



Integrated Report 2019

**H<sub>2</sub>O Retailing Corporation**

# Business Philosophy

To remain indispensable to the local communities through our activities of providing a model of lifestyle to local residents

Our driving motivation is to satisfy the expectations of our customers and shareholders, as well as our business partners, employees and all other stakeholders, while contributing to society as a whole.

## H<sub>2</sub>O Retailing Group Code of Conduct

### Everything we do is for the sake of satisfying the expectations and earning the trust of our customers.

- 1) We seek to always accurately identify our customers' needs and to provide superior products and services to meet these needs
- 2) We faithfully honor the promises we make to customers and work to accommodate their requests via prompt, sincere service.
- 3) Safety and peace of mind are of paramount importance in our products, services and sales spaces.
- 4) We both accurately depict and appropriately explain our products and services.
- 5) We ensure that customers' personal information is managed and utilized in an appropriate manner.

### We pursue our business with a sincere heart and motivated spirit.

- 1) As times change, so do we via perpetually forward-looking and effective ideas that are the result of independent thinking and initiative.
- 2) We stay properly informed about, and adhere to, social norms and laws, as well as work regulations and other corporate rules.
- 3) We ensure that the management and use of corporate assets, such as products, money and physical goods, as well as important data, is both appropriate and ethical.

### We all work together to create and maintain the optimal workplace environment for the business we pursue.

- 1) We strive to create work spaces which are vibrant and full of communication.
- 2) We respect the distinctiveness of each individual and are committed to protecting their rights and their privacy.
- 3) We pledge not to engage in conduct that could lead to discrimination or harassment, including sexual and power harassment.

### We adhere to the rules governing fair and honest business transactions and seek to cultivate partnerships with our clients.

- 1) We do not take advantage of power dynamics to make unreasonable demands of clients. Further, we do not engage in unfair business practices, for example involving association with cartels or bid-rigging.
- 2) We maintain right and proper relationships with clients and do not accept any gifts or hospitality which common sense would deem inappropriate.
- 3) We do not infringe on other parties' copyrights, trademarks, or other intellectual property rights.

### We are proactive about contributing to society.

- 1) We do not conceal information, rather we disclose it in a proper and timely manner to build good relationships with stakeholders both inside and outside the company.
- 2) We actively take the initiative in protecting the environment, contributing to society, and otherwise working to realize a sustainable society.
- 3) Under no circumstances do we accommodate the unreasonable demands of antisocial groups or individuals.

#### Origin of Our Company Name

We adopted the name "H<sub>2</sub>O Retailing" to express how our basic philosophy is to be as essential as water (H<sub>2</sub>O) to society. With our core business built around the Hankyu and Hanshin Department Stores, we engage in competition and cooperation that enriches customers' lives and maintains our position within local communities as an essential source of information about the urbane and fashionable.

# Group Introduction

## Group Business

The H<sub>2</sub>O Retailing Group engages in a variety of retail-related business, including department stores, supermarkets, shopping centers, hotels, and restaurants, primarily in the Kansai region of Japan.

### H<sub>2</sub>O Retailing Corporation Corporate Planning, Administration and Supervision for the Overall Group

#### Department Store Business

Hankyu Hanshin Department Stores, Inc. operates a total of 16 department stores, including Hankyu Department Store, which has eight stores in the Kansai region, three in the Kanto region, and one in Kyushu, and Hanshin Department Store, which has four stores in the Kansai region. Effective October 1, 2019, Sogo Kobe changed its name to Kobe Hankyu, and Seibu Takatsuki changed its name to Takatsuki Hankyu.

The Hankyu Umeda Main Store is not only a retailer of goods and services, it underwent a grand opening in 2012 as a “theater-like department store” which delivers the cultural value underlying those goods and services. It is the flagship store which serves as the face of our corporate group and which draws customers from throughout Japan and the world. In addition, the Hanshin Umeda Main Store began reconstruction in 2014, with the completed sections of the first phase opening for business in 2018 and the grand opening of all sections scheduled for fall of 2021.

These two main stores are the hubs of the H<sub>2</sub>O Retailing Group. In conjunction with the suburban branch stores which we have established in the key centers of the Kyoto-Osaka-Kobe area where we are dominant, our business is widespread and conveniently located, allowing us to continue expanding our dominating market share in the Kansai region.

Hankyu Department Store

**12** stores

Hanshin Department Store

**4** stores



#### Supermarket Business

Foods are a key area for our group, and our ever-growing, food-related business spans everything from manufacturing and processing to GMS and supermarket operation.

Izumiya Co., Ltd. operates 109 GMS, supermarkets and super centers (including Qanat Co., Ltd.) located primarily in the Kansai region as part of its goal to provide “Goodly Goods at a Nice Price” the company is currently undertaking a food-focused renewal and restructuring. Hankyu Oasis Co., Ltd. operates 79 supermarkets in the Kyoto-Osaka-Kobe region. The company strives to develop each store as a high-quality food specialist offering specialization, lively ambience and informative service. Joint product procurement and system integration is implemented between these two companies to enable both to streamline their operations. Furthermore, the companies themselves manufacture daily dishes, packed lunches, breads, dry foods and other food items sold in supermarkets and department stores, which allows them to provide their products more quickly and efficiently.

Izumiya **109** stores

Hankyu Oasis **79** stores

Food manufacturer **4** companies

\*includes Qanat Co., Ltd.



#### Shopping Center Business

We undertake a variety of real estate development, operation and management-related business, including shopping center operation and building maintenance services.

Hankyu Shopping Center Development Co., Ltd. performs location and target-specific shopping center development, and they operate the shopping centers “MOSAIC MALL Kohoku” and “MOSAIC BOX.”

In addition, H<sub>2</sub>O Asset Management Co., Ltd. promotes the effective utilization of H<sub>2</sub>O Retailing Group-owned real estate and supermarket business shops, vacant facilities and land resulting from business restructuring and other assets.



#### Other Business

We undertake a variety of other retail-focused business development, such as the business hotel, restaurant and home-delivery service operation.

Companies like Kazokutei Inc., which operates “Kazokutei,” “Toku-Toku” and other national restaurant chains specializing in soba and udon noodles and Japanese cuisine, and F.G.J. Co., Ltd., which operates “Fruit GATHERING” chain of cosmetics and accessories retail shops, allow us to expand our specialty shop business into commercial facilities outside of the H<sub>2</sub>O Retailing Group.



Store numbers: as of October 1, 2019

## Business Domains

Our group is primarily based in the Kansai market, which is a major metropolitan area home to more than around 20 million people, as well as being easily accessible from overseas.

In particular, Umeda district in Osaka, where the main Hankyu and Hanshin Department Stores are located, has undergone significant redevelopment in recent years, transforming it into one of the most commercially competitive areas in Japan. But even amidst this fierce competition in an area which boasts the largest sales volume in all of western Japan, the Hankyu Umeda Main Store outperforms all other stores.

We are using Umeda as a base from which we are integrating consumer businesses to enhance the Quality of Kansai people's life comprised of about 200 stores (including department stores, GMS, and supermarkets) and other retail business throughout the entire Kansai region.

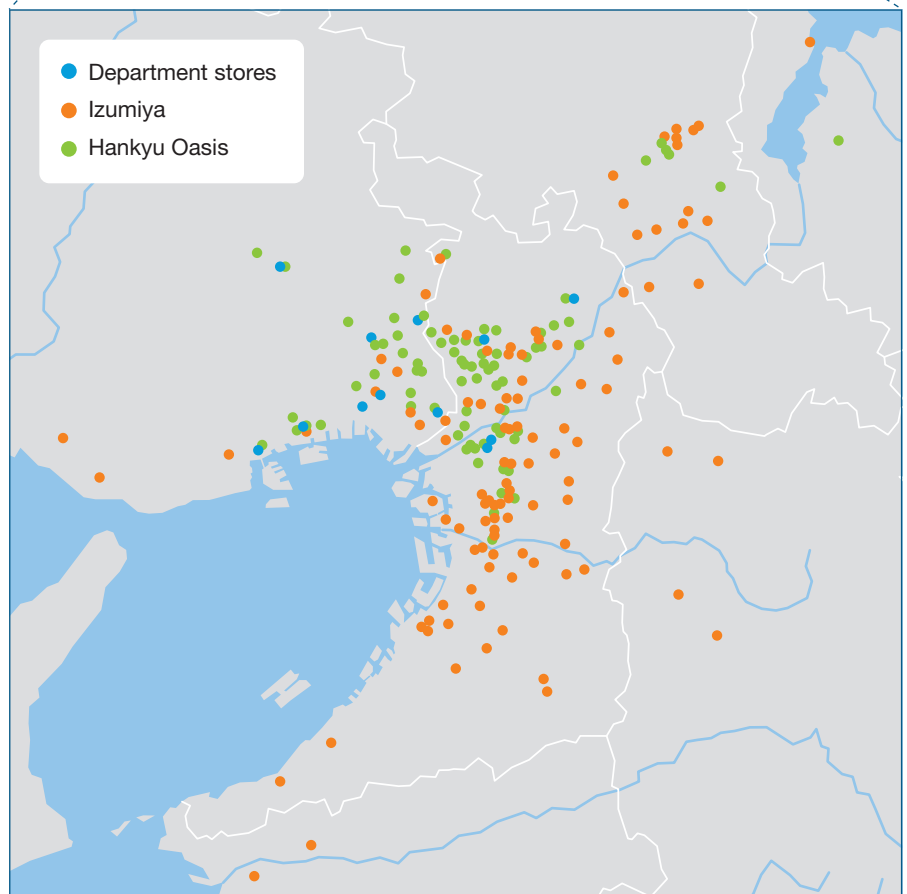


### Number of stores in the Kansai region where H<sub>2</sub>O Retailing has a dominant market share

Department stores **12** stores

GMS and supermarkets **186** stores

Store numbers: as of October 1, 2019



# The H<sub>2</sub>O Retailing Group is a member of the “Hankyu Hanshin Toho Group” which is adding culture to lifestyle.

Group Composition	<b>202</b> companies	<b>5</b> organizations	Sales	<b>1.9646</b> trillion JPY	Employees	<b>34,626</b>
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(as of March 31, 2019)

The Hankyu Hanshin Toho Group is a corporate group centered on Hankyu Hanshin Holdings, H<sub>2</sub>O Retailing and Toho. The group utilizes a variety of business ventures, including department stores, supermarkets, urban transport, real estate, hotels and entertainment, to facilitate appealing urban development.

## Urban Transport Business

“Hankyu Railway” and “Hanshin Electric Railway” are at the center of the group’s urban transport business. This business comprises a network of trains, buses and taxis covering the Kansai region.



## Retail Business

“H<sub>2</sub>O Retailing” is at the center of the group’s retail business. This business is carried out by a retail group consisting of 16 department stores operated by “Hankyu Department Stores” and “Hanshin Department Stores” as well as approximately 200 supermarkets such as “Izumiyu” and “Hankyu Oasis.”



## Real Estate Business

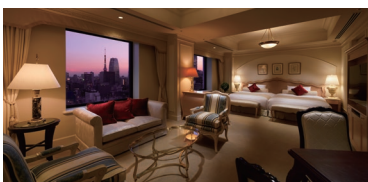
The focus of this business is twofold: providing excellent housing built along the group’s expanding rail network, and actively managing highly profitable rental buildings. The group owns roughly 800,000 m<sup>2</sup> of rental space within Umeda district in Osaka.

## Travel Business

At the center of the group’s travel business is “Hankyu Travel International,” one of Japan’s busiest and most popular travel agencies.

## Hotel Business

The “Hankyu-Hanshin-Daiichi Hotel Group” is one of Japan’s largest hotel operators, with around 11,000 rooms in 47 hotels nationwide.



## International Freight

With more than 100 facilities in 28 countries and regions, we offer fast, safe international freight services worldwide, including through partner agents.



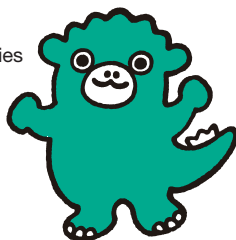
# Hankyu Hanshin Toho Group

## Entertainment Business

### ■ Film

“Toho” is one of the largest film producers, distributors and exhibitors in Japan, boasting more than 680 screens in theaters throughout the country.

The great many entertainment properties produced and distributed by Toho, such as its iconic Godzilla films, offer universal appeal and continued inspiration and excitement to audiences.



Chibi Godzilla is a trademark of Toho Co., Ltd. © Toho Co., Ltd.

### ■ Takarazuka Revue

As one of the few all-female theater companies in the world, the “Takarazuka Revue” brings dreams and excitement to the stage for audiences far and wide. The troupe has held 27 performances in 18 different countries and regions, garnering high praise from around the world.



© Takarazuka Revue Company

### ■ Hanshin Tigers

The “Hanshin Tigers” are one of the most popular professional baseball teams in Japan. The Tigers’ players’ enthralling style of play, combined with their home ground of Hanshin Koshien Stadium - the hallowed site of countless fiercely contested high-school baseball tournaments - continue to contribute to the development of Japanese baseball.



© Hanshin Koshien Stadium



# Message from the President

## Deepening Our Strategy for Dominance in the Kansai Region While Pursuing Growth in New Business Domains

**Atsushi Suzuki**  
President and Representative Director

### Business Plan GP10

“To remain indispensable to the local communities through our activities of providing a model of lifestyle to local residents.” H<sub>2</sub>O Retailing Corporation operates its department store- and supermarket-centered business primarily in the Kansai region based on this business philosophy. Our goal is to develop a comprehensive range of industry-scale lifestyle services that are intimately connected to every aspect of life, from daily life to the opposite (extraordinary life), by operating a variety of businesses, including shopping centers, hotels, cosmetic boutiques, and restaurants. However, the business environment is undergoing structural and other changes at a dizzying pace, posing challenges including the maturing of the market, the diversification of consumer lifestyles, the aging of the population, a declining birthrate, and a shrinking population. In order to respond to these changes with a high degree of sensitivity and to more effectively anticipate the needs of the coming era, the Group has been implementing the 10-year GP10 (Grand Prix 10) Plan since FY2006. This section looks back on some initiatives we’ve taken to date and offers a detailed explanation of GP10-II Phase 2, the medium-term business plan that we began implementing in FY2020.

Store, took over operation of Sogo Kobe and Seibu Takatsuki, reorganized our Izumiya chain to build a food business, and launched the Group’s “litta” e-money program as well as “S-point,” a multi-partner point program for consumers in the Kansai region.

#### ■ GP10-II Phase 2 (FY2020 to FY2022)

During the GP10-II Phase 2 medium-term business plan that began in FY2020, we will look to further implement our “Kansai Dominance Strategy” as we build a business ecosystem with connections throughout the lives of customers in the Kansai region by establishing a dominant position in our core businesses and expanding our network of alliances. We’ve identified the Department store business and the Supermarket business as core businesses to strengthen on a sustained basis. With regard to the Department store business, we’re working to deliver unusual appeal and fun shopping experiences. With regard to the Supermarket business, our goal is to provide the convenience of one-stop shopping at stores that are closer to consumers than competitors’ locations by building supermarkets that sell frequently-purchased food products. We will work to strengthen these two core businesses because they offer true brick-and-mortar value and because consumers will continue to consider them essential going forward. With core businesses that exist at the twin poles of the daily grocery shopping and fun special shopping, we’re taking advantage of alliances with outside partners to gain contacts with customer lifestyles in the retail businesses that lie in between those two extremes. Specifically, we will seek to reinforce relationships with customers by pursuing initiatives with outside partners that are developing competitive positions in various segments of the retail sector with a focus on S-point, our multi-partner point program that targets consumers in the Kansai region. In addition to this network of retail alliances, we’ll be working to expand the market share of businesses to which we contribute in the Kansai region by broadening our alliances with lifestyle service businesses.

#### ■ GP10-I (FY2006 to FY2015)

In GP10 Plan Stage I, which covered FY2006 to FY2015, we focused on establishing and strengthening our department store business, for example by embarking on a rebuilding project for the Hankyu Umeda Main Store, the Group’s flagship location, and on scrap-and-build projects for various branch locations.

#### ■ GP10-II Phase 1 (FY2016 to FY2019)

In GP10 Plan Stage II, which began in FY2016, we sought to expand our market share by building a network of stores to increase our points of contact with customers in the Kansai region and to serve customer needs ranging from daily life to the opposite (extraordinary life), as part of our “Kansai Dominance Strategy.” Under the GP10-II Phase 1 medium-term business plan, which ran from FY2016 to FY2019, we strengthened the Hankyu Umeda Main Store’s ability to attract customers from a large geographic area, began rebuilding the Hanshin Umeda Main

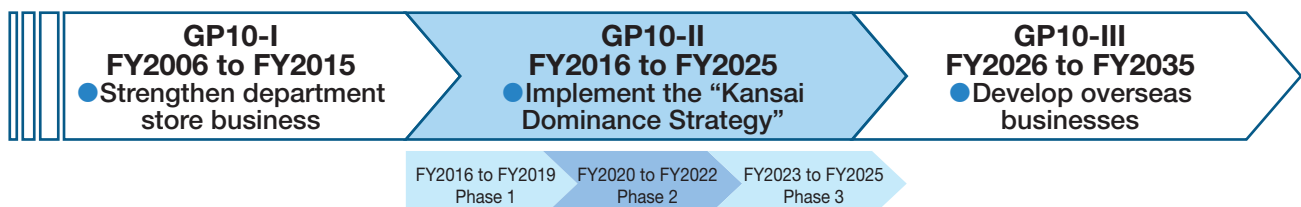


Hankyu Umeda Main Store

#### Policy Priorities

- 1 Strengthening Department store businesses
- 2 Building a supermarket operational platform
- 3 Business model conversion of Izumiya GMS stores
- 4 Building a business ecosystem

#### ■ GP10 Long-term Business Plan



# Key policies under GP10-II Phase 2 (FY2020 to FY2022)

## 1 Strengthening Department store business

Department store business that constitutes one of our core businesses attract customers from a large geographic area because they deliver unusual appeal and fun shopping experiences. We operate department stores in the Umeda district of Osaka, a major hub in the Kansai region, and in four other locations in the Hokusetsu/Hanshin area (Senri-Chuo in Osaka, Nishinomiya Kitaguchi in Hyogo Prefecture, Kobe Sannomiya in Hyogo Prefecture, and Takatsuki in Osaka). We will work steadily to grow our customer base by continuing to invest in these stores, reflecting the key role that these cities will continue to play in the Kansai region.

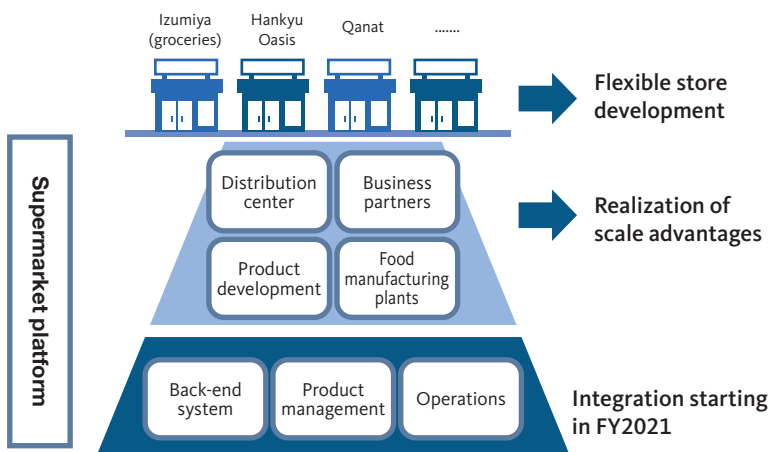
We operate the Hankyu and Hanshin Main Stores in Osaka's Umeda area, the Kansai region's largest shopping district. The rebuilding of the Hanshin Umeda Main Store, which is part of an effort to strengthen our presence in the Umeda area, is proceeding according to plan, with the Phase 1 Building opening in June 2018 and a grand opening scheduled for fall 2021.

In Kobe's Sannomiya area and Osaka's Takatsuki area, which are second only to the Umeda area in their ability to attract customers from a large geographic area, we took over operation of Sogo Kobe and Seibu Takatsuki in October 2017 and changed their names to Kobe Hankyu and Takatsuki Hankyu in October 2019, reflecting their new role as Hanshin Hankyu Department Stores locations. Recognizing the value of the two stores locations next to major train stations, we've already started remodeling their basement food floors, which are highly appealing to consumers, and we'll progressively remodel other floors going forward. We're also pursuing a large-scale redevelopment project in the Senri-Chuo area. Senri New Town, which was completed in 1970, succeeded in revitalizing the area, driving an inflow of new residents and rejuvenating the surrounding community. We're pursuing an integrated redevelopment project focusing on Senri Hankyu, which is located in the Senri-Chuo area, and SELCY, an adjacent shopping mall. Studies are underway to open a regional shopping center (RSC) with the department store as an anchor tenant several years from now.



## 2 Building a supermarket operational platform

Supermarket business, our other core business, consists of supermarkets such as Izumiya and Hankyu Oasis, as well as food manufacturers. Together, Hankyu Oasis and Izumiya, which the Group acquired in 2014, comprise some 200 locations, giving the Group one of the largest selections of food products of any retailer in the Kansai region. Although we tried to leverage the merger to deliver synergistic benefits by implementing joint purchasing and integrating the two companies' processing and prepared food manufacturing operations, those efforts failed to generate sufficient scale advantages due to differences in product management and operational styles. Instead, we will now reorganize Izumiya to spin off a company specializing in supermarket operations. That company and Hankyu Oasis will then launch a new sales system in FY2021 and integrate their product management and other operations. Adoption of a shared supermarket operational platform will facilitate joint product procurement, streamline distribution center operations, and allow us to roll out stores that meet local needs in a more flexible manner.

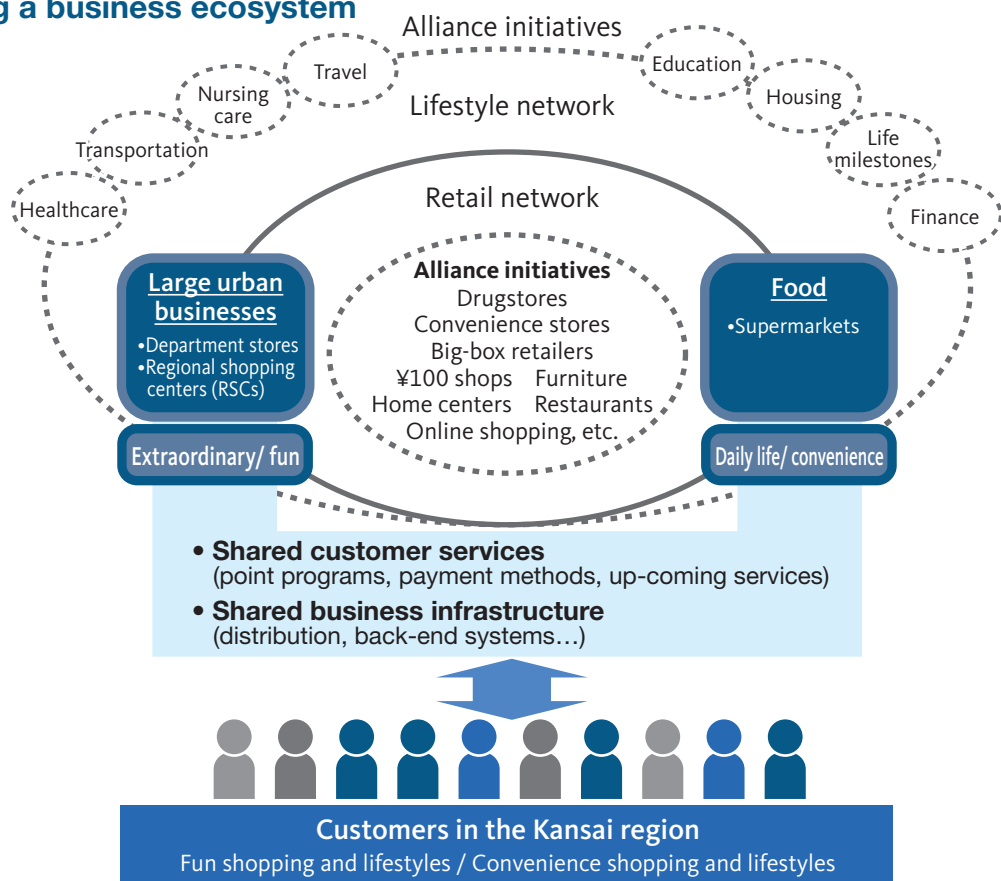


## 3 Business model conversion of Izumiya GMS stores

Under the GP10-II Phase 1 plan, we reorganized our portfolio of stores with a focus on Izumiya GMS (general supermarket) locations. We took some measures that included closing stores outside areas where we enjoy dominant market share and converting outdated stores to NSC, resulting in trimming the footprint of 47 GMS stores operating at the time of the merger down to 32 locations. However, the existing GMS business model has been unable to compete with stores specializing in clothing and household products. Despite efforts to remodel grocery sales areas, shrink the amount of directly-managed space dedicated to sales of non-food products, narrow the range of products offered, and lease some space to tenants, the ability of the GMS business model, which is founded on direct sales of clothing, groceries, and household products, to attract customers has been declining, preventing us from taking advantage of the strengths afforded by stores' favorable locations. Furthermore, in operating shopping centers, changes such as the diversification of consumer preferences and demographic shifts have made it essential to be able to launch a diverse

range of content, including services as well as product sales, so that we can respond to market conditions in a flexible manner. In order to address these issues in a more fundamental manner, we will transform the GMS business model by splitting Izumiya into separate grocery, non-food product, and property management divisions in FY2021. The grocery division will be spun off so that it can specialize in supermarket operations, and we'll look to boost efficiency through integration with Hankyu Oasis and to increase profitability further as a core business. With regard to frequently-purchased daily necessities in the household products category, we will launch a joint venture with Cocokara Fine Inc. and utilize that company's drugstore operations expertise and product procurement capabilities to redevelop locations into new stores. The property management division will work to create appealing shopping centers that take advantage of the strengths afforded by favorable locations by quickly eliminating the non-food product division's structural losses and adding tenants that meet market conditions.

## 4 Building a business ecosystem

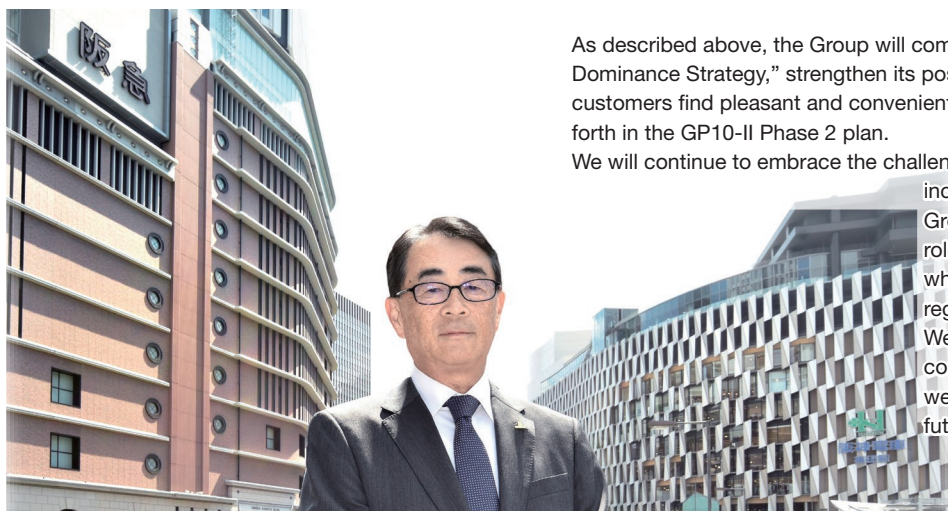


In the course of their daily lives, consumers patronize not only department stores and supermarkets, but also other retail shops and service businesses. We will take advantage of alliances with outside partners to gain points of contact with customers' lifestyles in segments of the economy such as these that lie outside our core businesses.

The S-point program that the Hankyu Hanshin Group launched as a multi-partner point service in 2016, which currently has about 7.5 million members and counts among its member businesses 7-Eleven and Kansai Super Market, is enjoying growing transaction volume in the Kansai area. In addition to encouraging customers from Kobe Hankyu and Takatsuki Hankyu, which became Hankyu Hanshin

Department Stores locations in October 2019, to sign up for S-point cards, we're preparing to launch the S-point service for stores of two new partners: SRS Holdings Co.,Ltd. and Cocokara Fine Inc. By growing membership and adding new member stores in order to establish S-point as a highly convenient point service and by developing not only point incentives, but also payment options and up-coming customer services that utilize the management resources of our group and alliance partners, we will build a service platform that can be shared by businesses in the Kansai region and create a business ecosystem with strong appeal for both customers and businesses.

## Going forward



As described above, the Group will come together to implement its "Kansai Dominance Strategy," strengthen its position, and offer services that customers find pleasant and convenient based on the four policy priorities set forth in the GP10-II Phase 2 plan.

We will continue to embrace the challenge of expanding new businesses and increasing corporate value so that the Group can continue to play an essential role in society, just as the substance for which it is named (H<sub>2</sub>O) is essential to the region's environment.

We ask all of our stakeholders for their continued understanding and support as we undertake these initiatives for the future.



## Financial Highlights (consolidated basis)

Unit: Millions of yen

Fiscal Year	2015	2016	2017	2018	2019	
Fiscal years ended	March 2015	March 2016	March 2017	March 2018	March 2019	
Sales	844,819	915,690	901,221	921,871	926,872	
Operating income	21,358	23,825	22,542	22,765	20,422	
Ordinary income	21,219	23,060	21,725	24,272	21,376	
Profit attributable to owners of parent	11,586	14,053	14,298	14,636	2,162	
Net assets	251,659	252,587	264,323	280,807	279,603	
Owner's equity	250,762	251,554	263,220	279,569	278,364	
Total assets	630,017	595,247	639,305	659,582	663,335	
Capital investment	38,914	20,110	28,060	26,443	32,039	
Depreciation	15,149	16,230	15,857	16,223	17,399	
Per-share data	Net assets per share (yen)	2,033.25	2,038.83	2,131.97	2,263.95	2,252.28
	Net income per share (yen)	98.06	113.93	115.84	118.54	17.50
	Diluted net income per share (yen)	97.64	113.39	115.28	117.90	17.39
	Dividends (yen)	25.00	35.00	40.00	40.00	40.00
Financial indicators	Ratio of operating income to net sales (%)	2.5	2.6	2.5	2.5	2.2
	Owner's equity ratio (%)	39.8	42.3	41.2	42.4	42.0
	Return on equity (%)	5.4	5.6	5.6	5.4	0.8
	Ratio of ordinary income to total assets (%)	4.2	3.8	3.5	3.7	3.2
	Consolidated dividend payout ratio (%)	25.5	30.7	34.5	33.7	228.5
No. of employees	8,590	8,456	8,528	8,868	8,793	

# Quality Improvement Initiatives of the H<sub>2</sub>O Retailing Group

Of all the initiatives we undertake which revolve around the environment, society and corporate governance, we put particular emphasis on those initiatives aimed at providing safety and peace of mind as well as personnel development. Our group strives to ensure the safety and peace of mind of our customers as they shop for everything from food to clothing to miscellaneous goods, and we do so through a variety of initiatives focused on thorough and systematic product quality control, as well as initiatives which reflect the importance of personnel development in providing high quality, satisfying customer service.

## Ensuring Safety and Peace of Mind

### Food Safety and Peace of Mind

#### ■ Advanced Quality Control System

We have put in place a Group Food Hygiene Quality Control Promotion Committee which maintains the group's overall quality control system, as well as discusses how to accommodate regulatory changes, in an effort to prevent food-related incidents.

#### Hankyu Hanshin Department Stores

In addition to regular bacteriological testing of randomly selected in-store products, we use outside third parties to perform inspection testing of suppliers' facilities once a year and store kitchen inspections twice a year. In the event of an unfavorable result, the party receiving that result must make improvements and then submit a report about those improvements.

#### Izumiya

Izumiya's outsourced production and sales of "good-i" and in-store processed food products are subjected to thorough and systematic quality control from the development phase all the way to sales. The food processing areas in stores undergo twice annual health and hygiene inspections.

#### Hankyu Oasis

A Product Control Supervisor is installed within the Merchandise Department, and he or she performs regular quality checks of PB products at each stage from development through sales. Also, an Internal Auditing Department conducts rotating inspections of quality labeling, kitchen food hygiene and other matters to ensure the thoroughness of quality control.

#### ■ Comprehensive Quality Control Consulting from Hankyu Quality Support

Hankyu Quality Support is a comprehensive consultancy company which offers assistance with food, clothing and miscellaneous product quality control. They provide guidance on product inspection and food hygiene and quality control duties at companies, commercial facilities, etc., both within and outside of the H<sub>2</sub>O Retailing Group. Having a quality control specialist company within the group allows us to maintain an even higher level of systematic quality control, and Hankyu Quality Support is able to draw on the roughly 50 years of retailing, food manufacturing and food service business experience of our group to provide a variety of seminars which both our group companies and clients find extremely helpful.

#### ■ "QUALITA" Food Quality Database for Peace of Mind

This database, which is easily accessible via PC and smartphone, gives users peace of mind with their shopping by allowing them to look up the ingredients, place of origin, allergenic content<sup>(\*)</sup>, additives, expiration dates, storage methods and nutritional content of mid-year and year-end gift catalog products, "Flavors of Hankyu" PB products and other products.

\*Allergenic data is provided for not only the seven legally mandated allergenic materials but also for the additional 20 recommended materials.

#### ■ Quality Control at Food Manufacturing Facilities

The Takatsuki manufacturing facility where Hankyu Bakery makes its bread has obtained FSSC 22000 certification according to the international food safety management system standards overseen by the safety certification governing body based in the Netherlands. Additionally, the Ikeda and Nanko manufacturing facilities where Hankyu delica-i makes daily dishes and other processed food products strict adhere to HACCP quality control and have acquired Food Safety and Security Certification from the Osaka Prefectural Government in order to ensure the safety and peace of mind of customers purchasing their products.

#### ■ Hankyu Green Farm for Organically Grown Vegetables

In 2003, Hankyu Sennan Green Farm was established in the city of Sennan in Osaka Prefecture with the aim of offering safe, reliable quality salad vegetables that are naturally delicious. Since then they have been growing organic vegetables in Sennan City, Tajiri Town and Wakayama City. The company focuses primarily on lettuce, mesclun, salad kale and other salad vegetables which it grows via organic, reduced agrochemical and non-agrochemical means; these are then delivered to not only the group's department stores and supermarkets but also to companies and stores outside the group.

#### ■ Safety and Peace of Mind for Non-Food

For our clothing and miscellaneous products, as well, we have established a Group Quality Control Promotion Committee similar to that which exists for our food products. This committee oversees product and advertising display and representation optimization inspections and garment product manufacturing inspections. As a result of these inspections, our department stores eliminate around 17,500 items a year for not meeting product standards in advance. We also perform on-site inspections of production facilities in China and other countries overseas to eliminate sub-standard products from among those being delivered to our stores.

### Shopping Safety and Peace of Mind

Safety and peace of mind applies to more than just the products themselves. We also seek to ensure customers have safety and peace of mind while they are shopping; thus, in addition to regular disaster safety drills, we have installed the latest disaster safety systems in the Hankyu Umeda Main Store and the sections of the Hanshin Umeda Main Store that had their Phase 1 limited opening in June 2018.

#### ■ Disaster Safety Drills

Each week, safety drills focused on earthquakes, fires, tsunamis and other disaster scenarios are held at both the Hankyu and Hanshin Main Stores. In addition, regular drills are held at department store branches, GMS, supermarkets and other business facilities in order to ensure a systematic approach to safe customer evacuation in the event of a disaster during business hours.

#### ■ Disaster Safety Systems

A pressurization smoke control system has been installed to remove smoke from inside rooms during fires, as well as to keep evacuation routes free of smoke via the use of pressurization fans. These and other disaster safety systems have been put in place to ensure safe evacuation in the event of a fire.

#### ■ Earthquake Resistant

The Umeda Twin Towers, which houses the Hankyu Umeda Main Store and Hanshin Umeda Main Store, are equipped with vibration dampers and other seismic damping design elements to enable them to withstand even an earthquake with a seismic intensity of 7.

## Making shopping more pleasant and enjoyable

Our department stores, GMS and supermarkets are visited by a diverse array of customers every day. Customers with disabilities, customers with small children, customers from overseas...no matter who it is, we work to provide an accessible shopping environment and a varied range of services to ensure all of our customers enjoy their shopping experience.

### Pleasant Shopping Environment

We have added a number of touches to the Hankyu Umeda Main Store for its reconstruction grand opening which create a more pleasant shopping experience for customers. In terms of hard infrastructure, we created a more pleasant environment through the addition of barrier-free designs, easily visible and understandable in-store signage, 300+ seating rest space and enough toilet booths and powder areas of sufficient size to address the pre-renovation issue of crowded toilets. Also, to make the store more accessible for those in wheelchairs or pushing baby strollers, we expanded the hallway and aisle width, added wheelchair and baby stroller rental services and installed priority-use elevators.



Easy-to-understand in-store signs



Rest space with about 300 seats



Priority-use elevators

Further, to enhance the shopping experience for the growing number of customers coming from overseas, we have introduced new services at the Hankyu Umeda Main Store, including offering in-store guidance using artificial intelligence (AI) via a smartphone app, accepting orders and payment at restaurants by scanning 2D codes, and allowing customers to make appointments to pick up cosmetics. At other major stores, we enhance the scope of service we offer, such as by adding translations in three languages to the store guides and in-store signage, employing multilingual sales staff, issuing tax refunds to credit cards, offering a phone interpretation hotline and free Wi-Fi service, and accepting online applications for Foreign Customers' VIP Club.

### Mechanisms for Responding to Customer Feedback

Our department stores, GMS and supermarkets maintain dedicated customer inquiry offices and resources, such as contact options on our website, that allow us to hear the varied opinions and ideas of our customers. Hankyu Hanshin Department Stores provide sales staff with "Information Memos" which they can use to write down what they glean from their interactions with customers regarding how to improve service or solve problems. These Information Memos have been responsible for a variety of improvements, including adding the option to box (gift wrap) together products purchased at the Hankyu Umeda Main Store and Hanshin Umeda Main Store, and to add an image attachment feature to the inquiry form on the website.

## Environmental Efforts

We believe that we are called to protect the earth's natural beauty as an inheritance for future generations, and we use our business activities as a vehicle for the promotion of various environmental conservation activities. In addition to hard infrastructure-focused initiatives, such as the introduction of highly energy-efficient facilities and equipment, we are contributing to CO<sub>2</sub> reductions via initiatives which utilize the distinctive characteristics of retail business to allow us to incorporate our customers.

## H<sub>2</sub>O Retailing Group Environmental Policies

We strive to contribute to the global environment through the following environmental conservation activities carried out in line with our Group Code of Conduct.

### Development of Environmental Management

In order to reduce the environmental burden created by our business activities, we develop and maintain systems for promoting environmental management which we utilize in achieving independent targets established for each of the following.

- CO<sub>2</sub> emissions reduction, energy and resources conservation
- Waste reduction and recycling
- Green purchasing

### Promotion of Environmental Conservation Activities

We capitalize on characteristic aspects of our business to promote activities which contribute to the solution of environmental issues.

- Environmentally-friendly products and lifestyle ideas
- Community-based environmental conservation activities
- Woodland and water resources protection and other nature conservation activities

### Awareness-Raising Activities and Information Disclosure

We ensure all employees are aware of our environmental policies, and we are proactive about disclosing the content and results of our activities.

## Energy-Saving Initiatives

We promote switching over all basic lighting in our group department stores, GMS and supermarkets to LED lighting, as well as switching over to highly energy-efficient equipment, as a means of reducing store CO<sub>2</sub> emissions.

### Switchover to LED Lighting

Hankyu Hanshin Department Stores are promoting the adoption of LED lighting in sales areas, and the newly built section of the Hanshin Umeda Main Store which was opened in June 2018 following the completion of Phase 1 utilizes only LED lighting for its sales area ceiling lighting. (amount of LED lighting prior to the Phase 1 limited opening: 29%)

#### Change in Total Store LED Lighting for Hankyu Hanshin Department Stores

	FY2017	FY2018	FY2019
LED adoption	46%	51%	61%
Impact on reduction (year-on-year)	(41)kW	(360)kW	(110)kW

### Environmentally-friendly Building for the Hankyu Umeda Main Store

The Umeda Hankyu Building, within which the Hankyu Umeda Main Store is located, has an 'S' ranking according to the CASBEE environmental performance evaluation system used for buildings. Thanks to this, CO<sub>2</sub> emissions have been reduced by 45% despite 20% more floor space in the Main Store following the reconstruction.

#### Major examples

- Introduction of LED lighting
- Introduction of high-efficiency equipment (turbo refrigeration equipment, gas absorption-type water cooler/heater, etc.)
- Power-saving systems (motion-activated service hallway ceiling lighting)
- Power-saving systems (introduction of an ice thermal storage system which draws power at night and cuts daytime peak power usage)
- Water-saving systems (introduction of waste water filtration devices to redirect restaurant wastewater for use in toilets)
- Greening (creation of green rooftop spaces and greening of walls in stores)

### Energy-Saving Measures in Supermarkets

For supermarkets, in addition to introducing LED lighting, we are promoting the use of energy-saving in-store equipment, such as refrigerator and freezer cases.

When we open new stores, our energy-saving measures extend even to the smaller details, such as installing reach-in freezer cases (show cases with glass doors), ensuring all lighting uses LEDs and using energy-saving control equipment. For existing stores, as well, in addition to steadily introducing the same energy-saving equipment into existing stores, we are taking other steps, like covering open refrigerator cases with a curtain at night to prevent heat gain.



Reach-in freezer cases

### CO<sub>2</sub> Reduction via Emission Credits

Izumiyu is charging for shopping bags, running customer-participation prize campaigns, selling PB products accompanied by emissions credits and taking other measures which generate money that is then used to purchase emissions credits to reduce CO<sub>2</sub>.

In FY2019, we purchased credits in a variety of areas, such as Miyagi and Iwate Prefecture, and then voluntarily transferred these to the Japanese government.

Total emissions credits purchased in FY2019	1,190t (FY2018: 1,189t)
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## Efforts to Reduce Container and Packaging Materials

In the H<sub>2</sub>O Retailing Group, we revise our packaging materials accordingly to make them lighter and more environmentally-friendly. Currently, we are taking steps to reduce our packaging materials via approaches which involve the participation of customers, such as charging for shopping bags.

### Efforts to Cut Down on Supermarket Shopping Bags

At Izumiya and Hankyu Oasis, we encourage customers to bring their own shopping bags, and some of our stores have been charging for bags.

In 2018, the "Hokusetsu Region<sup>(\*)</sup> Shopping Bag Reuse and Reduction Promotion Agreement" was signed by nine businesses, and Izumiya and Hankyu Oasis were among them. As a result, since June 2018, the supermarkets in the Hokusetsu region have stopped providing shopping bags free of charge.

\*Hokusetsu region: Suita City, Toyonaka City, Takatsuki City, Ibaraki City, Settsu City, Minoh City, Ikeda City, Nose Town, Shimamoto Town, Toyono Town

	Bring-your-own-bag adoption (FY2019)	No. of stores charging for bags (as of June 2019)
Izumiya	55.4%	24 stores
Hankyu Oasis	61.8%	41 stores

### Revision of Packaging Materials

At Hankyu Hanshin Department Stores, in addition to reducing the number of items using packaging materials by 60%, we are working to cut the number of varieties of plastic products we use, shrink and thin our paper bags, thin our plastic shopping bags and reduce the overall amount used.

We are working to promote more appropriate mid-year and year-end gift wrapping, such as by appealing to customers to choose more simple wrapping options.

### Effective Resource Usage via Container Collection

At Izumiya and Hankyu Oasis, we collect food trays, milk cartons, PET bottles, aluminum can and other used containers. The collected trays are recycled at a recycling company and then purchased for reuse.

At Izumiya, recycled trays make up around 41% of the trays used in food sales areas (vegetable, meat, seafood, daily foods and take-out side dishes sections).

## Recycling Initiatives

### Recycling Food Waste

At Hankyu Hanshin Department Stores, Izumiya and Hankyu Oasis, in addition to working to reduce the amount of food waste generated, we promote efforts to recycle this waste as fuel and animal feed. At the Izumiya Katsurazaka Store, the food waste generated by the store is turned into animal feed which is used to feed the chickens that produce the eggs the store sells. This recycling loop has been recognized by the Ministry of Economy, Trade and Industry, the Ministry of Agriculture, Forestry and Fisheries and the Ministry of the Environment.

	Food recycling rate (FY2019)
Hankyu Hanshin Department Stores	61.6%
Izumiya	29.7%
Hankyu Oasis	38.2%

### Recycling Business Aimed at “Adapting to a Circular Economy”

At Kanso Co., Ltd., we are undertaking recycling business which is aimed at helping us “adapt to a circular economy.” At Kanso’s Tsumori Eco-Center, waste materials from companies inside and outside the group are taken in and recycled, including styrene foam, which is ground up, dissolved and turned into flat blocks, and drink cans, milk cartons, and other containers, which are collected from store customers and pulverized. In addition, materials such as paper and outdated ledgers are recycled. As another initiative to help realize a recycling-based society, the Tsumori Eco-Center earned ISO14001 certification.

## Customer Awareness-Raising Activities

Izumiya has designated June and October as “Eco-Months” in which to carry out more robust environmental initiatives. During these months, Izumiya conducts awareness-raising activities aimed at customers and local children.

### Hosting Eco Workshops and Environmental Awareness-Raising Events

Izumiya holds an Eco Workshop to teach children about the importance of caring for nature and the environment and to introduce them to actual environmental initiatives being undertaken by Izumiya.

FY2019	No. of events: 82	Participants: 4,795
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Additionally, 15 families participated in an overnight bus tour in May 2019 during which children had an opportunity to plant rice in Toyama Prefecture as part of a dietary education event that was jointly hosted by Izumiya, Hankyu Oasis, and Zen-Noh Pearl Rice.

### Eco-Tours Held in Conjunction with Clients

With the help of our business clients, we run eco-tours of recycling plants and production facilities to give customers enjoyable opportunities to learn about the environment.

Kyoto Eco-Tour  
(Gekkeikan Okura Sake Museum + the Izumiya Yawata Store)



## Participation in Nationwide CO<sub>2</sub> Reduction Activities

### Initiatives with the Japan Department Stores Association

The Japan Department Stores Association supports the government’s “Cool Choice” national campaign to fight global warming, with department stores nationwide implementing “Cool Biz” (which involves setting air-conditioning at an appropriate temperature). Our department stores, as well, increase their air-conditioning temperature by one to two degrees for five months between May and September in order to help reduce CO<sub>2</sub>.

### Participation in the “One Million Person Candle Night,” the Ministry of the Environment’s CO<sub>2</sub> Reduction “Light Down Campaign”

At Hankyu Hanshin Department Stores, we participate in various nationwide CO<sub>2</sub> reduction activities, such as the “Light Down Campaign” and the “One Million Person Candle Night.” During the One Million Person Candle Night in Umeda district in Osaka, the lighting on the exterior signs of the Hankyu Umeda Main Store, Hankyu Men’s Osaka and Hanshin Umeda Main Store is turned off to contribute to CO<sub>2</sub> reductions.

## Environmental Data (FY2019)

INPUT	Units	Hankyu Hanshin Department Stores	Izumiya	Hankyu Oasis
No. of target stores		14	85	79
Energy consumption (total)	(kl)	39,185	50,681	21,750
Electricity	(thousand kWh)	129,313	176,678	80,092
Gas	(m <sup>3</sup> )	1,964,013	4,519,000	989,222
Localized heating and cooling	(GJ)	152,876	—	—
Water (total)	(m <sup>3</sup> )	805,304	1,000,000	339,248
Packaging materials (total)	(t)	1,397	1,872	1,392
Paper	(t)	737	66 *1	196
Wrapping paper	(t)	128	—	—
Shopping bags	(t)	122	651	265
Plastic Trays and wrapping	(t)	148	1,155	846
Other	(t)	262	—	85
Office paper (photocopying paper)	(t)	20	114	57



\*1 includes paper containers

OUTPUT	Units	Hankyu Hanshin Department Stores	Izumiya	Hankyu Oasis
CO <sub>2</sub> emissions volume	(t-CO <sub>2</sub> )	67,683	86,981	42,972
Waste (total)	(t)	12,263	21,770	10,941
Recycling (total)	(t)	7,519	14,698	6,923
Cardboard	(t)	4,127	12,726	5,864
Paper	(t)	580	— *2	37
Plastic	(t)	495	800	237
Food waste	(t)	2,064	3,422	785
Other	(t)	253	—	—

\*2 included in cardboard

Recovered in-store	Units	Hankyu Hanshin Department Stores	Izumiya	Hankyu Oasis
Trays	(t)	1.1	163	237
Milk cartons	(t)	1.9	175	68
PET bottles	(t)	4.0	418	372

## Key Environmental Targets (FY2019)

Hankyu Hanshin Department Stores				
Key Items	FY2019 Environmental Target	Result	Assessment	FY2020 Environmental Target
<b>Energy Savings</b> Energy usage	0.0262 *1	0.0256	○	Year-on-year 1% reduction 0.0253
<b>Resource Savings</b> Container packaging usage	3.19 *2	3.09	○	Year-on-year 1% reduction 3.06
<b>Waste Recycling Improvement</b> Food waste recycling rate	70.2%	61.6%	×	Year-on-year 1% increase 62.6%

\*1 Total usage (kl conversion) / Total floor space × Business hours

\*2 Total usage (kg) / Sales (millions of yen)

Izumiya				
Key Items	FY2019 Environmental Target	Result	Assessment	FY2020 Environmental Target
<b>Energy Savings</b> Stores: CO <sub>2</sub>	FY2014 comparison 20% reduction (CO <sub>2</sub> conversion)	33.2% reduction (CO <sub>2</sub> conversion)	○	FY2014 comparison 21% reduction (CO <sub>2</sub> conversion)
<b>Energy Savings</b> Head Office: Power consumption	FY2014 comparison 20% reduction	22.6% reduction	○	FY2014 comparison 21% reduction
<b>Resource Savings</b> Bring-your-own-bag adoption	53.5%	55.4%	○	54.0%

Hankyu Oasis				
Key Items	FY2019 Environmental Target	Result	Assessment	FY2020 Environmental Target
<b>Energy Conservation</b> Energy usage	0.0271 *3	0.0256	○	Year-on-year 1% reduction 0.0253
<b>Resource Conservation</b> Bring-your-own-bag adoption	52.0%	61.8%	○	62.0%
<b>Waste Recycling Improvement</b> Food waste recycling rate	44.8%	38.2%	×	44.8%

\*3 Total usage (kl conversion) / Total floor space × Business hours

# Corporate Social Responsibility Initiatives

A key mission of the H<sub>2</sub>O Retailing Group is to contribute to society through the betterment of people's lives. As a member of the local community, we prioritize interaction with, as well as support for, local residents, undertaking a variety of activities aimed at achieving this, from help with cultural events to disaster recovery. We hope that such activities will contribute to our group remaining an essential part of our local communities.

## H<sub>2</sub>O Retailing Group Corporate Social Responsibility Initiatives Policies

Within the H<sub>2</sub>O Retailing Group, we seek to address social issues through corporate social responsibility initiatives undertaken in line with our Group Code of Conduct and with respect to the following priorities and implementation criteria.

### Priorities

- Contribution to the local community
- Conservation of the local environment
- Support for children and their future
- Support for cultural, artistic and sports promotion
- Support for disaster recovery

### Implementation Criteria

- Make use of corporate resources and business characteristics
- Ensure activity will be ongoing
- Perform review, revision and improvement based on activity results

## Initiatives Capitalizing on Business Characteristics

Our group operates a number of large-scale commercial facilities, such as the Hankyu Umeda Main Store, which is visited by around 50 million customers of all generations each year, and we use the customer drawing power and media visibility that these stores afford us to carry out awareness-raising and information communication initiatives aimed at customers.

### Charity Network H<sub>2</sub>O Santa

In 2012, we launched the H<sub>2</sub>O Santa initiative (incorporated as a foundation in 2015) with the aim of helping children, based on the belief that, "anyone can be Santa."

Through this initiative, we have worked to foster a "culture of charity" within local communities by using our stores and other resources to showcase the activities of philanthropic groups and to provide customers with information about volunteering opportunities. The connections that these efforts create between customers and various philanthropic groups are what lead to a culture of charity being built.



### 3 Introduction of Volunteering Opportunities

Through the H<sub>2</sub>O Santa website and H<sub>2</sub>O Santa events, we help connect volunteers with available philanthropic groups.

### 4 Surveys and Presentations

We survey those involved in helping needy children in order to find out about the issues these children face, and then we compile our findings in booklets and blogs. In 2018, we held the second H<sub>2</sub>O Santa Symposium, which was entitled "Initiatives in Other Countries to Address Child Abuse, Poverty, and Foster Parent Programs," in an effort to bring together stakeholders in order to resolve issues facing children who need society's care.

Please visit the website to learn more about H<sub>2</sub>O Santa activities.

<http://www.h2o-retailing.co.jp/h2o-santa/>

### Major Activities

#### 1 Awareness-Raising and Fund-Raising Activities in Conjunction with Philanthropic Groups

The Hankyu Umeda Main Store has installed a permanent "H<sub>2</sub>O Santa Charity Guide" on its 9th and 12th floors where the activities of philanthropic groups are showcased. In addition, the activities of philanthropic groups are presented at an "H<sub>2</sub>O Santa Charity Talk Event" held every Saturday in the store's Festival Plaza.

Further, an "H<sub>2</sub>O Santa NPO Festival" is held twice a year; during the FY2019 festivals, activities from 19 different NPOs were presented.



H<sub>2</sub>O Santa Charity Talk Event



H<sub>2</sub>O Santa NPO Festival

#### 2 Events Held to Collect Donations

We hold events designed to collect donations in support of children in need and for disaster relief. The money raised from entry fees and from donation boxes at the event are used to support the target cause.

##### Major events in FY2019

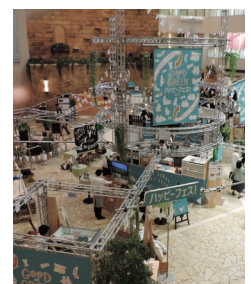
- Charity Drive
- World's Only Blythe Doll Charity Auction
- 1st H<sub>2</sub>O Santa Charity Concert
- 5th and 6th H<sub>2</sub>O Santa Charity Dance Festival

## GOOD for GREEN

Hankyu Umeda Main Store held a store-wide event in May 2019 entitled "GOOD for GREEN" to consider about what we can do for the natural and social environment when making, selling, and using products while promoting initiatives that let us make progress toward a better tomorrow, one step at a time.

We created an eat-in area in the ninth floor Festival Plaza where customers could enjoy spicy curry made with rice from the "Grow Rice Project," which works to return fallow rice paddies in Shiga Prefecture to cultivation, and produce from Awaji Island that failed to meet standards for retail sale as part of a "Happy Fest!" program designed to make participants happy. We also held a workshop where participants could make masks out of used cardboard boxes from the store and wreathes from waste gauze.

Other floors in the store showcased other initiatives, including stylish bags made from discarded tire tubes and products made from organic rice on the 1st-floor Koto-koto Stage 11 and toys made with natural rubber that is not harmful if it is put in the mouth in the 11th-floor Babies' Collection.



Festival Plaza on the 9th floor of the Hankyu Umeda Main Store



## Supporting Children and Child-Rearing

We actively provide support both the children who will inherit the future but also for the families raising those children.

### ■ Hankyu Umeda Main Store “Child-Rearing Live School”

The Child-Rearing Live School in the Hankyu Umeda Main Store was established with the intention of “creating a place where moms and dads can experientially learn about child-rearing, life and what to expect in the future.”

Participants have personal consultations with Maternity Goods Advisors, attend weaning food classes taught by nutritionists, hear ideas and advice about baby-related goods and receive a variety of other prenatal and postnatal support in a friendly, relaxed environment.

### ■ Field Trips and Work Experience

Izumiya and Hankyu Oasis host field trips and shopping experiences for local elementary school students, as well as work experience opportunities for local junior high school students. These sorts of “backyard” field trips and actual in-store work experiences convey the joys and rigors of having a job to children en masse.

### ■ Joint Initiatives with Clients

We hold a variety of children's health promotion events in conjunction with clients.

Hankyu Oasis and S&B Foods jointly host the annual “Hankyu Oasis and S&B Cup - Young Children's Health Marathon,” in which more than 2,000 elementary school students participate each year.

Also, Hankyu Oasis, Izumiya and Nisshin OilliO run a “Junior Soccer School” together, which is attended by around 100 elementary school students.

This school is a terrific opportunity for the participants, as they receive direct coaching from former members of Japan's national soccer team who come for the day.



Junior Soccer School

## Philanthropic Activities by Employees

Through H<sub>2</sub>O Santa activities, we showcase volunteer activities for customers; however, we also actively encourage our group employees to take part in volunteer activities.

### ■ Promotion of Employee Volunteers

H<sub>2</sub>O Santa introduces our group employees and their families, as well as the staff of our clients, to various volunteer activities.

Information about different activities, such as helping with NPO office duties, caring for protected animals, assisting with event operation, etc., are disseminated via the in-house intranet and other means. Thus far, around 430 group employees, families and client staff have participated in volunteer activities.

Also, the staff of H<sub>2</sub>O Retailing Corporation and Hankyu and Hanshin Umeda Main Stores, its trade unions and other related organizations meet in the morning on the third Friday of each month to help clean up



Helping with novelty item preparation for an event to support children

outside the Hankyu and Hanshin Main Stores, the public thoroughfares and other nearby areas. Similar cleanup activities also take place for the public thoroughfares and environs around other departments stores, shopping centers, etc.



Helping with swimming lessons for disabled children

### ■ Establishment of the H<sub>2</sub>O Santa Employee Fund

An employee fund provided for via monthly salary contributions by employees on a voluntary basis (100-yen contributions, with a cap of three contributions) has been established for H<sub>2</sub>O Retailing Corporation and Hankyu Hanshin Department Stores employees in order to financially support employee volunteer activities, philanthropic groups, disaster relief efforts and the like.

## Preserving Traditions and Cultural Assets

Because of the distinctive characteristics of our business, we recognize the important role our group has in showcasing and preserving Japanese traditions, culture and technology for the general public.

### ■ Preserving Valuable Architecture for New Stores

The reconstructed Hankyu Umeda Main Store had its grand opening in September 2012; however, there were a number of beloved architectural elements, such as the mosaic mural and grand chandeliers designed by architect Mr. Chuta Ito, which have a long history stretching back roughly 80 years which were restored and preserved for the new store.

### ■ Hankyu Umeda Main Store: “A New Japanese Aesthetic”

During spring of 2019, the Hankyu Umeda Main Store held a store-wide campaign based on the theme of “A New Japanese Aesthetic.”

This campaign offers customers from Japan and overseas refined lifestyles rooted in the Japanese aesthetic and created by combining contemporary sensibilities with traditional Japanese culture and craftsmanship that have been passed down for generations.



Concourse prior to the reconstruction



Restoration of mosaic murals



Relocation of the chandelier and mosaic mural to the restaurant area of the new Hankyu Umeda Main Store 13th floor

# Promoting self-fulfillment and diverse workstyles

In addition to strengthening programs designed to foster the development of the human resources that are our greatest management resource, we're working to create an environment and mechanisms that make it possible for employees with diverse values to excel at their jobs and bring their full individual skills and abilities to bear.

## Personnel Development

We believe that personnel whose work contributes a sense of self-fulfillment will be able to perform at their best, and this fosters adaptiveness and the creation of new value which, in turn, elevates corporate value. Towards this end, we run personnel development programs and various support initiatives that help employees think about and achieve their own, individual career plans.

### ■ Establishment of Hankyu Hanshin College

In FY2019, with the aim of facilitating ongoing, autonomous career-minded training for personal development, the Hankyu and Hanshin Department Stores began the Hankyu Hanshin College, which features a diverse menu of skill development options. The many skills-development programs offered complement our conventional hierarchical and position-based training regimes with leadership, coaching and other business skills-development programs, life stage-tailored career support training and much more, all within an environment that encourages continuing education.

### ■ In-house Licensing System

The Hankyu Hanshin Department Stores have established an in-house licensing system geared towards the creation of advisors whom customers can reliably turn to as professional sales staff. With a total of 1,455 employees (as of March 31, 2019) holding licenses obtained via the in-house licensing system, the voluntarily accepted challenge that this system offers continues to contribute to improved technical skill and motivation among sales personnel.

#### Main in-house licensing

Coordination Advisor (men's and women's apparel)  
Footwear Advisor, Formal Event Advisors, etc.

### ■ Comprehensive Training Center

We maintain training facilities which are available to all of our group companies. These facilities are well-equipped with large classrooms that can be adapted for different training content and sleeping accommodations for longer training programs, and they are able to handle up to 130 people at a time. Many group companies use these facilities not only as a dedicated site useful for advanced, highly focused training, but also as a venue conducive to deeper communication with and between participants.



Training Center: Maishima School

Izumiya and Hankyu Oasis also have their own dedicated training centers which offer a comprehensive menu of programs spanning everything from vegetable, meat, seafood, delicatessen section, etc., processing techniques to practical skills, such as display techniques and register operations.



Processing techniques training at the Izumiya Training Center

## Improving Customer Service Skills

For department stores, GMS and supermarkets, in-store sales are the essential core of their business; thus, it is incredibly important that they provide high-quality customer engagement and service. We utilize a variety of systems and motivational approaches to ensure that everyone who works within our group, including the sales personnel of our business clients, is fully aware and capable of providing superior customer engagement and service.

### ■ Golden Name Badge System

In order to cultivate sales staff who go above and beyond to help customers, the Hankyu Hanshin Department Stores have introduced a Golden Name Badge System which utilizes mystery shopper feedback and other stringent criteria to identify Golden Name Badge Sales Personnel. As of March 31, 2019, there are a total of 1,603 Golden Name Badge Sales Personnel. They are recognized in a variety of ways, including receiving special name badges and business cards and being awarded a variety of perks, such as opportunities to participate in conferences and lectures. All of this contributes to even better customer service skills.



Golden Name Badge (sample)

### ■ Role-Playing Contests

Hankyu Hanshin Department Stores hold role-playing contests at each store as a way of enhancing the customer engagement skills, knowledge and mindset of sales personnel.

Participants talk with 'customers' for fifteen minutes about their lifestyle and needs and then offer product recommendations based on this. They receive a point evaluation of how well they do, and the contests are held repeatedly to foster higher levels of customer engagement.



Scenes from a role-playing contest

### ■ Incentive System

With the intent of improving sales and service, as well as achieving business improvement, we utilize an incentive system in Hankyu and Hanshin Department Stores which rewards good effort on the part of all staff and sales personnel. Based on the results of each quarter, those individuals and sales teams posting outstanding results are publicly recognized, and an Incentivization Committee chooses some to receive special recognition.

### ■ Izumiya Fountain Festival and Hankyu Oasis Festival

Every year, Izumiya holds the "Fountain Festival" as a way of expressing appreciation to its employees, while Hankyu Oasis holds the "Hankyu Oasis Festival" as a way of publicly recognizing its exemplary employees, such as those who met their sales targets or who provided outstanding quality control. These sorts of initiatives provide motivation for the various contract employees who work for these companies, thus contributing to better store operations and service.



Fountain Festival



Hankyu Oasis Festival

## Diversity Promotion

Retail is the core business of our group, and we believe that women, in particular, are a key part of this business who need to be actively promoted and supported. We, therefore, work to develop structures and foster attitudes which are supportive of the appointment of more women, as well as the provision of greater life stage support for such needs as childbirth and childcare.

### Promoting Female Participation

At present, there are a total of eleven female corporate executive officers within our group. Within Hankyu Hanshin Department Stores there are 52 female senior managers and 422 middle and junior level managers, and the percentage of female managers continues to climb each year.

	Female senior managers ( ) last year	Percentage of all managers ( ) last year
Hankyu Hanshin Department Stores	52 (53)	15% (14%)
Izumiya	24 (24)	9% (8%)
Hankyu Oasis	13 (13)	9% (9%)

(as of April 2019)

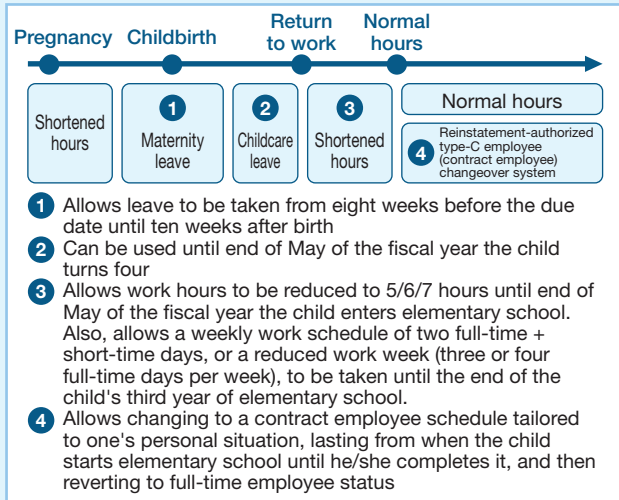
### Employee-friendly Workplaces

Retail business is primarily operated by shift work; however, various systems have been developed by the companies in our group to accommodate childbirth, childcare and the other, varied life stages of employees within a shift work structure to create work environments which are employee-friendly. Here we provide a sample of the systems used by Hankyu Hanshin Department Stores.

#### Major Systems Used by Hankyu Hanshin Department Stores

##### Promoting a balance between work and childcare

In order to enable employees to balance work and childcare as they pursue their careers, we have established various systems which go above and beyond what is legally required.



In addition, flexible work scheduling such as flex time and adjusted hours, which are designed to accommodate flexible workstyles, is available to not just female employees but to all employees, along with "Caregiver Leave" and "Caregiver Shortened Hour" scheduling for employees requiring non-standard schedules, and a rehiring system that allows employees to be rehired after leaving their positions because of marriage, childbirth, childcare, care-giving responsibilities, or other reasons.

### Personnel Data (as of March 31, 2019)

		Hankyu Hanshin Department Stores	Izumiya	Hankyu Oasis
No. of employees	Men	1,193	1,242	773
	Women	1,924	673	288
Avg. years of service	Men	22 years and 7 months	22 years and 6 months	17 years and 9 months
	Women	21 years and 11 months	18 years and 10 months	10 years
Childcare leave claimants*		98	29	11
Caregiver leave claimants*		8	1	1
Paid leave claim rate		46.7%	29.8%	33.0%

\* No. of claimants for FY2019

### Workplace Childcare Facilities: "H<sub>2</sub>O Nursery School"

After opening our first such facility at Daily Qanat Izumiya Abiko Store in January 2018, we launched two new H<sub>2</sub>O Nursery Schools at Qanat Mall Izumi-Fuchu in April 2019 and in Oasis Town Kisera Kawanishi in July. Flexible, on-site childcare that makes possible more diverse workstyles has proved popular with store employees.

Going forward, we plan to make an even more significant contribution to work-life balance by opening these childcare facilities to not only Group employees, but also employees of tenant companies and business partners as well as local residents.



H<sub>2</sub>O Nursery School

### Promoting Hiring of People with Disabilities

In 2016, H<sub>2</sub>O Smile was established as a special subsidiary to calculate our group's hiring rate of people with disabilities. At present, 24 people with disabilities are employed in our group companies to perform office work and light duties, making the hiring rate of people with disabilities 2.26% (as of June 2019) for the H<sub>2</sub>O Retailing Corporation and subsidiaries certified as a group to calculate the rate.

### Promoting Work-Life Balance

Hankyu Hanshin Department Stores encourage each employee to develop a career plan that looks beyond just their job to include life stages, hobbies, continuing education and other lifestyle elements. We utilize interview tools, such as fields on application forms which ask about personal health and lifestyle goals, to get all employees thinking about their work-life balance.

Additionally, we're working to plan time off in advance as a way to encourage employees to take annual leave time in accordance with the Act on the Arrangement of Related Acts to Promote Work Style Reform.

### Physical and Mental Wellbeing

In addition to an annual health check, we go a step further by providing employees with mental health checks as well. We go beyond what is legally mandated by providing stress check surveys even to offices with less than 50 employees, and some group companies implement the H<sub>2</sub>O Retailing Group Benevolent Society's "Mental Health Survey" once every two years. All of this is carried out for the prevention and early detection of mental health issues. Additionally, we maintain a system of industrial counselors and individually contracted industrial physicians specializing in mental health who are readily available to any employee who is feeling physically or mentally unwell.

# Corporate Governance

In line with our business philosophy to “to remain indispensable to the local communities through our activities of providing a model of lifestyle to local residents,” we pursue a strategy of market share expansion via retail business diversification and realization of domination within the Kansai region, striving to achieve this through constant operational innovations which comply with social norms and laws while enabling rapid adaptation to a changing competitive landscape.

Based on this business philosophy and the vision we have for our business, we are working to enhance our corporate governance structure according to the following.

- 1 Respect the rights of shareholders and ensure equality
- 2 Consider the best interests of stakeholders, including shareholders, and take action to incorporate them accordingly
- 3 Ensure proper disclosure and transparency of corporate information
- 4 Take steps, such as ensuring appropriate involvement by independent outside directors, to strengthen the executive oversight functions of the Board of Directors
- 5 Engage in constructive dialog with shareholders whose investment policies contribute to improved medium-to-long-term corporate value

Basic principles of corporate governance ➔ <http://www.h2o-retailing.co.jp/governance/>

## Corporate Governance Structure

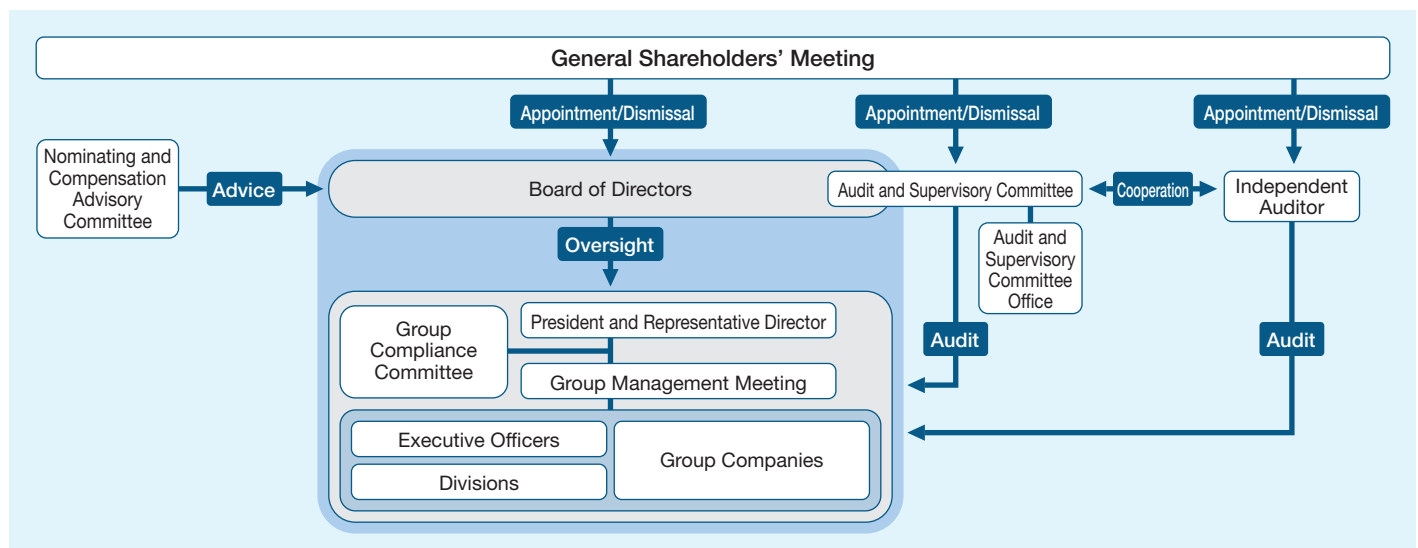
As the holding company for the H<sub>2</sub>O Retailing Group, we are responsible for overall group business planning, management and oversight, pursuing a governance structure that facilitates lawful and reasonable business operations conducted quickly and efficiently by each group company to improve the group's corporate value. In June 2016, we further enhanced our capacity to perform business oversight by switching from using a board of corporate auditors to using an audit and supervisory committee.

### Board of Directors

Our Board of Directors is comprised of ten Directors (four of whom serve on the Audit and Supervisory Committee), and of these, four are Outside Directors (three of whom serve on the Audit and Supervisor Committee). Thus, one-third of the Board of Directors are Outside Directors. The switch to an audit and supervisory committee was used as an opportunity to undertake significant operational revisions, including expanding the scope of reporting items, increasing the frequency and duration of meetings and providing explanations to Outside Directors prior to board meetings. Additionally, we're working to increase the effectiveness of the Board of Directors, for example by revising discussion standards to better address risk and by enhancing discussion materials provided to Board members. Further, we have established a Group Management Meeting involving Representative Directors, Executive Directors and other top executives from our group which meets in advance of the Board of Directors to collectively deliberate and confirm each company's business plans, marketing policies, investments and other important matters. In addition, the H<sub>2</sub>O Retailing Corporation and other group companies have introduced an Executive Officer System whereby executive administrative responsibilities are clarified and the execution of these responsibilities is monitored and reviewed by each company's Directors and Board of Directors.

### Audit and Supervisory Committee

Our Audit and Supervisory Committee is comprised of four Directors. In addition to attending Board of Director meetings, these Audit and Supervisory Committee members review the content of Group Management Meetings and other executive decisions as part of their supremely important oversight task of determining whether these decisions satisfy the business judgment rule. Also, together with reviewing important matter-related written approvals and important meeting minutes, as well as conducting regular hearings about executive performance from internal control divisions (Financial Affairs Office, General Affairs and Human Resources Office, System Planning Office, etc.), as a rule, the Standing Audit and Supervisory Committee members meet once a month with the Independent Auditor (chosen by KPMG AZSA LLC.), and the Audit and Supervisory Committee meets four times a year. All of this foster close collaboration which, in turn, improves the effectiveness of auditing.



## Director Diversity

We believe ensuring a diverse composition of executives is an important part of remaining competitive and breaking free of convention in a rapidly changing business environment, as it continually exposes us to insights gleaned from new and varied perspectives.

We select Director candidates according to whether or not they have the expertise and skill set needed for important decision-making within a holding company such as our own, regardless of factors such as gender, national origin, and age.

Candidates chosen from within the H<sub>2</sub>O Retailing Group are selected from among those employees who demonstrate the appropriate skills, experience and expertise to create and push forward group business strategies and proposals related to finance, accounting, and compliance in a way that increases corporate value in a sustained manner, as well as from among representative members of key subsidiaries.

From outside the H<sub>2</sub>O Retailing Group, we invite multiple distinguished professionals, including experienced executives capable of operating in any business sector, lawyers, and those with specialized expertise benefiting our corporate group. We choose a balanced and diverse range of such professionals, while also keeping the number limited to a size which still allows for quick decision-making.

When choosing Directors to serve as Audit and Supervisory Committee members, we ensure that at least one possesses ample financial and accounting expertise and experience.

## Analysis and Evaluation of the Board of Directors' Effectiveness

In order to analyze and evaluate the effectiveness of the Board of Directors, we administer a survey of all Directors to solicit their views on subjects such as the composition and operation of the Board of Directors and host regular meetings to allow Directors to exchange views with Representative Directors and Outside Directors.

We've made improvements in various areas based on the results of analyzing these efforts, and in FY2019 we determined that the Board of Directors was operating in an effective manner. That said, we also affirmed the need to continue to make improvements, for example by offering information about upcoming proposals available to Directors sooner and by revising the format and content of such materials.

## Executive Compensation

We took advantage of the formulation of the new medium-term business plan that begins in FY2020 to introduce a new stock compensation plan in the form of stock option grants based on continuous service ("continuous service-based stock options") and stock option grants based on performance ("performance-based stock options") as outlined by the policies listed below. We also reviewed eligibility requirements.

### Policies

The new stock compensation plan is designed to:

- contribute to the sustained growth of the Group and to its medium- and long-term corporate value;
- motivate Directors and executives responsible for the company's operations to achieve the goals set forth in the medium-term business plan;
- facilitate the recruitment and retention of human resources who are suited to achieving the Group's mission and realizing its sustained growth; and
- enhance recipients' awareness of shareholders' perspectives and of the Group's focus on its shareholders.

### Overview of compensation

Stock	Performance-based stock options	Directors, Auditors, Executive Officers, and other officers of the company and its subsidiaries are granted stock options according to their position that can be exercised once they leave that position. The number of options that may be exercised (in the range of 0% to 100%) is determined based on the extent to which guidelines determined in advance by the Board of Directors have been achieved in the final fiscal year of the medium-term business plan.
	Stock	Continuous service-based stock options
Cash	Annual bonus	A bonus is paid based on consolidated financial performance over one business year. (The bonus is based primarily on consolidated operating income, but net income for the fiscal year is also taken into account.)
	Basic salary	Basic salaries are reviewed every April based on responsibility and position.

## Eligibility

		Executive Directors and Executive Officers	Non-executive Directors
Stock	Performance-based stock options	○	—
	Continuous service-based stock options	○	○
Cash	Annual bonus	○	—
	Basic salary	○	○

Compensation for Executive Directors is structured so that about 50% consists of the monthly basic salary and about 50% consists of the annual bonus and stock compensation.

Compensation for individual Directors is determined based on a proposal submitted to the General Shareholders' Meeting by the Board of Directors following discussion by the Nominating and Compensation Advisory Committee. Compensation for individual Directors who are members of the Audit and Supervisory Committee is determined in consultation with Directors who are members of the Audit and Supervisory Committee.

## Nominating and Compensation Advisory Committee

(as of October 1, 2019)

In order to ensure fairness and transparency when deciding on Director nominating and compensation, we have established an Nominating and Compensation Advisory Committee which serves a voluntary advisory committee comprised of the multiple independent Outside Directors (includes Audit and Supervisory Committee) and the President.

The committee discusses topics such as the election, removal, and dismissal of Directors and nomination of candidates for Director positions as well as policies related to Director compensation and specific amounts and then reports to the Board of Directors. Additionally, oversight of successor training plans is conducted based on the opinions and recommendations of this committee to ensure objectivity.

Committee Members	Chairperson	Makoto Yagi (Director: Outside)
	Member	Naoshi Ban (Director and Audit and Supervisory Committee: Outside)
		Atsushi Suzuki (President and Representative Director)

## Dialog with Shareholders

With the aim of fostering constructive dialog with our shareholders, we take various steps to actively solicit feedback from institutional investors in Japan and overseas, including establishing an IR Division that serves as a point of contact, hosting a twice annual financial results briefing which is attended by the President of H<sub>2</sub>O Retailing Corporation and the presidents of our primary businesses, undertaking overseas 'roadshows,' and attending conferences and conducting individual interviews.

Further, for individual shareholders, we conduct an annual shareholder survey, as well as solicit inquiries and feedback via our website.

## Policy on Shareholder Return

Our basic policy is to perform stable redistribution of profits based on performance for the business year and in consideration of ensuring the necessary cash flow for appropriate medium-to-long-term financial structure development and growth investment.

Specifically, we look at consolidated net income, consolidated net assets and consolidated cash flow medium-to-long-term planning and make a comprehensive decision on optimal profit distribution.

## Policy on Cross-Holdings and Exercise of Voting Rights

Our policy is to cross-hold shares of a given company if doing so will foster a good relationship with a party connected with a client, business partner, etc., and thereby help facilitate group business and improve the group's medium-to-long-term value.

However, we verify transaction terms, dividend yields, risks, and other factors to determine whether these shares are actually contributing towards the purpose for which they are being held; if the shares are deemed to be of little significance, we will look at market trends and other factors to investigate when and how to sell them.

We determine whether to exercise voting rights on a case-by-case basis after considering the purpose for which the shares in question are held and whether they are contributing to the medium-to-long-term growth in value of the group.

## Selection of Outside Directors

We select personnel who possess a wealth of experience, broad insights and advanced expertise, as well as character, outlook and skills appropriate to supervising company operations.

Further, we assess each person's independence on the "Criteria for Independence of Outside Directors" which our company has established.

### Reasons for Selection and Attendance (as of October 1, 2019)

Position	Name	Reasons for Selection	Attendance in FY2019 Top line: Board of Directors Bottom line: Audit and Supervisory Committee
Director	Makoto Yagi	As Chairman of The Kansai Electric Power Co., Inc., Mr. Yagi provides a wealth of business administration experience and broad insight which he draws upon as Outside Director to actively provide opinions, recommendations, etc., to the Board of Directors and others. He has been selected based upon the assessment that the application of his experience and other qualities to the supervision of H <sub>2</sub> O Retailing Group operations contributes to an increase in the group's corporate value.	10 of 11 meetings —
Director, Audit and Supervisory Committee Member	Naoshi Ban	Having served as President and Chairman of Mitsubishi Logistics Corporation, Mr. Ban provides a wealth of business administration experience and broad insight which he draws upon as an Audit and Supervisory Committee Member Director (Outside Director) to actively provide opinions, recommendations, etc., to the Board of Directors and others. He has been selected based upon the assessment that the application of his experience and other qualities to the supervision and auditing of H <sub>2</sub> O Retailing Group operations contributes to an increase in the group's corporate value.	11 of 11 meetings 12 of 12 meetings
Director, Audit and Supervisory Committee Member	Kenjiro Nakano	As a financial institution managing executive, Mr. Nakano provides a wealth of experience and broad insight which he draws upon as an Audit and Supervisory Committee Member Director (Outside Director) to actively provide opinions, recommendations, etc., to the Board of Directors and others. He has been selected based upon the assessment that the application of his experience and other qualities to the supervision and auditing of H <sub>2</sub> O Retailing Group operations contributes to an increase in the group's corporate value.	10 of 11 meetings 11 of 12 meetings
Director, Audit and Supervisory Committee Member	Mayumi Ishihara	Although Ms. Ishihara does not have experience with corporate management apart from her service as Outside Director, as a lawyer, she provides specialized expertise, experience and broad insight which she draws upon as an Audit and Supervisory Committee Member Director (Outside Director) to actively provide opinions, recommendations, etc., to the Board of Directors and others. She has been selected based upon the assessment that the application of her experience and other qualities to the supervision and auditing of H <sub>2</sub> O Retailing Group operations contributes to an increase in the group's corporate value.	10 of 11 meetings 12 of 12 meetings

The above four persons satisfy our "Criteria for Independence of Outside Directors" and have been assigned as independent directors.

### Criteria for Independence of Outside Directors

Anyone meeting one or more of the following criteria cannot be deemed independent as an Outside Director of H<sub>2</sub>O Retailing Corporation.

- 1 A party for whom H<sub>2</sub>O Retailing Corporation or its subsidiaries ("the Group") is a major client <sup>(note 1)</sup>, or someone who is an executive director, executive officer or equivalent, or any sort of manager or employee (collectively, "Executor") for such parties.
- 2 A party who is a major client <sup>(note 2)</sup> of the Group, or who is an Executor of said client.
- 3 A lawyer, certified public accountant, tax accountant, consultant or other specialist who receives from the Group payment or other financial benefit which is not part of his or her compensation as a Director and which is above a set amount <sup>(note 3)</sup>.
- 4 A party working for an auditing firm which serves as an auditor for the Group and who actually oversees auditing duties.
- 5 A party who is a major shareholder of H<sub>2</sub>O Retailing Corporation (defined as anyone with at least a 10% share of voting rights, whether held directly or indirectly) or who is an Executor of such a shareholder.
- 6 An Executor of a company for which the Group is a major shareholder.
- 7 An Executor of a company for which an Executive Director, Standing Audit and Supervisory Committee Member Director or Standing Auditor of the Group serves as an Outside Director or Outside Auditor.
- 8 An Executor of the Hankyu Hanshin Toho Group (including the Group).
- 9 A recipient of contributions exceeding a set amount <sup>(note 4)</sup> provided by the Group or, in the event that the recipient is a company, association or other organization, the Executor of such a recipient.
- 10 A party for whom any of criteria 1 through 9 above has applied in the past five years (past ten years in the case of an Executor for the Group, as per 8).
- 11 The spouse of, or a family member separated by two degrees of kinship or less from, someone to whom any of criteria 1 through 10 above apply (except 3 and 4; limited to major personnel <sup>(note 5)</sup>).
- 12 A party not meeting any of the above criteria but for whom special circumstances exist which could create a conflict of interest with H<sub>2</sub>O Retailing Corporation.

Note 1: "A party for whom the Group is a major client" is defined as a party who provides the Group with products or services and for whom transactions with the Group in the most recent business year exceeded 100 million yen or 2% of said client's annual consolidated sales, whichever is larger.

Note 2: "A party who is a major client of the Group" is defined as (1) a client to whom the Group provides products or services, with the amount of said transactions in the most recent business year exceeding 2% of H<sub>2</sub>O Retailing Corporation's annual consolidated sales, and (2) a client to which the Group is indebted, with the amount of outstanding loan financing to the Group at the end of the most recent business year equaling or exceeding 2% of H<sub>2</sub>O Retailing Corporation's consolidated total assets.

Note 3: A "set amount" is defined as (1) 10 million yen in compensation value (excluding Director compensation) received by the specialist in question from the Group in the most recent business year for services which he or she, as an individual, rendered to the Group, or (2) in the case of a company, association or other organization to which the specialist in question belongs and which provides services to the Group, 2% of said organization's annual total revenue for the most recent business year coming from the Group.

Note 4: A "set amount" is defined as 10 million yen for the most recent business year.

Note 5: "Major personnel" is defined as any Executor who is a Director, Executive Officer, Operating Officer, General Manager or higher, or any Executor with equivalent authority to these positions.

## Compliance and Risk Management

Within the H<sub>2</sub>O Retailing Group we believe that corporate growth depends on business expansion and the development and proper operation of corresponding internal control mechanisms; thus, we are simultaneously focused on the realization of our growth strategies and the strengthening of our underlying internal control systems.

We review these internal control systems as appropriate, as well as draw up and vote on basic internal control policies and maintain frameworks for risk prevention and reduction, for all Group companies, including those for which corporate law does not require the Board of Directors to issue resolutions.

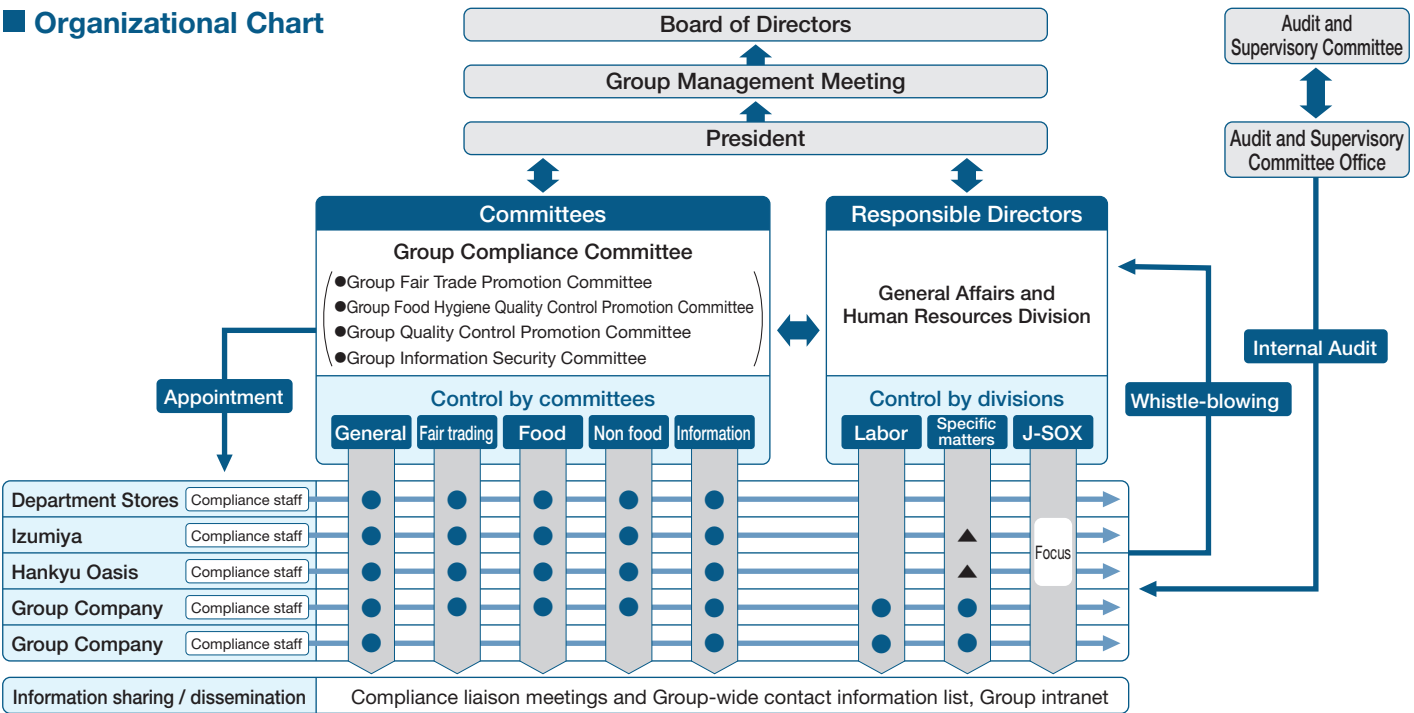
## Management System

### Risk Management and Compliance Promotion

We have created a Risk Management Manual to provide guidance regarding risk prevention measures, risk reporting, risk response principles, risk response implementation and other essential matters. Additionally, as part of our efforts to promote compliance, we have established the H<sub>2</sub>O Retailing Group Code of Conduct to clarify the basic policies, ethics, laws, rules, etc., which apply to corporate officers and employees in the H<sub>2</sub>O Retailing Group and how they should comply with them, as well as the Group Compliance Regulation to stipulate the basic policies and rules relating to compliance promotion within the H<sub>2</sub>O Retailing Group. Also, we have established the Group Compliance Committee to

facilitate concrete action on risk prevention, damage minimization and compliance system development and maintenance. The Presidents of the companies within the H<sub>2</sub>O Retailing Group (in the case of H<sub>2</sub>O Retailing Corporation, Hankyu Hanshin Department Stores, Izumiya and Hankyu Oasis, it is the General Affairs Director) have been appointed as the compliance supervisors responsible for compliance promotion within their respective companies, and they facilitate the promotion of compliance-related measures and the sharing of compliance-related information. Furthermore, we have gone a step further by establishing the Fair Trade Promotion Committee and other specialized committees.

### Organizational Chart



### Group Compliance Committee and Specialized Committee Initiatives

Committees	Major Initiatives of FY2019
Group Compliance Committee	<ul style="list-style-type: none"> <li>●The Group Compliance Committee reviews Board of Directors discussion standards and rules on loans to Group companies, and it publicizes changes in rules about subjects such as use of social media at compliance liaison meetings to ensure they are enforced.</li> <li>●The General Affairs and Human Resources Office and Audit and Supervisory Committee Office work together to verify risks at Group companies and interview associated personnel.</li> <li>●The committee also conducts investigations to assess conditions and identify issues with human resources at Group companies and offers guidance to help them develop and improve associated rules.</li> </ul>
Group Fair Trade Promotion Committee	<ul style="list-style-type: none"> <li>●The Group Fair Trade Promotion Committee disseminates information about the cease and desist order and surcharge payment order issued to Hankyu Hanshin Department Stores by the Fair Trade Commission to compliance personnel at Group companies.</li> <li>●The committee also formulates Guidelines on Preventing Cartels and offers guidance on how to avoid participating in meetings that could lead to the formation of a cartel.</li> </ul>
Group Food Hygiene Quality Control Promotion Committee	<ul style="list-style-type: none"> <li>●The Group Food Hygiene Quality Control Promotion Committee investigates whether product labeling complies with the Food Labeling Act and offers guidance on correcting non-compliance.</li> <li>●The committee also undertakes initiatives related to introducing HACCP in response to the promulgation of revisions to the Food Sanitation Act.</li> </ul>
Group Quality Control Promotion Committee	<ul style="list-style-type: none"> <li>●The Group Quality Control Promotion Committee orchestrates research and training for group companies and identifies non-compliant products, particularly cosmetics, in order to optimize advertisement content and language.</li> <li>●The committee also compiles inspection manuals (for clothing, accessories, and household items) and clarifies the processes followed when defective products are discovered.</li> </ul>
Group Information Security Committee	<ul style="list-style-type: none"> <li>●The Group Information Security Committee develops the H<sub>2</sub>O Retailing Group's social media policy in order to promote appropriate use of social media.</li> <li>●The committee also works to formulate rules used by group companies to utilize and manage social media.</li> </ul>

## Disaster Response

Given that our group operates department stores, GMS, supermarkets and a number of other commercial facilities visited by an unspecified but large number of customers, we put great emphasis on being able to respond to situations arising from natural disasters such as earthquakes. In particular, we undertake a variety of efforts aimed at ensuring each and every employee will be able to move independently in the event of a disaster.

Further, our group companies (with the exception of some subsidiaries) have installed safety confirmation systems, IP wireless telephones, and a system known as LINE WORKS to enable communication with the Head Office and confirmation of employee safety status to be performed quickly following a disaster.

Based on reflections on our response to the 2018 northern Osaka earthquake and the many other natural disasters that have struck in recent years, we've begun to revise our first-response manual for disasters and to develop systems to ensure business continuity and timely recovery.

### Hankyu Hanshin Department Stores

#### Disaster Safety Drills

The Hankyu and Hanshin Main Stores have established safety drills (earthquake early warning drills, fire evacuation guidance drills, etc.) focused on enabling anyone to serve as a leader or to take on the role of someone else. They practice these drills weekly.

Since FY2017, tsunami evacuation drills developed in anticipation of a Nankai megathrust earthquake have been incorporated, and in the case of the Hankyu and Hanshin Main Stores, which receive a particularly large number of customers, a "Nankai Megathrust Earthquake Response Manual" has been created and safeguards have been put in place. Additionally, all employees have been provided with a portable copy of the "Disaster Response Pocket Manual" which is used as part of our efforts to raise disaster safety awareness.

Furthermore, we hold basic life-saving education courses, first-aid training classes and other instructional events which have been taken by more than 1,300 people.

#### Accommodating a Diversity of Customers and Employees

Our stores in urban areas where there are large numbers of overseas tourists are able to provide earthquake early warning information and perform evacuation guidance in a variety of languages. Additionally, all of our stores maintain a stockpile of essential disaster supplies in order to accommodate people unable to return to their homes.

### Izumiya and Hankyu Oasis

In addition to creating an earthquake response manual for employees, every store performs regular fire and earthquake safety drills.

In addition, we conclude disaster support agreements with the local governments about providing good and supplies, refuge shelters, etc., in the event of disasters.

- Izumiya: 9 local governments (Osaka Prefecture, Kyoto Prefecture, Nara Prefecture, Kobe City, etc.)
- Hankyu Oasis: 7 local governments (Osaka Prefecture, Toyonaka City, Minoh City, Nishinomiya City, etc.)

## Initiatives to Ensure Fair Trade Practices

We have established a Group Fair Trade Promotion Committee whose objective is to prevent violations of antitrust laws or other related laws, and towards this end the committee carries out information sharing and provides corrective guidance to companies within the group.

In October 2018, in response to subsidiary company Hankyu Hanshin Department Stores raising the shipping fee obtained from customers to delivery mid-year and year-end gifts, which was in violation of antitrust laws, the Japan Fair Trade Commission issued a cease and desist order to the company and ordered them to pay a surcharge penalty.

In recognition of the gravity of this matter, Hankyu Hanshin Department Stores instituted new rules aimed at preventing cartel formation, implemented training for executives and employees, and strengthened auditing structures, among other measures so as to prevent recurrence of this sort of situation. We've also redoubled efforts to ensure fair business practices at Group companies, including by holding compliance liaison meetings and by making revisions to the H<sub>2</sub>O Retailing Group Code of Conduct.

## Internal Reporting System

In order to facilitate internal reporting from group employees (including client company staff), we have established an H<sub>2</sub>O Retailing Group Compliance Hotline which connects with consultation staff in the H<sub>2</sub>O Retailing Corporation and an outside law firm; these hotlines are also available in the group's core companies of Hankyu Hanshin Department Stores, Izumiya and Hankyu Oasis.

In addition to protecting the privacy of the person submitting the report, the President and Standing Audit and Supervisory Committee members are regularly briefed about hotline reports to facilitate early identification and escalation prevention of any illegal or unethical behavior taking place within the group.

## Initiatives to Exclude Antisocial Forces

The H<sub>2</sub>O Retailing Group Code of Conduct stipulates that we will not in any way accommodate the unreasonable demands of antisocial groups or individuals.

Clauses which exclude involvement or association with antisocial forces are a mandatory part of all agreements concluded by group companies; also, at Hankyu Hanshin Department Stores steps such as creating and checking lists of all mid-year and year-end gift giving to ensure nothing is given to or received from antisocial forces are taken to ensure the exclusion of antisocial forces.

## Management of Personal Information

In addition to instituting a privacy policy, a Group Information Security Committee has been established for the purpose of improving the appropriate management and security of corporate information, particularly personal information, within the group.

Additionally, within each group company personal information management rules and personal information management supervisors are established to help ensure the appropriate handling, protection, etc., of personal information, and employee training and other measures are also instituted to ensure widespread and thorough awareness.

Furthermore, we take steps such as concluding memorandums with clients, subcontractors and others with whom we do business to ensure their cooperation in utilizing and managing personal information appropriately.



## **H<sub>2</sub>O Retailing Corporation**

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