

# WHAT'S PALTAC



Integrated Report 2023  
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 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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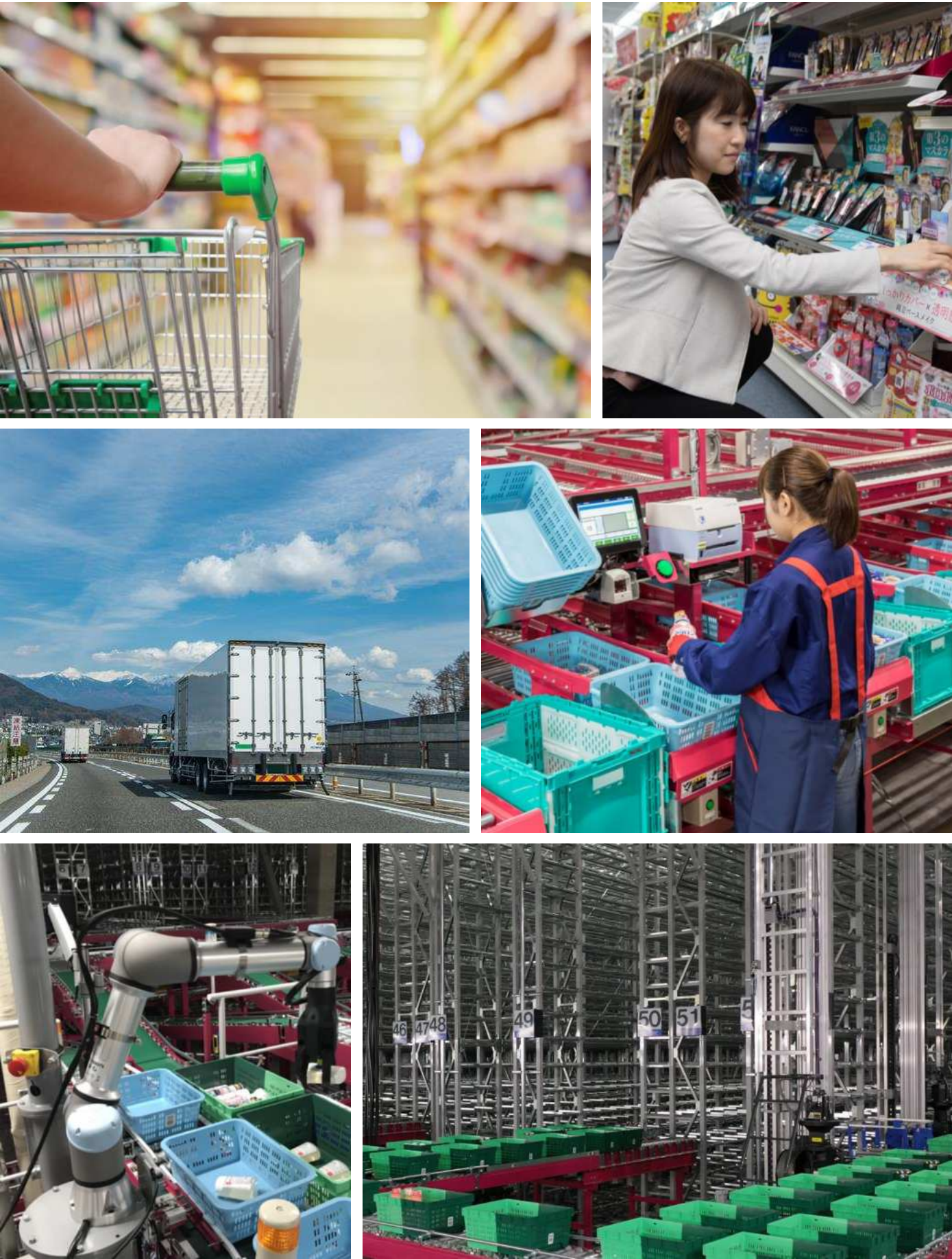
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Editorial Policy

This integrated report is intended to intelligibly convey the “value creation” for our sustainable growth and the “strengths” for realizing our value creation for 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

# 125

years

## PALTAC MIND

### Our DNA

Sincerity and Honesty

### 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”

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

Yearly shipments

3.5 billion products

We supply 30 products per person for one year in Japan



1,000 companies 50,000 items 400 companies 50,000 stores

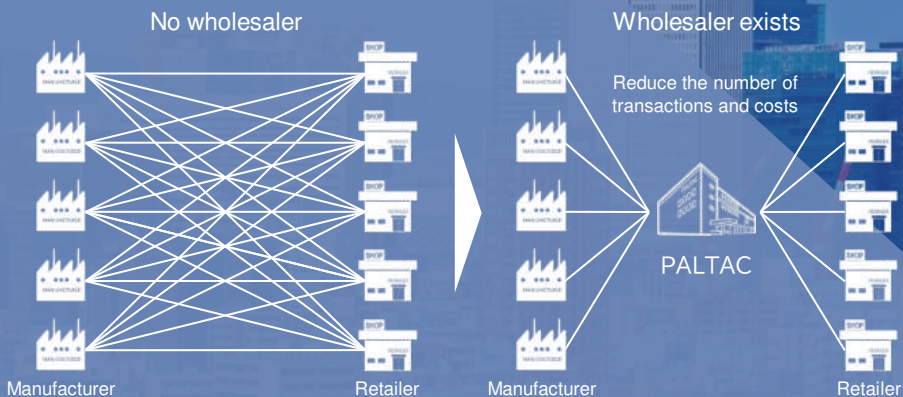
PALTAC is an intermediate distributor that handles daily necessities related to “health and beauty”. Our mission is to deliver products to retailers in a stable and efficient way in a normal condition and even in an emergency with the aim to support “usual daily lives” in which people can obtain products 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

Optimizing 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 / Cleansing agent / 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

### Striving to maximize value creation for sustainable growth

Representative Director, Chairman

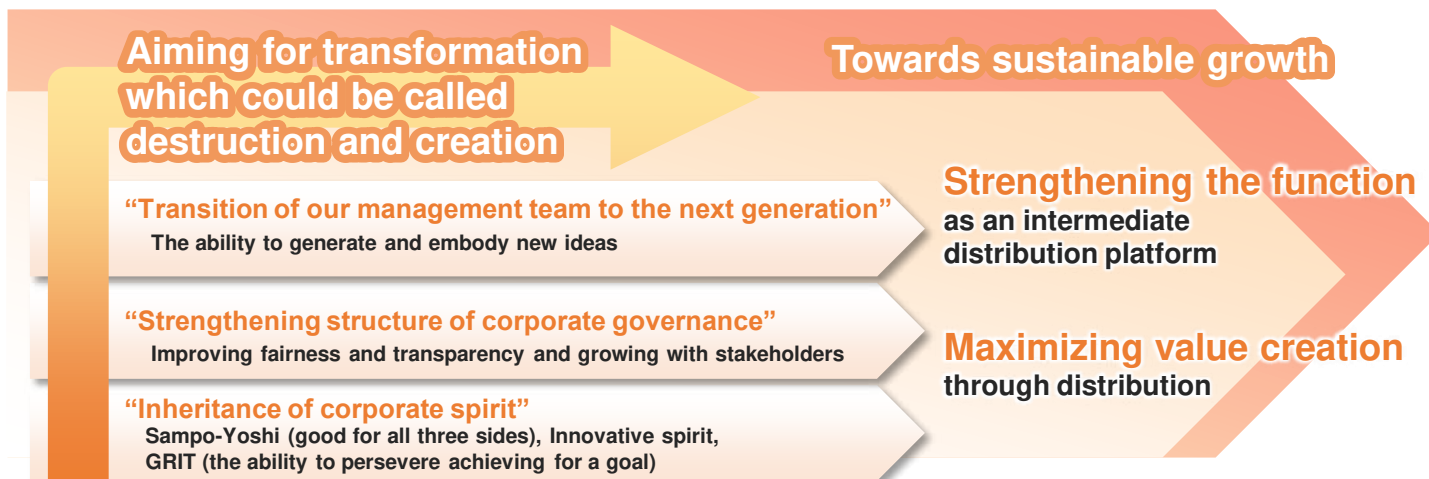
**Seiichi Kasutani**



About three years have already passed since the spread of the COVID-19 began, and the signs of a slowdown have been finally seen. After reclassification of COVID-19's category of Class 5 infection, people's daily lives have recovered to pre-COVID level, and with an increase in people's outing, it feels like vitality was back in society. During the COVID-19 of these years, while consumer behavior has changed, as with our company working styles have also changed dramatically, including a work from home system, remote meeting using web conferencing system, staggered working hours system and a flextime system. Furthermore, in the circumstances of economic resumption after the COVID-19 and the changed global situation, Japan's economy could be at a turning point on inflation due to the rise of raw material prices and severe labor shortage. Under such rapidly changing environment, our company is marking a milestone year, 125th year since founding and the 25th year since a transition to the current business model, which includes the construction of large-scale distribution centers, hence we called this transition "New Birth Paltac". The fact that our company has been able to have over 100 years' history is owing to our ability to adapt to this environment change. From a corporate management perspective, the importance of issues to be considered for sustainable growth in response to environmental changes, such as the corporate governance, CO2 emission reduction, and cost of capital-conscious management, has significantly changed over the past decade. We have

continued to grow through promoting business expansion in line with our management policy of aiming to optimize and streamline the entire supply chain, which was established 25 years ago by our predecessors, including Mikita, former chairman. As a wholesaler, our company does not manufacture any products. Our business process covers purchasing products from manufacturers and selling them to retailers, but it is only completed when the products reach the consumers from the retailers. Our business process is simple, but the approach of focusing on the entire supply chain to determine what we must do is essential and is relevant to the "Sampo-Yoshi" the business philosophy of the merchants of Omi. I believe that PALTAC could get to where it is now because we have embodied this way of thinking. Over the past 25 years, we have made investments exceeding 200 billion yen, and built the highly efficient and low-cost distribution network which contributes to improve efficiency of the entire supply chain. And this network has become our current strength. Moreover, we have promoted investment in information systems enable us to make decisions regarding initiatives we could pursue in order to optimize and streamline the entire supply chain. We have implemented ABC analysis system and "visualize our business operations", including identifying profits and costs of each customer, distinguishing areas where costs are incurred such as distribution centers and delivery process and identifying areas of cost waste. Therefore, we are utilizing this system in order to optimize and streamline

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



the entire supply chain. Further improving and organically linking these strengths, we have created new services such as "VAN services", "Automatic planogram creation system", "PIT system", and "Comprehensive support for promotional items" which has led to the development of our strengths. In order to respond to such issues as the "2024 problem" in logistics (possible shortage of truck drivers due to a reduction in the maximum overtime work limit of 960 hours per year from April 2024), which is attracting growing concern, the whole industry will have to seek to transform itself. Exploiting our strengths, we will not only pursue initiatives, including joint delivery with individual companies but also actively engage in creating new frameworks industrywide. Looking back at this past year, we have examined various issues, such as how to address the materiality for adapting flexibly to the future changes and achieving sustainable growth, and what kind of system would be actually needed to realize this. As the decline in the working populations becomes even more serious, first of all, we have made the decision of transition of our management team to the next generation, believing that for our further growth we must plot the way, including how we could utilize the latest digital technologies, based on new ideas. We have no change in our policy to evolve the business with a view across the entire supply chain. However, we anticipate that the needs for our company will significantly change in the future. Responding to these changes agilely through engaging in transformation which could be called destruction and creation based on new ideas, we will aim to achieve sustainable growth. Mr. Yoshida, who assumed the position of Representative Director, President in June 2023, is 50 years old, more than 10 years younger than me. I would like to take this opportunity to introduce our new President,

Mr. Yoshida. He has accumulated experience in various departments, and I believe he is capable of making a judgment from a multifaceted perspective. I think that abilities of business environmental analysis, and financial analysis, which has been cultivated through his experience in financial accounting department and management planning department, an in-depth understanding of the business operations and conditions on-site which has been cultivated through his experience in sales department and procurement department and personnel networks which he has developed through working in various departments will serve as the backbone of his business execution as president. President Yoshida is also a colleague with whom I have worked together. Going forward, he will be able to acquire his experience as a management executive and I will build the foundation of the future of our company together with him. We are also committed to further strengthening corporate governance under the new management structure. In order to respond to various changes and grow with our stakeholders from a medium to long-term perspective, we believe it is necessary to evaluate and improve our management from various perspectives. Based on this thinking, from June 2023, we have established a Special Committee to strengthen fairness and transparency in corporate management and reviewed Nomination and Compensation Committee and changed its composition to that centered on independent outside directors, with the Committee chairman also been an independent outside director. In the fiscal year ending March 2024, under the new management structure, we will strive to achieve the targets in the current medium-term management plan and work on formulating the next medium-term management plan in which we draw our new future.

## President's Message

# Transformation with the sprit of “Fueki and Ryuko”

Representative Director, President

**Takuya Yoshida**



### Since appointment as President of PALTAC

My name is Takuya Yoshida and I have appointed as Representative Director and President of PALTAC CORPORATION through a resolutions of the annual shareholders meeting and a subsequent resolution the Board of Directors meeting in June 2023. I keenly feel the heavy responsibilities of the president of PALTAC CORPORATION with a history of 125 years, sales of over 1 trillion yen and 7,000 full-time and part-time employees. And I will boldly practice the management with the spirit of challenger and do my utmost for our growth. I sincerely appreciate the cooperation and support of our stakeholders. Under the significant environmental change, in order to achieve sustainable growth, we have shifted to a new management team and determined to carry out transformation which could be called destruction and creation with new ideas and innovative spirits. Soon after the World War II, our company has carried out a business operation as a wholesaler, without founder and his family owned and managed businesses. We have inherited our thinking that “President is a Manager of business” from our predecessors. I took the helm as a corporate manager who carry the future of our history that has been retained and passed down through the generations and I believe that my mission is to realize further growth and to pass to the future generations. We are an intermediate distributor handling cosmetics, daily necessities and

OTC pharmaceuticals and delivers 3.5 billion of products to consumers per year. At a yearly delivery of 30 products per person, these are toothpaste, shampoo, soap, laundry detergent, toilet paper, stomach medicine and cold remedies, and all of them are essential to people's daily lives. In other words, we are an infrastructure company that support for daily lives and extremely important for society. As stated in the Chairman's Message, the thoughts of the “Optimizing and streamlining the entire supply chain” and the “Sampo-Yoshi” on which we place the importance are truly aligned with our social role and meaning of our existence. In addition to above, with the spirit of Fueki (immutability, not subject or susceptible to change) and Ryuko (fluidity, always seeking something new as time goes by) advocated by the Japanese greater poet “Matsuo Bashō” I will make every effort to conduct our company. Consideration for the business operation from a perspective of the entire supply chain, the spirit of the “Sampo-Yoshi”, which originally means “Good for the Seller, Good for the Buyer and Good for the Society” and is additionally perceived by us as “Good for the Manufacturer, Good for the Retailer and Good for our company” and the spirit of “Sincerity and Honesty” that has enabled us to continue to exist for 125 years, are fundamentals of the PALTAC's business management. We will effort to hold these fundamental thoughts as unwavering philosophies.

Additionally, while protecting the fundamental thoughts, in order to respond to changes of the needs of our customers and society, we will strive to undertake drastic transformations such as addressing the labor shortage and the adoption of cutting-edge technologies, including organizations and functions. Social change has become increasingly drastic, and its pace has been accelerated. Under this change, in order to accomplish these transformations, we need to make speedy and appropriate management decisions. Therefore, I will strengthen cooperation and discussions with chairman Kasutani and executive managements and make a decision on the direction in which we could head. For more meaningful discussions and optimal decisions, we have designed a system that enables to share critical information promptly and fairly and increased awareness. And I discussed and agreed with executive managements to exchange honest opinions from different position and perspectives. We will develop an environment enable participants to conduct open dialogue on a level playing field and make a decision. Moreover, we will put diversity in business management.

### Initiatives under fiscal year ending March 2024

For the fiscal year ending March 2024, which is the final year of the current three-year medium-term management plan, we are steadily advancing our ongoing initiatives and striving toward achieving our planned targets including numerical targets. Under the current three-year medium-term management plan, with four key initiatives of “Strengthening retail solution capabilities”, “Strengthening logistics solution capabilities”, “Enhancing IT systems and Promoting digitization” and “Developing talent and organization” through collaboration and cooperation with inside and outside our company, and “Initiative for ESG and SDGs” which will be realized by above four initiatives, we are steadily carrying out our operations. While noting the details in the latter section, I explain approaches for the fiscal year ending March 2024.

#### ■ Strengthening retail solution capabilities

Currently, an increase of SG&A expenses such as

rising labor costs due to labor shortage and soaring fuel and electricity prices due to rising raw material prices is pressing issue for the industrywide including retailers. Under this environment, our ongoing initiatives of optimizing and streamlining the entire supply chain will be even more important. While collaborating and cooperating with retailers, we will steadily implement initiatives not only to activate in-store and expand comprehensive support for promotional items by PIT system, our store support function, but also to optimize operation of delivery and warehouse beginning with retail store by our SCM function. Under environment where industrywide profits are shrinking, through these initiatives we will be able to prevent cost increase and supply products with customer-centric price and pursue to secure appropriate profits as a whole.

#### ■ Strengthening logistics solution capabilities

The greatest challenge in logistics is “2024 problem” in logistics. Under the current three-year medium-term management plan, we segregated logistics issues into the operational aspect and the delivery aspect of the distribution center to clarify the issues. Regarding “2024 problem” in logistics, through cross-field initiatives, we will continue to share successful examples in each area and reduce the long-distance transportation which cross over the areas. In addition, although it may be difficult to do, we will strive to calculate a detailed estimation of the negative impacts from “2024 problem” in logistics and share this estimation with the delivery company and make efforts to minimize these negative impacts through collaboration and cooperation.

#### ■ Enhancing IT systems and Promoting digitization

IT systems and digital technology are the keys for initiatives not only of retail solution and logistics solution but also of workstyle reforms, etc. Therefore, we has developed DX Promotion Department and are bringing company-wide approaches forward. Regarding IT base to support digitization, we are favorably progressing our process, including use of open-source cloud platform as scheduled.





In parallel with the above process, through strengthening recruitment and education of IT human capital, we will build a system to develop customer service with flexibility and speed. And not only IT human capital, but also all employees will effort to learn reskilling program in order to enable the effective use of digital technology. We have created the online community where the employees promote mutual understanding and sharing information. Through opening the personal know-hows and skills, we will aim to acquire digital literacy and foster a corporate culture of inclusion and mutual support.

### ■ Developing talent and organization

Under the environment where the working population decreases, management with a keen awareness of human capital will become increasingly important, accompanied by the promotion of mobility of workers based on the policy of labor market reforms approved by the Cabinet of Japan and gradual recovery of the economy after COVID-19. We are moving from an era in which “companies choose workers” to an era in which “each individual chooses company and their own career”. Under these circumstances, to ensure continuous sustainable growth, we must establish a relationship whereby a worker and company equally choose each other. In order to do this, we understand the importance not only to increase in attention toward wages, but also to realize the work-life balance and develop the worthwhile workplace for a lifelong. To realize these objectives, we visualize the situation and the challenges through a dialogue with employees and engagement surveys and strengthen the ties

between employees and our company by working to resolve the challenges. By sharing our company's basic policy and strategies with all employees, we will result in effect appears from communication and spontaneous behavior through matching our company's mission and the targets held by individual employees for the purpose of ensuring the effectiveness of the strategy and swift corporate activities.

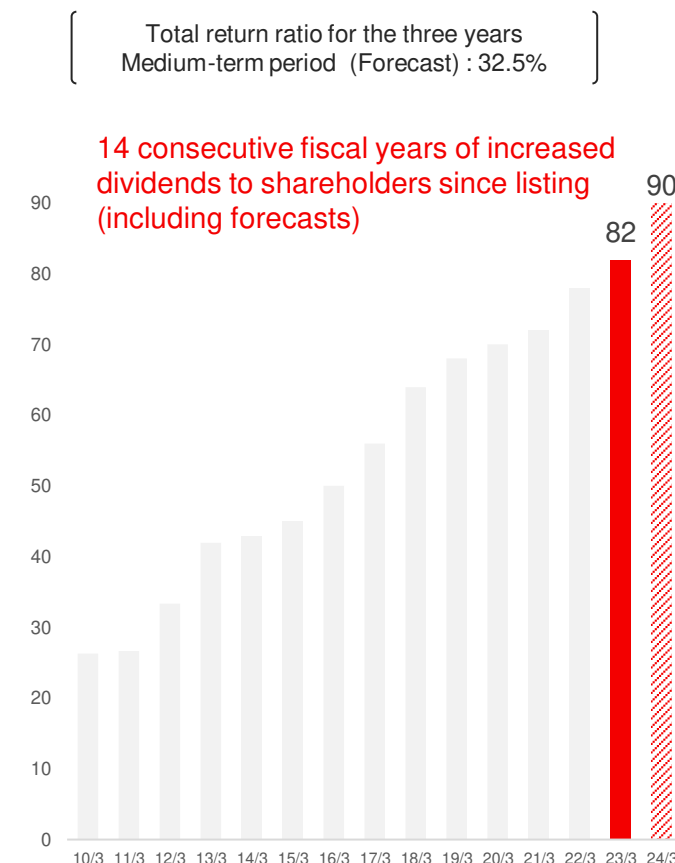
### ■ Initiative for ESG and SDGs

Our company is handling daily necessities, and we are operating with close ties to social lives. By optimizing and streamlining the entire supply chain through our business operation, we will contribute to resolving the social issues. We received the “Excellence Award” of the Supply Chain Innovation Awards 2023. We developed efficient, sustainable resource-recycling cycle using existing distribution network, that is unique to our company. It is particularly pleasing for this initiative to evaluate. Based on the thinking that realizing a sustainable society and our sustainable growth follow the similar direction, we will carry on our initiatives. Regarding sustainability issues, we have built the project and addressed “human capital management” and “reduction of CO2 emissions” as a priority issue. Increase of natural disasters such as heavy rains and typhoons due to climate change is one of the most important social issues need to be addressed to our company which carry out intermediate distribution of dairy necessities. Regarding the reduction of CO2 emissions, aiming to reduce Scope 1 and 2 CO2 emissions, we will effort to steadily reduce CO2 emissions through utilization of renewable energy following the roadmap to 2030 (50% reduction vs. FY2020). Regarding the Scope 3 CO2 emissions, we will continue to reduce CO2 emissions by improvement activities that has carried out over the years and efficient delivery, including reducing transportation distance and arranging joint delivery for the closely related products transportation. Regarding another CO2 emissions in the supply chain, we will effort to reduce CO2 emissions through a corporation with customers in consideration with relevance to our business activities.

### ■ Capital policy

We consider the distribution of profits to shareholders and increase of corporate values through sustainable growth to be our top management priorities. We, as an infrastructure entity which is responsible for an intermediate distribution, will return profits through maintaining a balance between “investments for sustainable growth” and “steady and continuous return of earnings to shareholders” based on our financial soundness. Under the current three-year medium-term management plan, we recently set a target of a total return ratio of 30%. Regarding the dividend for the fiscal year ending March 2024, we plan to pay an annual dividend of 90 yen per share (an increase of 8 yen per share) in conjunction with our business growth. As a result, a total return ratio during the period of current three-year management plan will be 32.5%, including treasury share buyback in the fiscal year ended March 2022. If the dividend is distributed as planned, increases in dividends for 14 consecutive fiscal years may realize. And we will effort to maintain the increase of dividends.

### Annual Dividends per Share (Yen)



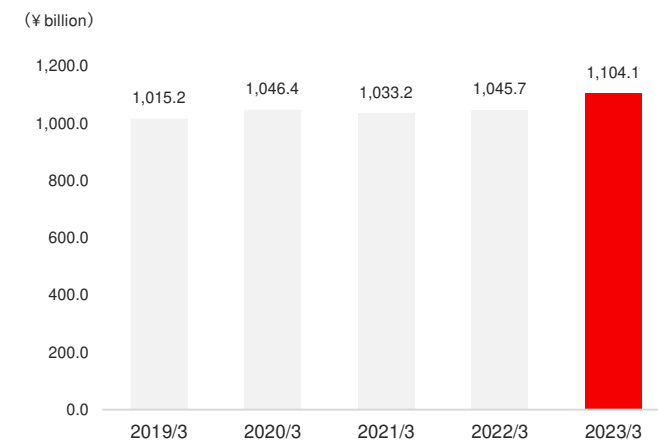
### Next (three-years) medium-term management plan

In the fiscal year ending March 2024, now, we are developing the next medium-term management plan in parallel with the efforts to achieve the targets of the current medium-term management plan. We are facing various medium-to-long-term social issues, including a declining birthrate and aging population, and expect this difficult environment for the entire supply chain will continue. In such circumstances, the new plan, while carrying on the basic approach of expanding our business through resolving issues with a view across the entire supply chain, we will aim to bring the transformation which could be called destruction and creation with new ideas as previously mentioned in “a new management team”. I would like to talk a little about what I say. Aiming for the development of the entire supply chain, we shall ensure the cooperation with retailers and manufacturers, as well as, closely monitoring competitive and non-competitive field, we explore cooperation with other companies in the same industry including joint delivery. Moreover, I feel it will be necessary to explore cooperation with companies across our industry. And I believe that, as Japanese companies increased their expansion overseas, we have an opportunity to spread high-quality Japanese products and services to overseas market. We have established local subsidiaries and begun to take on the challenge of overseas wholesale business. In the new plan, I believe that development of overseas business by driving our value has been accumulated will become key strategies. Regarding capital efficiency, while recognizing return on invested capital (ROIC) and return on equity (ROE) as its key management indicators, considering the rapid changes in the business environment we will deepen discussions over new initiatives and appropriate allocation of management resources. Including those initiatives, starting with the thoughts of our company's desirable shape for future decade, we will establish a new medium-term management plan in which diversity will also be reflected, through discussions with not only management members but also all employees. I offer my appreciation to all stakeholders and thank you for your continued support and encouragement.

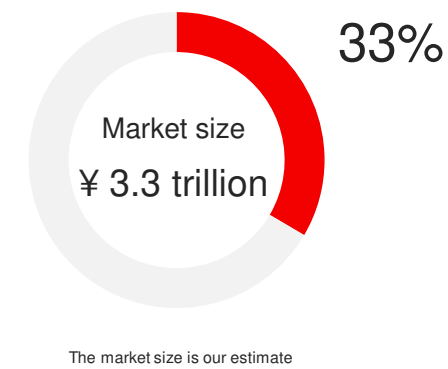


# Financial and Non-financial highlights

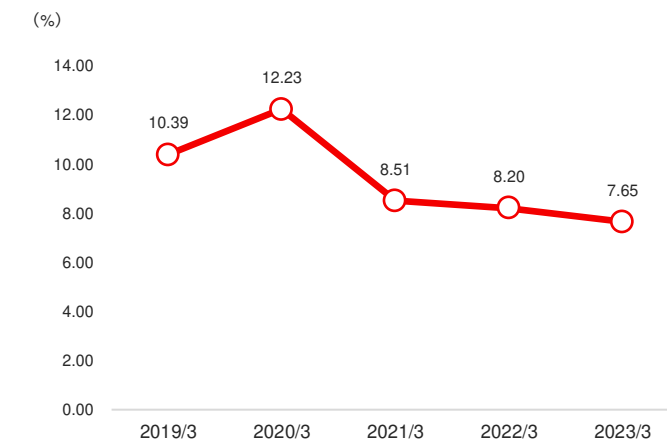
## Net sales



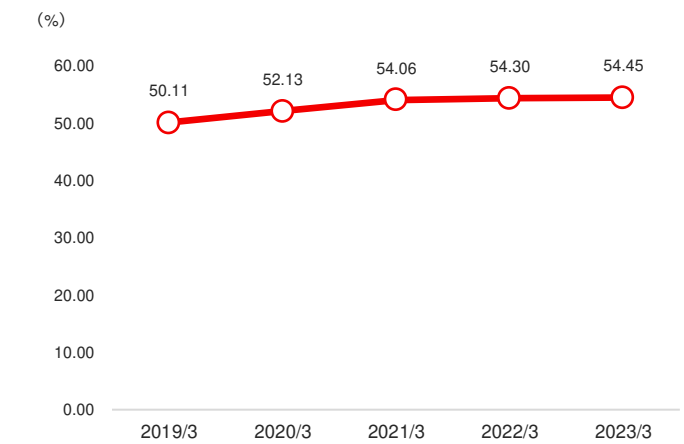
## Market share



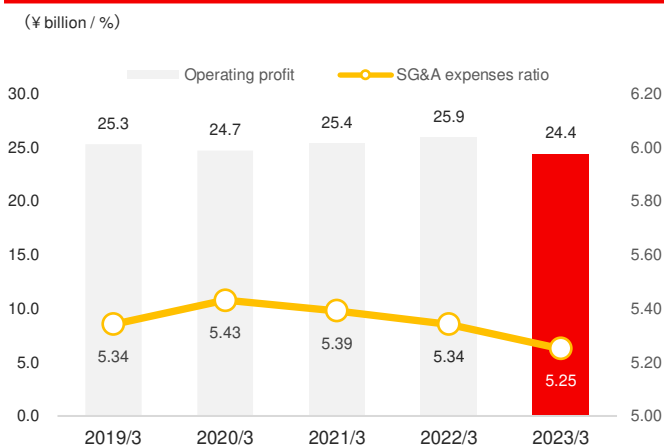
## ROE



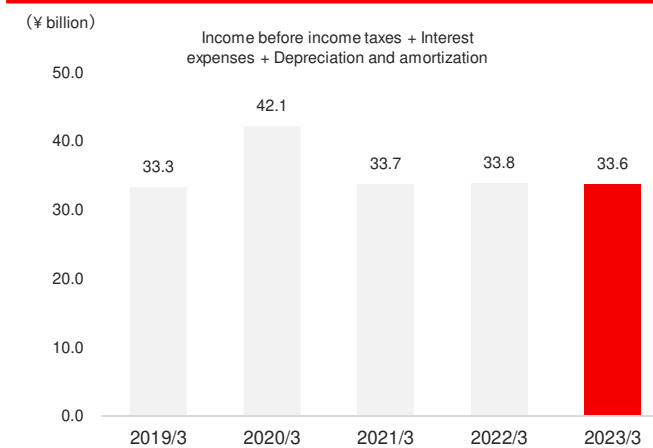
## Equity ratio



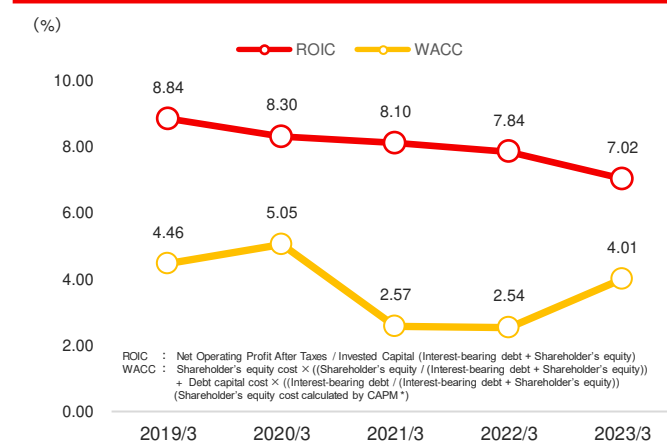
## SG&A expenses ratio / Operating profit



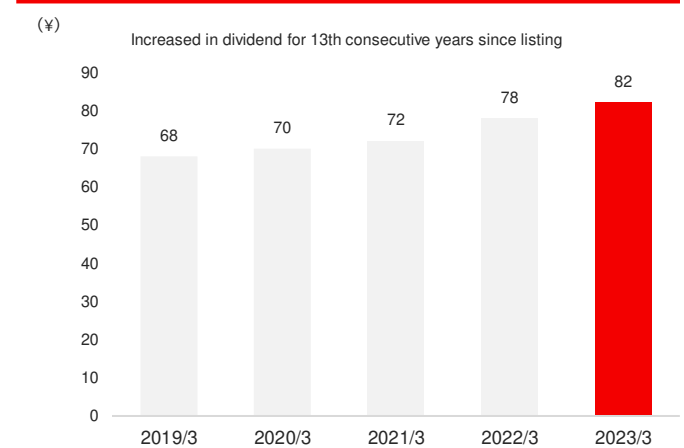
## EBITDA



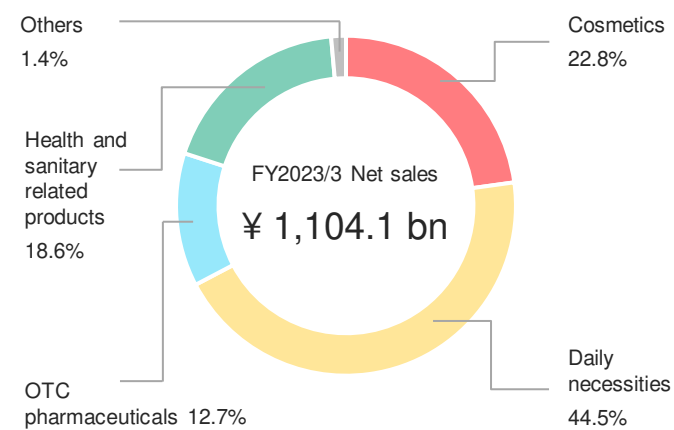
## ROIC / WACC



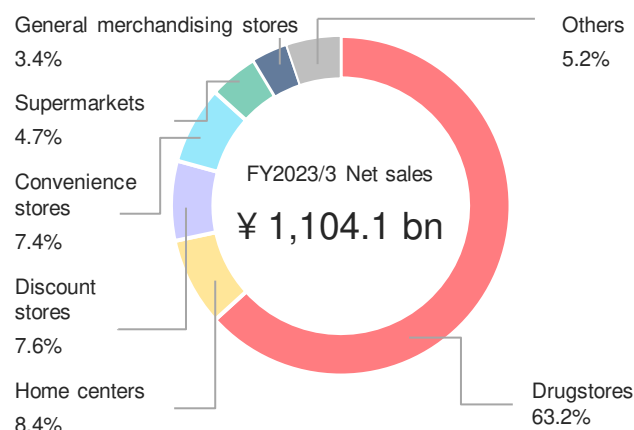
## Cash dividend per share



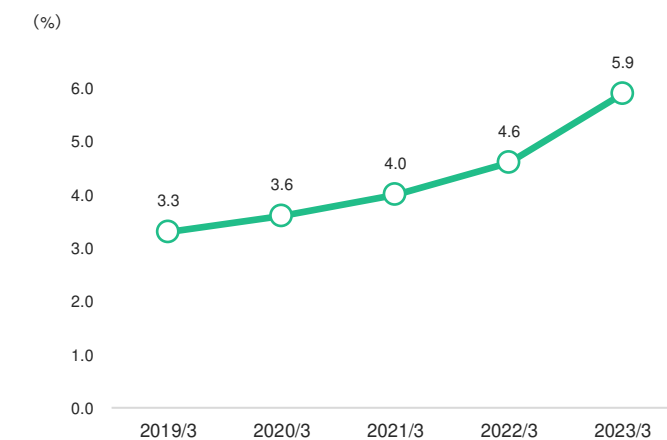
## Sales composition by product category



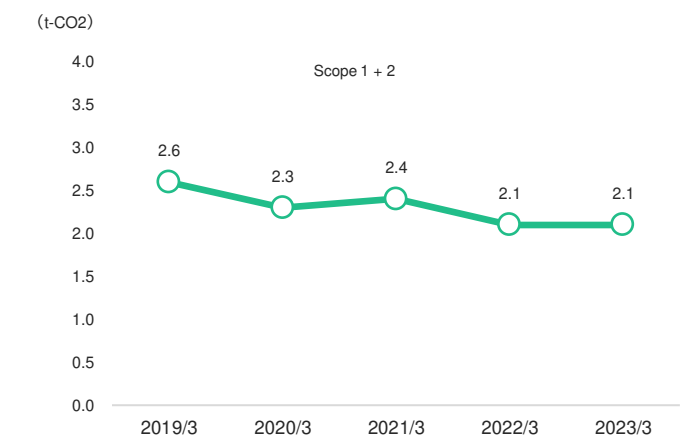
## Sales composition by customer category



## Percentage of female employees in management positions



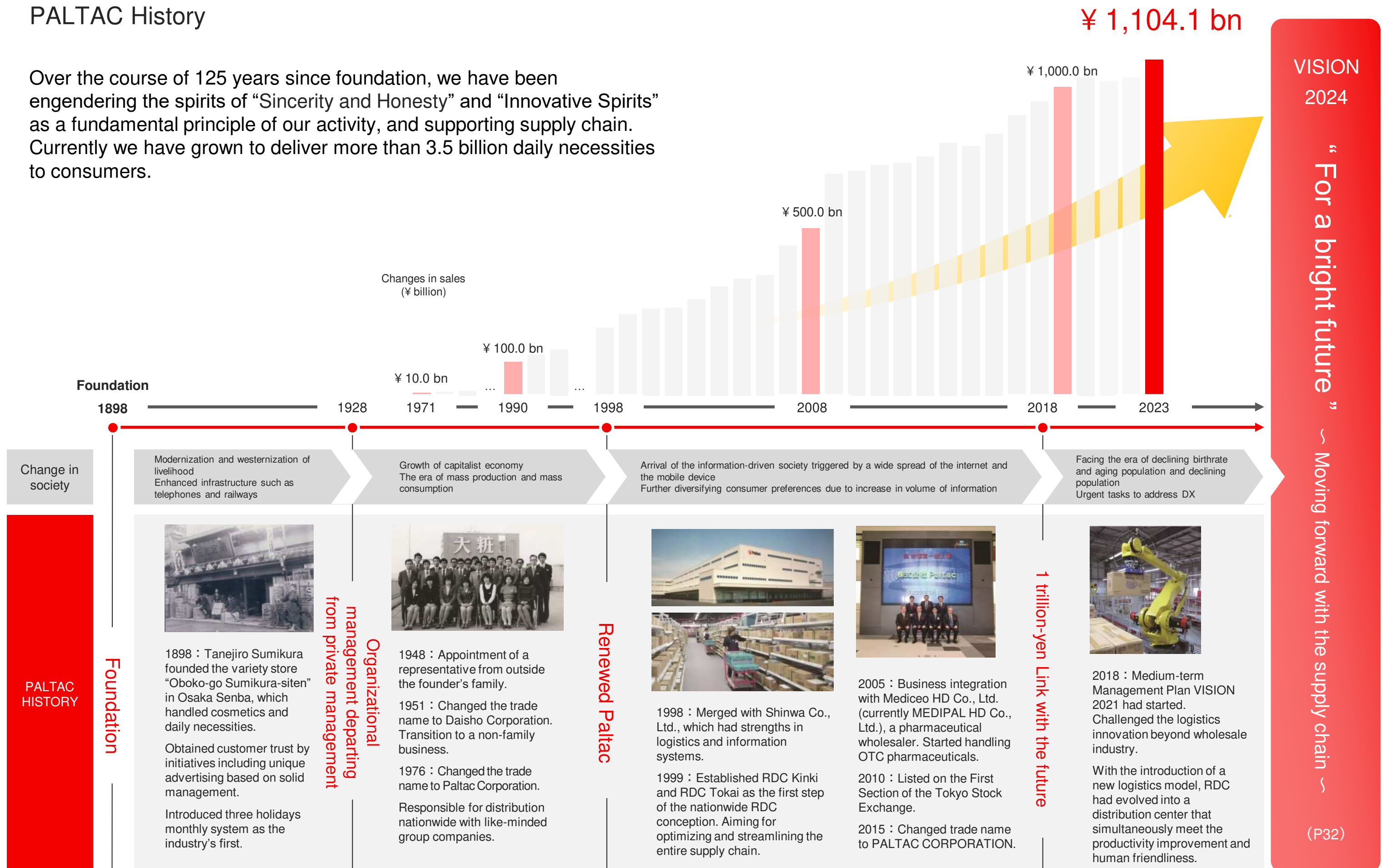
## CO2 emissions per 100 million yen in net sales



\* The figures used to calculate WACC are as follows.  
 \* Risk premium : 6.26% (Average profit yield of all stocks on the First Section of the Tokyo Stock Exchange - Risk-free rate)  
 \* Risk-free rate : 0.50% (JGB 10-year bond yield)  
 \* β value : 0.56 (Regression coefficients of Nikkei Stock Average and Our stock price (as of the end of the month))

# PALTAC History

Over the course of 125 years since foundation, we have been engendering the spirits of “Sincerity and Honesty” 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 “Sincerity and Honesty” 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 the 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, the Japanese economy was brisk

Founder  
Tanejiro Sumikura



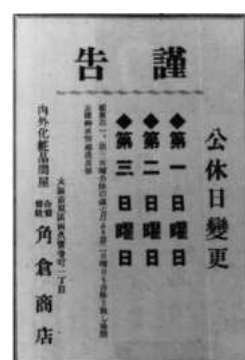
Advertisement at that time



New year greeting cards printed with portrait



An information about holiday expansion published in the newspaper



## Inherited belief



“Sanyo” means that properly managing profitability

- Cost management by work process (ABC\*)
- Profit management by individual item of about 50,000 items



“Saikaku” means generating innovative and creative ideas and planning strategies by which those ideas turn into practice

- Supply chain optimization through internally developed logistics equipment and internally developed system
- Taking on the challenge of logistics innovation through utilizing AI and robots that beyond wholesale industry
- Taking on the challenge of DX to realize the innovative productivity of the entire supply chain



“Shimatsu” means that while eliminating waste with plan, making generous and aggressive investments necessary for management

- Active investment aiming for optimization of supply chain
- Developing corporate structure that generates investment capacity

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 the 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 had been 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 the number of items which we handled had reached 3 thousand. At the competition of variety goods held at that time, the 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 a sense of relief to customers and Sumikura-Shiten business had been in the stead growth mode ever since. Our sound management strategy had evolved to the current PALTAC. And the 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 a trust

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

## Enhanced employee's sense of participation in organizational management

In the early years of the 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 a 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 the burnt field by the air raids on Osaka. Headquarter of Sumikura-Shoten Corporation was completely destroyed, and all stocks burned out. A small office in which interior wall was gutted, only survived and they quickly recovered. It's difficult to make forecasts 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 trough doing everything

Scenery of new year shipping at Minamikyuhojimachi



in our powers", had been heightened. After working time, they gathered at the café in Kitahama and repeated active discussion to overcome these conditions and started activities for recovering. In the period of confusion after the War, every company were hard to work to gather products under the 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 on 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 rebuilt 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".

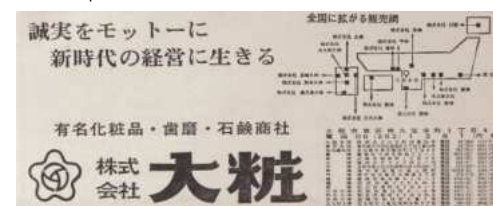
## From family business to business enterprise, the birth of "Daisho"

In 1949, since the 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 nationwide. Major supermarket further advanced through nationwide operation and development of chain stores. It was a big change of environment in which success depended on the ability to respond quickly and reliably to the market needs. At the same time, the number of product items rose, and we intended to integrate same wholesaler who shared the same passion, to the group. Daisho had 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 the 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 wishes 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

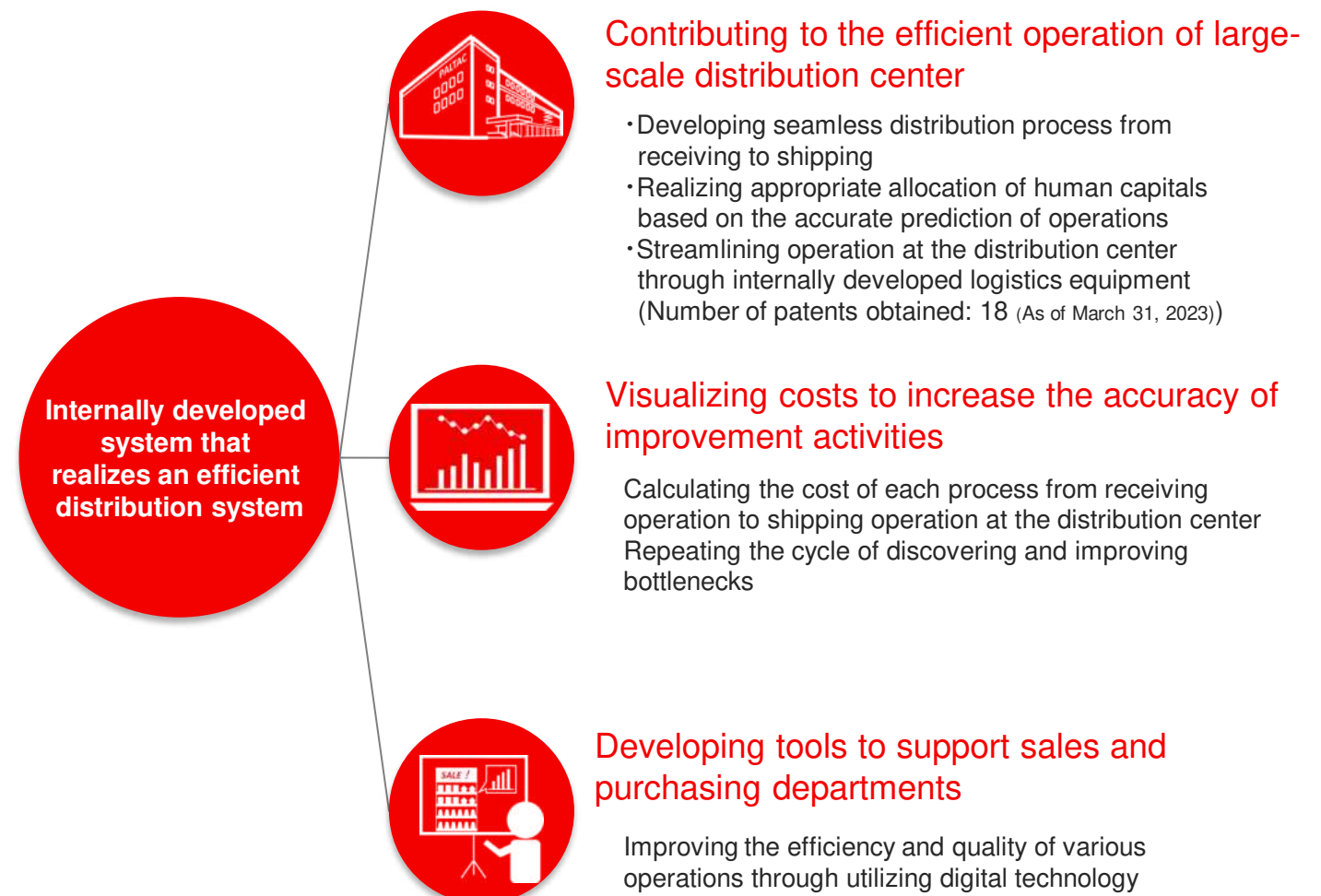
In 1991, in Japan the bubble economy collapsed. In the continued severe economic conditions, restructuring of the wholesales rapidly improved and movements towards expansion of enterprise scale accelerated. We had enhanced nationwide distribution system such as promotion of grouping and tried to promote 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 nationwide 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 a 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.

### Internally developed system that realizes an efficient distribution system

In conjunction with the development of RDC conception, we tried to replace our enterprise resource planning (ERP) system aiming to ensure smooth business operation including operation of the 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 a cost analysis system "ABC" in 2002. We had become the first in the 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 customer and could offer effective proposals for improvement. Moreover, "ABC" is also 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.



### RDC system contributing to the efficient operations of retail stores

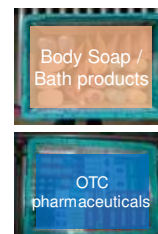
#### < Shipment accuracy 99.999% >



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 a weight inspection module

Reducing inspection operation

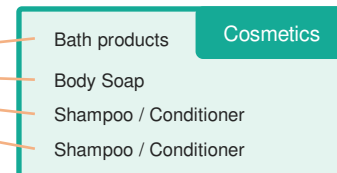
#### < Shipping in a packing style that is easy to display >



Packaging and delivering product by each category



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



Stacking Folding Containers automatically based on product display locations

Ensuring a smooth transition to display work

Minimizing distances to walk for operations ⇒ Reducing time of displaying operation

## 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 AI and robotics, and that enable us for doubling of the productivity of personnel and is friendly to employees. And also, since 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 are taking on the challenge of contributing to solve the various customer’s issues. Amid business environmental changes such as the advancement of digitalization and labor shortages, aiming to achieve sustainable growth, we have determined that we must challenge corporate transformation that can be called “destruction and creation” with new ideas.

Therefore, we have carried out the change of generations among top managements in April 2023, and are considering the future prospects, developing the business plans and pursuing business operations. In the 125 years since our foundation, we have merged with 54 other companies and created a nationwide distribution network. We have always prioritized our customers and executed business activities seriously, and for the past 25 years we have continuously pursued optimizing and streamlining entire supply chain. 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 the supply chain.

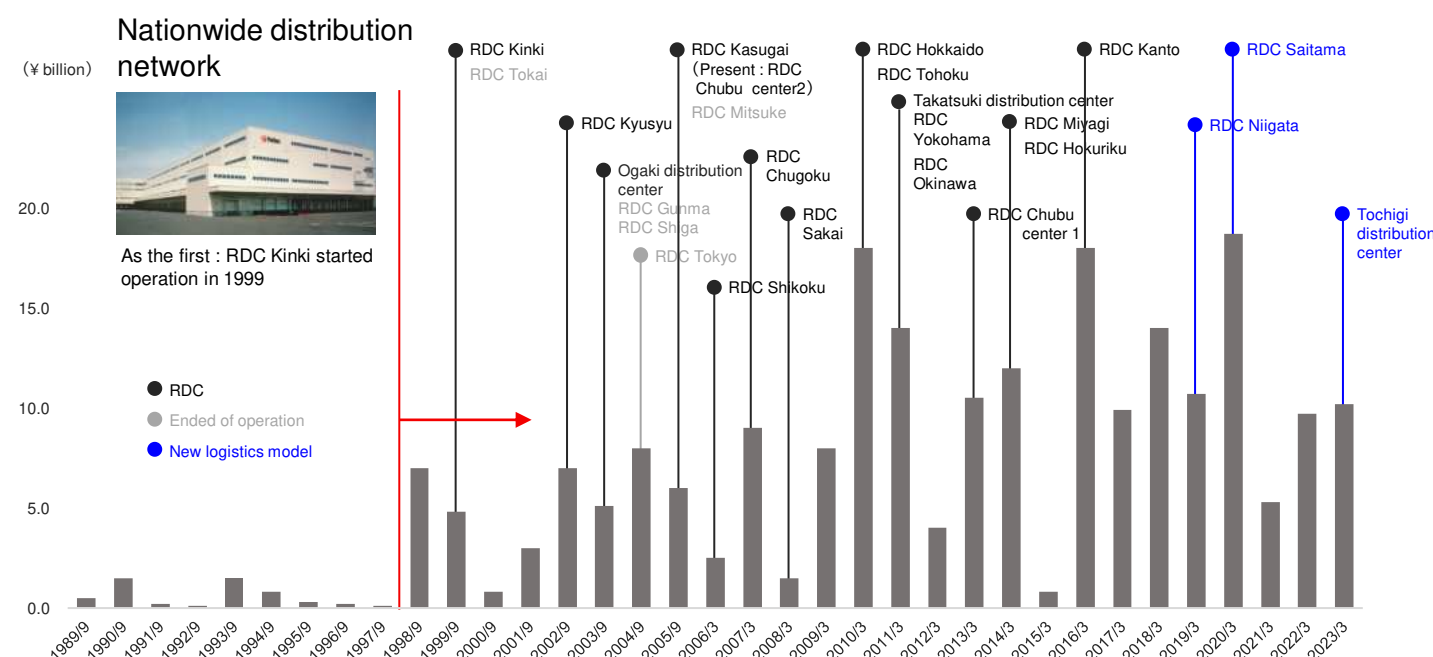


Tochigi distribution center  
(Started operation in February 2023)



AI-powered case loading robot

## Changes in capital investment and establishment of RDCs



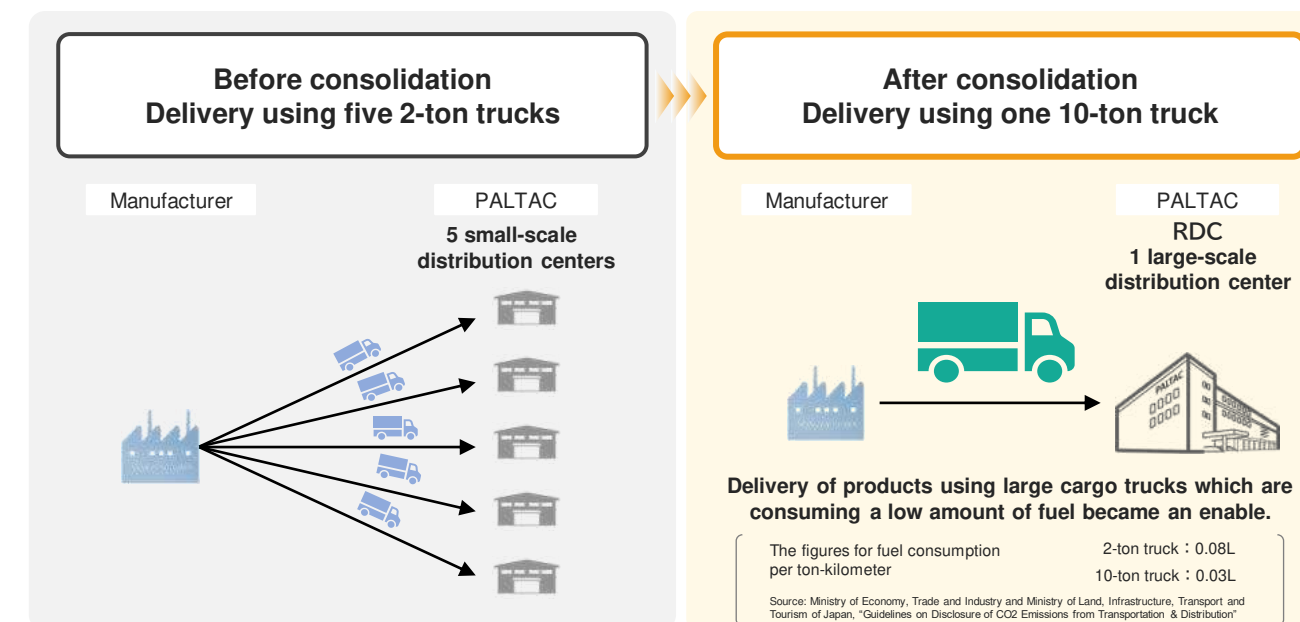
## Contributing to reducing the environmental burden through constructing the nationwide RDC network



### Expansion and consolidation of our distribution centers should make important contributions to reducing CO2 emissions

Since 1999, nationwide RDC network has been constructed and main distribution centers have been consolidated to nearly one-fifth, and thereby we have contributed to streamlining the entire supply chain from a shipment at manufacturers to display at retail stores. Not only that, it has been possible to transport products by large cargo trucks whose fuel consumption per unit is less than light trucks and to realize a reduction in CO2 emissions.

#### Main distribution centers have been consolidated to nearly one-fifth



### Fuel consumption used for truck transportation was reduced to one tenth

A trial calculation : 0.40L per ton-kilometer → 0.03L per ton-kilometer  
0.08L (2-ton truck fuel consumption per ton-kilometer) × 5 trucks → 0.03L (10-ton truck fuel consumption per ton-kilometer) × 1 truck



## PALTAC's Value Creation

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# 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 have 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 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 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 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"><li>Increasing needs for an efficient distribution network</li><li>Increasing needs for a nationwide distribution network capable of responding to the retailer's M&amp;A strategy</li><li>Increased sales opportunities for seniors</li><li>Expansion of the healthcare market</li><li>Diversification and complexity of consumer needs</li><li>Increasing importance of data utilization (sales proposal / logistics improvement)</li><li>Increasing needs for a secure and safety distribution network</li><li>Expansion of environmentally friendly consumption due to penetration of SDGs (ethical consumption)</li><li>Increasing challenges that customer faced due to expansion of the EC business market</li><li>Flexible working style utilizing digital technology</li></ul>
Decrease in the working populations	
Increasingly serious delivery issues	
The post COVID-19 Era	Challenges <ul style="list-style-type: none"><li>Intensifying price competition due to domestic market shrinkage</li><li>Expansion of buying power through the retailer's M&amp;A activities</li><li>Increase in burden of operations which support the supply chain (manufacturing, shipping, store operations, etc.)</li><li>Increase in logistics costs (personnel costs / delivery cost unit price)</li><li>Uncertainty about the supply of products due to shortage of drivers</li><li>Soaring energy and raw material prices due to a tightening supply-demand situation, etc.</li><li>Decline in consumption due to price hikes</li><li>Disruption of distribution network due to increase in natural disasters</li><li>Decrease in profits due to carbon pricing, etc.</li><li>Decline in competitiveness due to delay in digitalization</li></ul>
Climate change	
Digitalization	

### Materiality

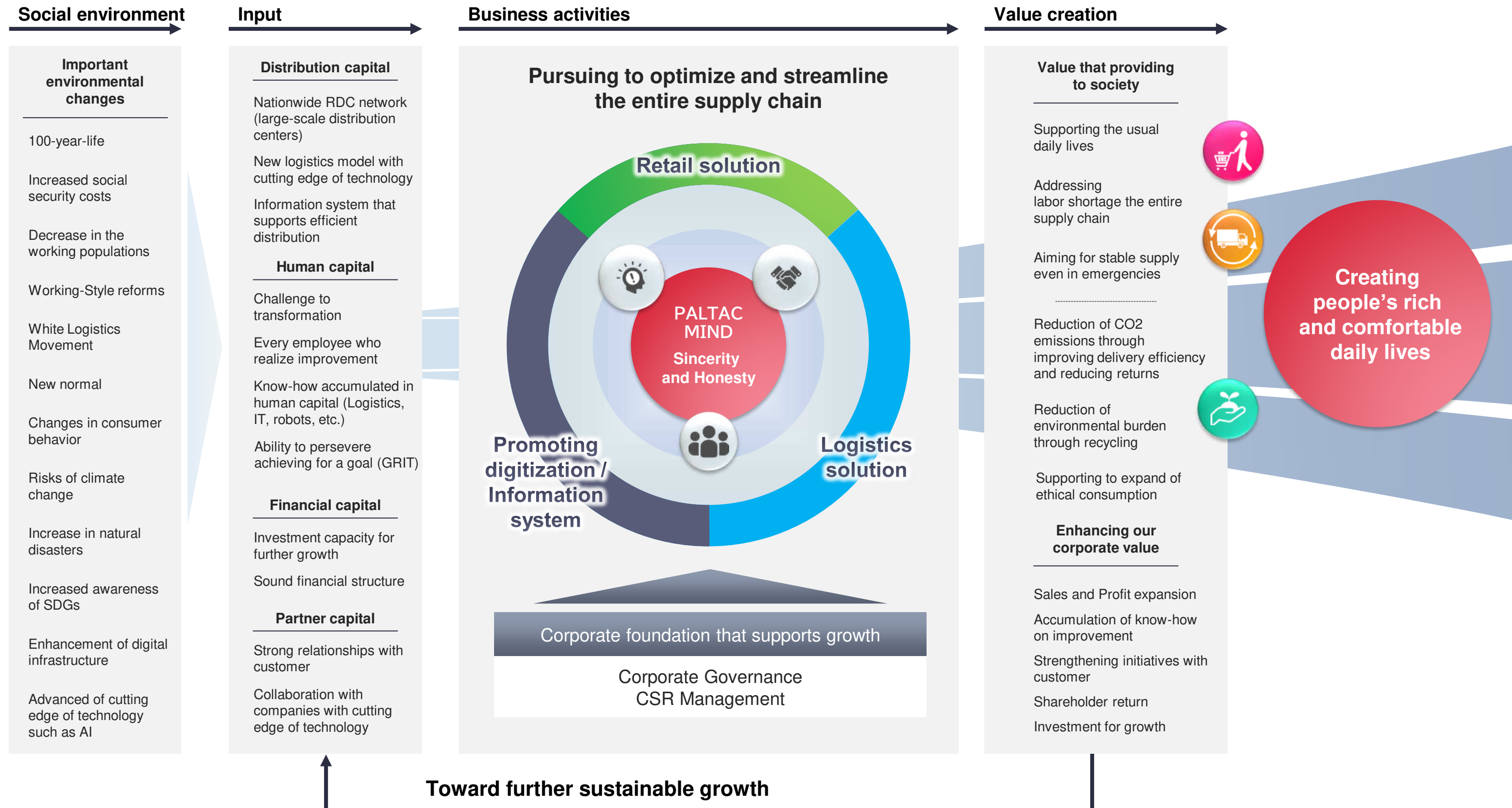
	Issues that can be solved by leveraging our strengths	Issues that can refine our strengths and become opportunities for further growth by working to solve them
Materiality	Supporting the usual daily lives Developing sustainable distribution Harmonizing the environment	Innovation Partnership Talent and organization
Relevance to SDGs	<div><div>3</div><div>GOOD HEALTH AND WELL-BEING</div><div>Elimination of overwork in the distribution process through initiatives to optimize and streamline the entire supply chain</div></div> <div><div>11</div><div>SUSTAINABLE CITIES AND COMMUNITIES</div><div>Maintaining and continuing a social mechanism in which daily necessities are available "at any time" and "affordably"</div></div> <div><div>12</div><div>RESPONSIBLE CONSUMPTION AND PRODUCTION</div><div>Prevention of waste generation by reducing returns Supporting for expanding ethical consumption</div></div> <div><div>13</div><div>CLIMATE ACTION</div><div>Initiatives to reduce CO2 emissions and to recycle simultaneously with improving operations</div></div>	<div><div>5</div><div>GENDER EQUALITY</div><div>Promoting business reforms with an awareness of diversity, including women's success</div></div> <div><div>8</div><div>DECENT WORK AND ECONOMIC GROWTH</div><div>The growth of each individual is the source of growth for the intermediate distribution industry which does not have proprietary own products</div></div> <div><div>9</div><div>INDUSTRY, INNOVATION AND INFRASTRUCTURE</div><div>Taking on the challenge of dramatically improving productivity by actively introducing cutting-edge technologies such as AI and robots</div></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 industrywide 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 environments, 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 medium-term management plan, "PALTAC VISION 2024", we will work to reinforce our 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.

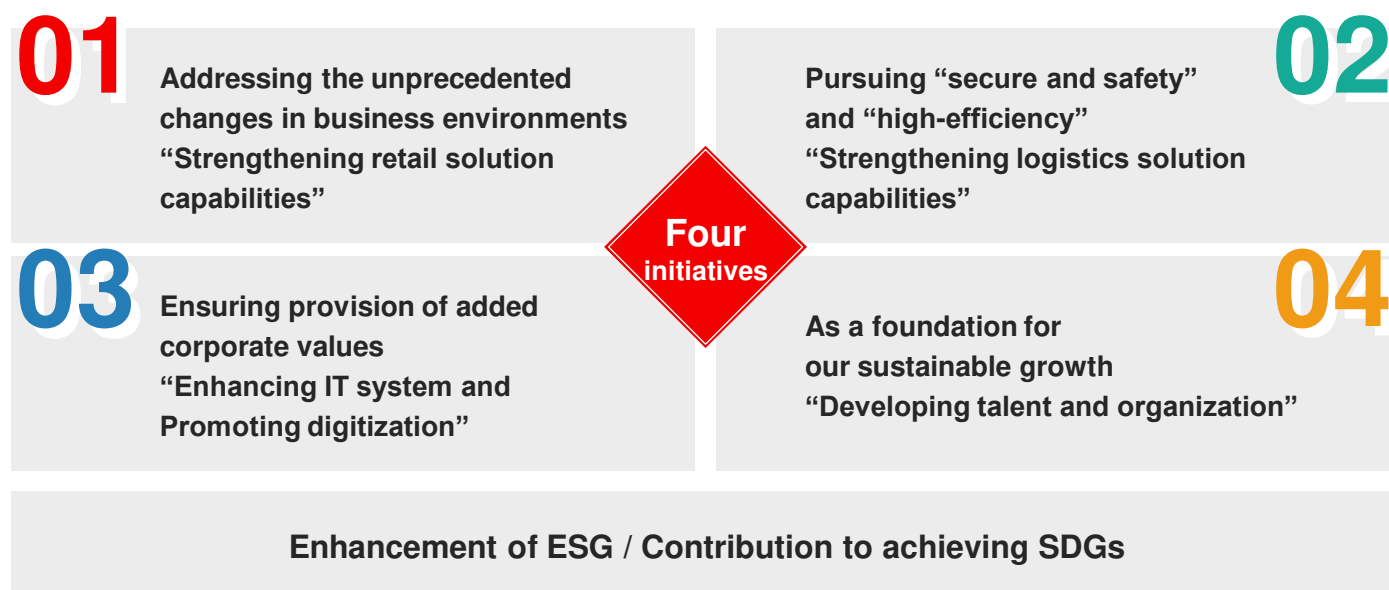
### PALTAC VISION 2024

## “For a bright future”

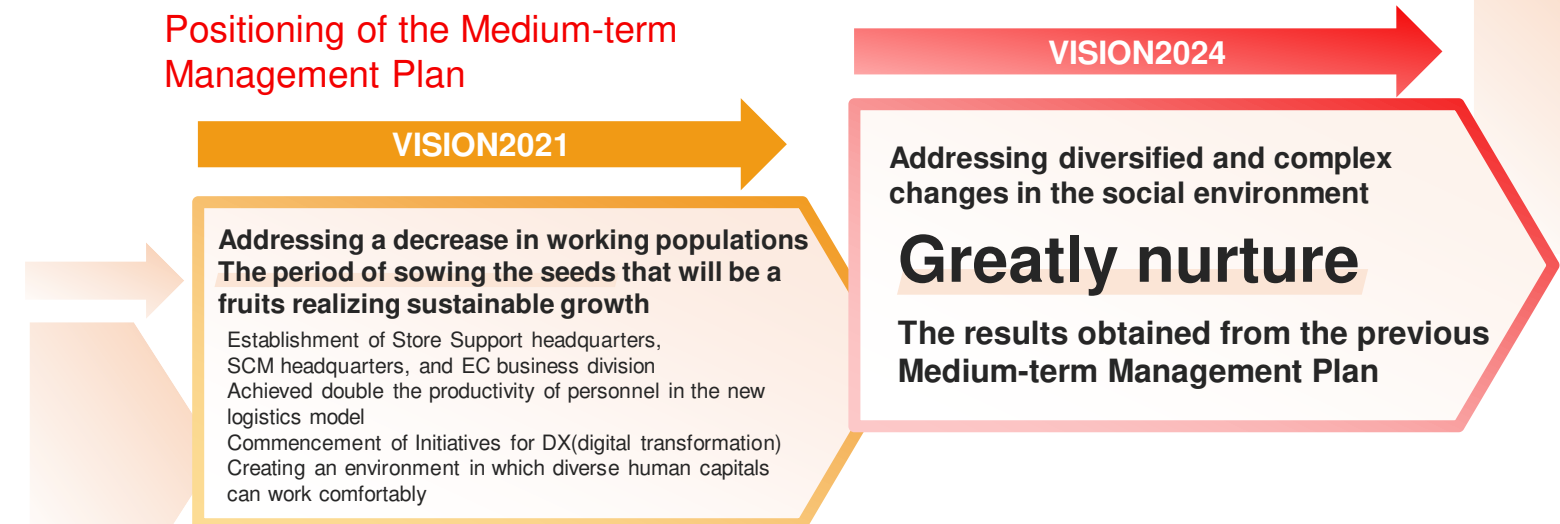
### ~ Moving forward with the supply chain ~

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

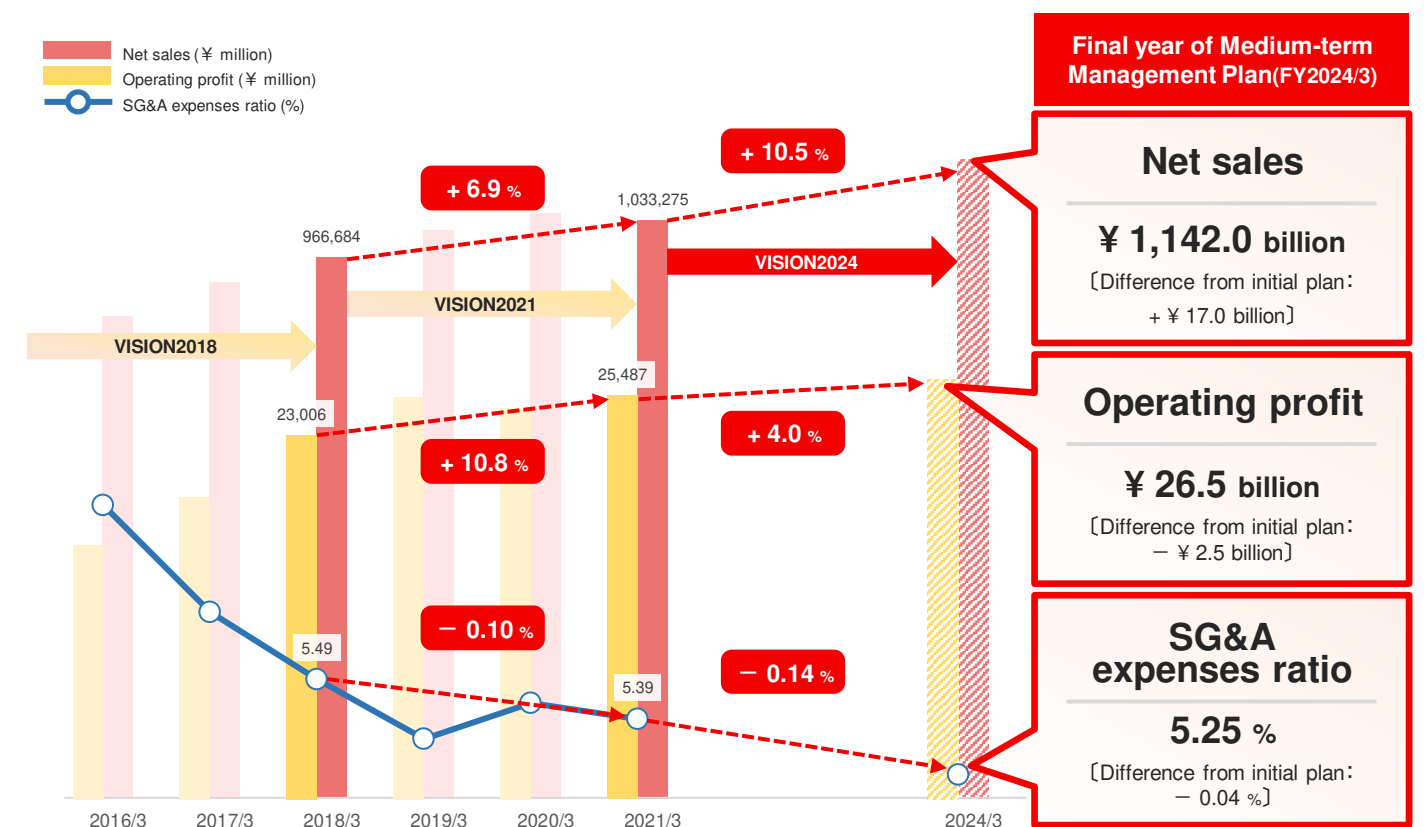


### Issues to be addressed

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

### Numerical targets Revision of initial financial targets (on May 11, 2023)

The business environment has substantially changed due to such factors as soaring raw material and energy prices and the accelerated movement toward the post COVID-19 in society as a whole. Therefore, we have revised our financial targets for the fiscal year ending March 2024 in accordance with the changes in the initial preconditions for developing our business plan in May 2021. Regarding net sales, we have raised our target in accordance with the anticipated increase in demand for cosmetics and pharmaceuticals etc. due to the movement towards the post COVID-19 Era, and considering the environment that has become conducive to showing the effects of the expansion of transactions that we have been promoting using our capabilities. Regarding profits, we lowered our target in accordance with the decline in the gross profit margin due to the impact of shrinking profits industrywide arising from soaring raw material prices and other factors, and with an increase in SG&A expenses due to rising electricity costs and expanded investment in human capitals.





# 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 division and each divisions including the Store Support Headquarters, the SCM Headquarters and the EC business division that were established under previous medium-term management plan.

Environmental changes to be addressed

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

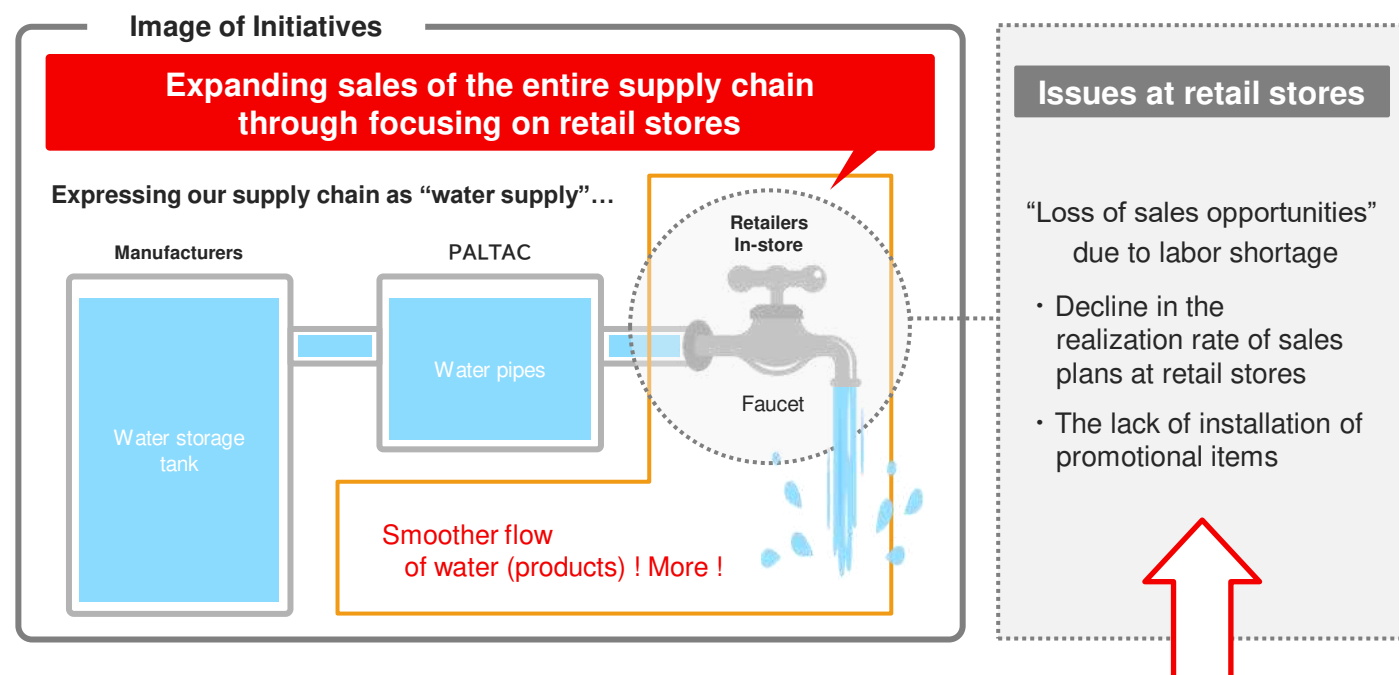
Addressing various issues through collaboration and cooperation between each functions



## Strengthening the development of Store Support function

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

At retailer's stores, because of the labor shortage, “loss of sales opportunities” was seen due to a decline in the realization rate of sales plans at stores and the lack of installation of promotional items. To provide numerous consumers with products made by manufacturers, we focus on retail store where products are sold and allocate human capitals. We have a department specialized in store support, consisting of about 250 staffs. We are trying to make attractive stores for consumers in corporation with retailers through utilizing the functions of both “Flexibility” which enables speedy storefront promotion and “Counter-proposal” which is contribution to the successful business discussion leveraging in-store information. Even in an environment with labor shortage, we establish a system that catches the latest trend and aim for industrywide sales expansion.



### Two strengths of Store Support function that realize resolving issues at retail stores

#### Flexibility

Speedy in-store product deployment that can address changes in consumer needs is the key to sales expansion



**0.8** days

Period needed to realize sales promotion plans at 1,000 stores

#### Counter proposal

Information on consumer trends, changes in sales floors, points for improvement, etc., leads to effective business negotiation activities



**2,300** awareness

Number of suggestions and awareness from sales floors in one day

Quick launch of new products (linked to commercials and web sales promotions) / Support for installation of sales promotional items / Proposals of sales location in zero base, etc.

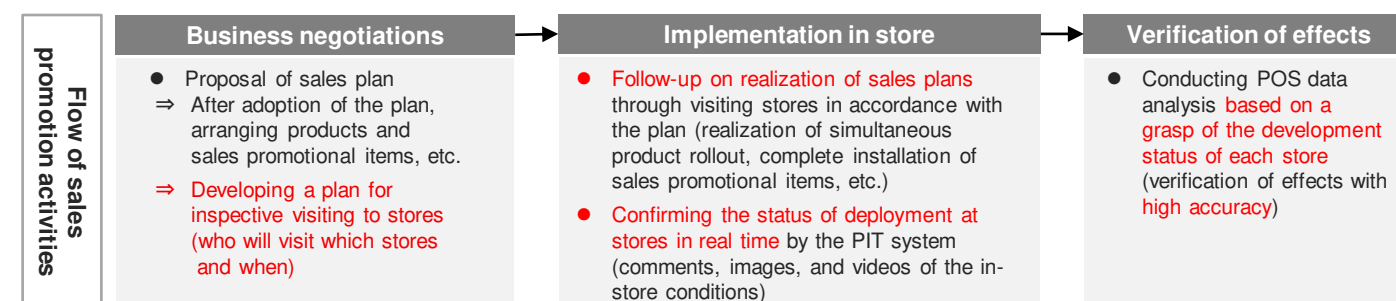
### Strengthening “Schemes of sales expansion” through digital technology

In addition to the two strengths, we have built 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. By implementing this system, it has been possible to share detailed in-store conditions, such as displayed space and the use of promotional items, that could not be grasped until now, in real time, and to ensure a more precise effectiveness verification such as POS data analysis in consideration of the current status of product developments at each store. We aim to further expand sales by rapidly enforcing both promotion proposals based on precise verification and horizontal deployment of best practices, thereby reducing loss of sales opportunities at stores.



Also, 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.

#### Effects of store support function + PIT system on sales promotion activities



#### Development of new “Questionnaire method”

In addition to understanding the product deployment situation at retail stores using the PIT system, we have developed a survey by new “questionnaire method” to conduct various in-store situation surveys. This questionnaire method is designed that we can set the question contents regarding in-store conditions such as locations where promotional items are deployed, and our store support staff can respond to the questions via smartphone. The results of the responses have been aggregated making it possible to quantitatively understand the in-store situation. We are striving to further strengthen our “Schemes of sales expansion” by not only utilizing in-store image data but also effectiveness verification and proposals of promotion based on cross-analysis of quantitative data from the new questionnaire method and sales data.

**Questionnaire in-store**

Confirm the product deployment status and respond to the questions

**Quantified the in-store conditions**

The survey of the deployment area of ** skin lotion	Total	
	Number of responses	Composition ratio
Promotional area	134	6%
Regular shelf	271	13%
Grid panels	434	21%
Hanging display	301	14%
Baskets	10	1%
Not deployed	945	45%
<b>Number of responses</b>	<b>2,095</b>	<b>100%</b>
<b>Number of stores</b>	<b>1,847</b>	-

**Aiming to improve the accuracy of effectiveness verification and the quality of promotional proposals through the use of quantitative data**



## Strengthening the development of SCM function

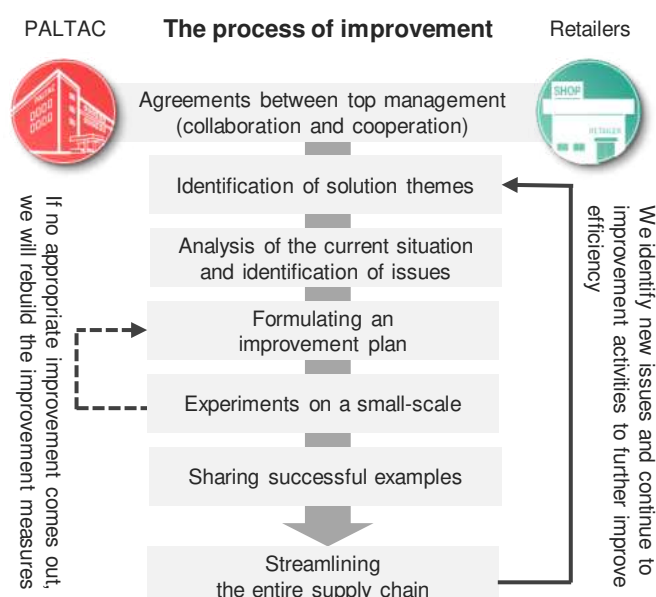
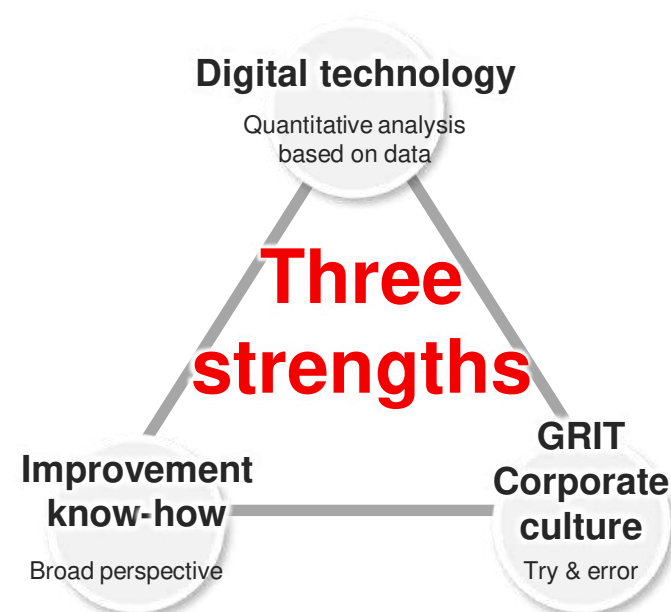
### Eliminating unproductive factors “unreasonable, wasteful act and unevenness” in distribution, generating “profits” from “unproductive factors”

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 uses 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. These initiatives have not only contributed to cutting cost and increasing profits of companies industrywide but also become activities lead to solve the social issues, including providing products at reasonable price, developing attractive sales floor, improving customers service that gain higher consumer satisfaction and reducing CO2 emissions through efficient delivery, etc.

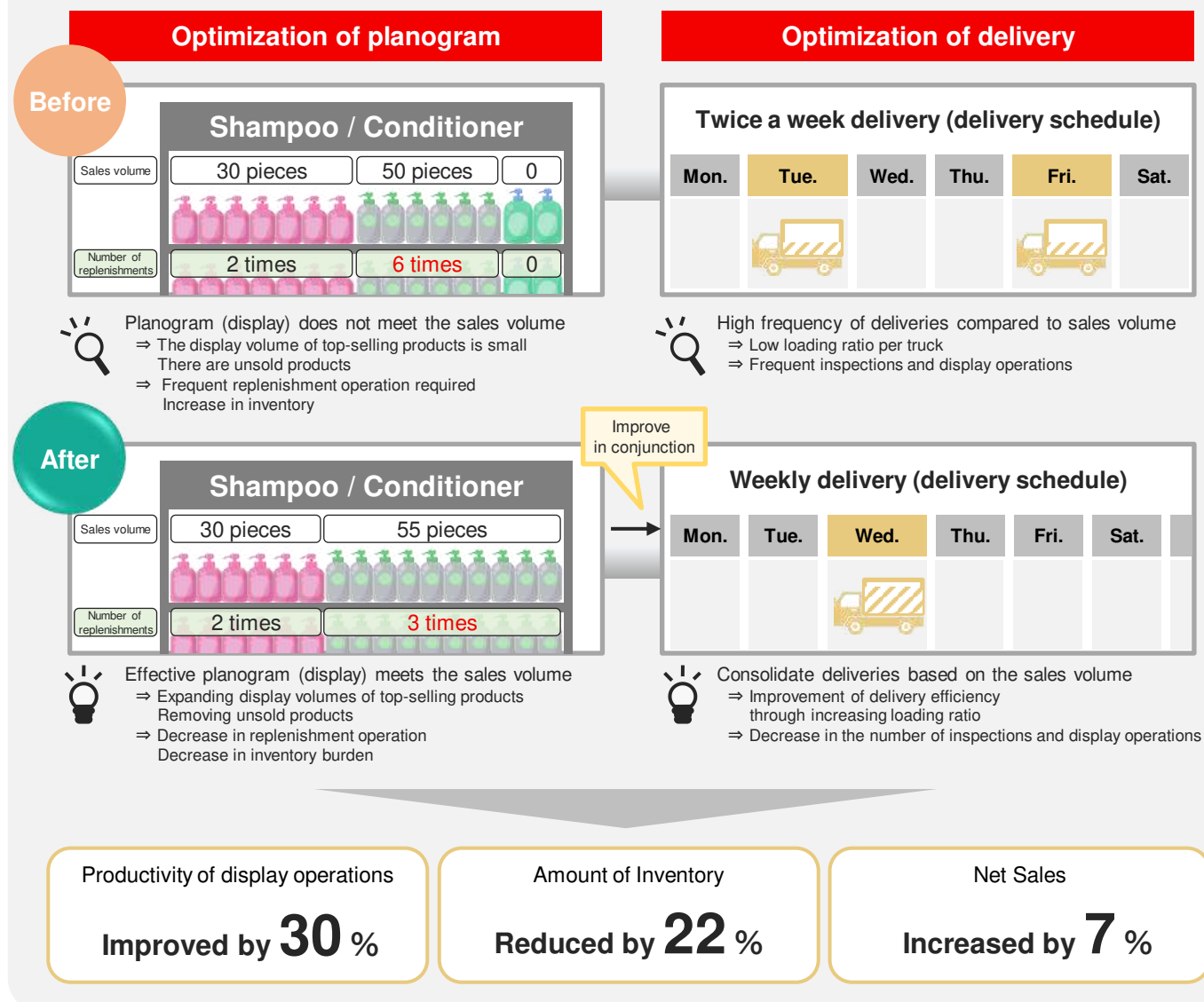
### Capitalizing our strength, trying to maximize the effect

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 numbers 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 the 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 “optimizing and streamlining of the entire supply chain”, starting from “cost efficiency” of retailers Aiming for effect of Sampo-Yoshi (three dimensions)



## Jointly developed “Automatic planogram creation system”

We have developed an “Automatic planogram creation system” in collaboration with CYBERLINKS Co.,LTD., who engages in development of planogram management systems, with the aim of improving the efficiency of proposal activities of planogram (product display) for retailers.

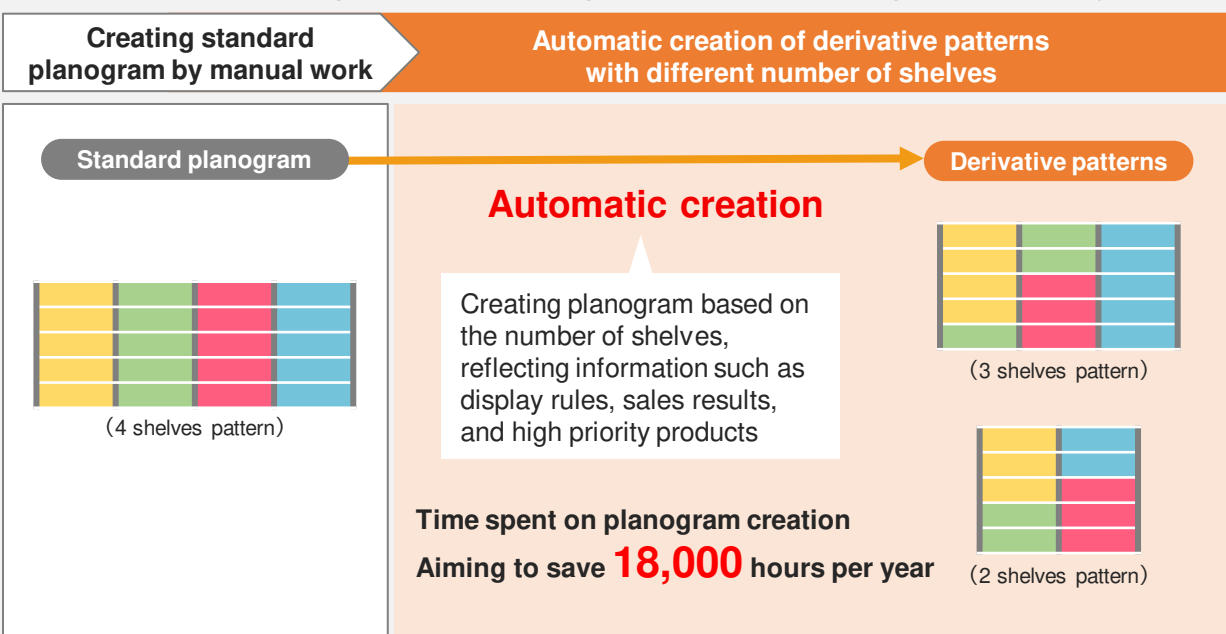
Planogram is a space planning operation of a retail store and comprehensive representation of a retail shelf focusing on the product level, sorting products position which is “easy to see them”, “easy to choose them”, and “easy to pick up them” according to the customer’s purchasing behavior and needs. Therefore, planogram is an important operation that may affect sales of retail store. On the other hand, planogram is quite complicated and burdensome

operation for retailers, manufacturers, and wholesalers because it requires consideration of various factors, including location of stores, consumer profile and behavior and local characteristics. We aim to save approximately 18,000 hours per year, which is equivalent to about 60% of the planogram creation time, by automating part of planogram creation that imposes a large burden through the development of an “Automatic planogram creation system”. We will allocate the time and resources generated by this solution to business negotiations and sales promotional activities, and will aim to contribute to the creation of efficient and attractive sales floor as well as enhance the work-life balance of employees.

### Awareness of issues

- Serious burden on the entire manufacturing, distribution and retail
- Spending **30,000 hours** on planogram creation per year in our company

### ■ The process of planogram creation using the “Automatic planogram creation system”



- Aiming to reduce workload associated with planogram creation  
“Contributing to efficiency in the entire manufacturing, distribution and retail”
- Realizing to create attractive sales floor efficiently through allocating time and resources saved by this system to business negotiations and sales promotional activities
- Improving work-life balance of employees

## Strengthening the development of EC function

### 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. Specifically, we provide “Information provision” and “Product / Sales promotion planning” about consumers’ behavior in the EC market, and “Operational support” for EC websites.

### ■ Environmental analysis in the EC business

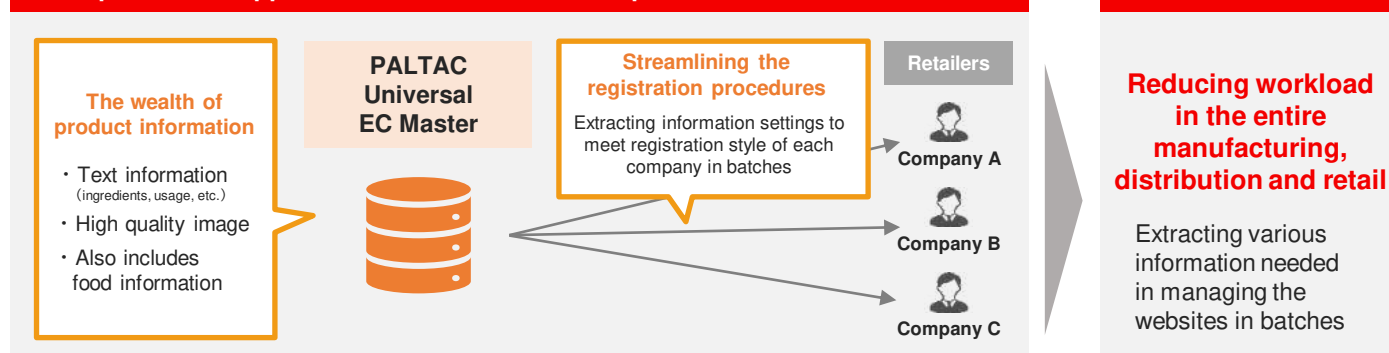


**Opportunities to contribute to solving issues through leveraging intermediate distribution functions**

### Reducing the burden of operation to register product information on the EC websites using the digital technology

In terms of the “Operational Support” of websites, we are working on improving the efficiency of registration operation through consolidating product information. Regarding operation of websites, it is necessary to collect and register a vast amount of information, such as the text on the back of products and image data from various angles, which is a great burden for retailers. Therefore, in order to avoid losing sales opportunities due to the burden and delays in registration, we have developed a master data management tool “Universal EC Master” in which the product information is consolidated in cooperation with manufacturers. The “Universal EC Master” has the functions not only holding wealth of information, but also being able to export master information in various formats and to link data with the product master of retailers. Users can easily extract the information necessary for websites operation through batch processing. Through this solution, we will aim to reduce the burden of product registration in retailers and improve the efficiency of the supply chain in the EC business.

### “Operational support” for EC websites / Developed a “Universal EC Master”



### Benefits of initiatives

**Reducing workload in the entire manufacturing, distribution and retail**  
Extracting various information needed in managing the websites in batches



## Evolving MD function

### 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 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.



### Strengthening procurement of new products

Recently, the consumption trends have been undergoing drastic changes, such as an increase in intuitive consumer behavior, including so-called “product goes viral” which is a dramatic increase in demand triggered by influence of social networking service and other factors. In order to respond to these market changes, we are strengthening procurement of products with new added value that we had not handled, through comparing our handling products with market trends, and analyzing our strengths and weaknesses of products in each category. Currently, the sales composition ratio of newly handled products exceeds 1% and its expansion is one of the driving force of our sales growth. And, in order to further promote the strengthening of procurement of new products, we established a “New Product Development Section” specialized in procuring new products in December 2022, and we are strengthening the recruitment of external human capitals with experience in the development and marketing of cosmetics, food, and other products. By strengthening our human capitals and organization and enhancing the speed to build a handling product portfolio that can respond to diverse market needs, we will enhance the timely and effective MD proposals and contribute to the creation of attractive sales floors.



#### Strengthening our human capitals and organization

- Established a “New Product Development Section” specialized in procuring new products
- Strengthening the recruitment of external human capitals with experience in the development and marketing

**Building a product portfolio in response to the diverse needs more speedily**

**Contributing to the creation of attractive sales floors through enhancing the timely and effective MD proposals**

### Contributing to the expansion of ethical consumption

As social issues, such as natural disasters and marine pollution caused by climate change, become more serious, there is a growing interest in environmentally friendly products. From the standpoint of being responsible for intermediate distribution, we are trying to expand “ethical consumption” in response to consumers’ awareness of choosing ethical products. Specifically, we are making efforts to create an attractive sales floor that makes it easier for consumers to notice the value of these products, through sales promotion using digital tools and products development in consideration of environment. We will contribute to the creation of

a sustainable distribution cycle through the expansion of ethical consumption, by strengthening sales promotion of existing products, and also involving in the development of environmentally friendly products.



Proposal of product development that collects environmentally-friendly products



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

### Development of environmentally-friendly products

As a new initiative to expand ethical consumption, we have developed environmentally friendly products using waste plastics as raw materials in collaboration with companies that develop materials and products that promote resource recycling. In addition to provision of ethical products made by manufacturers, we ourselves will be involved in product development and actively contribute to expansion of the distribution of “high value-added products that enable consumers to contribute to the environment in their daily lives”.

『使えば使うほど世界のプラごみを減らせるゴミ袋』  
(A garbage bag that the more using it, the more reducing the amount of plastic waste around the world)



Collaborative development with TBM Co., Ltd.  
(TBM is the Company engaged in environmentally friendly material development and businesses that promote resource recycling)

- ① Used of recycled materials
- ② Obtained Eco Mark certification
- ③ Using this product in place of garbage bags made of only virgin plastic reduces the amount of waste plastic

Please refer to our Japanese website for details of these initiatives  
Disclosed on October 14, 2021  
: Notice of starting of handling “A garbage bag that reducing the amount of plastic waste”

『サステナブレラ』  
(Non-disposable plastic umbrella)



Collaborative development with TBM Co., Ltd and Ca et la Co., Ltd  
(Ca et la is the Company aims to expand ethical consumption through the development and sale of recyclable plastic umbrellas)

- ① Use of recycled materials
- ② Wind-resistant, rust-resistant Long-lasting umbrella
- ③ All made of plastic
- ④ Frame for umbrella is made of reinforced plastic “Hardly breakable”

Please refer to our Japanese website for details of these initiatives  
Disclosed on April 27, 2022  
: Notice of starting of handling “サステナブレラ (Non-disposable plastic umbrella)”

Started providing the industry's first "Comprehensive support for promotional items"

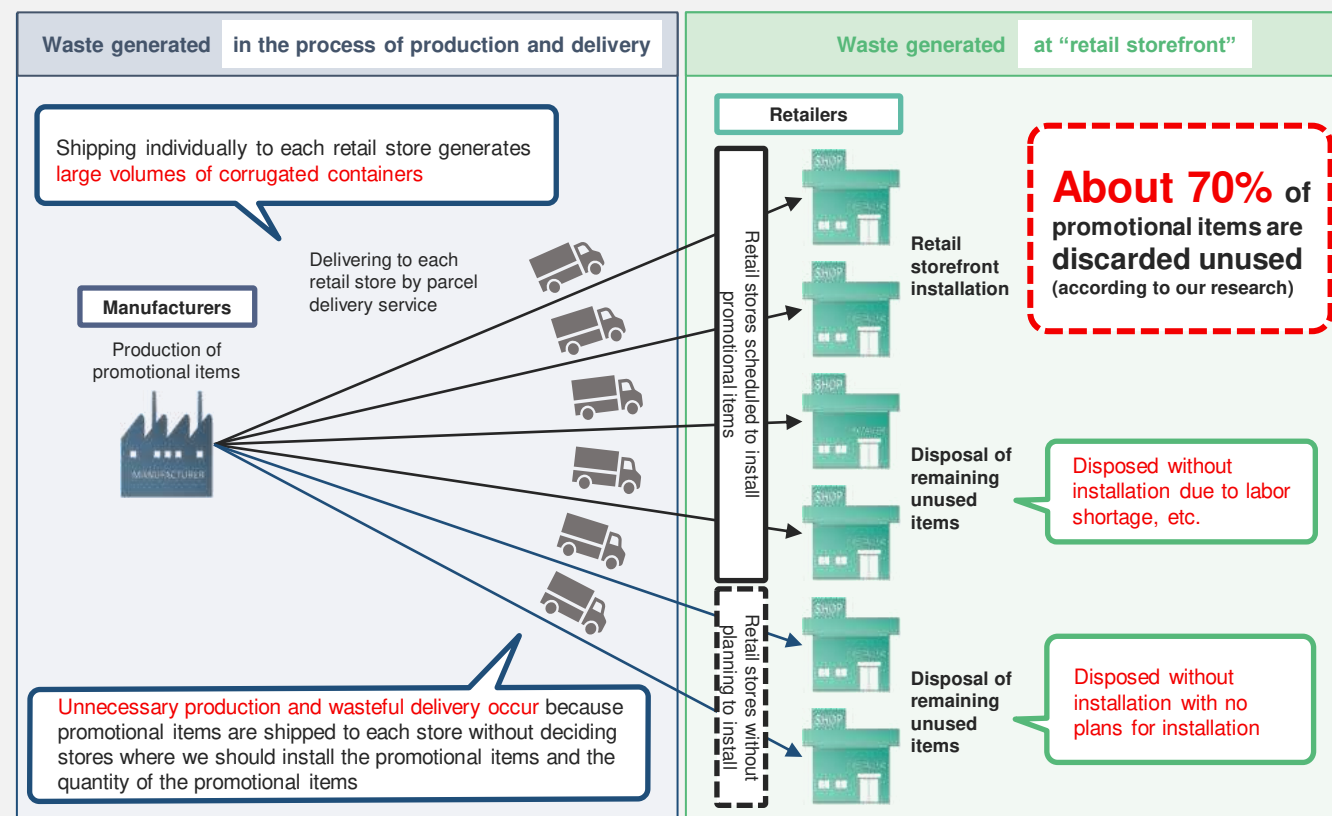
## Contributing to sales expansion and reduction of environmental burden by reducing waste in the development of promotional items

We started a new service "Comprehensive support for promotional items" by collaboration with our store support function, SCM function, and the promotion function of sales floor (planning and production of promotional items, etc.) of our subsidiary HABA CREATION Co., Ltd. This service covers the planning and production of promotional items (sales floor fixtures for sales promotion), packaging, delivery, storefront installation, and subsequent measurement of effectiveness. In our industry, many wastes exists not only in the distribution of products but also in the distribution of promotional items, which causes the loss of sales opportunities and an environmental burden at retail stores.

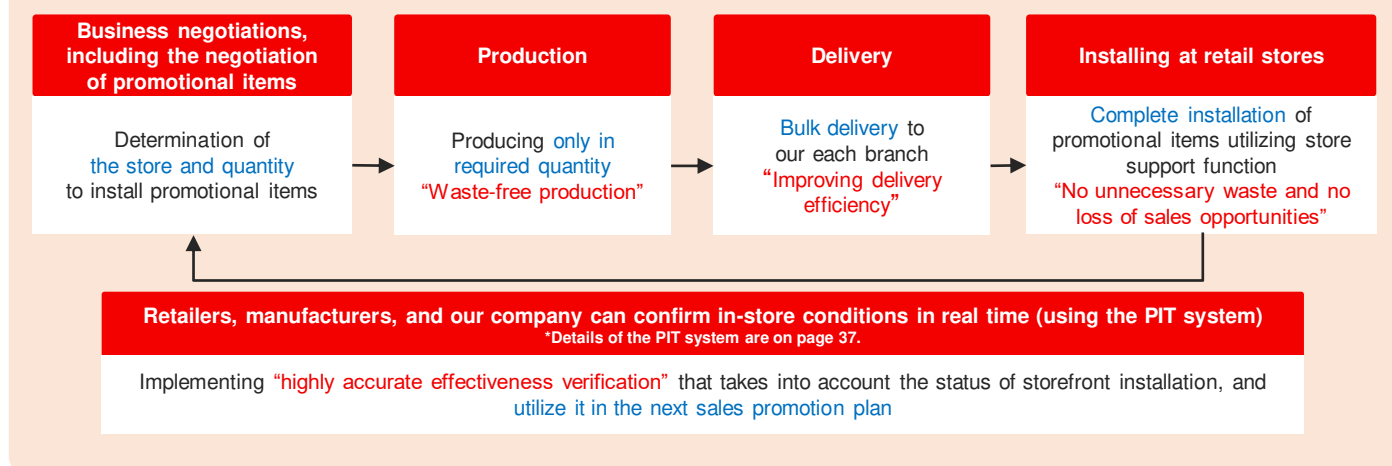
By providing "Comprehensive support for promotional items", we make it possible to reduce waste in distribution of promotional items, through collaboration with retailers and manufacturers from the production planning stage of promotional items, appropriate production volume that meets the sales promotion plan and efficient delivery, complete installation of promotional items, and highly accurate verification of effectiveness. Initiatives with several retailers have already shown successful results, and we are contributing to the realization of retailer's sales growth as well as developing sales promotion activities which lead to the growth of a social and an environmental value.

Awareness of issues Waste in the distribution of promotional items is causing a loss of sales opportunities and an environmental burden

### ~ Various waste generated in the process of distribution of promotional items ~



### Details of initiatives to reduce waste of promotional items (Overview of Comprehensive support for promotional items)

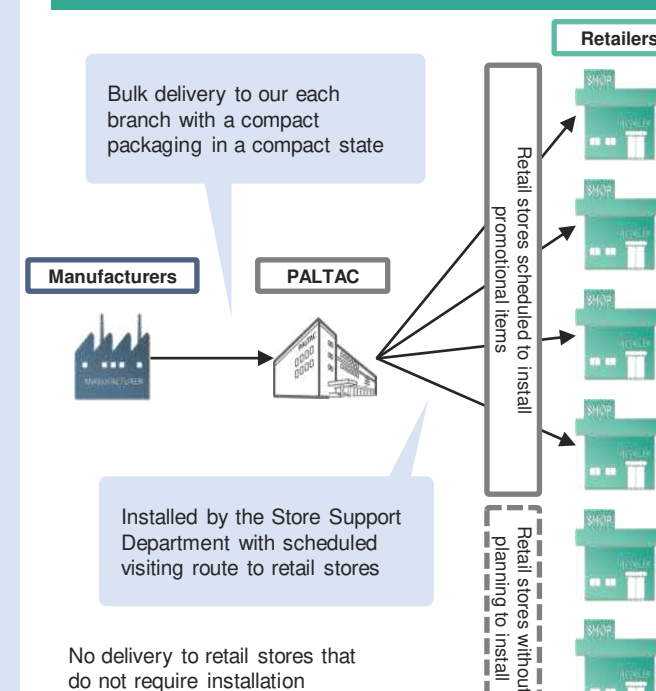


### Expanding Economic Value

- Reducing wasteful costs of manufacturers by producing and delivering only the necessary quantity
  - Contributing to sales growth at retail stores through complete installation of promotional items utilizing the store support function and elimination of losing sales opportunity
  - Highly accurate verification of effectiveness based on the development status of each store has been made possible by the use of SCM function and the PIT system.
- Creating a "virtuous cycles of sales promotion" through utilizing highly accurate verification of effectiveness for the next sales promotion plan

### Expanding Social and Environmental Value

#### Delivery model that reduces waste in promotional items



#### Benefits of initiatives

Number of deliveries	Reduction of <b>90 %</b> (420 sites ⇒ 41 sites)
Number of cardboard boxes for packaging	Reduction of <b>85 %</b> (420 units ⇒ 63 units)
Reducing the burden on drivers by improving delivery efficiency	
Reducing CO2 Emissions from Trucking	
Promotional items are made from environmentally friendly materials	
Reducing the burden of installation work through the easy-to-assemble design	
Reducing the use of packaging materials through bulk delivery	
Zero unnecessary waste	



## Contributing to solving global issues of our customers by leveraging our intermediate distribution function

While our primary business domain is a wholesale business in Japan, we have long been engaged in overseas business as well. Currently, we are conducting trade in 15 countries, and contributing to solving the global issues of our customers. Specifically, we, who have an intermediate distribution function, can help each Japanese manufacturers to export a small quantity of products by consolidating products from multiple Japanese manufacturers and exporting them. Therefore, we can support a wide range of manufacturers in their overseas expansion. Regarding import transactions, we deal directly with overseas companies without going through trading companies, and we realize reduction of distribution costs and quick procurement of products.

### Established our first local subsidiary in Vietnam : Promoting the expansion of distribution of high-quality Japanese products

Under circumstances where the domestic market is shrinking due to decline in population, we established a local subsidiary in Vietnam in September 2022, with the aim of further strengthening our overseas business. We believe that we can expect business expansion in Vietnam because Vietnam is expected future economic growth due to increasing population as well as Japanese products have gained high popularity. On the other hand, there are issues such as management of license information on the ground, enhancement of marketing, and securing sales channels. Though the Japanese manufacturers want to enter the Vietnam's market, there are fewer companies that have done than those which have done to Hong Kong and Taiwan. Therefore, we have established a local subsidiary to develop the wholesale business utilizing the distribution functions and trading know-how we have cultivated in Japan. Specifically, we support manufacturers entering the Vietnam's market by having our local subsidiary handle the "application for permits and licenses" which involves dealing with confidential information (product ingredients, manufacturing methods, etc.), needed when the Japanese products are imported into Vietnam. Furthermore, by utilizing the sales network of reliable local distributors with whom we already have transactions, we aim to widely distribute Japanese products in Vietnam. At the same time, we will leverage the benefits information gathering unique to local subsidiary and strive to maximize promotional effects using social media, etc. Through these initiatives, we aim to contribute to create Vietnamese people's rich and comfortable daily lives by widely distributing high-quality Japanese products. At the same time, we intend to accumulate experience and know-how as an overseas wholesaler, and we believe those will become the foundation for global horizontal deployment.

### ■ Role of our local subsidiary, PALTAC Vietnam Company Limited



## Employee's Voice

### Pursuing the value that only a local subsidiary can provide and making the foundation for global horizontal deployment

[ PALTAC Vietnam Company Limited ]  
Representative Kenta Suzuki



#### Q. Please tell me about your thoughts and enthusiasm at the time of establishment of PALTAC Vietnam.

We started our business to provide our unique value to our customers who are taking strong interest in the growing Vietnam's market. Serving as the representative of our company's first local subsidiary, I felt a strong sense of responsibility. At the same time, I felt an uplifting spirit as we made our first step towards our new growth.

#### Q. Looking back from the establishment to the present, how do you feel about the response?

I feel we can work well. We have operated our business activities smoothly, while adapting to local business practices and region's customs and culture through trial and error. We are grateful to see a significant increase in our trading manufacturers, and we feel that the expectations towards us are high. Currently, products which are handled by us are gradually beginning to be distributed. We have been receiving many requests from local retailers saying, "We want to stock this kind of product".

#### Q. When do you feel a motivation?

It is the moment when the product that we proposed in collaboration with local employees sold well at the retail store, and the retailer was pleased. For example, "oil treatment agents" are commonly used in Japan, but are not widely distributed in the Vietnam's market. So, by proposing this product, we were able to contribute to the enhancement of the product lineup for retailers. In Vietnam, it seems that many households dispose of used oil directly into the drainage system, and the government is conducting awareness campaigns for proper disposal methods from an environmental consideration standpoint. Given this context, the product we proposed has been evaluated by retailers as a product that meets the current needs of Vietnamese society.

#### Q. How are the local employees performing?

All local employees have experience working in Japanese companies and are fully leveraging their strength of understanding both Vietnamese and Japanese cultures. They have not only been involved in administrative tasks, but also in planning new products to be handled and refining proposals in accordance with local business customs, which has been extremely helpful to me. I have heard from them saying, "It's enjoyable to think about how convenient Japanese products can match with Vietnamese lifestyle and culture and propose them", "When the proposed products sell in stores, I feel a sense of fulfillment that I was able to contribute to making the lives of Vietnamese people more comfortable".

#### Q. Please tell us about your future aspirations and challenges you would like to take on.

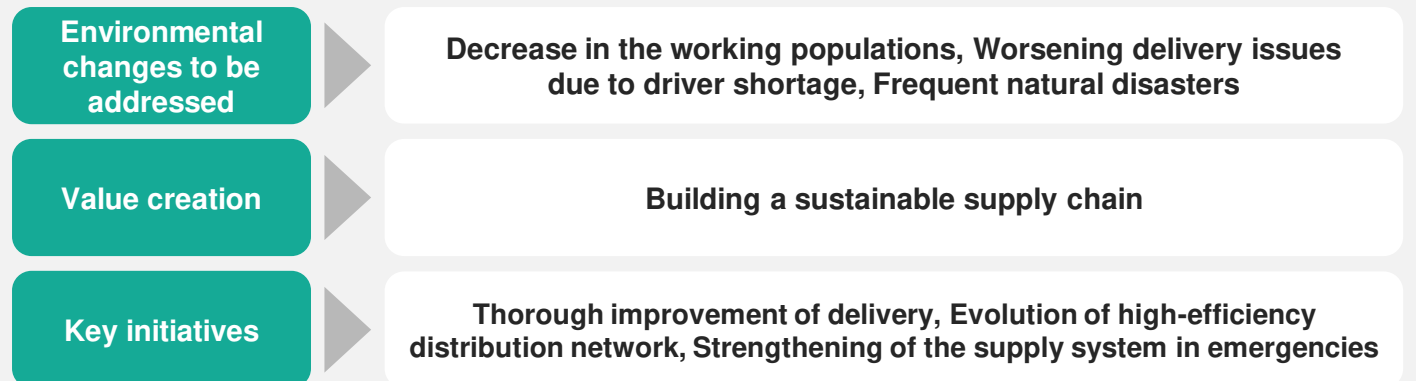
We are proceeding with preparations to start handling "health food" in order to further enhance the "product assortment" that is highly valued by local retailers. I would like to take on the challenge of providing value that only our company can offer by leveraging our extensive range of products related to "beauty and health", which are industry-leading in Japan. In addition to that, I would like to strengthen our marketing efforts. We will focus on sales promotion activities that resonate with the people of Vietnam, leveraging the sensibilities of local employees through the use of social networking services and live demonstrations. I recognize that strengthening the commercial function (how to sell products) is an essential element in gaining trust from local retailers. We will continue to dedicate ourselves to our daily activities, aiming to be the foundation for future expansion of our overseas business.

# 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 addition to continuous operational improvements at existing distribution centers, we will strive to increasing shipment volumes and improving operations at new distribution centers that equipped with a “new logistics model”. At the same time, we will promote initiatives to solve “delivery issues” such as White logistics movement.



## Enhancing resilience of logistics infrastructure



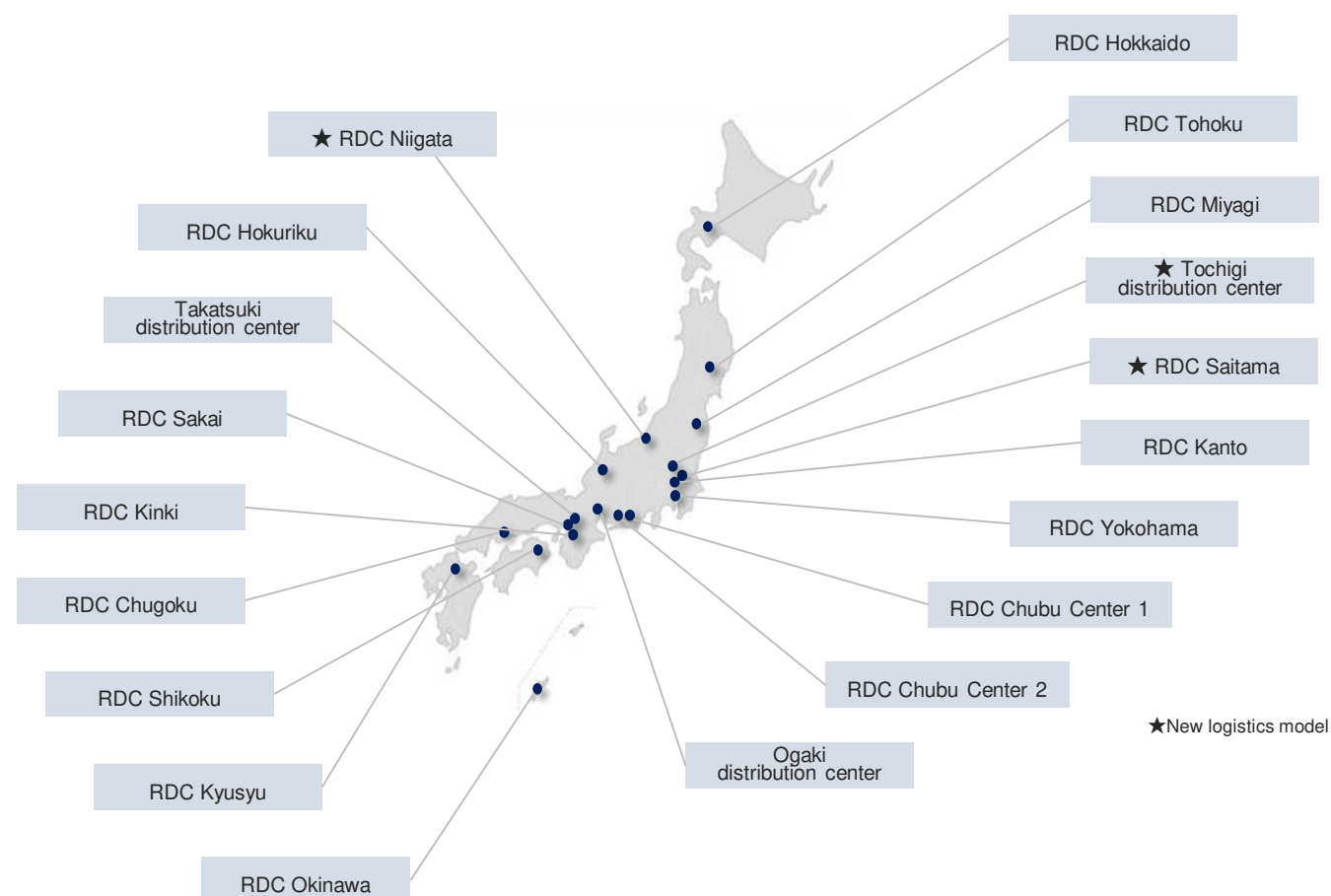


## Logistics base to enhance capability of logistics solution

### 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 improving productivity of retailers, manufacturers and delivery companies through our capability to eliminate the waste in distribution processes. Based on the 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 highly efficient nationwide distribution network.

#### Highly efficient nationwide distribution network



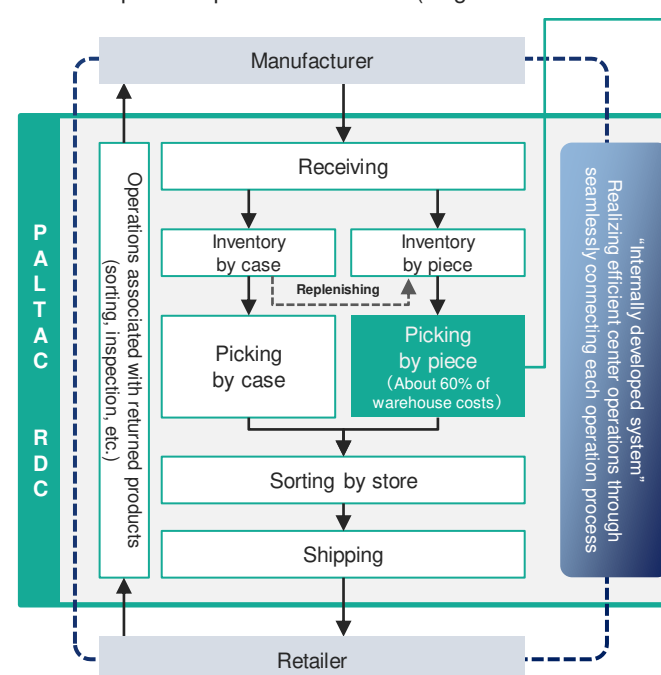
#### Responding to the business expansion needs of retailers

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

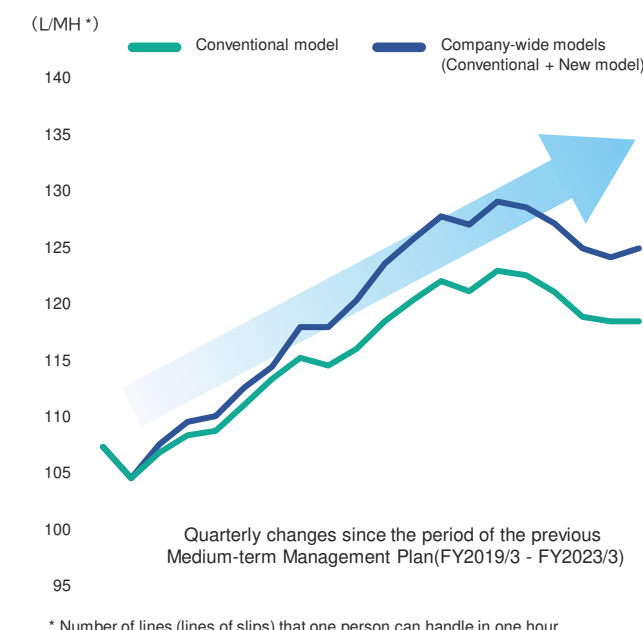
### Continued improving existing distribution center

We have realized efficient management of our distribution center through internally designing warehouse and producing IT system which controls material handling equipment, and by seamlessly connecting complex operation processes. In addition, we have visualized costs and productivity according to a wide range of operational processes. Through these efforts, we are continuously promoting activities to improve the bottlenecks in each working unit based on detailed data and making efforts to improve the productivity of the center as a whole. Furthermore, we are promoting bottom-up activities starting with on-site employees and part-time employees by utilizing improvement proposal questionnaires, etc., and working as one company to make improvements. In addition to improving warehouse operation of our centers, through pursuing improvement with a view across the entire supply chain in collaboration and cooperation with inside and outside of our company, we will strive to further improve productivity of our existing distribution center which support creating profit. From the first quarter of the fiscal year ended March 2023, the ratio of inexperienced part-time and temporary employees rose due to securing a large number of employees in response to increased handling volume, and thus the productivity of piece picking, which accounts for approximately 60% of the warehouse costs, declined, but has recently improved through promoting training for employees focusing on critical points of warehouse operation.

#### ■ Main operation processes at RDC (Regional distribution center)



#### Piece picking productivity



### The power to generate "system"

Internal production that supports effective improvement activities within the distribution center makes it possible to introduce optimal material handling equipment and flexibly change the system of IT system responding to changes of the business environment. In this way, we are aiming to continuously improve productivity. In addition, internal production makes it possible to construct at low-cost way and further accumulating know-how, such as acquired 18 patents even though we are in the distribution business. In order to maintain and strengthen our abilities to create these systems, we are focusing on recruiting and training of professionals who possess digital technology skills and other skills through the development of career paths and educational programs.

#### Human capitals that support internally development

**206** members

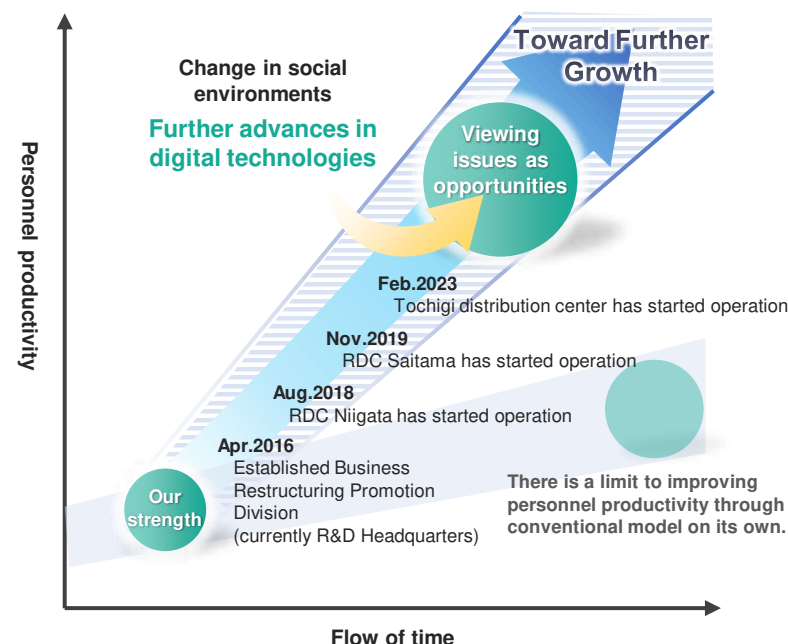
System department 118 members  
R&D department 47 members  
Logistics department 41 members  
(As of March 31, 2023)

**18** patents

Number of patents obtained

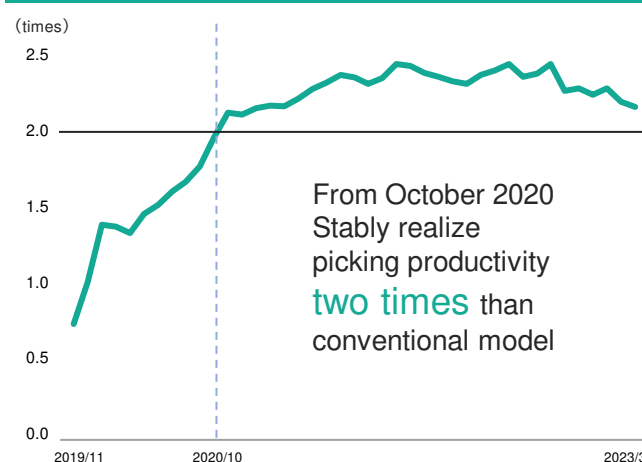
## Challenge of further improvement personnel productivity

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 February 2023, we have started operations of the third new logistics model “Tochigi distribution center”, where we have introduced new equipment aiming for further improvements of productivity. From now on, we will aim to increase the shipment volume through stable operation of the Tochigi distribution center and to strengthen our high-efficient distribution network through further improving the operation of the “new logistics model” and productivity across the entire business area through collaboration among our distribution centers.



RDC Saitama

### RDC Saitama Piece picking productivity compared to conventional model



Medium-term Management plan  
Investment amount during the three years (expected)  
(FY2022/3-FY2024/3)

Expanding shipping capacity of  
distribution center utilizing  
the new logistics model

¥ 20 billion

【Investment area】

Kanto and Tohoku regions

Kanto : Tochigi distribution center / Tohoku : RDC Miyagi

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

### Receiving

#### Automatic acceptance inspection

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

- Forklift work can be eliminated, guaranteeing safety operation
- Completing the inspection of the product during its transfer on a moving convey, saving the time spent on driver's unloading operation



#### AMR(Autonomous Mobile Robot) New

Products are automatically transported by the autonomous driving system while avoiding traffic congestion on the driving route

- Forklift work can be eliminated, guaranteeing safety operation
- AMR can automatically choose transport destinations according to the operational status of equipment and unnecessary idle times are reduced. By contributing to the improvement of productivity



### Piece picking

#### New system (no need to manually search inventory and move in the warehouse)

Manually picking up products which are automatically transported to the working area

Ratio of operation  
**Walking 0% : Picking 100%**



#### AI-powered piece picking robot

Challenging the development of an automated piece picking system which is highly innovative

- Not only contributing to automation and laborsaving but also enabling long-term picking operation



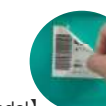
#### Rewritable laser system New

Print and erase the necessary shipping information on the folding container used for packing products using a laser method



- Enabling to rewrite shipping labels repeatedly without contact with the surface
- By automating the process of attaching shipping labels, we can reduce operational errors and environmental burden

【Conventional model】  
Manually attach and replace of shipping labels



### Case picking

#### AI-powered case picking robot

Identifying products with various shapes by on a master-less and automatically picking

- Reduction of heavy labor
- Eliminating such complicated tasks as master registration of new products and master modification process for renewed products



#### AI-powered case loading robot

Calculating based on the master information and automatically stacking the shipping products in the most optimal way

- Reduction of heavy labor
- Eliminating restacking work and improving loading efficiency and productivity





## Taking on the challenge of improvement of delivery

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

As “2024 problem” in logistics (possible shortage of truck drivers due to a reduction in the maximum overtime work limit to 960 hours per year from April 2024) approaches, we will accelerate initiatives to address the delivery issues, such as White logistics movement, arising from driver shortage. For us, who provide daily necessities, the challenge of improving the delivery operation is an initiative to solve critical issues such as continuation of stable product supply, response to increased delivery costs and addressing climate change. Aiming for “developing sustainable distribution” which contribute to usual daily lives, we will have to work collaboratively and take not an instant measure, but a real solution covering the entire supply chain.

#### Worsening delivery issues

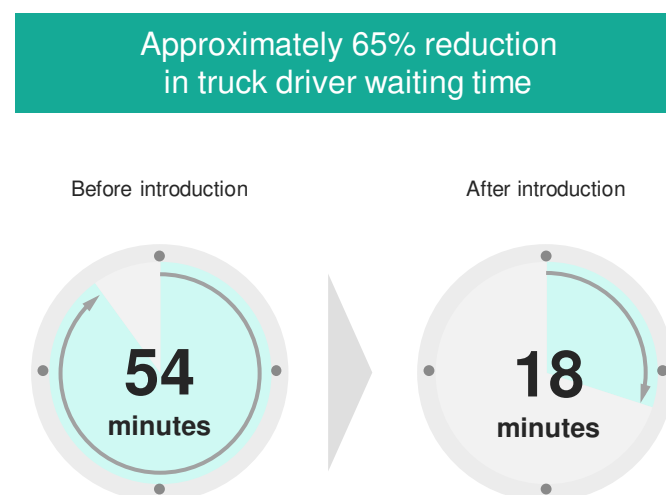


**Major points of Initiatives : Improvement of loading efficiency, Reduction of trucking vacancy rate, Reduction of driver restraint time, etc.**

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

#### Utilization of warehouse dock reservation system

We have internally developed warehouse dock reservation system and introduced it to the major RDCs. Through this system, the driver’s waiting time, which is one cause of their long working hours, at the distribution centers is eliminated by approximately 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.



## Initiatives for improvement of delivery efficiency

Initiative for improvement of delivery efficiency is not only just beginning now. Under the situation of the customer and shipping volume, etc., are constantly changing, the success patterns of the past are no applicants, broader vision and more flexible ideas and continuous efforts has come to be required. We have launched a delivery innovation project with the participation of on-site delivery representative from each area and committed to initiatives including reduction of transportation distance, use of free trucks, implementation of AI-based delivery simulations system, and joint delivery, under the slogan of “all of the delivery company, drivers, our company and the environment can enjoy the benefits” and “actively share of information”.

### We have concluded “a basic agreement on a cooperative agreement of sustainable logistics” with SAGAWA EXPRESS CO., LTD.

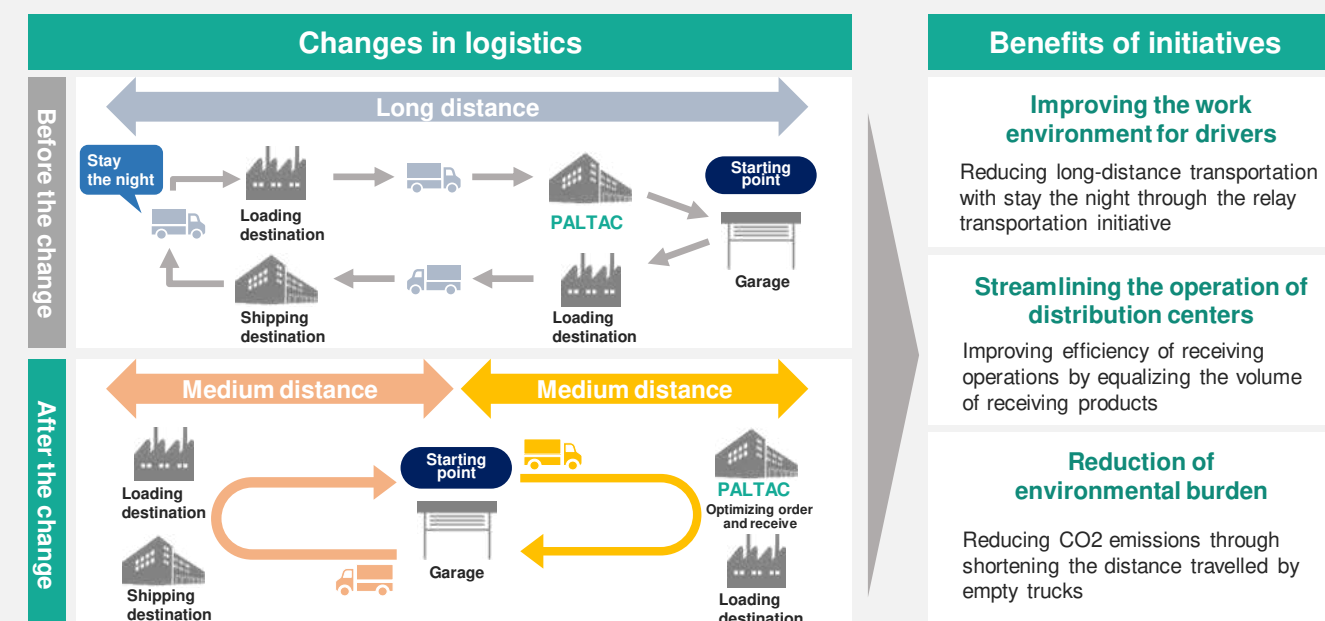
On March 31, 2023, We have concluded “a basic agreement on a cooperative agreement of sustainable logistics” with SAGAWA EXPRESS CO., LTD. Leveraging the logistics bases and know-how of both companies, and existing delivery networks, include those of other existing delivery companies, we will aim for optimizing of the entire logistics, and strive to solve various social issues, including the “2024 problem” in logistics.

#### Aim of the initiative

- Address the worsening driver shortages, including “2024 problem” in logistics
- Establishing a distribution system that can provide stable supply even the case of a disaster (strengthening BCP)
- Reduction of CO2 emissions from transportation

### Jointly received the Minister of Land, Infrastructure, Transport and Tourism Award, the highest award in the Green Logistics Excellent Business Awards

On December 22, 2022, the initiative of “relay transportation starting from intermediate bases” implemented in cooperation with Unilever Japan K.K., Lion Corporation., and Suzuyo & Co., Ltd., was jointly received the Minister of Land, Infrastructure, Transport and Tourism Award, the highest award in the Green Logistics Excellence Business Awards. Through this initiative, we realized the reduction of CO2 emissions by improvement of delivery efficiency and improvement in the work environment for drivers by reducing long distance transportation that involves staying the night. Within this initiative, we are responsible for optimizing the timing of order lots and receipt of products leveraging our know-how of intermediate distribution to support transportation on schedule which is one of the success factors in relay transportation.

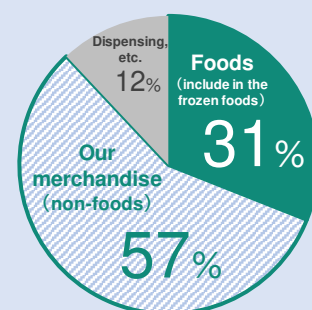


## Taking on the challenge of Collectively-managed logistics both Non-Foods and Foods products

Through cooperation with YAKUODO Co. Ltd., we are taking on the challenge of “Collectively-managed logistics” that handles both non-foods (cosmetics, daily necessities, etc.) and foods products which had been handled separately. Drugstores, which account for about 60% of our sales, are expanding sales of foods due to rising consumer needs. Along with this trend, the needs of our customers for more efficient distribution are increasing, and we recognize that the challenge of Collectively-managed logistics both non-foods and foods products are a great opportunity to contribute to solving social issues by utilizing our distribution know-how. In addition to improving the efficiency of delivery through bulk logistics, we will take on the challenge of improving the efficiency of overall distribution beyond conventional domains by deploying the logistics know-how (\*category delivery etc.) that we have cultivated in non-foods products. Through this initiative, we will contribute to solving

social issues, such as addressing driver shortage and reducing CO2 emissions. At the same time, we will strive to acquire knowledge about the characteristics in foods logistics and efficient management know-how and strengthen the foundation that contributes to challenge of expanding new business domains.

Drugstore market / Sales Composition by Product Category



Source : Ministry of Economy, Trade and Industry Current Survey of Commerce (April 2022 to March 2023)

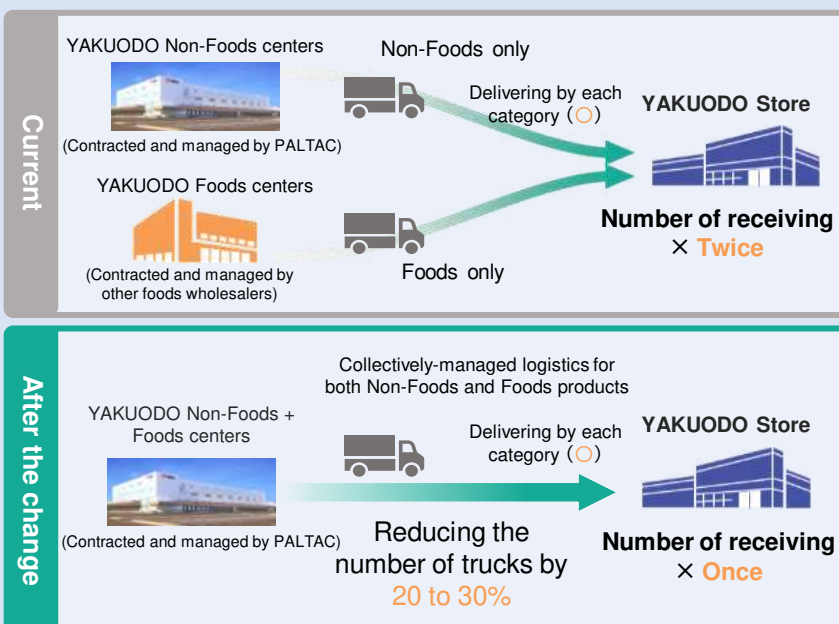
Promoting this initiative through expanding shipment capacity of RDC Miyagi

Targeted logistics

Yearly shipment capacity : ¥35.0 bn → ¥55.0 bn / Investment amount : Approximately ¥4.0 bn  
Full-scale operation in September 2024

Southern Tohoku region • Room-temperature foods

### Changes in logistics



\*Category delivery : Classifying and delivering products by category to adapt to layouts on the sales floor of retail store.  
Reduction of operational burden in store due to reducing the walking distance during product display.

### Expected benefits

#### Reduction of the burden of store operations

- Decrease in the number of receiving (twice ⇒ once)
- Improvement of efficiency of display operations through category delivery

#### Reduction of delivery costs and promotion of White Logistics Movement

- Reduction of the number of labor and trucks needed for delivering by 20 to 30%

#### Reduction of environmental burden

- Reduction of CO2 emissions by reducing the number of trucks

## BCP

### 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, consumer 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



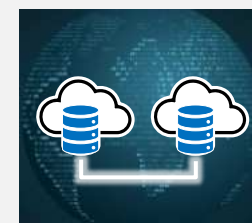
Seismic isolation structure

Adopted a structure that minimizes the effects of earthquakes



Emergency private power generator

Center operation is possible for three 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

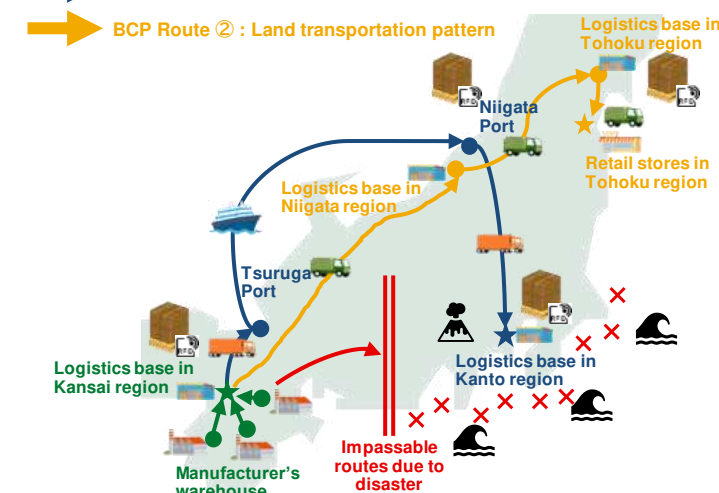
### Participation in a demonstration experiment of joint delivery, assuming a large-scale disaster

In January 2023, under Ministry of Economy, Trade and Industry commissioned project, “Fiscal 2023 Infrastructure Construction Project for Efficiency Improvement and Value Creation in Distribution and Logistics (Creating Examples for Building Distribution Resilience Using IoT Technology) (Commission: Mitsubishi UFJ Research and Consulting Co., Ltd.)”, we participated in a demonstration experiment of joint delivery using electronic tags (RFID tags), assuming a large-scale disaster that would cause road disruptions on the Pacific Ocean side. Through utilizing RFID tags, we could confirm immediately where individual daily necessity is at any point in time as well as alternative routes in case of road disruptions. We, as an intermediate distributor which handles daily necessities, will reinforce collaboration between companies and build a robust distribution network that can withstand emergencies throughout the supply chain.

Assumed disaster	Supply routes to the Kanto region and Tohoku region were cut off due to earthquakes, tsunamis, and other large-scale disasters on the Pacific Ocean side
BCP Route ①	Marine transportation pattern utilizing ferries
BCP Route ②	Land transportation pattern utilizing multiple logistics bases

BCP Route ① : Marine transportation pattern

BCP Route ② : Land transportation pattern



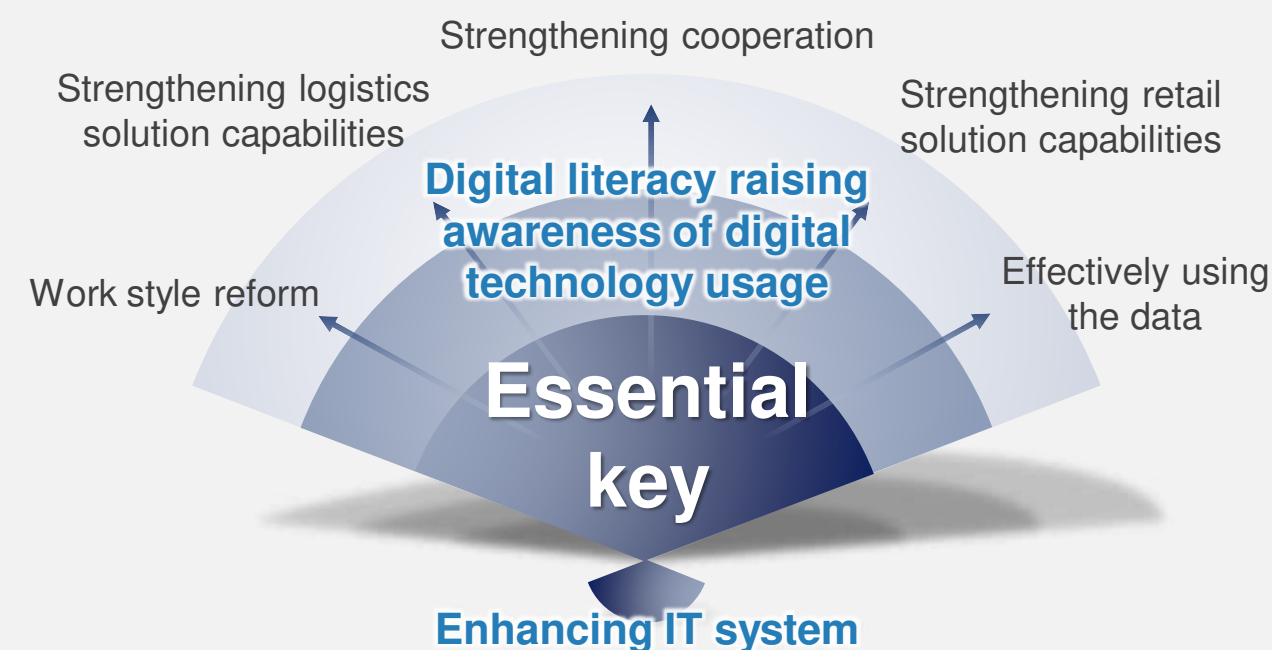


# 03

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



Enhancing IT systems, supporting our value creation model, is essential key to be able to realize the improvement of productivity and precise response to practical needs. In addition to strengthen cybersecurity 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 effort to transform our value creation and operating system through DX strategies for the next generation.

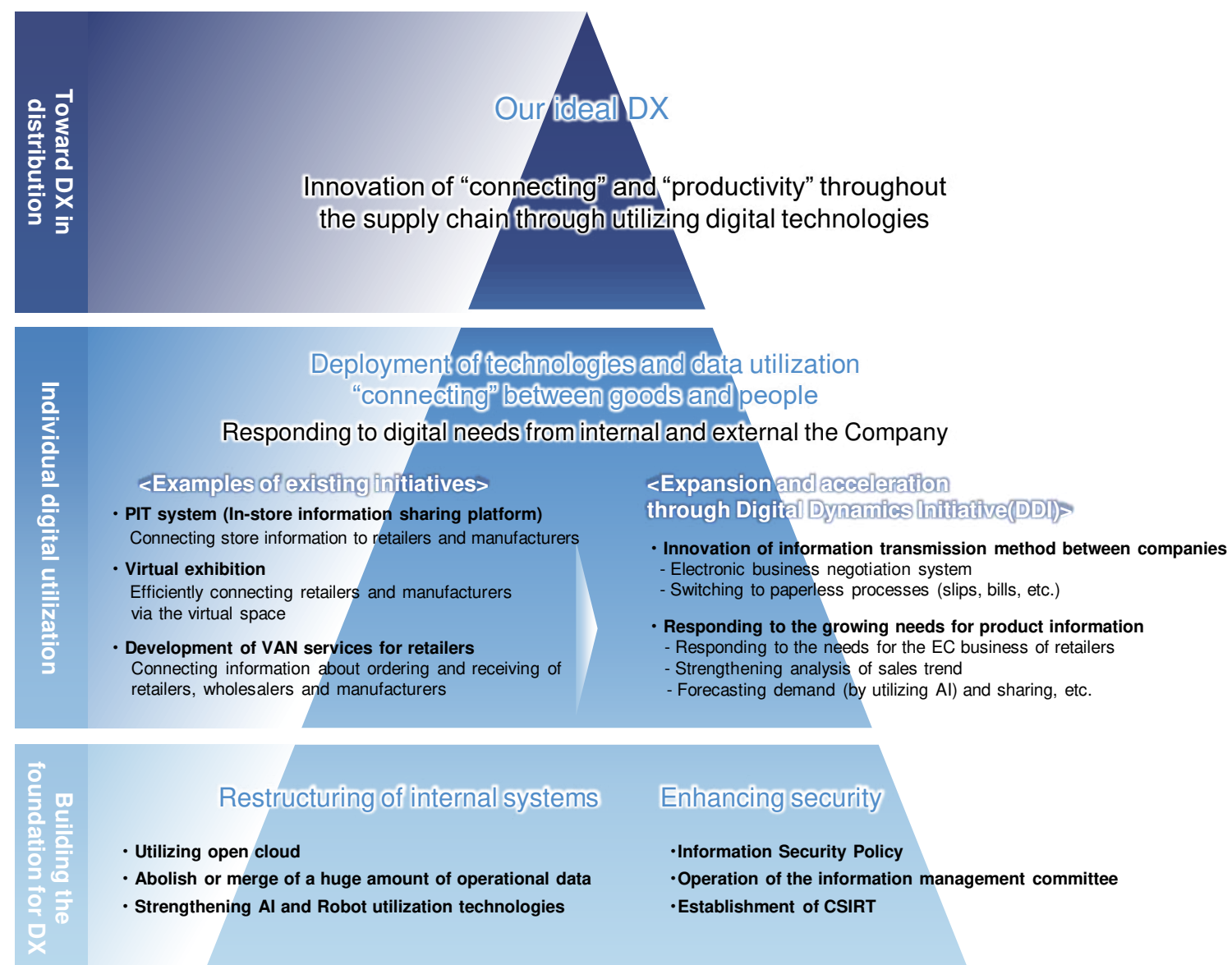


## Aiming toward realizing innovative productivity in the entire supply chain

The ideal DX which we should aim for is realizing innovative productivity in the entire supply chain by utilizing digital technology. DX Promotion Department, newly established in April 2022, plays a central role toward the realization of this goal. In promoting DX, we will first build the foundation for promotion of DX by revamping internal IT systems and strengthening security. We will take on the challenge of realizing innovative productivity in the entire supply chain by accumulating optimal digitization efforts in response to conditions, such as the deployment of technologies “connecting” between goods and people and the response to digital needs internal and external the company, by leveraging the resources and knowledge generated under the new foundation.

### Our Aim

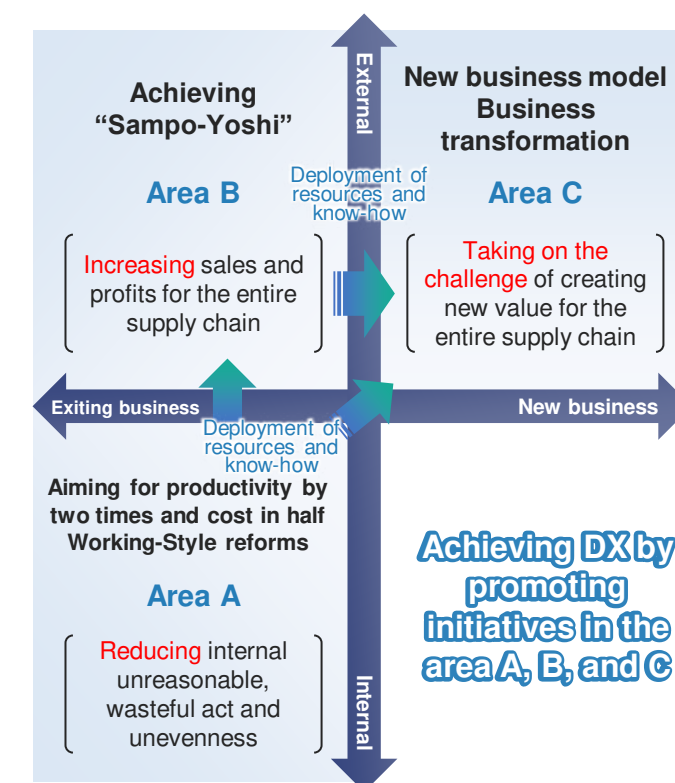
We would like to strive to contribute to customer's prosperity and to create people's rich and comfortable daily lives through distribution



DDI(Digital Dynamics Initiative) : A cross-divisional DX promotion taskforce-team composed of members from each department who decided to participate on their own

## Measures to Promote DX

Toward the realization of DX, we are proceeding initiative by classifying it into three areas, A, B, and C, from the perspective of “internal / external” and “existing business / new business”. In area A where we are aiming to reduce unreasonable, wasteful act and unevenness in the company, we are trying to enhance resources to provide value to external the company by reforming business processes, and focus on total working hours and man-hours for each task as a KPI. Next, in area B where we are aiming to provide value to the external the company in existing businesses, the currently ongoing “PIT system” and “VAN service” fall into this area. This is an area that aims to extract issues that will lead to new value creation and accumulate data while increasing sales and profits for the entire supply chain. Then, by investing the resources and know-how gained through A and B into area C initiative which bring out a new service, we would like to realize innovative productivity to create a new value for the entire supply chain.



### ■ The status of DX promotion based on the key strategies in the medium-term management plan “PALTAC VISION2024”

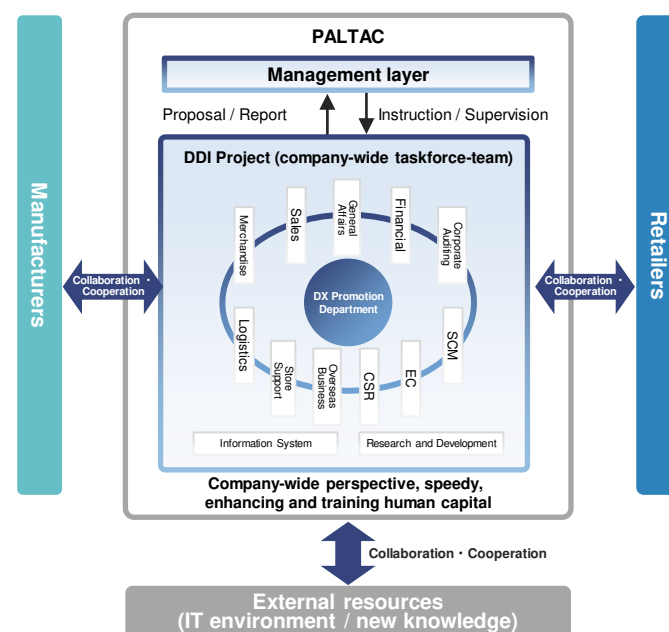
Key strategies of the medium-term management plan	Details of initiatives and progress	Area of initiative		
		A	B	C
Strengthening retail solution capabilities	<ul style="list-style-type: none"> <li>• <b>PIT system (Comprehensive support for promotional items)</b> At the phase to expand the number of customers who utilize this system</li> </ul>		○	
	<ul style="list-style-type: none"> <li>• <b>Innovating sales operations using digital technology</b> Reduction of the number of processes, through review of operating processes and improvement of systems / Implementation in 6 cases</li> </ul>	○		
	<ul style="list-style-type: none"> <li>• <b>Innovation in distribution of “goods” information</b> Proceeding digitalization of the flow settings for the product master and licensing procedure based on the pharmaceutical affairs law</li> </ul>	○	○	○
	<ul style="list-style-type: none"> <li>• <b>Innovating sales proposals by utilizing data (ID-POS, etc.)</b> Began describing system requirement specification for analysis data and system configuration and so on</li> </ul>		○	○
Strengthening logistics solution capabilities	<ul style="list-style-type: none"> <li>• <b>Tochigi distribution center began operations</b> Updating automated receiving and shipping operation equipment which was introduced in RDC Saitama</li> <li>• <b>Introduction of logistics EDI (Electronic Data Interchange)</b> Started demonstration test of receiving operations using advanced shipping notice from manufacturers</li> </ul>	○	○	
Enhancing IT system and Promoting digitization	<ul style="list-style-type: none"> <li>• <b>Moving from On-Premise to Cloud</b> IT enterprise system has already moved to a cloud system Transition of the analysis system to cloud system is underway</li> </ul>	○	○	
Developing talent and organization	<ul style="list-style-type: none"> <li>• <b>Continuing to recruit and develop IT specialists</b> Implementing a development program in line with the personnel requirements and skill map</li> </ul>	○		



## System for DX promotion

In order to create new value through the use of digital technology, it is important to “connect” digital technology and issues of distribution with diverse perspectives, knowledge, and ideas. Accordingly, we established DDI, a cross-divisional DX promotion taskforce-team composed of members from each department who decided to participate on their own. To promote optimal digital utilization, with the DDI as center player, we will effort to strengthen cooperation among departments, promote understanding of the activities and on-site needs in the systems department, and to improve the digital literacy and digital awareness in our user departments. We will also effectively utilize external resources, such as the IT environment, and work to “acquire diverse knowledge”, “to accelerate commitment to initiatives”, and “to maximize the value creation”, through internal and external collaboration and cooperation.

Promoting effective digital utilization centered on DDI, taskforce-team that plays a central role in DX promotion across departments



## Gimmick to enhance “Ability of realization” for DX promotion

We believe that in order to promote DX, it is important to enhance both “the ability to create projects” and “the ability to execute projects”. In our company, members of DDI, a cross-divisional DX promotion taskforce-team, plan DX project, and the project is executed in collaboration with members of DDI, specialist personnel belonging to the Information Systems Department and field personnel. In order to foster the growth of human capitals that can demonstrate the “Ability of realization” for DX promotion, we are implementing various measures. As one of our key measures, we have established a “DX Plaza (Internal community)” to connect human capitals beyond geographical distances and job types. “DX Plaza” is a digital workspace that enables interaction and collaboration among diverse human capitals within the company. Employees are actively engaging in discussions and sharing knowledge about on-site issues and the use of digital technology. The information such as the content discussed at “DX Plaza” and examples of improvement are posted on the “DX Portal Site” and widely disseminated within the company. Through this gimmick, each employee shares his or her knowledge and expertise in digital and on-site operations, and by accumulating them as an organization, we will aim to “cultivate diverse perspectives” for creating high-quality

projects, and to “improve digital literacy”, “acquire digital skills”, and “deepen understanding of operation on-site” for executing the projects.



## Fostering a corporate culture of inclusion and mutual support

The gimmick to enhance the “ability of realization” for DX also includes the purpose to foster a corporate culture of “inclusion and mutual support”. Employees will be able to have experiences of connecting with more employees beyond geographical distances and job types, sharing each other’s knowledge and know-how to solve problems together and expressing gratitude to each other. Therefore, ensuring that employees can feel themselves growth and satisfaction leads

to fostering “inclusion and mutual support” as set forth in our corporate philosophy “PALTAC MIMD”. Although such a gimmick will not bring effects immediately and easily, we will continue to implement measures to revitalize DX promotion and steadily and persistently nurture this place, which will lead to medium- to long-term change through the accumulation of results from each DX project and an active corporate culture.

## Employee's Voice

### Various opportunities created by connections

[ Chubu Branch Office administration department ]

Hiroiyuki Okajima Yuki Itazaki Ai Akahori Ayaka Matsuda



Q. How about use of the “DX Plaza” and “DX Portal Site”?

(Okajima) I am trying to see all the information posted on them. In that context, when our employees are in need associated with work, I want to contribute whatever I can with my knowledge and experience.

(Itazaki) I am using the contents related to Power Pivot for my work. I'd like to learn the skills to utilize PowerPivot and create my own easy-to-use tools for various analyses.

(Matsuda) Until now, despite wanting to see DX plaza, I didn't really have the time to do so. But, after I started posting, the opportunities to see them has increased. I would be happy if there were live streaming which enable us to communicate interactively, such as asking questions for 10-15 minutes.

(Akahori) I am checking whether any contents that seem useful for daily work, such as using Excel. I am also pleased to be able to have opportunities to share the digital skills possessed by various departments and individuals with employees working in other locations and departments.

Q. Do you have any expectations or suggestions for improvement of the “DX Plaza”?

(Okajima) I have worked in many departments and well connected to our many employees. However, through “DX Plaza”, I think that there are still opportunities to connect with various employees. I am excited as I think this.

(Akahori) I think that the increasing connections with employees of the same job type at other locations will have a positive impact on our operations. To do so, I think it is necessary a gimmick to increase the number of posting.

(Matsuda) The first content I posted was about “calling for product ideas”. I felt familiar with this theme, so it was easy to post.

(Okajima) For active community, I think it is important to make it more friendly and easy to access. For example, it might be better to create a place where the issues we feel inconvenience in daily work are gathered.

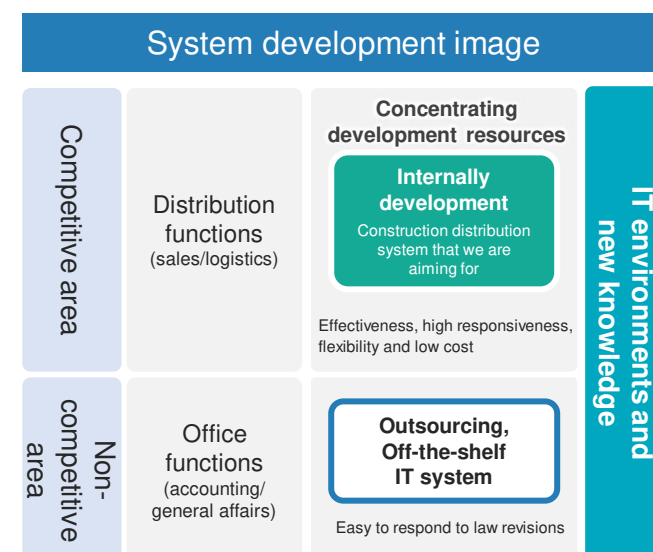
(Itazaki) That's good. When I am busy with my own work, I tend to post less. And thus, I hope that this place becomes more friendly and brings a sense of expectation “something might be changed if a post is made”.

## Enhancing IT system

### Evolving our internal development system that generates our strengths in order to respond to changes

We believe it is appropriate to develop IT systems which support our effective function of sales and distribution operation by our own because we have in-depth understanding of our business and operation. From such a perspective, we have concentrated development resources into the competitive area which directly affect the operating activities and internally developed systems, which has brought competitive advantage and our growth. However, amid the rapidly changing external environments, we believe that it is necessary to further evolve our internal development system in order to respond to these environments. And we are working on a transition to an “Offensive IT structure” through the strengthening our IT infrastructure and the acquirement

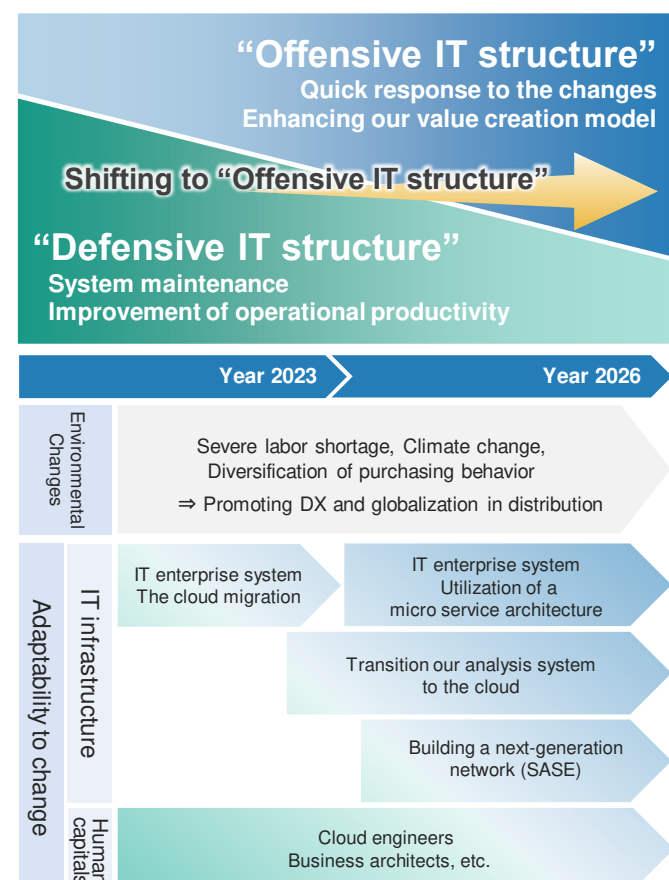
and development of digital human capitals.



### Ability to respond to ever-changing practical needs

We are moving forward with the shift to cloud-based information systems and the acquirement and development of digital human capitals in order to acquire the ability to respond to environments and practical needs, such as the progress of digital utilization in supply chain (AI, data utilization, cloud computing, etc.) and the overseas expansion of our customers. Regarding the shift to the cloud computing, we are aiming not only to gain the benefits in terms of security and cost but also to increase the speed of service developing and providing. The cloud migration of our IT enterprise system has already been completed. Currently, we are promoting the utilization of a micro service architecture enables to realize the speedy system’s change and the transition of our analysis system to the cloud. Additionally, we are planning to build a next-generation network of Secure Access Service Edge (SASE) that enables secure and flexible connection with customers. Regarding human capitals, in addition to the optimal assignment through improving efficiency of business operations, we are securing human capitals for the expansion into new business areas by implementing career recruitment based on the plan. Furthermore, we are promoting the development of educational

programs and career paths to cultivate professional human capitals such as cloud engineers and business architects.



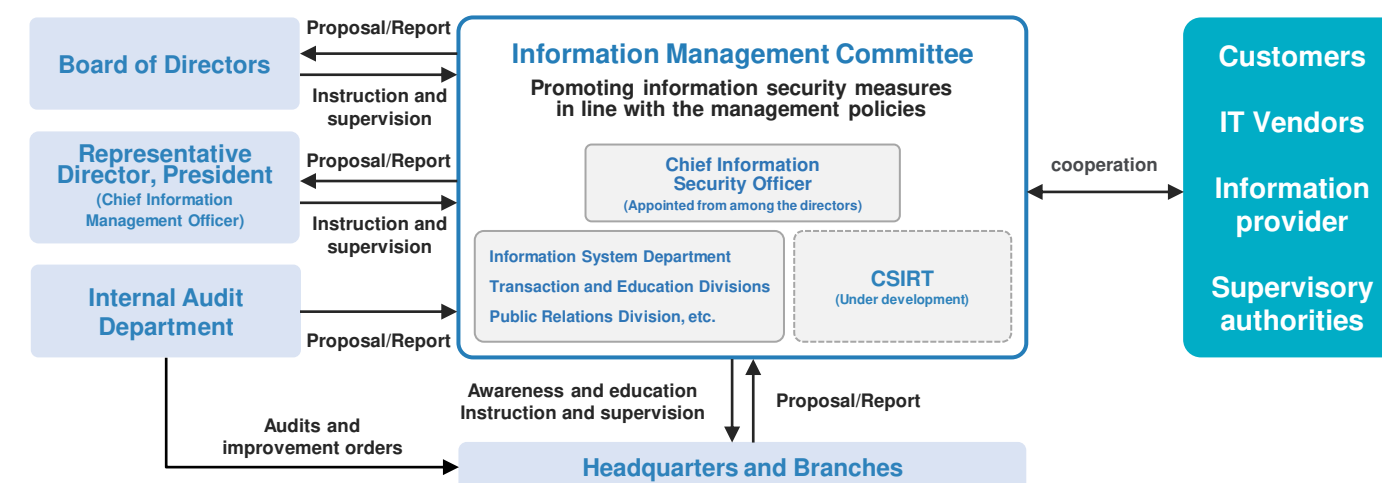
Secure Access Service Edge (SASE) : A cloud architecture model that combines network and security-as-a-service functions together and delivers wide area network, which realize both high-capacity communication from within and outside the company and secure access

## Information security system

### Implementing cybersecurity 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 cybersecurity addressing cyber risks which making secure supply of products difficult. In order to ensure thorough information-management, we have established the “Information Security Policy” and “Information Management Regulations” as standards for information management, and have also set up the “Information Management Committee” as an organization under the direct control of the Chief Information Management Officer. Under the direction of the Chief Information Security Officer, it consists of managers and members in charge of operations selected from each department. Centering on this committee, we strengthen security in a systematic and continuous manner through rotating the PDCA cycle of information management.

#### Information Security System



### Establishment of a system (CSIRT) capable of responding to computer security-related incidents

We implement security measures to prepare for the threat of cyber attacks during normal condition. However, it is said that it is almost impossible to completely prevent cyber attacks which are becoming more advanced and stealthier. Therefore, in order to minimize the damage caused by cyber attacks, we are working on the construction of a CSIRT. The CSIRT is responsible for strengthening security by improving the quality of security during normal condition and minimizing the damage arising from security-related incidents in cooperation with related departments centered on the security team composed mainly of cyber security experts and qualified personnel.

The role of CSIRT	
In the event of an incident	<ul style="list-style-type: none"> <li><b>Minimization of damage</b> Preventing the occurrence of serious accidents by prompt and accurate judgments and direction system in the event of malware infection and other incidents</li> </ul>
Normal condition	<ul style="list-style-type: none"> <li><b>Management of security quality</b> Aiming to reduce the occurrence of incidents</li> <li><b>Strengthening of incident resistance</b> Refining accurate judgments and response to incidents through training and other means</li> </ul>

CSIRT : Computer Security Incident Response Team



# 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 capitals, we will undertake various measures to draw upon the strength of our employees through supporting and encouraging them who refine individual expertise in respective workplace and position and also maintain the spirit of challenges and GRIT (Guts, Resilience, Initiative and Tenacity). With respect to an 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 capitals 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 capitals as a  
significant driving force  
for developing  
new value creation

## Human capital strategies for realizing business strategies

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

Based on the idea that human capitals are the “source of growth”, we will create new value in distribution by building an organization in which each and every human capital with the skills and mindset necessary to executing business strategies can realize their full potential. In the rapidly changing and complex environment, we are actively promoting the securing of human capitals, as well as committing to the development of human capitals such as increasing learning opportunities from various perspectives. In addition, we are working to retain human capitals by introducing a flexible personnel system reflecting the changes in society and encouraging each individual to play an active role in deepening collaboration and co-creation relationships through the strengthening of employee engagement.

#### 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

#### PALTAC VISION 2024 (Medium-term Management Plan)

①Strengthening retail solution capabilities

②Strengthening logistics solution capabilities

③Enhancing IT system and Promoting digitization

#### ④Developing talent and organization

##### Awareness of issues

- Rapid changes in the business environment ⇒ Securing and developing human capitals with diverse skills and ideas
- Decrease in the working populations ⇒ Establishment of an organization that maximizes the performance of each individual (improvement of the environment)

#### Our vision

Realizing new value creation of distribution by enabling each and every employee to fully demonstrate their capabilities (Please refer to the right page for details)

#### Toward an organization that maximizes the activities of each and every employee (Improving employee engagement)

##### Promoting initiatives to “secure”, “develop” and “retain” human capitals

Recruiting diverse human capitals

Promoting health

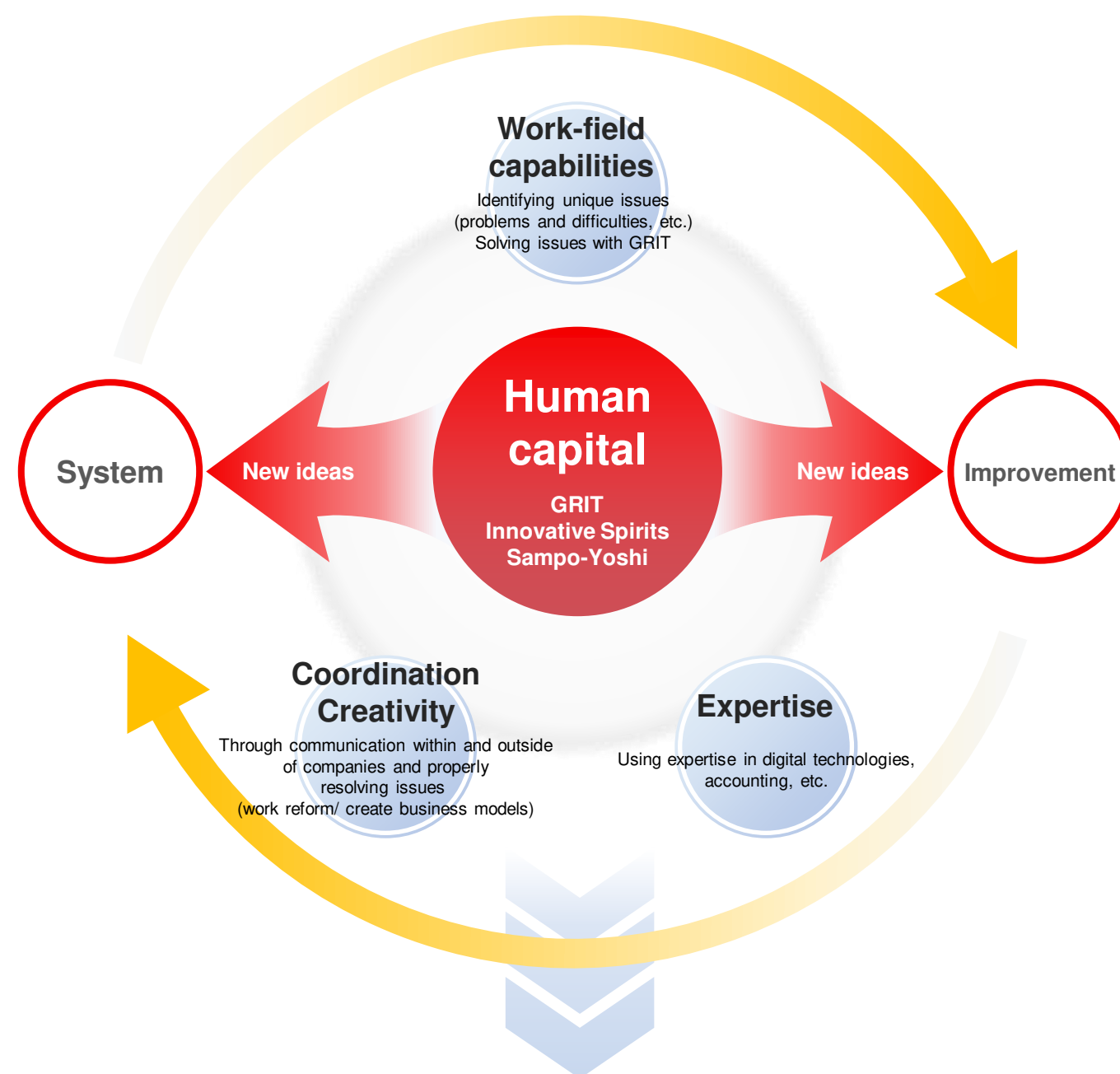
Expansion of learning opportunities

Flexible personnel system

Visualization of human capitals (utilization of HR data)

### Our vision

“System” of high-efficient distribution through its own cannot realize optimizing and streamlining the entire supply chain. The system can maximize its effectiveness when accompanied by know-how of efficient operation and of improvement. In addition, we will develop the system, not end, and we must continue to update and newly create as business condition changes. These works are exercised by power of our human capitals. Amid such radical changes of social environment, human capitals who have “Innovative Spirits” will take on the challenges, do not give up with their strength “GRIT” and repeat the cycle of “improvement” and creating a “system”. Embodying these ideas and taking action, we are continuously challenging to establish the optimal supply chain along with the changing times.



### Realizing new value creation of distribution



## Toward ensuring diversity

We are working to secure diverse human capitals to implement strategies that respond to rapid and complex changes in the environment. We are actively recruiting human capitals with specialized skills such as digital technology, and are working to improve the percentage of female employees in management positions. In order to improve the percentage of female employees in management positions, in addition to creating an environment that enables flexible working styles that allow employees to balance work and family, we are actively recruiting to increase the percentage of female employees, which currently stands at around 20%.

	2021/3	2022/3	2023/3
Percentage of mid-career hires	34.0%	38.1%	59.4%
Percentage of mid-career hires in management positions	61.0%	61.8%	65.4%
Percentage of female employees	18.3%	19.1%	19.6%
Percentage of female employees in management positions	4.0%	4.6%	5.9%
Percentage of new female hires	35.8%	30.9%	24.5%

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

## Continuous human capitals development

In order to support the long-term growth of human capitals, who are the sources of our sustainable growth, we have prepared a variety of training programs for each stage. We continuously support employees to have highly professional expertise through providing correspondence courses tailored to individual needs and training organized by each department to enhance expertise. In addition, we have introduced a new training system of internal recruitment and expanded opportunities for employees to take voluntary learning. In addition, we have created an internal community and portal site where employees across different location and job type participate and share their knowledge, know-how and issues, with the aim of improving employee's digital literacy through the effective use of digital technology, which is essential for the creation of new value in the distribution. From the perspective of business continuity, we recognize that developing the next-generation leaders is an

important issue for us. We conduct training sessions where the managements themselves explain corporate philosophies and principles to the human capital of the next generation, at the same time we assists employees in attaining valuable experience in the position with responsibilities and authority.



Scene of internal training

## Initiatives for promoting health

As our company responsible for the distribution of dairy necessities, it is recognized that the maintenance and improvement of employees' health are critical issues in our management, therefore we have established a system to promote health and are promoting various efforts. In specific, we are enhancing health checkups,

improving the uptake rate of secondary examinations, addressing mental health such as mental health education and EAP hotlines, and training for health maintenance and improvement.

## Establishing the flexible personnel system

Aiming to enable each and every employee to work with a sense of job satisfaction and motivation, and to enable both employees and the company to grow together, we are striving to create a flexible system, which allows diverse human capitals to play an active role, including "a childcare and nursing care support system" that supports a balance between work and family. Also, in June 2022, in light of changes in the environment, such as the progress of digitization, the activities of professional human capitals are becoming more important, we revised our personnel system to establish a new professional course in order to motivate our professional human capitals and enable them to fully demonstrate their skills. In the future, we will work to strengthen our human capitals and organization through promoting the development of an environment in which diverse human capitals will be able to make the most of their abilities.

Main initiatives
<ul style="list-style-type: none"> <li>Childcare and nursing support system</li> <li>Changing retirement age (Changed from 60 to 65)</li> <li>Silver human resources employment system (Employable until the age of 70)</li> <li>Work from home</li> <li>Introduced variable working hours system (December 2020)</li> <li>Revised our personnel system in which professionals can take maximum advantage of their abilities (June 2022)</li> </ul>

	2021/3	2022/3	2023/3
Number of users of childcare support system (childcare leave)	31	34	39
Number of users of childcare support system (short working hours)	51	46	51
Percentage of employees returning to work after childcare leave	100%	100%	100%
Number of users of the silver human resources employment system (65 years old and over)	333	421	514

## Enabling diverse human capitals show the most of their individual abilities

As the mobility of human capital increases, we will strive to improve employee engagement through continuous human capital development and the establishment of flexible personnel systems, in order to retain diverse human capitals. We are currently developing the measurement of employee engagement scores. Based on the

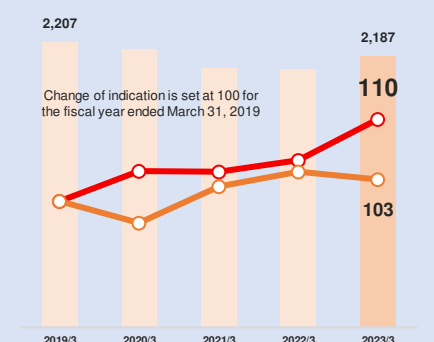
results of these measurements, we will set goals, implement strategies, and deepen our collaborative and co-creative relationships with our employees, thereby build an organization that can maximize the abilities of each and every employee.

## Steady activities of each and every employee support our sustainable growth

Although the number of employees has been declining in recent years, sales have grown by 8.8% for the fiscal year ended March 2023, and also the both sales and operating profit per-employee have expanded. While responding to changes in the business environment, based on our strategy, each employee have steadily advanced sales promotion efforts that meet consumer needs and improving activities aimed at optimizing logistics efficiency, as a result, we have achieved those results. We will continue to strive for business growth through various activities, and to work towards securing, developing, and retaining diverse human capitals capable of creating new value in the distribution.

### Per-employee indicators

- Net sales per employee
- Operating profit per employee
- Number of employees



\* After excluding the impact of the launch of Tochigi distribution center in FY2023/3

## Harmonizing the environment

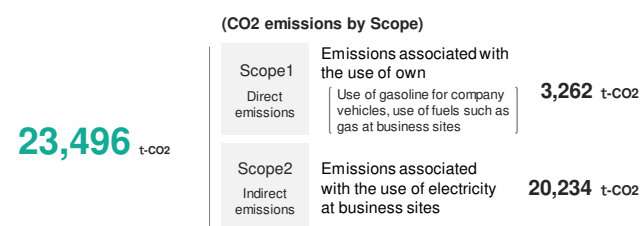
# Creating the sustainable society through various efforts toward optimizing and streamlining

## Reducing CO2 emissions

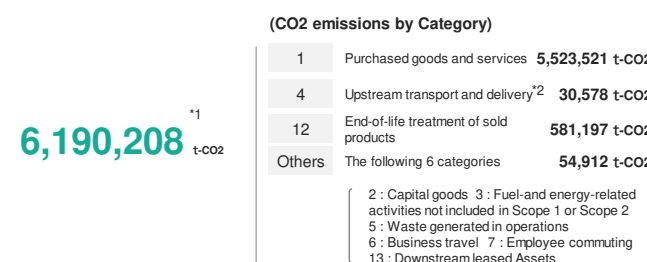
As an enterprise that contributes to realizing people's rich and comfortable daily lives and moves forward with people and society, we are promoting initiatives aimed at a sustainable society, such as reducing environmental burden through our business activities. To address climate change, we will reduce CO2 emissions by improving loading efficiency and optimizing delivery routes in truck transportation, thoroughly implementing energy-saving measures at our distribution centers, and procuring electricity derived from renewable energy.

CO2 emissions (Fiscal year ended March 31, 2023)

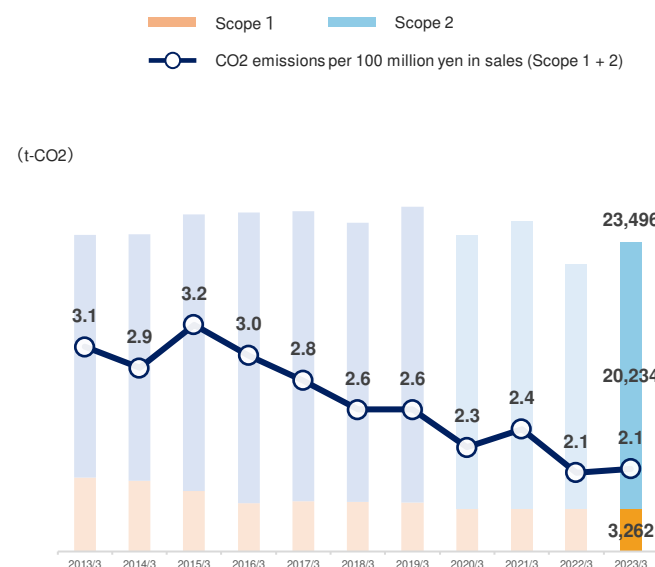
### Scope1 + 2



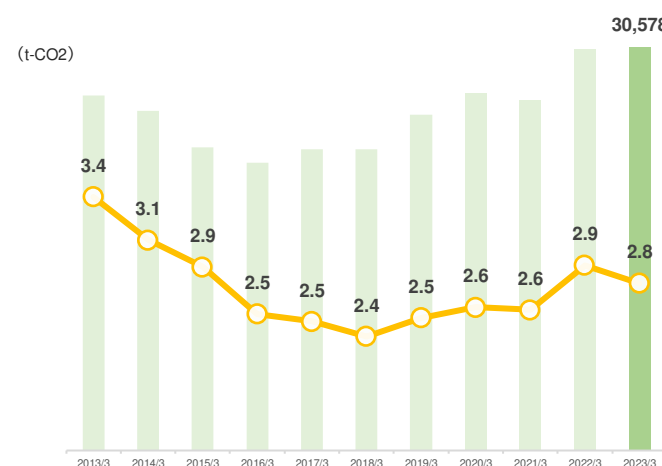
### Scope3



CO2 emissions of Category 4(Upstream transport and delivery), which has a high correlation between improvement of business activities and CO2 reduction



Legend: CO2 emissions per 100 million yen in sales (Category 4) (yellow line)



<sup>\*1</sup> From the fiscal year ended March 2023, we have increased the number of calculation categories for Scope 3 and have calculated the above-mentioned 9 categories. In calculating, we refer to the guidelines (Ver3.3) and the emission unit database (Ver3.3) published by the Ministry of the Environment.

<sup>\*2</sup> Category 4 was calculated for the amount of CO2 emissions associated with the transportation of products from us to retailers.

## Initiatives aimed at reducing Scope 1 and 2 CO2 emissions

We are actively reducing CO2 emissions with the aim of achieving 50% reduction targets for Scope 1 and Scope 2 CO2 emissions by FY2030 (compared to FY2020) and carbon neutrality in FY2050. Regarding Scope 1, in addition to discontinuing the use of fossil fuels at our business sites, we will reduce the amount of gasoline used in our company vehicles as well as proceed with the introduction of electric vehicles while comprehensively considering the state of environmental infrastructure such as EV charging facilities and review of our business processes. Regarding Scope 2, since there is a limit to the reduction of electricity consumption, we will

promote the procurement of renewable energy-derived electricity through the installation of solar power generation facilities at our distribution centers and the acquisition of non-fossil fuel certificates. In addition, towards achieving carbon neutrality, we will continue to explore all possible measures, including procurement of renewable energy derived from power with additionality through the use of Power Purchase Agreements (PPA), in addition to advancing to the current initiatives, and promote effective initiatives in response to technological advancements and changes in the market environment.

### Roadmap to achieve CO2 emissions reduction targets by FY2030

Targets fiscal year	FY2023	FY2030
Targets (Scope 1 + 2)	50% reduction (compared to FY2020)	
Scope 1	Reduction of the amount of fossil fuels used at business sites	
	Reduction of gasoline used for a company's vehicles (switching to environmentally friendly vehicles, constructing more efficient and ecofriendly driving routes, etc.)	Introduction of electric vehicle
Scope 2	Thorough implementation of energy-saving measures (introduction of LEDs, energy-saving measures such as electricity saving through internal awareness, etc.)	
	Installation of solar power generation (including installation in new distribution centers to be operational by FY2030)	
	Acquisition of non-fossil fuel certificates	
	Any other investigation and examination of renewable energy procurement measures (e.g., purchasing renewable electricity with additionality using PPA)	
	Targets for the ratio of renewable energy	48%

## Initiatives aimed at reducing Scope 3 CO2 emissions

Regarding Scope 3, we are progressing in reducing CO2 emissions of Category 4 which has a high correlation between improvement of our business activities and CO2 reduction, and expanding the range of calculation. In terms of Category 4, we are promoting measures to reduce fuel consumption through improved delivery efficiency, such as shortening transportation distances and improving loading efficiency. At the same time, from a medium to long-term perspective, towards the transition of trucks to non-fossil energy sources, we will strengthen collaboration with delivery companies and other our customers, while paying attention to technological advancements and changes in the market environment. For the other categories,

we first calculated the emission volume in accordance with the guidelines of the Ministry of the Environment. Hereafter, we will enhance the accuracy of our calculations and set target categories for CO2 reduction. And we will investigate and research standard method as a yardstick that is common with our customers and essential for reduction. Thereby, we will link those measures to the next steps including further collaboration with customers and CO2 reduction. Furthermore, from the perspective of collaboration, we will continue to expand our knowledge and connections through participation in the "GX League", an initiative under the leadership of Ministry of Economy, Trade and Industry, which aimed at achieving carbon neutrality.

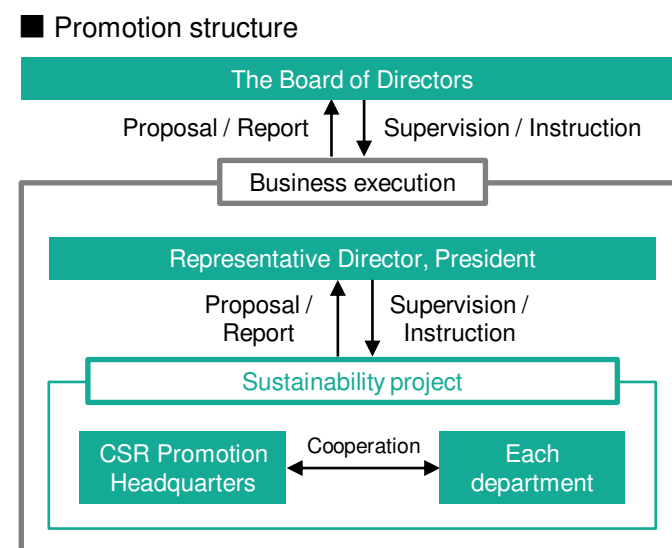


## Information disclosure in line with TCFD recommendations

Climate change which is issue to be addressed on a global scale, and in the dairy necessities distribution industry, due to climate change, extreme weather has become more severe and posed a serious threat to stable supply and climate change is recognized as an important issue to be addressed by the whole industry. We have identified climate change as one of the key issues to be solved for our sustainable growth and have taken proactive measures which are incorporated into our medium-to long-term strategy. Specifically, in proceeding with “optimizing and streamlining the entire supply chain” the mission that we should play, through business activities including reducing CO2 emissions by consolidation of our distribution center and increase in the efficiency of delivery, the replacement of illumination with LED lighting at the offices and the development and sales expansion of environmentally friendly products, we are engaged in reducing the environmental burden. Including these activities, we will move forward with initiatives to address climate change and continue to identify and assess various risks and opportunities that could arise from climate change and aim to minimize risks and reinforce our competitiveness. In addition, through engaging in dialogue with our stakeholders, we will enhance initiatives and improve an environmental information disclosure.

### Governance

Toward an appropriate address to climate change, under the supervision and instruction of Representative Director, President, within the sustainability project which promotes company-wide initiatives, we identify risks and opportunities related to climate change that affect our business activities and formulate policies to deal with these risks and opportunities. Contents of this project are regularly reported to the Board of Directors by the CSR Promotion Headquarters which is in charge of the project secretariat. And then the Board of Directors manages and supervises the content of these reports.

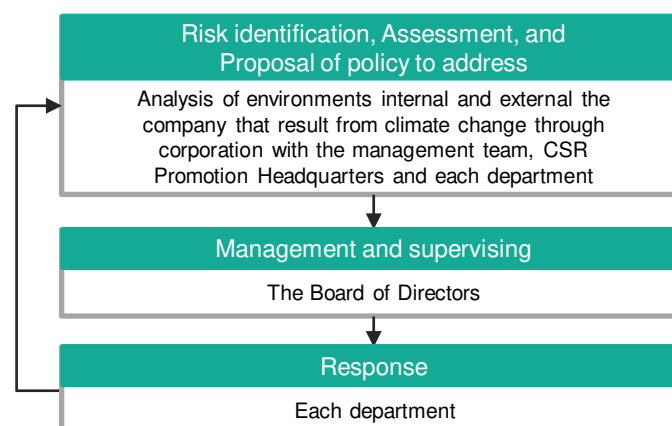


### Risk management

Towards achieving our management goals, we have established the “Risk Management Regulations” to appropriately respond to potential risks in business execution and fulfill our corporate social responsibility. Regarding the risk management system, the CSR Promotion Headquarters, which is the supervisory department for risk management, takes the lead in collaborating with the management layer and each department, and identifies and analyzes risks that may affect business operations, including aspects of sustainability such as climate related risks. They also evaluate the importance based on criteria incorporating the potential impact on business operations, probability of the risk occurring and other factors, and formulate response policies. The results of progress are eventually reported to the Board of Directors and managed and overseen by the Board

of Directors. We incorporate major risk factors which are identified through above the process into our medium-term management strategy and promote to address.

#### ■ Risk management processes



## Strategy

For reference, the scenario analysis uses existing scenarios published by the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC). We assumes two possible worlds: one scenario assumes “limiting the average global temperature rise to no more than 2°C above pre-industrial levels”, or the Paris Agreement goal (the below 2°C scenario), and another scenario under which it is assumed that already published national policies and regulations are achieved without introducing new policies and schemes, entailing an increase in the volume of global greenhouse gas emissions from the current level (the 4°C scenario). We assessed the impacts on our business under these two scenarios and we analyzed impacts caused by climate change in 2030 to verify our strategic resilience for climate change risks and opportunities. As a result of the analysis, under the below 2 °C scenario, we recognize that we face higher risks such as an increase in cost due to the introduction of carbon taxes, etc., and a decline in transactions due to the delay in efforts to address the climate change and we can expect the increase in demand for ethical products. Under the 4°C scenario, we anticipate a damage on the supply networks of products caused by natural disaster as a major risk. Nevertheless, we have established effective Business Continuity Plan (BCP) that take into account risks including the occurrence of

a large-scale natural disaster. One of the measures in that plan include a system under which, even if the distribution capabilities at some distribution centers can no longer be deployed safely, other distribution centers can take over these capabilities as their backup. Consequently, we believe that the physical risks caused by natural disaster may not have much of an impact on our business in 2030. While addressing opportunities, we recognize the positive factors by increase of demand for summer-seasonal products due to high temperatures and disaster and emergency response products. And, in either scenario, it is expected that upward pressure on cost is likely to gain momentum. That is not only risk but also opportunity to use low-cost and high-efficient distribution network as our strength which has been established so far. Our industry has also faced immediate issues which are upward pressure on cost, including addressing labor shortage at retail stores and driver shortage, due to impact besides the climate change. Under these environments, we believe that our sustainable growth depends on how well we create an efficient distribution system and are striving for optimizing and streamlining the entire supply chain through strengthening of the intermediate distribution function and collaboration and cooperation with stakeholders based on the medium-term management plan “VISION 2024”.

#### ■ Risks and Opportunities

Type of risks/ opportunities			Overview of the risks/opportunities	Impact on business and finance	
				Below 2°C	4°C
Risks	Transition	Policies, laws and regulations	• Increase in costs due to the introduction of carbon taxes, etc. • Rise in the unit cost of logistics due to cost increase in the delivery industry	Moderate	Small
		Reputation	• Decline in transactions due to delay in efforts to address the climate change	Moderate	Small
	Physical	Long-term	• Decline in demand for winter-seasonal products due to high temperatures	Small	Small
			• Rise in raw material prices due to shifting weather patterns (raise in purchasing costs)	Small-Moderate	Small-Moderate
		Acute	• Damage on supply network due to an intensification of abnormal weather (damage to facilities or injuries to employees)	Small	Small
Opportunities	Increase in sales opportunities		• Expansion in consumer needs for ethical consumption • Increase in demand for disaster and emergency response products	Small-Moderate	Small
			• Increase in demand for summer-seasonal products and for products against the hot weather due to high temperatures	Small	Small
	Rise in relative competitiveness		• Rise in needs for low-cost distribution network which minimize the cost increase to address climate change.	Small-Moderate	Small
			• Rise in needs for distribution base which to ensure stable supply (BCP and nationwide distribution network)	Small-Moderate	Small-Moderate

The degree of impact on business and finance

Large : The impact on our business and finance is expected to be large. Moderate : The impact on our business and finance is expected to be moderate. Small : The impact on our business and finance is expected to be small.

## <Reference> Assumed worldviews in different scenarios

Below 2°C scenario	The impact of transition risks and opportunities to a decarbonized society, such as the introduction of a carbon tax, will increase
4°C scenario	The impact of physical risks and opportunities, such as an increase in natural disasters, will increase



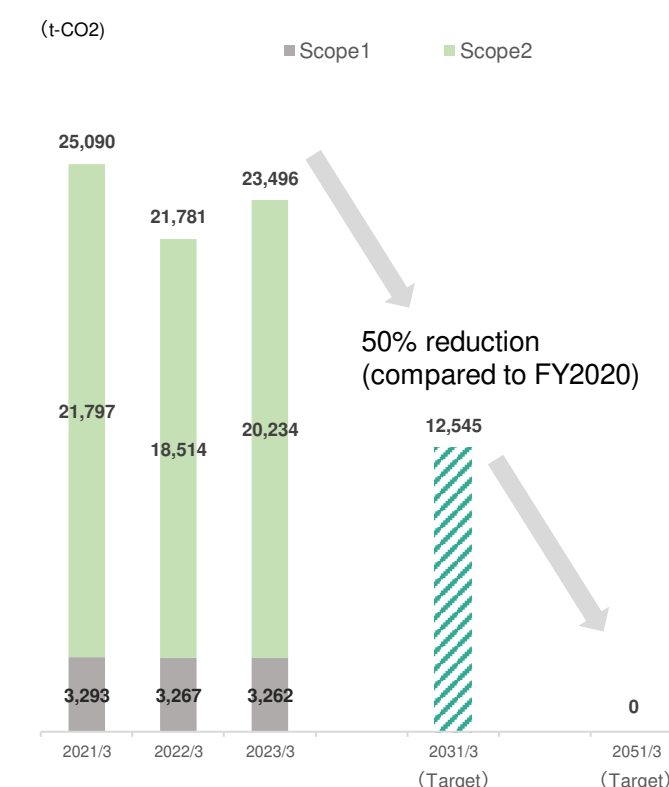
## Metrics and targets

With a view toward contributing to realization of limiting the average global temperature rise to no more than 2°C, we have established the Scope 1 and 2 target to the goals of “reducing CO2 emissions 50% from FY2020 by FY2030” and “net zero by FY2050”. In Scope 1 and 2, CO2 emissions related to electricity consumption at the distribution centers account for most of total CO2 emissions. But we are not allowed to halt the supply of products. And it is necessary to reduce CO2 emissions even in a situation where we can not drastically reduce electricity consumption. Therefore, we will promote initiatives to achieve our goals, centered on measures to “create” and “procure” renewable energy. Specifically, we plan to gradually install solar power generation systems on the rooftops of our distribution centers, as well as procure renewable energy power by acquiring non-fossil fuel certificates and changing contract conditions to the plan that using renewable energy power.

Reduction targets	FY2030 : 50% reduction (compared to FY2020) FY2050 : Net zero emissions
Specific measures	<p><b>“Creating”</b> Installing solar panels on the rooftop of distribution center in sequence while ensuring safety in times of emergency</p> <p><b>“Procuring”</b> Procuring renewable energy power by purchasing non-fossil fuel certificates or switching to a renewable energy plan</p> <p><b>“Reducing”</b> Thorough implementation and expansion of energy-saving measures such as electricity conservation at our offices and distribution centers</p> <p>We are setting a target for the ratio of renewable energy to procured electricity every fiscal year and promote steady reductions. In addition, we will thoroughly implement and expand energy-saving measures such as electricity conservation at our offices and distribution centers, and promote effective reduction of CO2 emissions that can also lead to reduction of costs and improve the workplace environment.</p>

Entering the fiscal year ending March 2024, we are setting a target for the ratio of renewable energy to procured electricity every fiscal year and promote steady reductions. In addition, we will thoroughly implement and expand energy-saving measures such as electricity conservation at our offices and distribution centers, and promote effective reduction of CO2 emissions that can also lead to reduction of costs and improve the workplace environment. Regarding Scope 3, towards reduction of CO2 emissions from product transportation (GHG Protocol : Category 4), we will effort to reduce CO2 emissions related to our business activities through promoting existing efforts to improve delivery efficiency and expanding the range of efforts in collaboration and cooperation with our customers. In other categories, considering the relevance to our business, we will strive to calculate and improve the accuracy of CO2 emissions calculations, as well as conduct investigations into the potential for reduction, and respond sequentially.

## Changes in the CO2 emissions





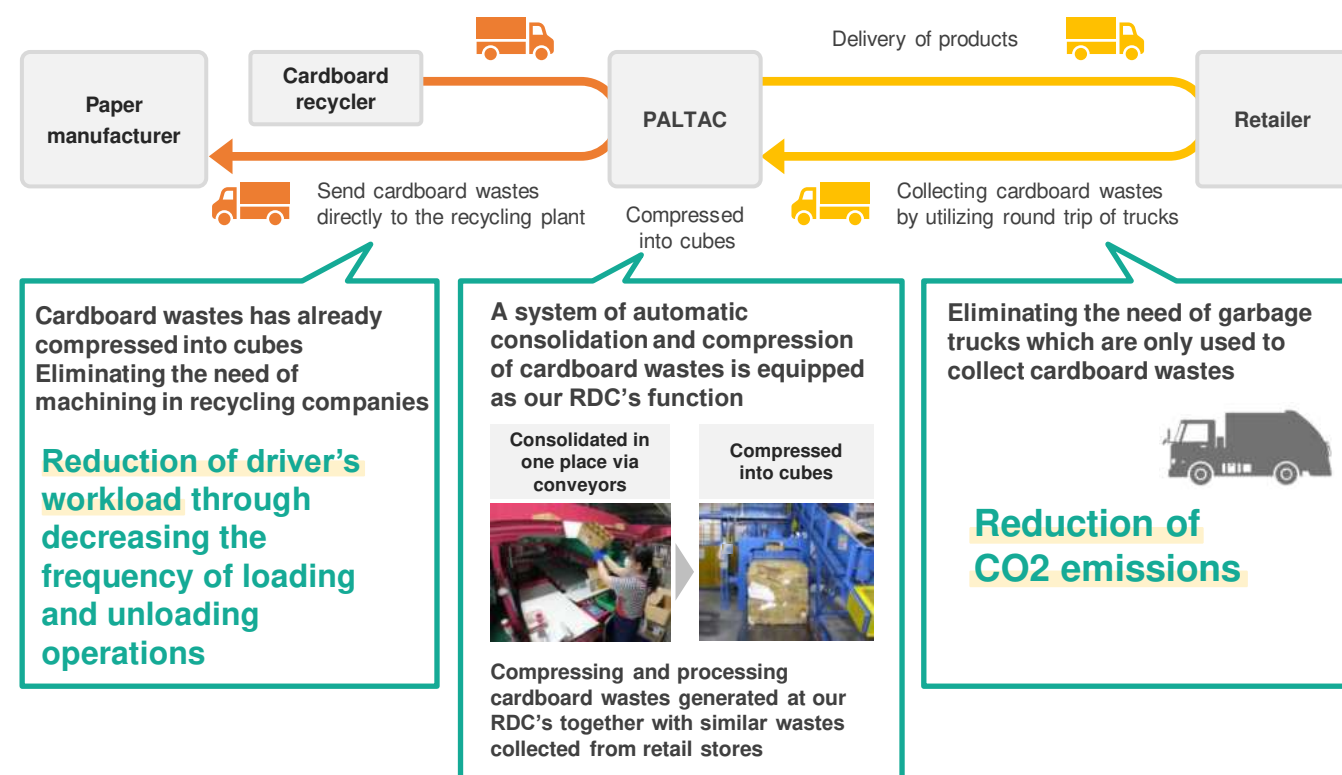


## Received the “Excellence Award” of the “Supply Chain Innovation Award 2023” ~ Established an efficient, resource-recycling cycle utilizing existing distribution networks ~

On July 14, 2023, we received the “Excellence Award” of the “Supply Chain Innovation Award 2023” from Manufacturing, Distribution and Retail joint Forum in recognition of “efficient, resource-recycling cycle utilizing existing distribution networks” initiative implemented in collaboration with Kirindo Co., Ltd., KUSURI NO AOKI Co., Ltd., YAKUODO Co. Ltd., Yutaka Pharmacy Co., Ltd., KONNO Co., Ltd., Miyazaki Co., Ltd., and paper manufacturers. This initiative involves the construction of a sustainable “resource-recycling cycle” that efficiently recycles cardboard wastes through the utilizing existing distribution networks in business activities in collaboration and cooperation not only with manufacturing, distribution and retail but also with recycling companies. Specifically, we collect cardboard wastes using empty trucks on their way back to

our distribution center. This ensures that we can reduce the usage of garbage trucks. Furthermore, utilizing this measure together with “function of automatic consolidation and compression of cardboard wastes” of our distribution center, we can eliminate the need to ask cardboard recyclers for the compress and process. As a result, we realize improvement of the loading efficiency of delivery trucks resulting from an increase of the volume of cardboard wastes which handled, and reduction of frequency of loading and unloading through delivering directly from our company to paper manufacturers. These are initiatives which will contribute not only to the improvement of the efficiency of collecting and recycling, but also to the construction of a sustainable society by reducing the overall distribution workload and CO2 emissions.

### Efficiently recycling cardboard wastes utilizing existing distribution networks.



#### Effect of initiatives

- Reduction of CO2 emissions through the efficient transportation of cardboard wastes, reduction of driver's workload, and monetize of cost due to resource recycling
- In collaboration with cardboard recyclers, donate a portion of income to the “Green Fund” for forest conservation activities

We are evaluated for our efforts with our customers towards the overall efficiency of distribution at the “Supply Chain Innovation Awards” held in the past. Please refer to the release document posted on our Japanese website for the past initiatives that were evaluated highly.

## Reduction of returned products

We are working to reduce returned products in collaboration with customers aiming for the 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 consumer's needs and seasonal changes, so promotion activity and generation of returned products are in conflict. Maintaining stock availability through the collaboration of the entire supply chain is essential in order to create sales floor to match consumer's 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.

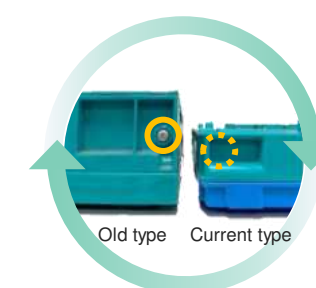
## Using eco-friendly foldable container

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, is approximately 24% lighter than conventional models and contribute to reduce the workload and CO2 emissions during delivery.



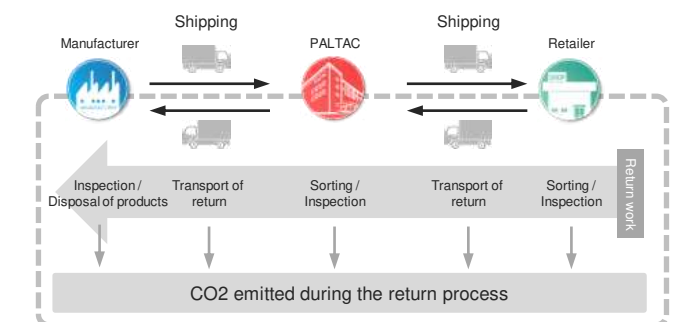
Foldable container

Easy to recycle through it does not contain screws



24% lighter

Returned products increase the cost and an 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

Additionally, in our distribution center, which newly started its operation, we have introduced a “rewritable laser system” that can print and erase the information necessary for shipping foldable containers using a laser method. Use of disposable shipping labels that until now have been manually attached or replaced was eliminated, thus contributing to the improvement of work efficiency and reduction of waste.



Rewritable laser system

Enabling to rewrite shipping labels repeatedly without contact with the surface  
Eliminated the need for disposable label  
Contributing to reduce waste

(Conventional model)  
Manually attach and replace of shipping labels

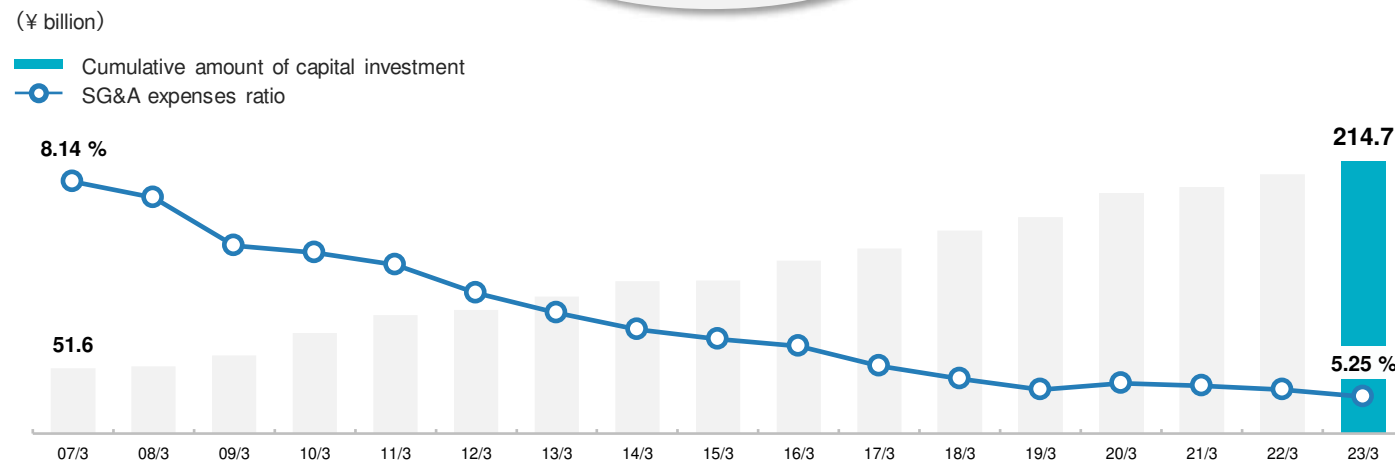




### Generating profit through pursuing improvement of productivity

Over the past 20 years, we have actively invested earnings from our operation to optimizing and streamlining 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 systems with high-efficient large-scale distribution center and IT system, and improving activities by every employee has refined through accumulating, and contribute to the strengthening capability of generating profits. Moving forward, under rapidly changing environment such as accelerating digitalization and soaring prices of commodities, we believe it is necessary to generate new ideas and realize them, while continuing the cycle of development and improvement for systems. To enhance the feasibility of these strategies, in addition to investing in distribution centers and information systems, we will promote investments in diverse human capitals who are the source of our growth. In order to enhance corporate value, we will continue to accelerate our growth cycle by aggressive investment for further optimizing and streamlining the entire supply chain.

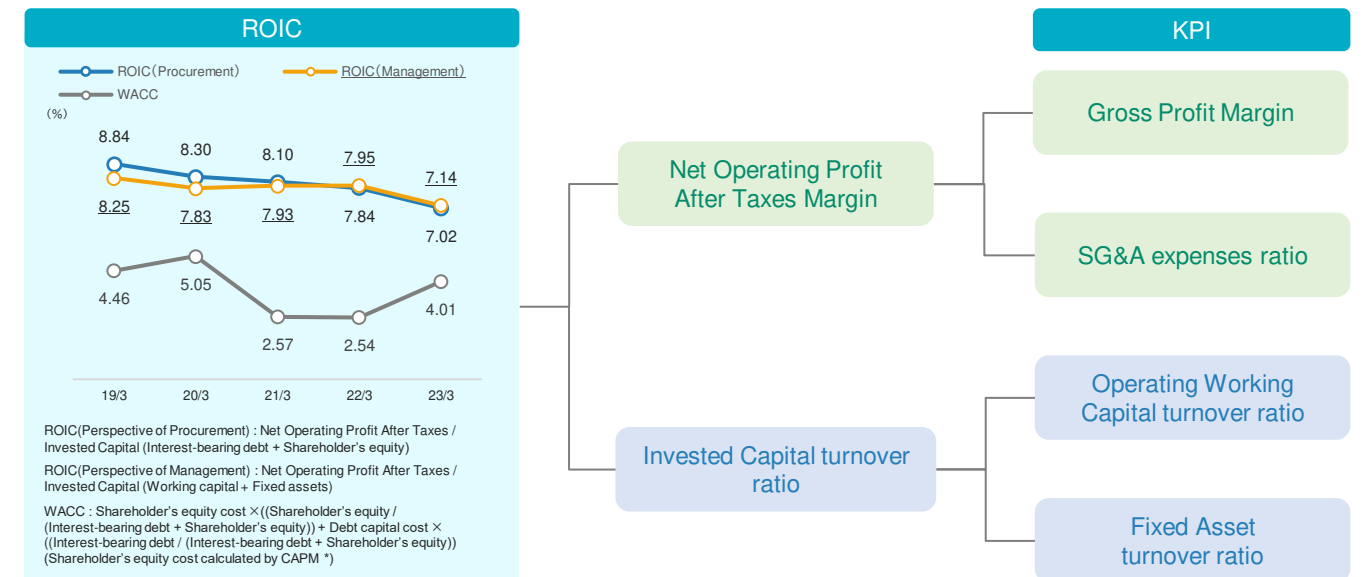
#### Strategic Growth Cycle



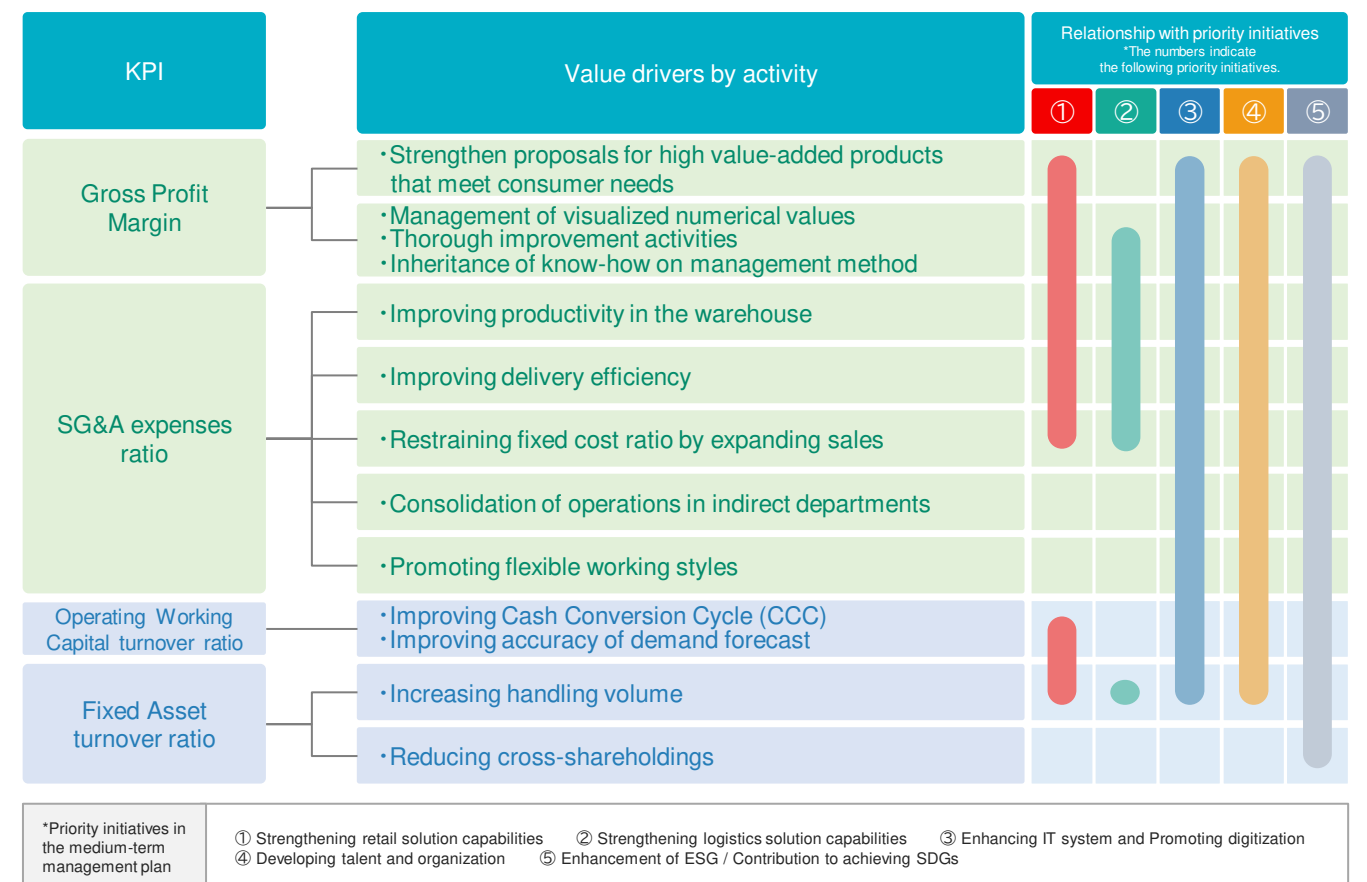
\*Cumulative amount from fiscal year ended September 1998

### 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.



#### Relationship between the KPIs that comprise ROIC, and initiatives based on the medium-term management plan



\*Priority initiatives in the medium-term management plan

① Strengthening retail solution capabilities ② Strengthening logistics solution capabilities ③ Enhancing IT system and Promoting digitization  
④ Developing talent and organization ⑤ Enhancement of ESG / Contribution to achieving SDGs



## PALTAC's Value Foundation

- 84 Management Team
- 90 Corporate Governance
- 96 CSR Management



Members of the Board

Tenure

Number of attendance at the Board of Directors

Number of the Company's shares owned (as of March 31, 2023)



Representative Director,  
Chairman

April 1985 Joined the Company  
June 2011 Executive Officer, General Manager of Yokohama Branch Office of the Company  
April 2013 Managing Executive Officer, General Manager of Yokohama Branch Office of the Company  
June 2014 Director, Managing Executive Officer, General Manager of Yokohama Branch Office of the Company  
June 2016 Managing Executive Officer, General Manager of Sales Headquarters of the Company  
June 2017 Director, Senior Managing Executive Officer, General Manager of Sales Headquarters of the Company  
April 2018 Director, Vice President, Executive Officer, Senior General Manager of Sales Headquarters of the Company  
December 2018 Representative Director, President, COO, Senior General Manager of Sales Headquarters of the Company  
April 2019 Representative Director, President, COO of the Company  
June 2019 Director of MEDIPAL HOLDINGS CORPORATION (incumbent)  
April 2023 Director, Vice Chairman of the Company  
June 2023 Representative Director, Chairman of the Company (incumbent)

(Significant concurrent positions outside the Company)  
Director of MEDIPAL HOLDINGS CORPORATION  
\* Retired at the end of his term of office on June 27, 2023

**Seiichi Kasutani**  
6 years 14/14 19,583 shares

Reasons for nomination

Mr. Seiichi Kasutani has engaged in various important posts of the Company's Sales Division, and after assuming the position of Director in 2017, he has served as Representative Director, President since 2018, and has served as Director, Vice Chairman since April 2023. He possesses extensive experience, far-ranging insight, as well as strong execution ability as a manager. The Company has nominated Mr. Seiichi Kasutani as a candidate for Director, having deemed him qualified for corporate management of the Company particularly in terms of enabling the Company to sustainably increase corporate value and strengthening governance, and having determined that he will be able to utilize his extensive experience and track record 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

April 1985 Joined the Company  
June 2012 Executive Officer, General Manager of Kinki Branch Office of the Company  
April 2013 Managing Executive Officer, General Manager of Kinki Branch Office of the Company  
June 2014 Director, Managing Executive Officer, General Manager of Kinki Branch Office of the Company  
June 2016 Managing Executive Officer, General Manager of Nagoya Branch Office of the Company  
April 2018 Senior Managing Executive Officer, General Manager of West Japan Sales Headquarters, General Manager of Merchandise Headquarters of the Company  
June 2018 Director, Senior Managing Executive Officer, General Manager of West Japan Sales Headquarters, General Manager of Merchandise Headquarters of the Company  
July 2019 Director, Senior Managing Executive Officer, General Manager of Hokkaido Branch Office of the Company  
January 2020 Director, Senior Managing Executive Officer, Senior General Manager of Sales Headquarters of the Company  
October 2020 Director, Senior Managing Executive Officer, Senior General Manager of Sales Headquarters, General Manager of Merchandise Headquarters and Overseas Business Headquarters of the Company  
April 2023 Director, Senior Managing Executive Officer, In charge of Administration of the Company (incumbent)

**Masahiro Noma**  
5 years 14/14 17,028 shares

Reasons for nomination

Mr. Masahiro Noma has engaged in various important posts of the Company's Sales Division, Procurement Division, etc., and is currently extensively working to enhance the overall function of Administration Division as Director, Senior Managing Executive Officer, In charge of Administration after assuming the position of Director in 2018. He possesses extensive experience and far-ranging insight as a manager. The Company has nominated Mr. Masahiro Noma as a candidate for Director, having deemed him qualified for corporate management of the Company particularly in terms of enabling the Company to sustainably increase corporate value and strengthening governance, and having determined that he will be able to utilize his extensive experience and track record 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 Overseas Business Headquarters

**Yoshitaka Yamada**  
(Family register name : Susumu Yamada)  
< New election > 4,450 shares

Reasons for nomination

Mr. Yoshitaka Yamada has engaged in various important posts of the Company's Sales Division, and is currently working to enhance the Sales Division and Overseas Business Division as Senior Managing Executive Officer, Senior General Manager of Sales Headquarters, General Manager of Overseas Business Headquarters since April 2023. He possesses extensive experience and far-ranging insight. The Company has nominated Mr. Yoshitaka Yamada as a candidate for Director, having deemed him qualified for corporate management of the Company particularly in terms of enabling the Company to sustainably increase corporate value and strengthening governance, and having determined that he will be able to utilize his extensive experience and track record and play a full role in the oversight of management as a whole, as well as in decision-making.



Representative Director,  
President

April 1995 Joined The Sanwa Bank, Limited (current MUFG Bank, Ltd.)  
April 2000 Joined Shinwa Paltac Corporation (current PALTAC CORPORATION)  
April 2016 Executive Officer, General Manager of Kinki Branch Office of the Company  
April 2019 Managing Executive Officer, General Manager of Merchandise Headquarters of the Company  
October 2020 Managing Executive Officer, General Manager of Tokyo Branch Office of the Company  
April 2021 Senior Managing Executive Officer, General Manager of Tokyo Branch Office of the Company  
April 2023 Vice President, Executive Officer, COO of the Company  
June 2023 Representative Director, President of the Company (incumbent)

(Significant concurrent positions outside the Company)  
Director of MEDIPAL HOLDINGS CORPORATION  
\*Appointed effective June 27, 2023

**Takuya Yoshida**  
< New election > 21,467 shares

Reasons for nomination

Mr. Takuya Yoshida has engaged in various important posts of the Company's Sales and Procurement Divisions, and has served as Vice President, Executive Officer, COO since April 2023, where he strives to strengthen management as a whole, and possesses extensive experience and knowledge. The Company has nominated Mr. Takuya Yoshida as a candidate for Director, having deemed him qualified for corporate management of the Company particularly in terms of enabling the Company to sustainably increase corporate value and strengthening governance, and having determined that he will be able to utilize his extensive experience and track record and play a full role in the oversight of management as a whole, as well as in decision-making.



Director, Senior Managing Executive Officer, General Manager of Management Planning Headquarters

April 1990 Joined THE TOYO TRUST & BANKING CO., LTD. (current Mitsubishi UFJ Trust and Banking Corporation)  
April 2005 Joined the Company  
April 2013 Executive Officer, Deputy General Manager of Management Planning Headquarters of the Company  
April 2014 Executive Officer, General Manager of Management Planning Division of the Company  
April 2018 Managing Executive Officer, General Manager of Management Planning Division of the Company  
June 2020 Director, Managing Executive Officer, General Manager of Management Planning Division of the Company  
October 2021 Director, Managing Executive Officer, General Manager of Management Planning Headquarters of the Company  
April 2023 Director, Senior Managing Executive Officer, General Manager of Management Planning Headquarters of the Company (incumbent)

**Masaharu Shimada**  
3 years 14/14 16,073 shares

Reasons for nomination

Mr. Masaharu Shimada has engaged in various important posts of the Company's 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, Senior Managing Executive Officer, General Manager of Management Planning Headquarters after assuming the position of Director in 2020. He possesses extensive experience and far-ranging insight as a manager. The Company has nominated Mr. Masaharu Shimada as a candidate for Director, having deemed him qualified for corporate management of the Company particularly in terms of enabling the Company to sustainably increase corporate value and strengthening governance, and having determined that he will be able to utilize his extensive experience and track record and continue to play a full role in the oversight of management as a whole, as well as in decision-making.



Board of Directors

April 1977 Joined Sanseido Co., Ltd. (current MEDIPAL HOLDINGS CORPORATION)  
July 2008 Executive Officer, Chief Officer of KURAYA SANSEIDO Inc. (current MEDICEO CORPORATION)  
April 2012 Executive Officer, In charge of Corporate Division of MEDIPAL HOLDINGS CORPORATION  
June 2012 Director, In charge of Corporate Division of MEDIPAL HOLDINGS CORPORATION  
October 2012 Director, In charge of Corporate Division, Chairman of CSR Committee of MEDIPAL HOLDINGS CORPORATION  
June 2013 Director, General Manager of Administration Headquarters, Chairman of CSR Committee of MEDIPAL HOLDINGS CORPORATION  
January 2016 Director of ASTEC Co., Ltd. (incumbent)  
June 2017 Director of MM CORPORATION (incumbent)  
June 2018 Managing Director, General Manager of Administration Headquarters, Chairman of CSR Committee of MEDIPAL HOLDINGS CORPORATION (incumbent)  
May 2022 Director of PharField Corporation (incumbent)  
June 2023 Director of the Company (incumbent)

(Significant concurrent positions outside the Company)  
Managing Director of MEDIPAL HOLDINGS CORPORATION  
Director of ASTEC Co., Ltd.  
Director of MM CORPORATION  
Director of PharField Corporation

**Yuji Sakon**  
< New election > — shares

Reasons for nomination

Mr. Yuji Sakon is the Managing Director in charge of the Administrative Division of MEDIPAL HOLDINGS CORPORATION, the parent company of the Company, and possesses extensive experience and far-ranging insight in the areas of governance, sustainability, and compliance. The Company has nominated Mr. Yuji Sakon as a candidate for Director in expectation of his participation in the supervision of executive operations as well as decision-making in order to optimize the balance between the Company's independence as a listed company with a parent company and the appropriate group governance of the parent company, in anticipation of increased cooperation and collaboration with other companies as the Company expands its business.



Outside Director  
Independent Officer

October 2001 Registered as Attorney at Law  
October 2001 Joined Kitahama Law Office (current Kitahama Partners)  
January 2013 Partner of Kitahama Partners (incumbent)  
June 2017 Outside Director of the Company (incumbent)  
June 2020 Outside Director, Audit and Supervisory Committee Member of TOWA PHARMACEUTICAL CO., LTD. (incumbent)

(Significant concurrent positions outside the Company)  
Partner of Kitahama Partners  
Outside Director, Audit and Supervisory Committee Member of TOWA PHARMACEUTICAL CO., LTD.

**Kaori Oishi**  
6 years 14/14 695 shares

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 the Company since 2017. Although Ms. Kaori Oishi has not been involved in corporate management in a role other than Outside Officer in the past, she has been supervising the executive operations of the Company 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. The Company has nominated Ms. Kaori Oishi as a candidate for Outside Director in expectation of her continuing to fulfill her role with respect to enabling the Company to sustainably increase corporate value and strengthening governance.



Outside Director  
Independent Officer

April 1990 Joined Mitsui O.S.K. Lines, Ltd.  
February 1995 Joined Lorentzen & Stemoco (Oslo)  
July 1996 Joined Inui Global Logistics Co., Ltd.  
June 2000 Director, General Manager of Sales Department of Inui Global Logistics Co., Ltd.  
June 2001 Representative Director, President of Inui Global Logistics Co., Ltd.  
June 2014 Director, Chairman of Inui Global Logistics Co., Ltd.  
October 2016 Advisor of Inui Global Logistics Co., Ltd. (incumbent)  
January 2020 Representative Director of KENKO KAIUN K.K. (incumbent)  
June 2022 Outside Director of the Company (incumbent)  
April 2023 Outside Director, Audit & Supervisory Committee Member of NIPPON KANZAI Holdings Co., Ltd. (incumbent)

(Significant concurrent positions outside the Company)  
Advisor of Inui Global Logistics Co., Ltd.  
Representative Director of KENKO KAIUN K.K.  
Outside Director, Audit & Supervisory Committee Member of NIPPON KANZAI Holdings Co., Ltd.

**Shingo Inui**  
1 year 11/11 219 shares

Reasons for nomination

Mr. Shingo Inui possesses extensive experience and far-ranging insight as a manager in the global business domain centering on the shipping industry, and he has served as an Outside Director of the Company since 2022. He has been supervising the executive operations of the Company and participating in the decision-making from an independent standpoint, utilizing his extensive experience and track record. The Company has nominated Mr. Shingo Inui as a candidate for Outside Director in expectation of him continuing to fulfill his role with respect to enabling the Company to sustainably increase corporate value and strengthening governance.



Outside Director  
Independent Officer

April 1975 Joined Shiseido Company, Limited  
April 1995 Director, Senior Manager of Sales Department of AYURA Inc.  
April 2007 Corporate Officer, Chief Officer of China Business Division of Shiseido Company, Limited  
June 2009 Director, Responsible for Business Strategy and Marketing of Domestic Cosmetics Business Division of Shiseido Company, Limited  
April 2010 Director, Corporate Executive Officer, Chief Officer of Domestic Cosmetics Business Division of Shiseido Company, Limited  
April 2012 Director, Corporate Executive Officer, Responsible for Business Strategies of Domestic Cosmetics Business of Shiseido Company, Limited (Retired in June 2014)  
June 2022 Outside Director of the Company (incumbent)

**Tatsuomi Takamori**  
1 year 11/11 209 shares

Reasons for nomination

Mr. Tatsuomi Takamori possesses extensive experience and far-ranging insight as a manager of a leading Japanese cosmetics manufacturer, and he has served as an Outside Director of the Company since 2022. He has been supervising the executive operations of the Company and participating in the decision-making from an independent standpoint, utilizing his extensive experience and track record encompassing overseas operations. The Company has nominated Mr. Tatsuomi Takamori as a candidate for Outside Director in expectation of him continuing to fulfill his role with respect to enabling the Company to sustainably increase corporate value and strengthening governance.



Outside Director  
Independent Officer

April 1981 Chosen to represent Japan in the Miss Universe pageant  
April 1982 Began studying photography under Shoji Otake  
April 1987 Independent freelance photographer  
April 2004 Associate Professor of Photography Department, Osaka University of Arts  
January 2005 Representative of Office Orisaku (incumbent)  
April 2006 Professor of Photography Department, Osaka University of Arts (incumbent)  
April 2007 Dean of Photography Department, Osaka University of Arts (incumbent)  
June 2021 Outside Director of the Company (incumbent)

(Significant concurrent positions outside the Company)  
Representative of Office Orisaku (Photographer)  
Dean and Professor of Photography Department, Osaka University of Arts  
Executive Managing Director of Japan Advertising Photographers' Association  
Director of University Correspondence Education  
Director of Japan Photographic Copyright Association  
Councilor of The Japan Society for Arts and History of Photography

**Mineko Orisaku**  
2 years 14/14 477 shares

Reasons for nomination

Ms. Mineko Orisaku possesses extensive insight relating to the environment and society, having extensively served in positions such as director of public interest incorporated associations and other such bodies, while also managing an agency of her own along with activities as a photographer and university professor, and she has served as an Outside Director of the Company since 2021. She has been supervising the executive operations of the Company 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. The Company has nominated Ms. Mineko Orisaku as a candidate for Outside Director in expectation of her continuing to fulfill her role with respect to enabling the Company to sustainably increase corporate value and strengthening governance.



Outside Director  
Independent Officer

April 1979 Joined Toyota Motor Co., Ltd. (current TOYOTA MOTOR CORPORATION)  
January 2011 Director of Toyota Marketing Japan Corporation  
June 2015 Director, Senior Managing Executive Operating Officer of DAIHATSUMOTOR CO., LTD.  
April 2017 Representative Director, President of TOYOTA Tokyo Sales Holdings Inc.  
April 2019 Representative Director, Vice Chairman of TOYOTA Mobility Tokyo Inc.  
April 2020 Representative Director, President of Toyota Mobility Parts  
March 2022 Outside Director of Unicare Inc. (incumbent)  
June 2022 Outside Director of the Company (incumbent)

(Significant concurrent positions outside the Company)  
Outside Director of Unicare Inc.

**Ichiro Yoshitake**  
1 year 11/11 109 shares

Reasons for nomination

Mr. Ichiro Yoshitake possesses extensive experience and far-ranging insight as a manager of a leading Japanese automotive manufacturing company, and he has served as an Outside Director of the Company since 2022. He has been supervising the executive operations of the Company and participating in the decision-making from an independent standpoint, utilizing his extensive experience and far-ranging track record. The Company has nominated Mr. Ichiro Yoshitake as a candidate for Outside Director in expectation of him continuing to fulfill his role with respect to enabling the Company to sustainably increase corporate value and strengthening governance.



Outside Director  
Independent Officer

April 1989 Registered as Attorney at Law  
April 1989 Joined Miyake, Hatazawa & Yamazaki Law Office  
April 1991 Joined Ozaki Law Office  
November 2006 Representative of Hattori Akito Law Office (incumbent)  
January 2013 Representative Director and President of Haigwarazaimokuten, Inc. (incumbent)  
September 2016 Outside Audit & Supervisory Board Member of ANABUKI KOSAN INC. (incumbent)  
June 2018 External Director serving as Audit & Supervisory Committee Member of MEGMILK SNOW BRAND Co., Ltd. (incumbent)  
June 2021 Director of Social Welfare Corporation Goodwill Welfare Association (incumbent)  
June 2023 Outside Director of the Company (incumbent)

(Significant concurrent positions outside the Company)  
Representative of Hattori Akito Law Office  
Representative Director and President of Haigwarazaimokuten, Inc.  
Outside Audit & Supervisory Board Member of ANABUKI KOSAN INC.  
External Director serving as Audit & Supervisory Committee Member of MEGMILK SNOW BRAND Co., Ltd.  
Director of Social Welfare Corporation Goodwill Welfare Association

**Akito Hattori**  
< New election > — shares

Reasons for nomination

Mr. Akito Hattori possesses expert knowledge and extensive experience gained as an attorney at law and is well versed in corporate legal affairs such as compliance and governance. The Company has nominated Mr. Akito Hattori as a candidate for Outside Director in expectation of him supervising the executive operations of the Company and participating in the decision-making from an independent standpoint looking toward enabling the Company to sustainably increase corporate value and strengthening governance, utilizing his expert knowledge and extensive experience.



Audit & Supervisory Board Members

- Tenure
- Number of attendance at the Board of Directors
- Number of the Company's shares owned (as of March 31, 2023)
- Number of attendance at the board of Audit & Supervisory



April 1982  
April 2001  
October 2003  
June 2006  
January 2008  
April 2008  
October 2009  
October 2010  
June 2012

Joined KOBAYASHI PHARMACEUTICAL CO.,LTD.  
Joined Kobasho Inc. (current PALTAC CORPORATION)  
Representative Director, President of SEIJI CO.,LTD. (current PALTAC CORPORATION)  
Executive Officer of Kobasho Inc.  
Director of Kobasho Inc.  
Managing Executive Officer, General Manager of Shikoku Branch Office of the Company  
Managing Executive Officer, General Manager of Management Planning Headquarters of the Company  
Managing Executive Officer, General Manager of Merchandise Headquarters of the Company  
Standing Audit & Supervisory Board Member of the Company (incumbent)

11 years

14/14

14,368 shares

15/15

Standing Audit & Supervisory Board Member

Yukihiro Kanaoka

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.



October 2004  
October 2004  
December 2005  
June 2012

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

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

11 years

14/14

4,401 shares


15/15

Outside Audit & Supervisory Board Member Independent Officer

Yohei Kotera

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.



October 1991  
August 1995  
July 2019  
February 2021  
April 2021  
October 2021  
July 2022  
June 2023

Joined Showa Ota & Co. (current Ernst & Young ShinNihon LLC)  
Registered as Certified Public Accountant  
President of Hikita CPA Office (incumbent)  
Outside Auditor of Maruka Corporation  
Professor of Institute of Business and Accounting, Professional Graduate School, Kwansei Gakuin University (incumbent)  
Outside Audit & Supervisory Board Member of MARUKA FURUSATO Corporation (incumbent)  
Council Member of The Japanese Institute of Certified Public Accountants (incumbent)  
Outside Audit & Supervisory Board Member of the Company (incumbent)

(Significant concurrent positions outside the Company)  
President of Hikita CPA Office Professor of Institute of Business and Accounting, Professional Graduate School, Kwansei Gakuin University Outside Audit & Supervisory Board Member of MARUKA FURUSATO Corporation  
Council Member of The Japanese Institute of Certified Public Accountants

< New election >


— shares

Outside Audit & Supervisory Board Member Independent Officer

Kyoko Hikita

Reasons for nomination

Ms. Kyoko Hikita possesses extensive specialist knowledge and advanced insight in finance and accounting field as a certified public accountant. Although Ms. Kyoko Hikita has not been involved in corporate management in a role other than Outside Officer in the past, the Company has nominated her as a candidate for Outside Audit and Supervisory Board Member in order to utilize her specialist knowledge and insight to strengthen the Company's auditing system from an independent standpoint as well as with a woman's perspective.



April 1985  
April 2011  
June 2012  
April 2013  
January 2019  
June 2019

Joined Nippon Life Insurance Company  
General Manager of Information System Headquarters of the Company  
Executive Officer, General Manager of Information System Headquarters of the Company  
Managing Executive Officer, General Manager of Information System Headquarters of the Company  
Managing Executive Officer, Management of Information System Headquarters of the Company  
Standing Audit & Supervisory Board Member of the Company (incumbent)

4 years

14/14

6,747 shares

15/15

Standing Audit & Supervisory Board Member

Takashi Shintani

Reasons for nomination

Mr. Takashi Shintani has engaged in various important posts of a major insurance company and our Information System Headquarters. After assuming the position of Standing Audit & Supervisory Board Member in 2019, 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 play a full role in strengthening our auditing system.



April 1978  
June 2006  
April 2010  
November 2015  
June 2022

Joined THE TOYO TRUST & BANKING CO., LTD. (current Mitsubishi UFJ Trust and Banking Corporation)  
Senior Manager of Osaka Corporate Agency Division of THE TOYO TRUST & BANKING CO., LTD.  
Managing Director of Mitsubishi UFJ Dairo Business Co., Ltd.  
Senior Consultant of The Midori Kai Co., Ltd.  
Outside Audit & Supervisory Board Member of the Company (incumbent)

1 year

11/11

109 shares

11/11

Outside Audit & Supervisory Board Member Independent Officer

Hiroshi Haraguchi

Reasons for nomination

Mr. Hiroshi Haraguchi possesses extensive experience as a manager in the banking industry and also has substantial expert knowledge particularly when it comes to providing comprehensive solutions in the stock transfer agency field, facilitating dialogue with shareholders, and furnishing governance-related support, and has served as an outside auditor of the company since 2022. 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

Akiyoshi Moriya

General Manager of  
Kanto Administration Headquarters

Masashi Maeda

General Manager of  
Information System Headquarters

Hideo Ashihara

General Manager of Sales  
Headquarters and Logistics  
Headquarters

Masakazu Mikita

General Manager of Research and  
Development Headquarters

Managing Executive Officer

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

Naoto Murao

General Manager of  
Financial Headquarters

Satoshi Akiyama

General Manager of  
Yokohama Branch Office

Sachiyo Yoshida

General Manager of  
General Affairs Headquarters

Makoto Konishi

General Manager of Tokyo Branch Office  
MK Business Division

Executive Officer

Ryohei Isobe

Deputy General Manager of  
General Affairs Headquarters

Katsumi Nakamura

Deputy General Manager of  
Financial Headquarters

Hideki Inaba

Deputy General Manager of  
LC Business Headquarters

Koji Yoshida

Deputy General Manager of  
Overseas Business Headquarters

Naoki Sawada

General Manager of  
Hokkaido Branch Office

Hirokazu Takayama

General Manager of  
Chubu Branch Office

Yukinori Sakakihara

General Manager of  
Kinki Branch Office

Akira Mikami

General Manager of  
Kyusyu Branch Office

Syohei Matsumoto

Deputy General Manager of  
Research and Development  
Headquarters

Takashi Uemura

General Manager of  
Tokyo Branch Office

Yuji Mikami

General Manager of  
Tohoku Branch Office

Hiroaki Muraki

General Manager of  
CSR Promotion Headquarters

Hiroshi Yoshihara




General Manager of  
Chushikoku Branch Office

Hirokazu Inoue

General Manager of  
Merchandise Headquarters

## Skills matrix (Skills required of Directors and Audit &amp; Supervisory Board Members)

In consideration overall balance amongst knowledge, experience and ability as well as diversity, skills requirements and roles at each director we particularly expect, are as follows. In addition, this skill matrix does not contain all the skills held by each director.

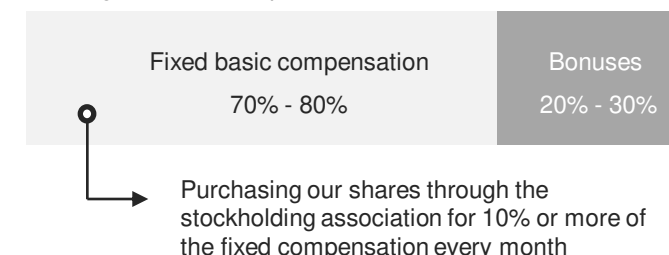
		Corporate Management	Industry Experience / Sales Strategy	ESG / Sustainability	Finance / Accounting	Personnel / Labor Affairs	Legal Affairs / Compliance/Risk Management	Logistics / SCM / Digital Technology
	Representative Director Seichi Kasutani	●	●	●				●
	Representative Director Takuya Yoshida	●	●	●	●			●
	Director Masahiro Noma	●	●		●	●		
	Director Masaharu Shimada	●		●	●		●	●
	Director Yoshitaka Yamada (Family register name : Susumu Yamada)	●	●					●
	Director Yuji Sakon	●		●			●	
	Outside Director Kaori Oishi			●			●	
	Outside Director Mineko Orisaku	●		●		●		
	Outside Director Shingo Inui	●		●				●
	Outside Director Ichiro Yoshitake	●		●				●
	Outside Director Tatsuomi Takamori	●	●	●				
	Outside Director Akito Hattori	●				●	●	
	Standing Audit & Supervisory Board Member Yukihiro Kanaoka	●	●			●		
	Standing Audit & Supervisory Board Member Takashi Shintani	●		●				●
	Outside Audit & Supervisory Board Member Yohei Kotera			●			●	
	Outside Audit & Supervisory Board Member Hiroshi Haraguchi	●		●	●	●		
	Outside Audit & Supervisory Board Member Kyoko Hikita			●	●			

## Compensation for Directors

We set out basic policy on directors and Audit & Supervisory Board members 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. The bonus is set at the level which becomes a percentage of bonus in the annual compensation remained relatively steady at 20-30% and that directors with higher position would be entitled to retain a 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 for talented personnel who are in charge nationwide 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. Fixed basic compensation for directors 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 for funds for acquiring treasury stock through the shareholding association.

<Image> Officer compensation



(Fiscal year ended March 2023)

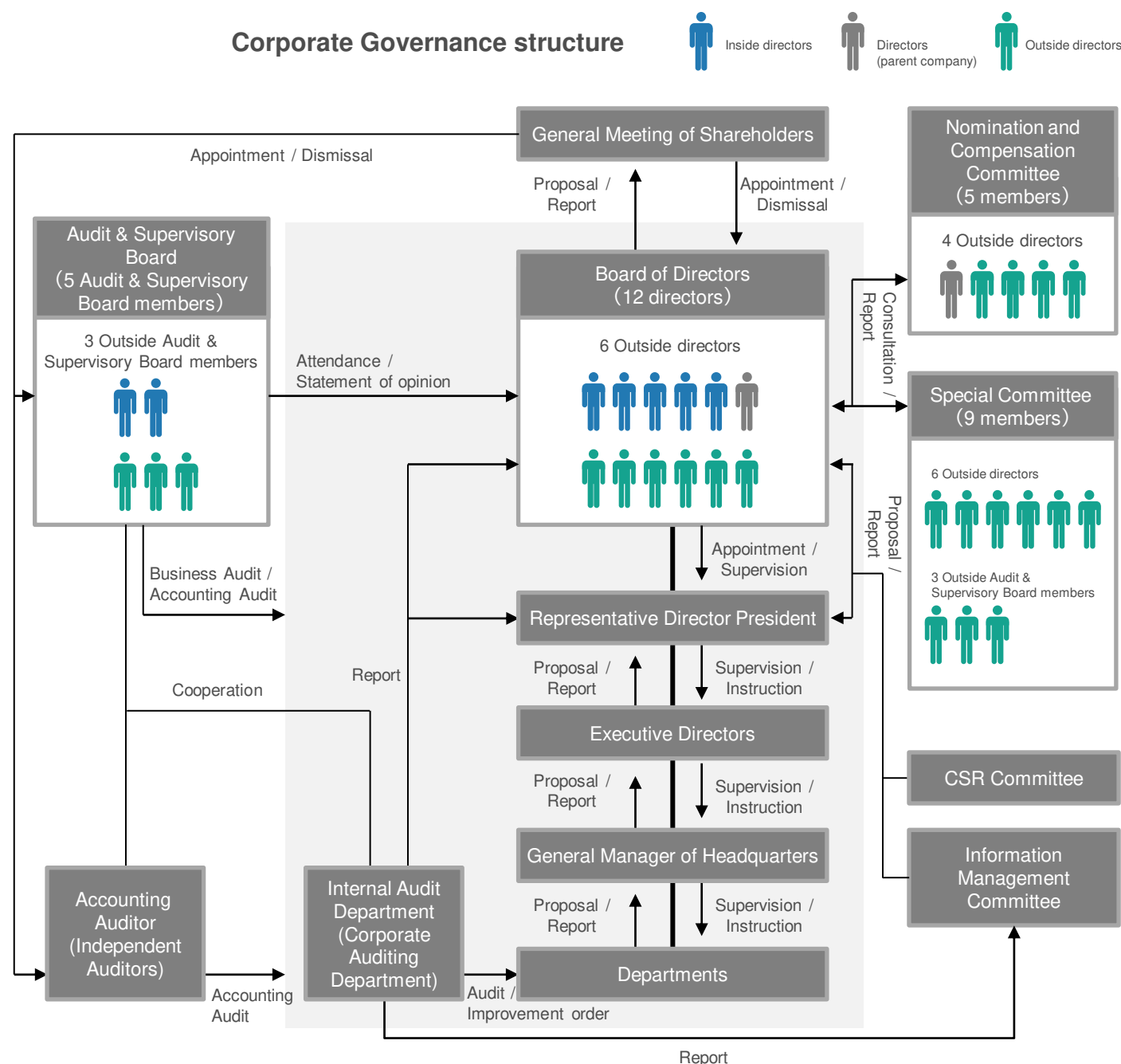
Corporate officer category	Number of relevant corporate officers	Total amount of compensation (¥ million)	Total amount of compensation by category (¥ million)		
			Fixed basic compensation	Bonus, etc.	Non-monetary rewards, etc.
Directors (Outside directors)	12 (7)	440 (66)	340 (66)	95 (-)	5 (-)
Audit & Supervisory Board Members (Outside Audit & Supervisory Board members)	6 (4)	89 (36)	89 (36)	- (-)	- (-)
Total (Outside corporate officers)	18 (11)	530 (102)	429 (102)	95 (-)	5 (-)



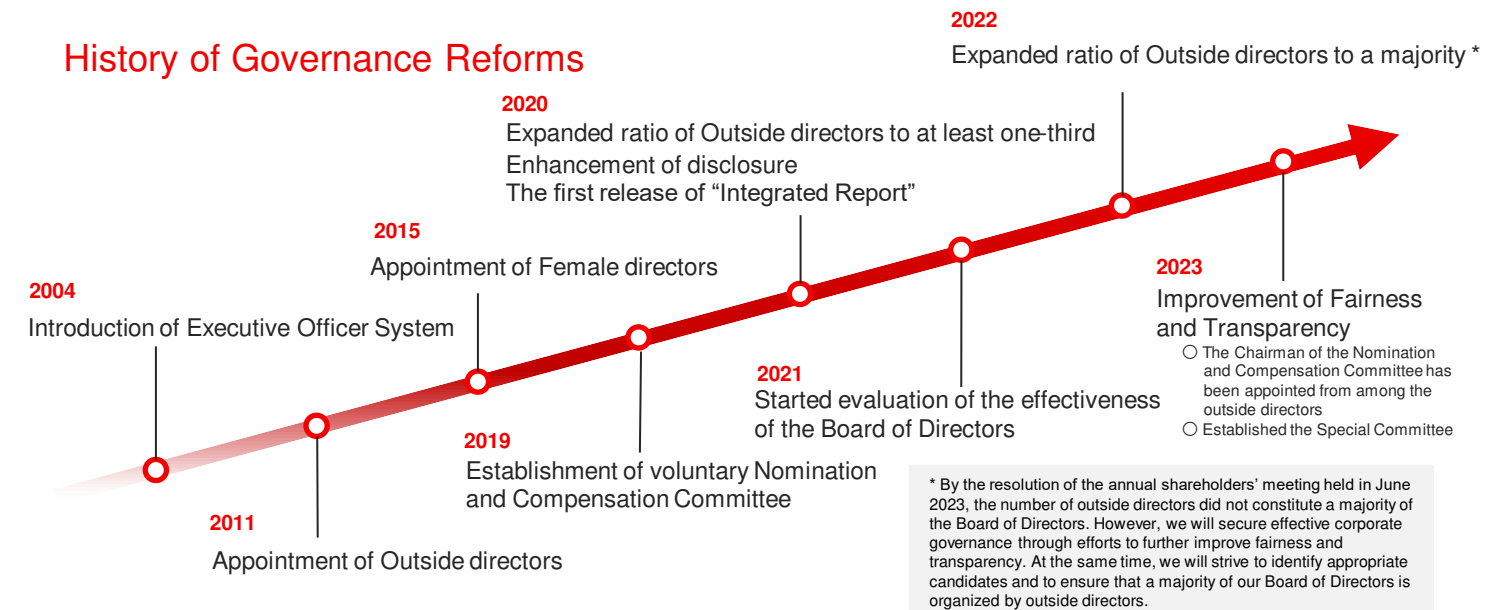
# Corporate Governance

## Basic policy

We are intermediate distributor that handles daily necessities related to “health and beauty”, and we play a social role by promoting the 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.

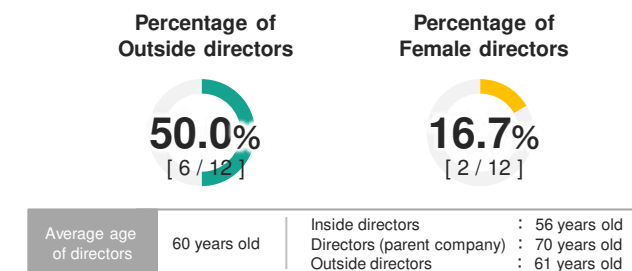


## History of Governance Reforms



## Board of Directors

The Board of Directors consists of 6 inside directors and 6 outside directors. In the presence of Audit & Supervisory Board members, 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.

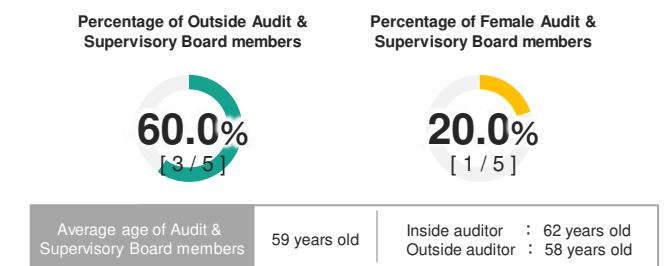


## Nomination and Compensation Committee

The Nomination and Compensation Committee, as an advisory body to the Board of Directors, consists of 5 members, including Shingo Inui, the chairman and independent outside director, Yuji Sakon, a director, Kaori Oishi, Ichiro Yoshitake and Akito Hattori, independent outside directors. The role of this committee is to enhance the fairness, impartiality, and objectivity of procedures related to the nomination and compensation of directors, etc., by securing appropriate involvement of outside directors, and to strive for continuous strengthening and enhancement of our corporate governance. Outside Audit & Supervisory Board members also participate as observers.

## Audit & Supervisory Board

Audit & Supervisory Board consists of 2 inside members and 3 outside members, and audits the execution of duties by directors. Audit & Supervisory Board members 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, Audit & Supervisory Board members shall communicate and deliberate with the Internal Audit Division and the Accounting Auditor to ensure the effectiveness of corporate auditor's operations.



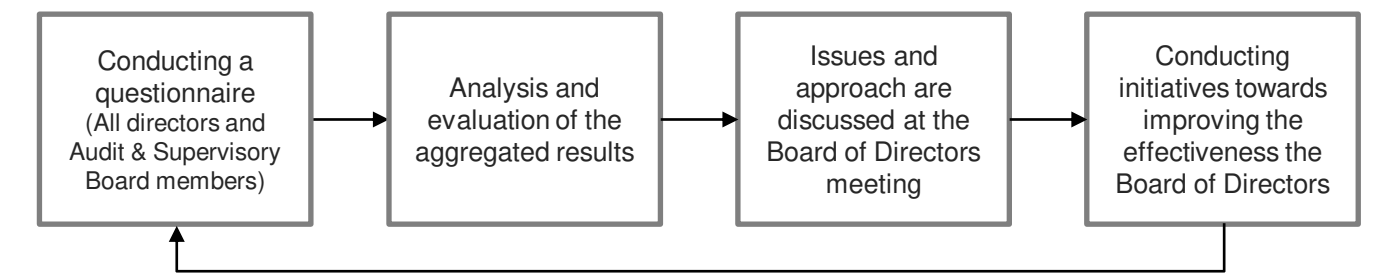
## Special Committee

The Special Committee, as an advisory body to the Board of Directors, is composed of independent outside directors and independent outside Audit & Supervisory Board members who are maintaining independence from the controlling shareholders. The role of this committee is to ensure the fairness, transparency, and objectivity of transactions and actions with controlling shareholders. Members of this committee carefully discuss and deliberate the necessity and rationality, appropriateness of transaction terms and conditions with regard to important transactions that conflict with the interests between controlling shareholders and minority shareholders, and report to the Board of Directors.

Evaluation of the effectiveness of the Board of Directors

We have evaluated the effectiveness of the Board of Directors for the first time in 2021 with the goal of improving the effectiveness of the Board. In carrying out this evaluation, questionnaire was distributed to all of directors and Audit & Supervisory Board members and was collected and aggregated by the administrative office of the Board of Directors. The administrative office analyzed and evaluated the aggregated results and reported to the Board of Directors. The Board of Directors then examines the report from the office and discussed about issues and the future approach. They have continued to improve the effectiveness of the Board of Directors.

Evaluation process



Evaluation items

The contents of the questionnaire are described in the section on the right. The questionnaire consists of 25 multiple-choice questions, each item is rated on 5 points scale, and 9 descriptive questions.

The highlights of the evaluation	
• Board composition	• Activities of outside directors
• State of operation	• Nomination and Compensation Committee
• Content of discussions	• Overall review
• Support system for the Board of Directors	

Review of evaluation results in October 2022

Survey results indicated improvement since last year regarding issues such as the enhancement of discussions on long-term growth strategies, which were identified in the previous survey. Given that a high proportion of responses indicated the appropriateness in other items, we evaluated that the effectiveness of the Board of Directors is ensured. In terms of individual survey items, “State of operation” received particularly high ratings. The revision of the business report format and other measures to respond to the issues that was identified in the previous survey have heightened the quality of discussions, which in turn have resulted in high evaluations. (Reference: Examples of statements made by outside directors at the Board of Directors meeting are listed on the right.) On the other hand, there were recommendations for further deepening discussions on medium to long-term growth strategies, and for promoting understanding of the business to encourage discussions.

We will continue to address the issues identified, as outlined on the right page (upper section).

**Examples of statements made by outside directors at the Board of Directors meeting**

- **Recommendations on the generational transition of the management team and efforts towards the next medium-term management plan**  
(Such as effective ways to incorporate backcasting method, etc.)
- **Recommendations for strengthening human capital management**  
(Developing human capitals in line with management strategy, prioritizing activities, and managing progress based on time-series data)
- **Recommendations for reducing CO2 emissions**  
(Sharing of other companies' examples in renewable energy procurement, etc.)
- **Recommendations on capital investment in consequences for inflation pressure**  
(Long-term utilization of existing distribution center through advanced maintenance, etc.)

Evaluation results and efforts to address the issues

Conducted in October 2021		Conducted in October 2022	
Issues	Initiatives	Issues	Initiatives
● Enhancement of discussions on long-term growth strategies	● Revised the report format for business execution ● Managed the Board of Directors with consideration of the balance of matters to be resolved and to be reported, we have scrutinized and reviewed the agenda items for effective discussions at the Board of Directors meeting	● Enhancement of discussions on long-term growth strategies (Ongoing issues)	● Implementation of study sessions aimed at promoting understanding of our business and related activities ● Implementation of a free discussion focused on the important issues related to sustainability
● Promotion of understanding of our business and the agenda for encouraging discussion	● Promptly determined the specific agenda to be proposed and to expedite preparation of document through collaboration between the department proposing the agenda and the secretariat of the Board of Directors ● Conducted a study session on our company's history, philosophy, strengths (such as logistics systems, features, future plans), and issues to be addressed (such as reducing CO2 emissions)	● Promotion of understanding of our business and the agenda for encouraging discussion (Ongoing issues) ● Strengthening the protection of minority shareholders (New Issue)	● Implementation of a preliminary briefing on the Board of Directors meeting proposal ● Providing opportunities for dialogue between field managers and outside directors through visits to our branch and headquarters by outside directors ● The chairman of the Nomination and Compensation Committee has been appointed from among the outside directors ● Established the Special Committee

Examples of specific comments listed in the effectiveness evaluation questionnaire

- I think that study sessions that were regularly conducted in order to deepen understanding of our industry and related matters was extremely meaningful.
- I think that the preparation of materials for the Board of Directors, provision of information, scheduling, etc., are being carried out appropriately, and therefore the operation of the Board of Directors is running smoothly.
- Since the last survey, the materials have newly contained explanations of industry terms. I think this improvement contributes to encouragement of discussions. Hereafter, I hope that the Board of Directors set aside sufficient time to discuss themes (such as CO2 reduction and human capital management), which were not just decision-making items.
- Through the opportunities to visit to our distribution center, I was able to enhance the understanding of the business. Going forward, I would like to have opportunities for dialogue with the managers of each branch and headquarters to further understand the operations on-site.

Support system for outside directors aimed at improving effectiveness

Having received a firm offer to the candidates for the outside directors, those candidates temporarily become advisors and participate in the Board of Directors meetings. In this way, outside directors are able to take an active part in discussions at the meetings after their appointment. Furthermore, in order to promote understanding of our business, we have prepared a glossary of terms related to our industry and our company and provide it to outside directors. In addition, we provide opportunities to visit to our distribution center and to directly hold dialogues

with our employees on-site. Those opportunities contribute to deepen their understanding of our business operations. Regarding enhancement of discussions on long-term growth strategies, we regularly provide opportunities to discuss themes (such as CO2 reduction and human capital management), which were not just decision-making items at the Board of Directors meeting, based on the results of effectiveness evaluations. We will continue to strengthen our support system for outside directors and strive to further enhance the effectiveness of the Board of Directors.



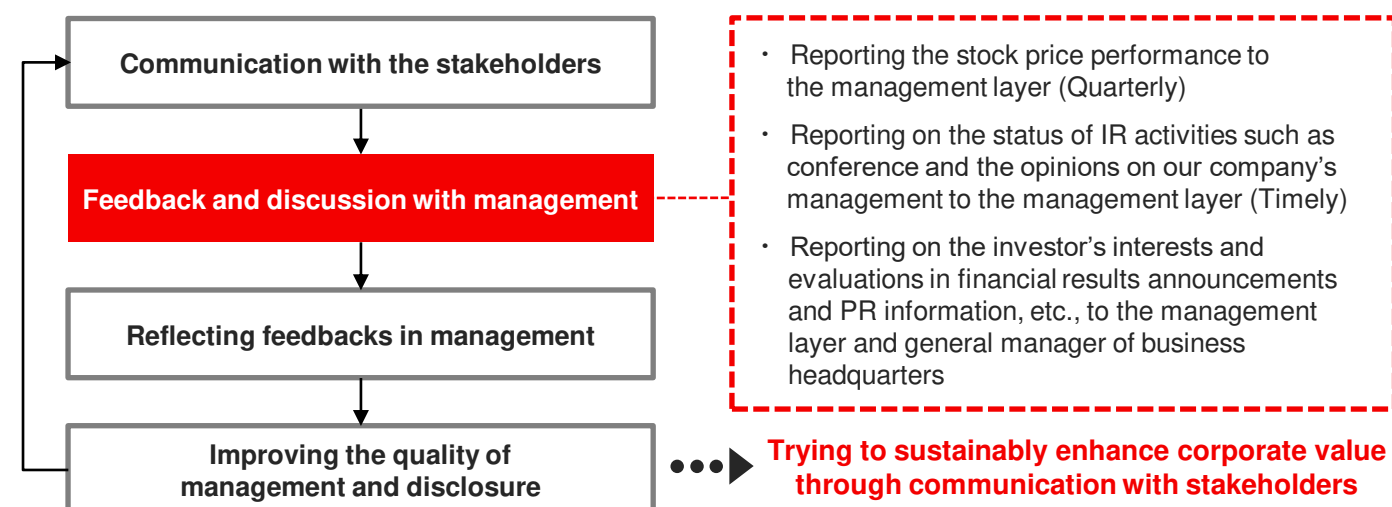
## Communication with shareholders and investors

We are actively engaged in IR activities in order to achieve sustainable growth and increase our corporate value over the medium-to long-term through constructive dialogue with institutional investors, analysts, and other stakeholders. By providing feedbacks to management layer and general manager of business headquarters on investor concerns and assessments gained through our IR activities, we strive for higher quality management and disclosures, as well as a cycle of engaging in new communication. In addition, we will communicate our policies and strategies through the dissemination of corporate information due to our

website, financial results briefings, and individual investor briefings, and strive to increase corporate value through communication with stakeholders.

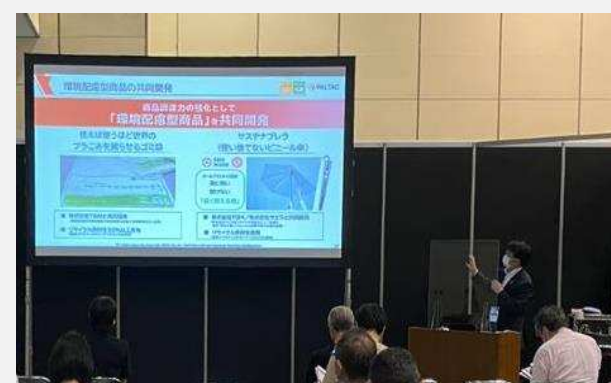
IR activities (FY2023/3)	Number of implementations
Financial results briefing for institutional investors and analysts	2
Conferences hosted by a securities company	3
Individual meetings	135

### ■ Cycle of dialogue with the stakeholders



## Exhibited at “Asset Management EXPO 2022 – Kansai” for the first time

We exhibited at the Asset Management EXPO 2022 - Kansai, which held from September 2 to 4, 2022, at INTEX Osaka, for the first time. Due to the COVID-19 we had fewer opportunities for direct dialogue with investors, but through this event, we were able to meet with many investors face-to-face. We were able to explain to the investors who attended this event about our company's business overview, strengths and initiatives. Moving forward, we will continue to engage in dialogue with more investors, striving to further enhance our corporate value.



Scene of our session at the “Asset Management EXPO 2022 – Kansai”  
 Explainer : Director, Senior Managing Executive Officer, General Manager of Management Planning Headquarters  
 Masaharu Shimada

## 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 distribution channels compared to the other two business 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 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 a final decision-making organ. Regarding the personal relationship with the parent company group, from the perspective of appropriate group governance, we accept one director of the parent company as our company's director, and in order to maintain our independence, one our company's director also serves as a director of the parent company. Based on the above, we recognize that appropriate independence from the parent company group has been secured. On the other hand, we share the common goal of contributing to society through distribution. To achieve this goal, we are working to effectively utilize the resources available across the group, such as sharing, distribution know-how that we each possess, and examples of initiatives aimed at solving sustainability issues. In addition, for our customers, retailers who are engaged in the dispensing pharmacy business, we believe that the MEDIPAL Group as a whole is able to provide our services, leading to the building of stronger relationships of trust with customers. We will continue to strive to enhance the value through such group-wide initiatives.

## 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 a 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

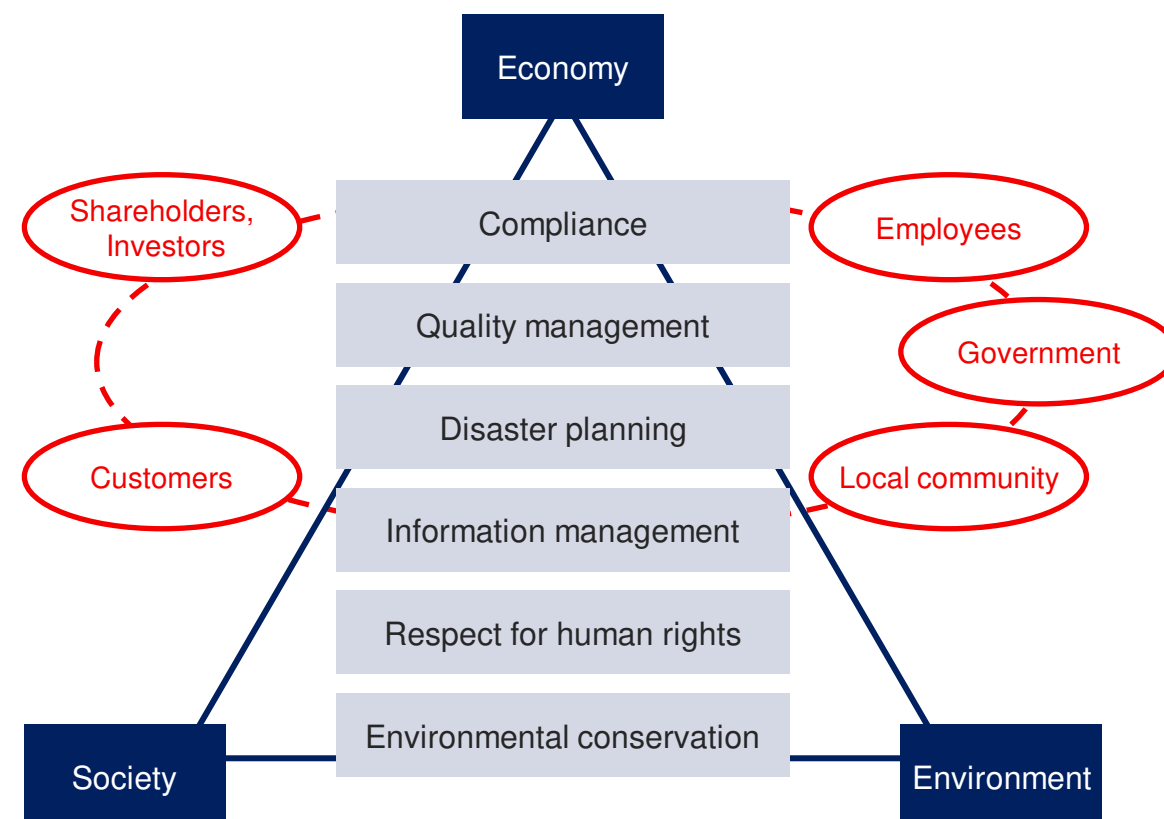
- Whether the purpose of holding is appropriate
- Whether profits (total amount of profits from transactions and profits from dividends) and benefits that exceed the cost of capital and risks of the Company have been obtained or are expected to be obtained

## 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.



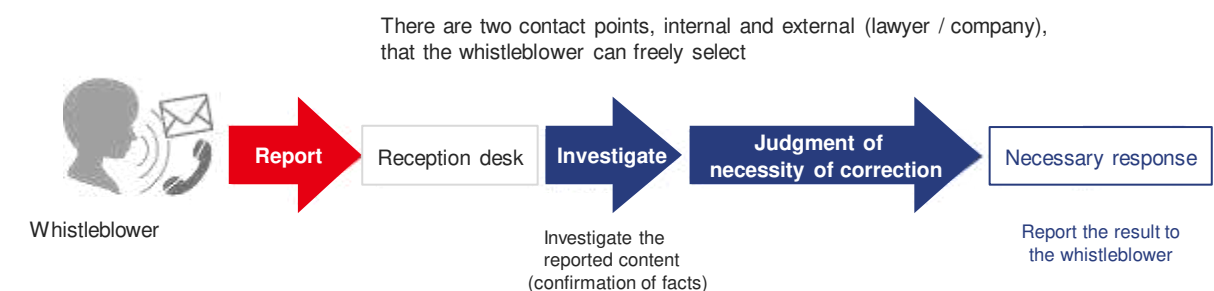
### Initiatives to raise compliance awareness

- 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 the 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 conduct 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.

## Disaster planning

Specific measures are described on P57

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.

## Information management

Specific measures are described on P65

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 have established “Information Management Regulations” and conduct information security education for employees to ensure thorough information management with the “Information Management Committee” as the central player.

## Respect for human rights

Specific measures are described on P70

We believe that the human capitals 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 capitals 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 capitals can fully demonstrate their abilities.

## Environmental conservation

Specific measures are described on P72

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.



### Participated in “Cosme Bank Project” as a partner company

Under the slogan of “Smile for Women and the Earth”, this project collects quality products with the difficulty in resale, such as previous products due to product renewal and unopened products returned from stores via various companies, and distributes them free of charge to women with economic hardships. This initiative aims to solve societal issues concerning women, companies and the global environment. We, as an intermediate distributor which handles cosmetics, are promoting efforts to encourage manufacturers with whom we do business to engage in support of this project.

## Corporate Data

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## Financial Highlights (Eleven-Year)

	2013/3	2014/3	2015/3	2016/3	2017/3	2018/3	2019/3	2020/3	2021/3	2022/3	2023/3
<b>Sales and Income (¥ million)</b>											
Net sales	785,833	831,899	794,221	860,350	922,095	966,684	1,015,253	1,046,412	1,033,275	1,045,735	1,104,152
Gross profit	82,599	86,440	61,985	67,104	71,348	76,051	79,645	81,527	81,162	81,759	82,395
Selling, general and administrative expenses	73,398	76,223	47,808	51,003	52,218	53,045	54,246	56,818	55,674	55,838	57,923
Operating profit	9,201	10,216	14,177	16,101	19,129	23,006	25,399	24,708	25,487	25,921	24,472
Ordinary profit	14,880	15,779	16,322	18,556	21,573	25,498	28,528	27,316	28,053	28,637	27,440
Profit	8,397	9,185	10,267	11,929	14,605	17,453	19,767	25,412	19,317	19,639	19,251
Depreciation	4,860	5,180	4,861	4,985	4,931	4,830	4,493	5,059	5,650	5,486	5,750
Capital expenditures	10,766	12,056	691	15,583	9,791	13,649	10,700	18,791	5,352	9,726	10,215
<b>Financial Position (¥ million)</b>											
Total assets	302,851	325,189	318,186	351,880	361,363	387,399	393,603	418,756	435,501	448,877	476,936
Total net assets	125,756	132,427	143,535	154,976	166,921	183,435	197,237	218,297	235,428	243,741	259,700
<b>Cash Flows (¥ million)</b>											
Cash flows from operating activities	11,792	3,340	23,204	5,226	24,721	24,107	23,565	21,005	28,745	21,949	16,594
Cash flows from investing activities	−9,982	−11,686	365	−19,327	−6,413	−15,830	−9,531	−3,788	−5,471	−10,170	−6,093
Cash flows from financing activities	−2,705	1,191	−15,464	10,675	−17,876	−5,142	−17,323	−13,001	−8,225	−8,731	−5,177
Free cash flow (CF from operating activities + CF from investing activities)	1,810	−8,346	23,569	−14,101	18,308	8,277	14,034	17,217	23,274	11,779	10,501
<b>Per Share (¥)</b>											
Earnings	144.41	144.54	161.58	187.73	229.84	274.65	311.07	399.90	303.98	310.34	306.33
Total net assets	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	3,878.33	4,132.28
Cash dividends	42.00	43.00	45.00	50.00	56.00	64.00	68.00	70.00	72.00	78.00	82.00
<b>Ratios (%)</b>											
Ratio of Gross profit to sales	10.51	10.39	7.80	7.80	7.74	7.87	7.84	7.79	7.85	7.82	7.46
Ratio of SG&A expenses to sales	9.34	9.16	6.02	5.93	5.66	5.49	5.34	5.43	5.39	5.34	5.25
Ratio of Operating profit to sales	1.17	1.23	1.79	1.87	2.07	2.38	2.50	2.36	2.47	2.48	2.22
Equity ratio	41.5	40.7	45.1	44.0	46.2	47.4	50.1	52.1	54.1	54.3	54.5
Return on equity	7.08	7.12	7.44	7.99	9.07	9.96	10.39	12.23	8.51	8.20	7.65
Return on assets	5.00	5.03	5.07	5.54	6.05	6.81	7.31	6.73	6.57	6.48	5.93
Payout ratio	29.1	29.7	27.8	26.6	24.4	23.3	21.9	17.5	23.7	25.1	26.8
<b>Number of employees</b>											
	2,284	2,250	2,202	2,245	2,221	2,217	2,207	2,196	2,169	2,168	2,187

\*1 Effective from the fiscal year ended March 31, 2016, our company changed accounting policies and retrospectively applied to data for the fiscal year ended March 31, 2015

\*2 Effective from the fiscal year ended March 31, 2022, our company has applied the "Accounting Standard for Revenue Recognition", etc.,.

## ESG Highlights (Three-Year)

	2021/3	2022/3	2023/3
<b>Environment</b>			
CO2 emissions (t-CO2) Scope 1 + 2 + 3	51,627	52,189	6,213,704
Scope 1 + 2	25,090	21,781	23,496
Scope 1	3,293	3,267	3,262
Scope 2	21,797	18,514	20,234
Scope 3 *1	26,537	30,408	6,190,208
Category 1 : Purchased goods and services	—	—	5,523,521
2 : Capital goods	—	—	36,855
3 : Fuel- and energy-related activities not included in Scope 1 or Scope 2	—	—	7,332
4 : Upstream transport and delivery *2	26,537	30,408	30,578
5 : Waste generated in operations	—	—	735
6 : Business travel	—	—	284
7 : Employee commuting	—	—	9,571
12 : End-of-life treatment of sold products	—	—	581,197
13 : Downstream Leased Assets	—	—	135
CO2 emissions per 100 million yen in sales (Scope 1 + 2)	2.4	2.1	2.1
CO2 emissions per 100 million yen in sales (Scope 3 category 4 "Upstream transport and delivery")	2.6	2.9	2.8
Electricity usage (1,000kWh)	43,665	44,890	46,627

\*1 From the fiscal year ended March 2023, we have increased the number of calculation categories for Scope3 and have calculated the above-mentioned 9 categories. In calculating, we refer to the guidelines (Ver3.3) and the emission unit database (Ver3.3) published by the Ministry of the Environment.

\*2 Category 4 calculates the amount of CO2 emissions associated with the transportation of products from us to retailers.

	2021/3	2022/3	2023/3
<b>Society</b>			
Number of employees	2,169	2,168	2,187
Average age of employees	46.3	46.3	46.1
Average number of years of continuous employment	19.5	19.6	19.3
Percentage of female employees	18.3	19.1	19.6
Percentage of female employees in management positions	4.0	4.6	5.9
Percentage of new female hires	35.8	30.9	24.5
Percentage of mid-career employees in management position	61.0	61.8	65.4
Percentage of mid-career hires	34.0	38.1	59.4
Number of users of childcare support system (childcare leave)	31	34	39
Number of users of childcare support system (short working hours)	51	46	51
Percentage of employees returning to work after childcare leave	100.0	100.0	100.0
Percentage of male employees taking childcare leave	0.0	2.9	7.1
Number of users of the silver human resources employment system (65 years old and over)	333	421	514
Percentage of taking annual paid leave	55.9	58.4	64.5
Percentage of employment of people with disabilities	2.5	2.6	2.7
Gender pay gap (All employees) (ratio)	45.1	44.0	45.9
Of which, full-time employees	66.1	65.8	68.5
Of which, part-time employees	86.3	85.7	88.2
Percentage of employees who are members of employee stock ownership plans	96.5	96.1	95.8
<b>Governance</b>			
Number of Directors	8	9	11
Percentage of outside directors	37.5	44.4	54.5
Percentage of female directors	12.5	22.2	18.2
Number of Audit & Supervisory Board Members	5	5	5
Percentage of outside Audit & Supervisory Board Members	60.0	60.0	60.0
Percentage of female Audit & Supervisory Board Members	20.0	20.0	20.0
Percentage of female directors (Directors and Audit & Supervisory Board Members)	15.4	21.4	18.8



Corporate / Stock Information

Corporate information (As of March 31, 2023)

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	2,187 (Part-time employees : 5,046)
Stock listing	Tokyo Stock Exchange, Prime Market
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 Headquarters Tel : 06-4793-1090
Stock information	Number of Shares Authorized : 180,000,000 Number of Outstanding Shares : 63,553,485 Number of Shareholders : 3,060

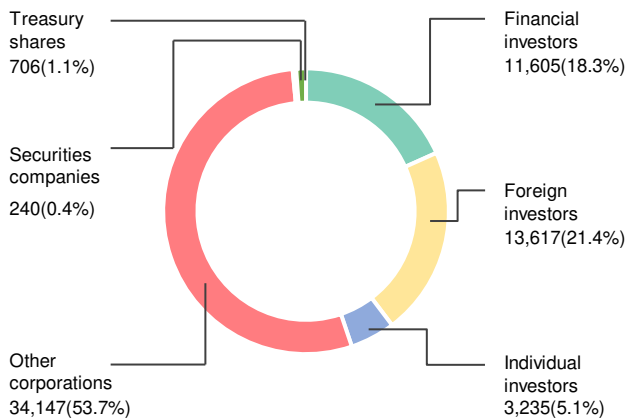
Stock information (As of March 31, 2023)

Major Shareholders

Shareholders	Shares held (1,000 shares)	Shareholding ratio (%)
MEDIPAL HOLDINGS CORPORATION	31,853	50.68
The Master Trust Bank of Japan, Ltd. (Trust Account)	7,106	11.31
Custody Bank of Japan, Ltd. (Trust Account)	1,991	3.17
JP MORGAN CHASE BANK 385632	1,451	2.31
STATE STREET BANK AND TRUST COMPANY 505001	1,343	2.14
PALTAC Employees Shareholders' Association	1,295	2.06
BBH FOR FIDELITY LOW-PRICED STOCK FUND (PRINCIPAL ALL SECTOR SUBPORTFOLIO)	834	1.33
NORTHERN TRUST CO. (AVFC) RE FIDELITY FUNDS	786	1.25
The Nomura Trust and Banking Co., Ltd. (investment trust account)	772	1.23
J.P. MORGAN BANK LUXEMBOURG S.A. 381572	620	0.99

Shareholding Ratio is calculated after deducting treasury stock (706,698 shares).

Shareholder composition (1,000 shares)



Adoption to Index (As of July 31, 2023)

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

No.004

Thank you for reading our integrated report “WHAT’S PALTAC 2023”. We would like to once again express our sincere gratitude for all those who gave us their cooperation in the making and publishing of this report. We have produced this report with the intention of clearly explaining the progress of the medium-term management plan “PALTAC VISION 2024”, which concludes in the fiscal year ending March 31, 2024, and sustainability, an issue of growing concern day by day, through the use of illustrations and other methods. Regarding the progress of the medium-term management plan (hereinafter referred to as the mid-term plan), we have made efforts to express the development of ongoing initiatives and the new challenges aiming for optimizing and streamlining the entire supply chain, taking consciousness that relation between initiatives and key strategies in the mid-term plan is clearly conveyed. Regarding sustainability, we have endeavored to enrich our information, focusing on responding to climate change and strengthening human capitals and organizational structures. Regarding the contents of climate change, we have expanded the disclosure information, taking into account the progress of our efforts to reduce CO2 emissions, such as the expansion of the calculation category of Scope 3 CO2 emissions, which we have newly undertaken. In the area of strengthening human capitals and organization, based on the thought that human capitals are the “source of

growth”, hoping to let stakeholders know how we are trying to create value through regarding human capitals and organization as driving forces, we have made efforts to enhance the contents related to human capitals in each initiative of the mid-term plan. In addition, we have enhanced our disclosure on the strengthening of corporate governance that supports our business operations, while providing practical examples in order to contribute to better understanding of our current status and issues. In the top message, the Chairman and President personally spoke about the purpose and thoughts behind the new management system that started in June 2023. We believe that reading this along with the specifics of our initiatives will help our stakeholders to understand our challenge toward the future. The integrated report has been issued for the fourth time in 2023. As we continue to improve and issue our integrated report, the opportunities of dialogue with our stakeholders are steadily increasing. Moving forward, we will strive to enhance our information disclosure in order to further deepen our communication with all stakeholders. Finally, we have again prepared a questionnaire on our website and would appreciate your comments and opinions. Based on your opinions and impressions, we will continue to improve our report so that we can advance the quality of dialogue with all of you. We hope that we can count on your continued understanding and support.

[ Editor : Management Planning Headquarters ]

Director, Senior Managing Executive Officer,  
General Manager of Management Planning Headquarters

Masaharu Shimada

Yusuke Takagi

Kunitoshi Yamamoto

Masayuki Maeda

Naotaka Tashiro

Takafumi Ohashi

Masafumi Kiyoto

Kazuki Kimura

Tomohiro Hashimoto