regulations state that our board of directors is final decision-making organ. We do not accept a director from parent company. On the other hand, Seiichi Kasutani, Representative Director, President of our company, serves as a director of the parent company from the perspective of effective group governance. We are confident that we have achieved a certain level of independence from the parent company’s group.

Outside Director’s Message

Creating people’s rich and comfortable daily lives

Outside Director
Independent Officer

Katsumi Asada



Given the sense of stagnation surrounding the economy since the spread of COVID-19 infection, I am pleased that profit has achieved record-high levels for the fiscal year ended March 2021, and dividends has been continuously increased, while overcoming the challenging business environment. What I always keep in mind as an outside director, is to improve corporate value of PALTAC with my experiences of Consumers’ Co-operative Union. In the Consumers’ Co-operative Union, under a philosophy “Creating a more human lifestyle and sustainable society”, I continued to work with the thought of putting people’s happiness. I think that my experiences and knowledge which I had gained at Consumers’ Co-operative Union, are consistent with the PALTAC’s policy that states “Creating people’s rich and comfortable daily lives” and SDGs that offers “blueprint to achieve a better and more sustainable future for all”, and I work to help corporate growth. In the perspective of solving social issues, as an intermediate distributor, PALTAC is providing various values. And considered from the standpoint of contribution to consumers, one company, including the COOP and retailers, etc., on its own can not realize to solve these issues. It is important that distribution industries are connected to the others as chain. I consider that the initiative of “collaboration and cooperation” in the medium-

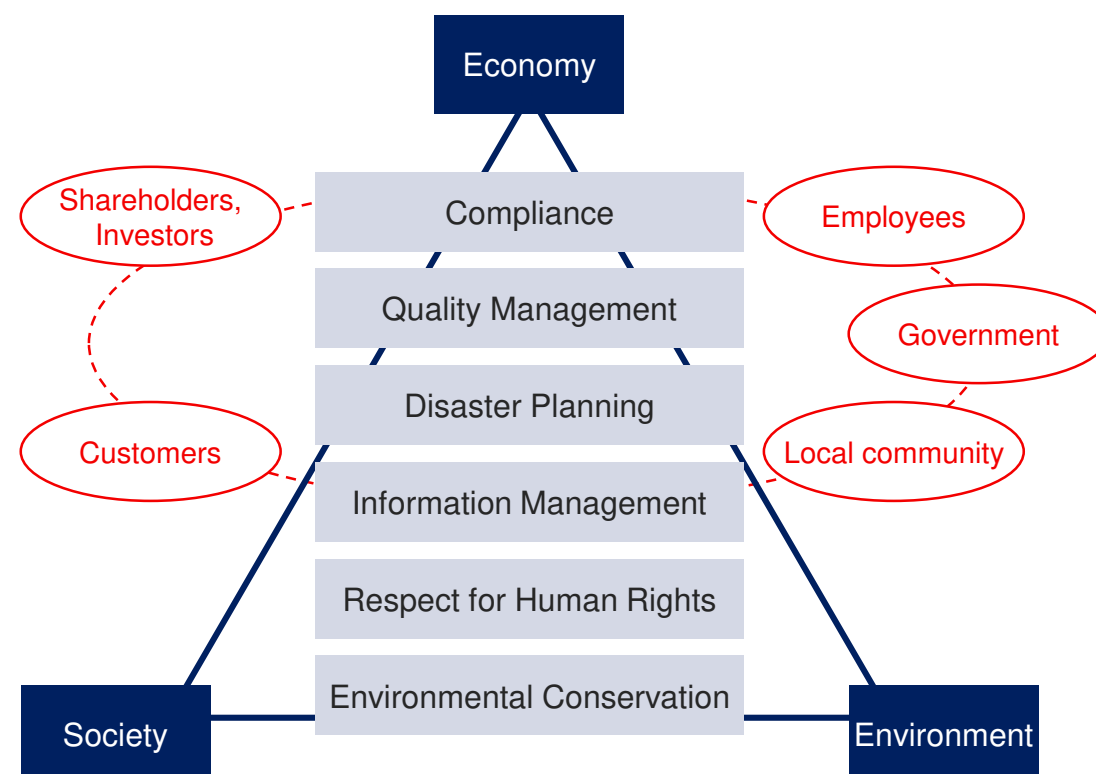
term management plan is an essential aspect of solving these issues and become the key to expansion of corporate growth. PALTAC has won the Supply Chain Innovation Award for the two consecutive year, and I am thrilled that new initiatives like this will be continuously created by PALTAC. Then I also think that we should respect a diversity, in particularly we should seriously confront the issue of career development of female employee. Already within the organization, we share awareness of issue and start to promote initiatives, but developing new culture and structure would not something that happens overnight. That especially is what we have to seriously work towards not only development of system but also high leveled outcome from a mid-and-long term perspective. Of course, I believe that PALTAC has to create an enterprise in which all people must be given equal opportunities to play an active part in the workplace without regard to nationality, religion, marital status, gender, sexual orientation or gender identity, disability, or other attributes and can cooperate and enjoy a more fulfilling life and rewarding work. And I believe that makes PALTAC possible to sustainably grow in the society. These are important matter concerning to enhancement of corporate value, and I think I am looking forward to contributing something to initiatives.

CSR Management



Basic policy

Our mission is to ensure the delivery of daily necessities at all times. In order to fulfill this mission, we have established six material categories of “Compliance”, “Quality Management”, “Disaster Planning”, “Information Management”, “Respect for Human Rights”, and “Environmental Conservation”. And through risk management and corporate structure, we are striving to resolve materiality as a company that moves forward together with society.



Compliance

In order to realize sustainable corporate growth while taking to earn the trust of stakeholders, we believe that every officer and employee must hold the highest ethical philosophy, including not only complying with laws and regulations but also taking part in the manners and rules. We provide training and learning programs for its officers and employees for raising awareness regarding the importance of compliance.



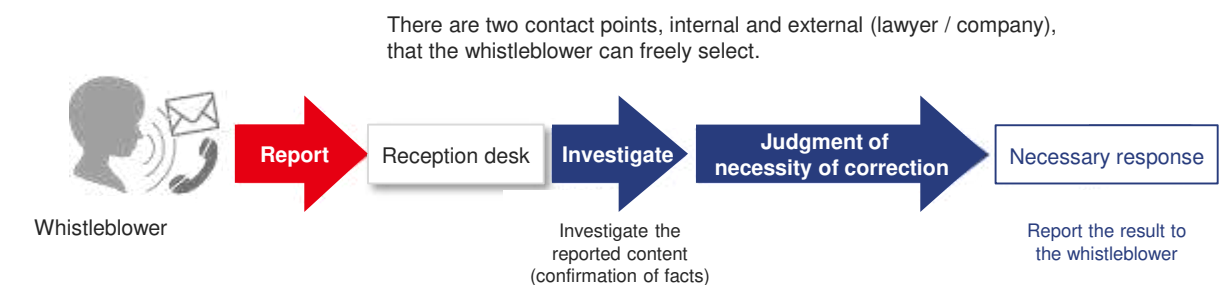
Initiatives to raise compliance awareness

- Conducting periodical online training using the “CSR training” materials common to the MEDIPAL GROUP
- Posted “CSR newsletter” that introduced examples of compliance issues on the internal online bulletin board
- Conducting group training
 - Education on compliance in new employee training
 - Education on insider trading prevention
 - Education on eradication of drunk driving
 - Education on personal information protection

Established various consultation services

To use for the prevention, early detection, and resolution of internal compliance violation and others, we maintain a “Hot-Line of Public Interest Whistle-Blowing System”. Those hot lines are put one at company internal and two at outside of our company to make employees feel more comfortable in talking to the counselor. In addition, we provide consultation services at outside of the company regarding employee problems and grievances on an individual basis and offer systems for solving various problems.

<Image> Response to the public interest reporting hotline



Quality Management

We handle a large number of products such as cosmetics, daily necessities, and OTC pharmaceuticals. For “life-related products” such as pharmaceuticals, we carry out pharmaceutical affairs management to ensure “quality, effectiveness, and safety” in order to achieve our mission of delivering products so that they can be safely used. To that end, we strive for thorough quality management from manufacturers to retailers.

Date management

For products with expiration dates and best-by dates, such as pharmaceuticals, quasi-drugs, and health foods, we confirm those dates at the time of arrival, register and manage them by our information system. As a general rule, products are shipped on a first-in, first-out basis, and the system checks daily those shipping deadlines set by our rule. We conducts quality management by excluding products that have reached the shipping deadline set by ourselves from shipping products, so that retailers can sell them safely.

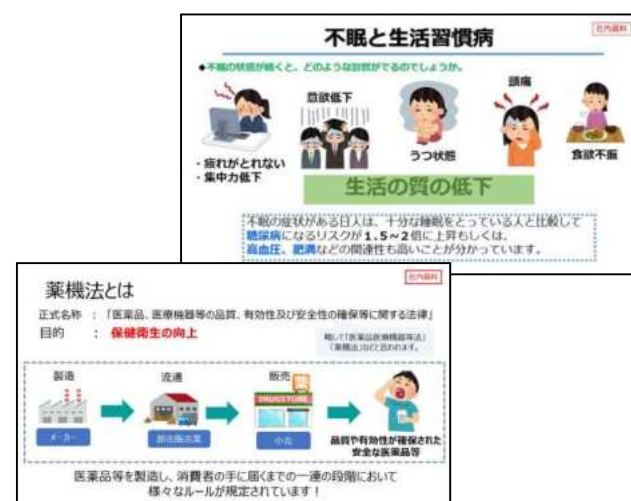
Quality management based on JGSP

Quality management for storage and distribution of OTC pharmaceuticals is based on JGSP (OTC pharmaceuticals version). We have prepared manuals for logistics-related operations and supervising pharmacist’s operations, etc., and has been striving to build an appropriate storage and distribution system based on them.

* JGSP (Japanese Good Supplying Practice): JGSP (OTC Pharmaceutical version) is a practice standard for the supply and quality management of OTC Pharmaceuticals. This is a voluntary norm for the pharmaceutical wholesale industry established by the Japan Pharmaceutical Wholesalers Association based on Pharmaceutical affairs related regulations.

Continuous education of pharmaceutical affairs

In order to collect and provide information on pharmaceuticals and medical devices properly, we continue to provide training for sales staff and pharmacists to develop their knowledge and qualifications. In order to deepen the product knowledge of sales staff, we provide training about not only the effectiveness of medicines, but also related laws and regulations such as the pathological physiology and the Pharmaceutical and Medical Device Act, etc., through branch office pharmacists. And online training tool is also provided for self learning. For pharmacists, we are conducting training for the purpose of enlightenment and information sharing using specialized and academic materials.



(Pharmaceutical affairs training text)

Disaster Planning

All of the products we handle are indispensable for the healthy lives of people. We believe that the stable supply of these products is our social mission. Under this mission, we will formulate a business continuity plan (BCP) and play a role as a social infrastructure company so that we can provide a stable supply of products even in the event of a large-scale disaster or pandemic.

Specific measures are described on P46

Information Management

We handle a variety of information, including the personal information of our customer. In order to manage and protect this information, we conduct security measures such as virus countermeasures, unauthorized access countermeasures, and data encryption for mobile PCs. In addition, we are striving to ensure thorough information management by establishing “information management regulations” and conducting information security education for employees.

Specific measures are described on P50

Respect for Human Rights

We believe that the human resources who support our business activities are most valuable assets and are the driving force to sustainably increase our corporate value.

Therefore, we work to educate human resources in line with each employee’s growth stage, create a work environment where employees are mentally and physically healthy and can work with peace of mind, and create an environment where diverse human resources can fully demonstrate their abilities.

Specific measures are described on P52

Environmental Conservation

We contribute to creating people’s rich and comfortable daily lives, and are pursuing environmental conservation as an enterprise walking together with society.

Aiming for a sustainable society, we are reducing greenhouse gases and promoting recycling to prevent global warming and form a recycling-oriented society.

Specific measures are described on P56

Corporate Data

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Financial Highlights (Eleven-Year)

	2011/3	2012/3	2013/3	2014/3	2015/3	2016/3	2017/3	2018/3	2019/3	2020/3	2021/3
^{*2}											
Sales and Income (¥ million)											
Net sales	757,557	765,654	785,833	831,899	794,221	860,350	922,095	966,684	1,015,253	1,046,412	1,033,275
Gross profit	80,121	81,469	82,599	86,440	61,985	67,104	71,348	76,051	79,645	81,527	81,162
Selling, general and administrative expenses	74,210	72,647	73,398	76,223	47,808	51,003	52,218	53,045	54,246	56,818	55,674
Operating profit	5,910	8,821	9,201	10,216	14,177	16,101	19,129	23,006	25,399	24,708	25,487
Ordinary profit	11,487	14,013	14,880	15,779	16,322	18,556	21,573	25,498	28,528	27,316	28,053
Profit	3,430	6,159	8,397	9,185	10,267	11,929	14,605	17,453	19,767	25,412	19,317
Depreciation	4,230	4,947	4,860	5,180	4,861	4,985	4,931	4,830	4,493	5,059	5,650
Capital expenditures	14,259	3,705	10,766	12,056	691	15,583	9,791	13,649	10,700	18,791	5,352
Financial Position (¥ million)											
Total assets	297,850	292,969	302,851	325,189	318,186	351,880	361,363	387,399	393,603	418,756	435,501
Total net assets	106,057	111,421	125,756	132,427	143,535	154,976	166,921	183,435	197,237	218,297	235,428
Cash Flows (¥ million)											
Cash flows from operating activities	7,359	6,742	11,792	3,340	23,204	5,226	24,721	24,107	23,565	21,005	28,745
Cash flows from investing activities	△13,012	△2,198	△9,982	△11,686	365	△19,327	△6,413	△15,830	△9,531	△3,788	△5,471
Cash flows from financing activities	△5,233	△1,460	△2,705	1,191	△15,464	10,675	△17,876	△5,142	△17,323	△13,001	△8,225
Free cash flow (CF from operating activities + CF from investing activities)	△5,653	4,544	1,810	△8,346	23,569	△14,101	18,308	8,277	14,034	17,217	23,274
Per Share (¥)											
Earnings	61.42	110.28	144.41	144.54	161.58	187.73	229.84	274.65	311.07	399.90	303.98
Total net assets	1,898.86	1,994.96	1,978.85	2,083.86	2,258.71	2,438.74	2,626.72	2,886.59	3,103.80	3,435.20	3,704.78
Cash dividends	40.00	40.00 ^{*1}	42.00	43.00	45.00	50.00	56.00	64.00	68.00	70.00	72.00
Ratios (%)											
Ratio of Gross profit to sales	10.58	10.64	10.51	10.39	7.80	7.80	7.74	7.87	7.84	7.79	7.85
Ratio of SG&A expenses to sales	9.80	9.49	9.34	9.16	6.02	5.93	5.66	5.49	5.34	5.43	5.39
Ratio of Operating profit to sales	0.78	1.15	1.17	1.23	1.79	1.87	2.07	2.38	2.50	2.36	2.47
Equity ratio	35.6	38.0	41.5	40.7	45.1	44.0	46.2	47.4	50.1	52.1	54.1
Return on equity	3.26	5.66	7.08	7.12	7.44	7.99	9.07	9.96	10.39	12.23	8.51
Return on assets	3.93	4.74	5.00	5.03	5.07	5.54	6.05	6.81	7.31	6.73	6.57
Payout ratio	43.4	30.2	29.1	29.7	27.8	26.6	24.4	23.3	21.9	17.5	23.7
Number of employees											
	2,649	2,288	2,284	2,250	2,202	2,245	2,221	2,217	2,207	2,196	2,169

^{*1} The Company conducted a 1.5-for-1 stock split on January 1, 2012. The dividends per share, which are retroactively applied to the impact of the stock split prior to the fiscal year ended March 2012, are as follows. [2011/3 : ¥26.66 2012/3 : ¥33.33]

^{*2} Effective from the fiscal year ended March 2016 the Company changed accounting policies and retrospectively applied to data for the fiscal year ended March 2015.

ESG Highlights (Three-Year)

	2019/3	2020/3	2021/3
Environment			
CO2 emissions (t-CO2) *	51,609	51,052	51,627
Scope 1	3,722	3,284	3,293
Scope 2	22,441	20,703	21,797
Scope 3	25,446	27,065	26,537
CO2 emissions per 100 million yen in sales (scope1+2)	2.6	2.3	2.4
CO2 emissions per 100 million yen in sales (scope1+2+3)	5.1	4.9	5.0
Electricity usage (1,000kwh)	46,384	42,872	43,665
* Calculation range of CO2 emissions Scope 1: Emissions associated with the use of own fuel Scope 2: Emissions associated with the use of electricity at business sites and RDC Scope 3: Emissions associated with truck transportation (shipments from our distribution center: GHG protocol "Category 4")			
Society			
Number of employees	2,207	2,196	2,169
Average age of employees	45.6	45.9	46.3
Average number of years of continuous employment	18.5	19.0	19.5
Percentage of female employees	17.5	18.1	18.3
Percentage of female employees in management positions	5.6	5.6	5.8
Percentage of new female hires	30.7	28.0	35.8
Percentage of mid-career hires	33.3	21.3	34.0
Number of users of childcare support system (childcare leave)	28	31	31
Number of users of childcare support system (short working hours)	42	52	51
Percentage of employees returning to work after childcare leave	None	100.0	100.0
Number of users of the silver human resources employment system (65 years old and over)	224	270	333
Percentage of taking annual paid leave	53.3	56.3	55.9
Governance			
Number of Directors	11	9	8
Percentage of outside directors	27.3	33.3	37.5
Percentage of female directors	9.1	11.1	12.5
Number of Audit & Supervisory Board Members	5	6	5
Percentage of outside Audit & Supervisory Board Member	60.0	66.7	60.0
Percentage of female Audit & Supervisory Board Member	0.0	16.7	20.0
Percentage of female corporate directors (Directors and Audit & Supervisory Board Members)	6.3	13.3	15.4

Corporate / Stock Information

Corporate information (As of ended March 2021)

Corporate name	PALTAC CORPORATION
Head office	2-46 Honmachibashi, Chuo-ku Osaka City, Osaka Prefecture 540-0029 Tel : 06-4793-1050
Founded	1898
Established	1928
Share capita	¥ 15,869 million
Number of employees	2,169 (Part-time Employees :4,749)
Stock listing	Tokyo Stock Exchange, First Section
Stock code	8283
Trading unit	100 shares
Transfer Agent for Common Stock	Mitsubishi UFJ Trust and Banking Corporation
The General Meeting of Shareholders	The General Meeting of Shareholders is held annually in June.
Further information	Management Planning Division Tel : 06-4793-1090
Stock information	Number of Shares Authorized : 180,000,000 Number of Outstanding Shares : 63,553,485 Number of Shareholders : 3,041

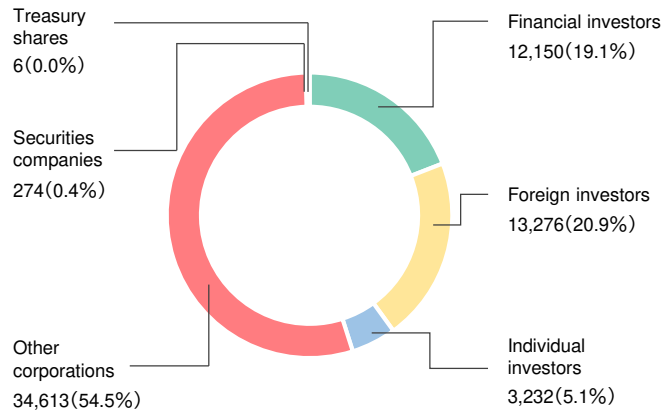
Stock information (As of ended March 2021)

Major Shareholders

Shareholders	Shares held (1,000 shares)	Shareholding ratio (%)
MEDIPAL HOLDINGS CORPORATION	31,853	50.13
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,452	5.43
Custody Bank of Japan, Ltd.(Trust Account)	2,253	3.55
Custody Bank of Japan, Ltd.(Trust Account 9)	2,156	3.39
JP MORGAN CHASE BANK 385632	1,788	2.81
PALTAC Employees Shareholders' Association	1,266	1.99
SSBTC CLIENT OMNIBUS ACCOUNT	1,229	1.93
STATE STREET BANK AND TRUST COMPANY 505001	1,081	1.70
The Master Trust Bank of Japan, Ltd. (Trust Account for the retirement allowance / Lion Corporation.)	606	0.96
Kobayashi Pharmaceutical Co., Ltd.	600	0.94

Shareholding Ratio is calculated after deducting treasury stock (6,387 shares).

Shareholder composition (1,000 shares)



Adoption to Index (As of July 29, 2021)

Since fiscal 2018, PALTAC has been selected as JPX-Nikkei Index 400 composed of companies with high appeal for investors, which meet requirements of global investment standards, such as efficient use of capital and investor-focused management perspectives.



Editor's notes

Since the first release of our Integrated Report, thanks to take wider grounds of dialogue, impressions and opinions from all stakeholders, including shareholders, investors, customers, and our employees, we were able to release this second Integrated Report. We would like to offer our heartfelt thank to everyone who has taken the trouble to read it. In the prior report, because it was the first release, based on our “meaning of existence” and “value” creating, we introduce our strength to support value creation that marks our 120 years history of foundation, while focusing on individual strength from the point of history, from foundation to today. We released this second Integrated Report (the Report) with the main topic of our value creation strategies toward commitment to future corporate value. The Report describes how we understand social issues and addresses these issues under uncertain environment including spread of COVID-19, increase in natural disaster arising from climate change, etc., and it was written using easy-to-understand contents. We changed the overall structure of the Report, which shifting focus to “today” and “future” of us, and introduce our “strength” to support our strategy and “value” should be provided based on the new medium-term management plan has started from April 2021 “For a bright future, Moving forward with the supply chain”. While we share our direction and strategy should be taken aiming for value creation in an integrated

way, we hope that contents about solving material issues and story of “Creating people’s rich and comfortable daily lives” are easier to understand.

To share our initiatives in the aspect of ESG from the point not only qualitative view but also quantitative view, we also work to enhance information on the ESG data. Providing integrated disclosure of financial and non-financial information is great value of integrated report. To provide the Report as adequate reference material, we would like to effort to enhance and develop the content. Finally, we would appreciate you giving us your frank opinions and impressions using the survey posted on our website. Based on your opinions and impressions through this survey, we will try to improve this report in order to enhance dialogue with you. We hope that we can count on your continued understanding and support.

For you, More value



[Editor : Management Planning Division]

Director, Managing Executive Officer, General Manager of Management Planning Division
Masaharu Shimada

Yusuke Takagi Masayuki Maeda Naotaka Tashiro Masafumi Kiyoto Kazuki Kimura

No.002

We would like to strive to contribute to customer's prosperity and to create people's rich and comfortable daily lives through distribution

