



Integrated Report 2018

H₂O RETAILING CORPORATION

Basic 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.

H₂O 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 will not be a party to sexual harassment, power harassment or discriminatory behavior, either directly or indirectly.

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.
- 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 upon other parties' copyrights, trademarks or other intellectual property rights and do not engage in collusion or other inappropriate dealings.

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 are proactive about protecting the environment.
- 3) Under no circumstances do we accommodate the unreasonable demands of antisocial groups or individuals.

Origin of Our Company Name

We adopted the name "H₂O Retailing" to express how our basic philosophy is to be as essential as water (H₂O) 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 H₂O 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.

H₂O Retailing Corporation

Corporate Planning, Administration and Supervision for the Overall Group

Department Store Business

We currently operate a total of 16 department stores, with this business divided primarily between Hankyu and Hanshin department stores. For Hankyu we have six department stores in the Kansai region, three in the Kanto region and one in the Kyushu region, and for Hanshin we have four stores in the Kansai region. We have also added a Sogo Kobe and Seibu Takatsuki. 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 H₂O 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** **10**
stores

**Hanshin
Department
Store** **4**
stores

**Sogo Kobe
Seibu Takatsuki** **2**
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 107 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 77 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 **107**
stores

Hankyu Oasis **77**
stores

**Food
manufacturer** **4**
companies



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, H₂O Asset Management Co., Ltd. promotes the effective utilization of H₂O 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 H₂O Retailing Group.



Store numbers :as of September 30, 2018

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.

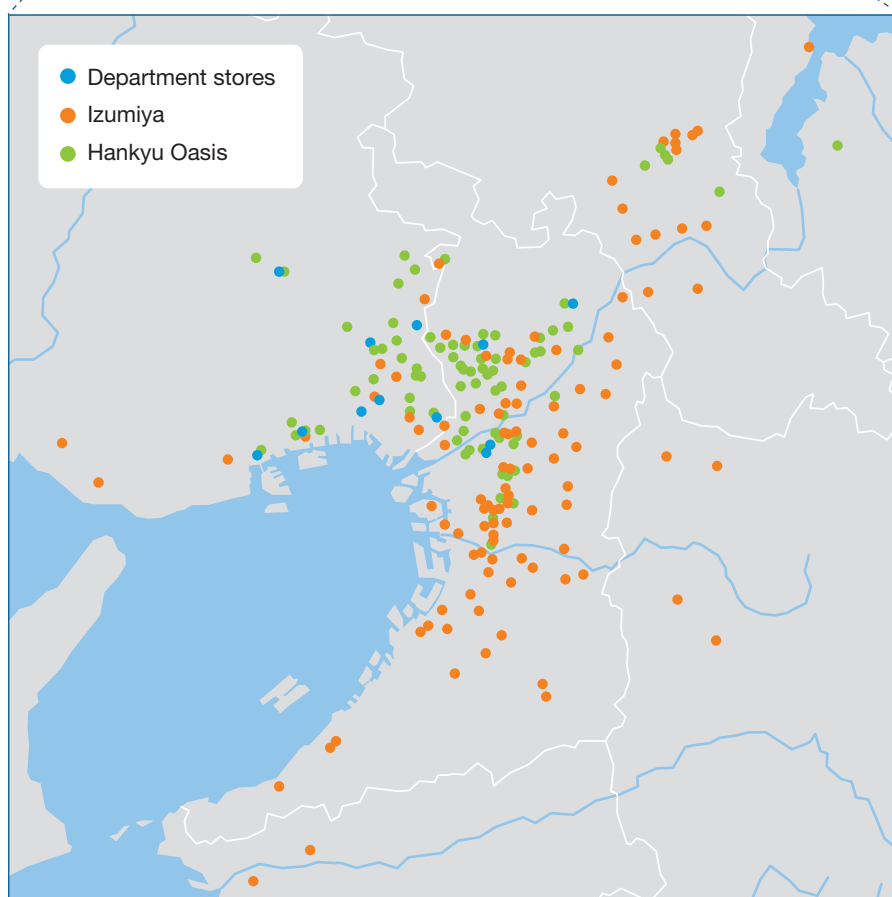


■ Number of stores in the Kansai region where H₂O Retailing has a dominant market share

Department stores **12** stores

GMS and supermarkets **183** stores

Store numbers : as of September 30, 2018



The H₂O Retailing Group is adding culture to lifestyle as a member of the “Hankyu Hanshin Toho Group.”

Group
Composition**200**
companies**5**
organizations

Sales

approx. **1.92**
trillion JPY

Employees

approx. **34,000**

(as of the end of FY2017)

The Hankyu Hanshin Toho Group is a corporate group centered on Hankyu Hanshin Holdings, H₂O 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

“H₂O Retailing” is at the center of the group's retail business. This business is carried out by a retail group comprised of 16 department stores, centering on the “Hankyu Department Stores” and “Hanshin Department Stores,” and around 200 supermarkets such as “Izumiya” and “Hankyu Oasis.”



Real Estate Business

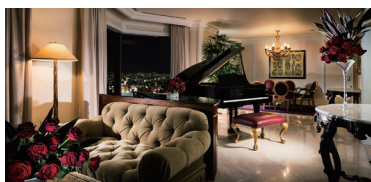
The focus of this business is twofold: providing excellent housing built along the group's expanding rail network, and actively managing highly profitable rental buildings. The group owns roughly 800,000 m² of rental space within Umeda district in Osaka.

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-Daichi Hotel Group” is one of Japan's largest hotel operators, with around 10,000 rooms in 48 hotels nationwide.



Hankyu Hanshin Toho Group

International Freight

With more than 100 hubs in 28 countries and territories worldwide, the group and its agents are able to provide rapid and reliable international freight service worldwide.



Entertainment Business

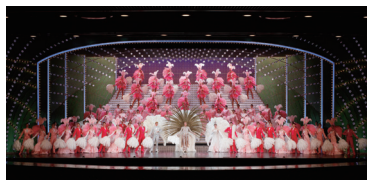
Film

“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.



Takarazuka Revue

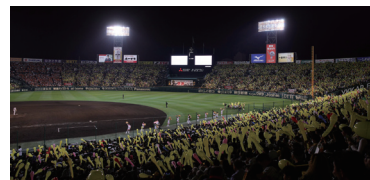
As one of the few all-female theater companies in the world, the “Takarazuka Revue” brings dreams and excitement to the stage for audiences far and wide. The troupe has held 26 performances in 18 different countries and regions, garnering high praise from around the world.



© 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

President and Representative Director
Atsushi Suzuki



“To remain indispensable to the local communities through our activities of providing a model of lifestyle to local residents.” This is the basic philosophy by which we have built an operational foundation focused mainly on the Kansai market and revolving around department stores, GMS, supermarkets and other such retail business.

In 1929, Hankyu Department Stores, Inc., the forerunner of the current H2O Retailing Corporation, chose the Umeda district in Osaka to be the site of the world's first train terminal department store, and ever since we have continued to provide customers with new and abundant lifestyle options. The customer connections and brand strength which we have built over the years within the Kansai market are an invaluable asset for our group.

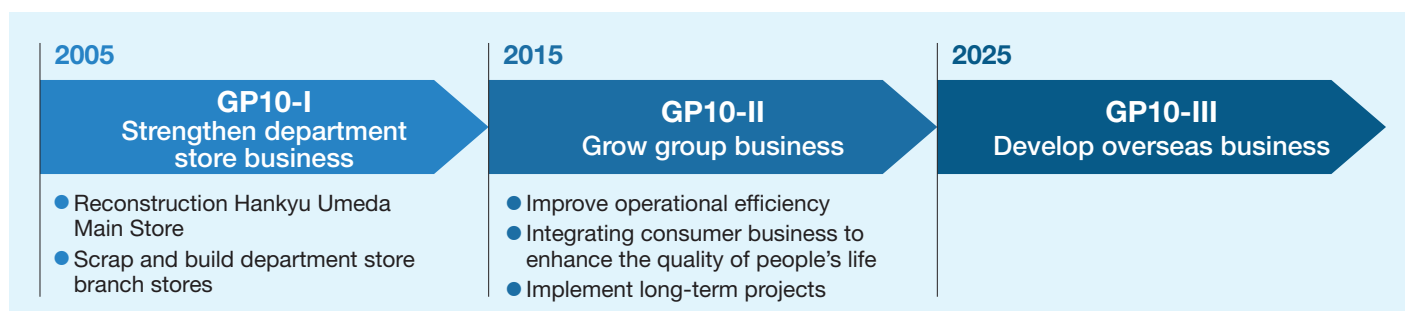
And through our merger with Hanshin Department Store, Ltd., in 2007 and Izumiya Co., Ltd., in 2014, we have continued to expand our business and customer base as we steadily secure our dominance within the Kansai market.

Nevertheless, as a result of such factors as market maturation, lifestyle diversification, intensifying competition across business sectors, population aging, lower birthrates and population decline, the retail business environment continues to change at a dizzying speed.

In order to enable ourselves to rapidly adapt to these changes as well as maintain a fixed focus on long-term business growth, we make use of ten-year plans focused on sustained growth and profit. We call these long-term plans GP (Grand Prix) 10 Plans, and we created the first such plan in FY2005.

I hope that by reflecting on the initiatives which we have undertaken as part of the GP10-I Plan (2005-2014), you can gain a better understanding of our business foundations and strengths as well as hear the story of how and where the H2O Retailing Group will grow for the future.

■ GP10 Long-term Business Plan



GP10-I (2005-2014): Strengthen Department Store Business

First, a core strategy of market share expansion via focused retail business investment in the Kansai market was undertaken for the GP10-I Plan, which concluded in FY2014. The primary vehicle for this expansion has been stronger department store business. In 2005, reconstruction of the Hankyu Umeda Main Store began, and it culminated in 2012 with a grand opening of the completed store. The store was designed as an experiential “theater-like department store,” complete with a four-story, indoor “festival plaza,” offering customers not just goods and services but also the cultural value underlying those goods and services. It is extremely popular among customers from all parts of Japan as well as overseas and boasts the largest sales volume of any store in western Japan. And every day this sales volume grows further.



Hankyu Umeda Main Store

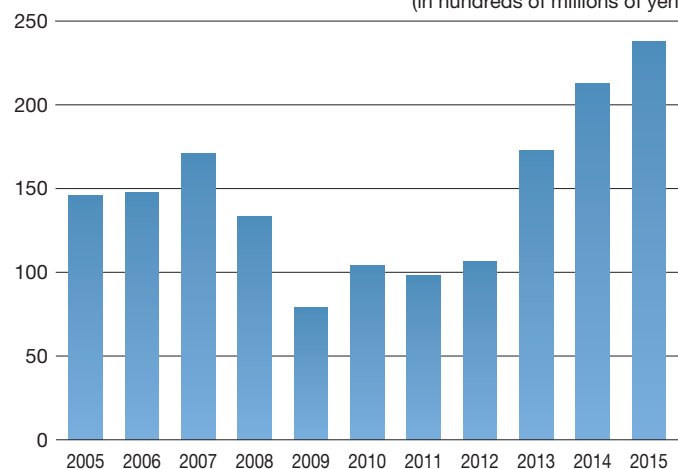


Festival Plaza

The Hankyu Umeda Main Store is the flagship store of the H₂O Retailing Group and is widely seen as the face of our brand image; thus, it is felt that the success of the store's reconstruction has helped cement our group's business and customer base within the Kansai market. Additionally, amidst the industry-wide sluggishness in new store openings, our group actively set about “scrapping and building” departments stores. We closed three stores while opening Hankyu Men's Osaka, Hakata Hankyu, Nishinomiya Hankyu and others which, together with the Hankyu Umeda Main Store, are driving profit growth in our department store business. Opening up these large department stores not only contributed to the stability of the group's business foundation, it was a major learning experience for the employees involved in their establishment, and they are now putting this experience to good use for department store management.

Change in Consolidated Operating Income

(in hundreds of millions of yen)



GP10-II (2015-2024): Grow Group Business

Under the GP10-I plan, we have been able to strengthen our department store business; however, under the new, long-term GP10-II business plan begun in 2015, we are focusing on optimizing our business portfolio for growth in our non-department store business. Phase 1 of this plan is from FY2015 to FY2018 and involves the following three policy priorities aimed to develop consumer businesses to enhance the quality of Kansai people's life.

Policy Priorities

- 1 **Improve Business Efficiency to Improve Profits**
—Cultivate Supermarket Business—
- 2 **Integrating Consumer Businesses to Enhance the Quality of Kansai People's Life**
—Broaden Umeda Area Business and Improve Business Infrastructure—
- 3 **Promote Long-term, Large-scale Projects**

1 Improve Business Efficiency to Improve Profits —Cultivate Supermarket Business—

Following our merger with Izumiya, in 2014, H₂O Retailing Group's network of stores extends out from the Kyoto-Osaka-Kobe area to cover all of the Kansai region; however, the next challenge for us has been to find ways of efficiently maximizing profits from all of these existing assets. In particular, we are focused on supermarket business, which is the second largest source of sales volume for our group. We are implementing a variety of initiatives for the business as a whole, including intra-group restructuring and effective asset utilization, system integration, store development and sharing of purchasing data.

2 Integrating Consumer Businesses to Enhance the Quality of Kansai People's Life —Broaden Umeda Area Business and Improve Business Infrastructure—

Our group seeks to impact every part of daily life for each of the roughly 20 million people living the Kansai region, and we are working towards this through the development of an integrating consumer businesses to enhance the quality of people's life. Creating such an industry involves more than just opening new stores, it also creating connections between department stores and supermarkets, between urban and suburban stores and between each of these stores and their customers; therefore, we are actively developing payment and reward points infrastructure. In 2016, we launched the “S-Point” shared reward point program, and in 2017, we introduced our own prepaid electronic currency: “litta.” We are also actively cultivating alliances with other companies that help us to expand our customer base in the Kansai market.

3 Promote Long-term, Large-scale Projects

We are also working on long-term projects that will enable us to grow our profits during GP10-II Phase 3 (2022-2024).

Hanshin Umeda Main Store Reconstruction Project

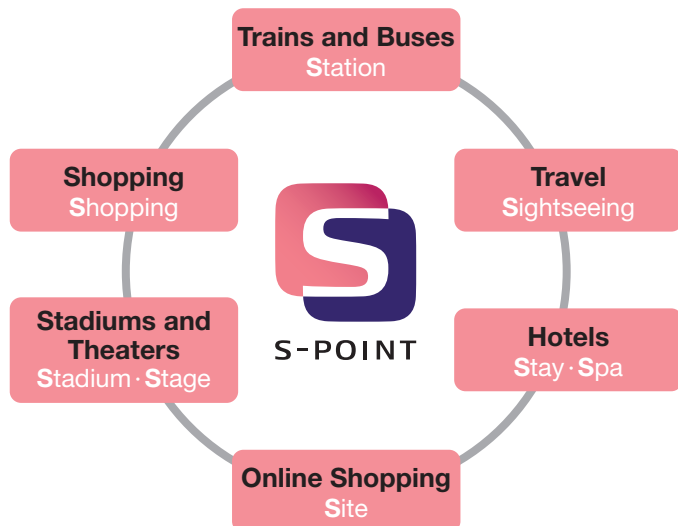
- June 2018: Phase 1 Limited Opening
- Fall 2021: Grand Opening (scheduled)

Ningbo, China Hankyu Department Store-Opening Project

- Fall 2019: Grand Opening (scheduled)

Expand Customer Base via S-Point Service

In April 2016, our group and the Hankyu Hanshin Holdings Group launched the “S-Point” point-sharing service in the Kansai region. Altogether the service has around 7.5 million members, and they are able to collect points via any of the roughly 20 point card varieties issued by our two groups. Members who live within the Kansai market can accumulate points not only from shopping at department stores but also from use of trains and buses and other transportation, taking in a show, attending a baseball game, going on trips and doing all the other various activities of daily life, thereby making it that much easier to collect and use points.



Examples of S-Point-Eligible Cards



We are also working to further expand our network by actively cultivating member stores within business categories outside the scope of our group business.

Since May 2018, S-Point services are available at roughly 2,700 “7-Eleven” stores in six prefectures within the Kansai region, and we have plans to expand these services to “Kansai Supermarket” as well. We want to continue expanding our network to provide more robust S-Point services that make it easier to accumulate and use S-Points and, in turn, help solidify our customer base in the Kansai market.

Actively Pursue M&A and Alliances

We consider active pursuit of M&A and cultivation of business tie-ups to be important parts of our overall strategy to augment our store network within our dominant business domains, to venture into other business sectors that will help us in development of an integrating consumer businesses to enhance the quality of people's life, and to expand the scope of our S-Point service.

Moving forward, we will continue to actively investigate any and all ideas and proposals that are in line with our long-term business planning.

Major M&A Undertaken

- 2006: Nissho Corporation (supermarkets)
- 2007: Hanshin Department Store, Ltd. (department stores)
- 2011: Kazokutei Co., Ltd. (restaurants)
- 2014: Izumiya Co., Ltd. (GMS and supermarkets)
- 2017: Sogo Kobe and Seibu Takatsuki (department stores)

Towards the Next Stage: GP10-III

As the population of Japan continues to age and decline, it becomes inevitable that we consider ways of expanding our retail business in overseas markets.

The “Ningbo, China Hankyu Department Store-Opening Project” scheduled to complete in the fall of 2019 provides us with a key opportunity to move past our reliance on department store business overseas and begin planting seeds in overseas markets for our other existing businesses.

Within Japan, as well, we have a variety of large projects that we continue to pursue, including the “Hanshin Umeda Main Store Reconstruction Project” and the “Senri-Chuo District Redevelopment Project.”

These large-scale projects are a key part of a larger, long-term business plan that we are steadily implementing in order to enhance the corporate value of our group and ensure that we remain an essential part of the community.

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



Performance Highlights (consolidated basis)

(in millions of yen)

Fiscal Year		2013	2014	2015	2016	2017
Fiscal year ended		2014/03	2015/03	2016/03	2017/03	2018/03
Sales		576,852	844,819	915,690	901,221	921,871
Operating income		17,313	21,358	23,825	22,542	22,765
Ordinary income		18,160	21,219	23,060	21,725	24,272
Profit attributable to owners of parent		295	11,586	14,053	14,298	14,636
Net assets		182,277	251,659	252,587	264,323	280,807
Owner's equity		180,406	250,762	251,554	263,220	279,569
Total assets		377,716	631,877	597,041	640,543	661,873
Capital investment		13,532	38,914	20,110	28,060	26,443
Depreciation		13,598	15,149	16,230	15,857	16,223
Per-share data	Net assets per share (yen)	1,858.37	2,033.25	2,038.83	2,131.97	2,263.95
	Net income per share (yen)	3.05	98.06	113.93	115.84	118.54
	Diluted net income per share (yen)	3.03	97.64	113.39	115.28	117.90
	Dividends (yen)	12.50	25.00	35.00	40.00	40.00
Financial indicators	Ratio of operating income to net sales (%)	3.0	2.5	2.6	2.5	2.5
	Owner's equity ratio (%)	47.8	39.7	42.1	41.1	42.2
	Return on equity (%)	0.2	5.4	5.6	5.6	5.4
	Ratio of ordinary income to total assets (%)	4.9	4.2	3.8	3.5	3.7
	Consolidated dividend payout ratio (%)	821.0	25.5	30.7	34.5	33.7
No. of employees		5,416	8,590	8,456	8,528	8,868

Quality Improvement Initiatives of the H₂O 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.

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 H₂O 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^(*), 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 16,000 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 a magnitude 7 earthquake.

Personnel Development

We believe that personnel who are able to achieve a sense of self-fulfillment through their jobs will 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 FY2018, 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 go beyond the conventional hierarchical and position-based training programs to include 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 1,273 employees (as of March 31, 2018) 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.

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.



Training Center: Maishima School



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.

■ Gold 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 Gold Name Badge System which utilizes mystery shopper feedback and other stringent criteria to identify Gold Name Badge Sales Personnel. As of September 30, 2018, there are a total of 1,530 Gold 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.



Gold 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

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 CO₂ reductions via initiatives which utilize the distinctive characteristics of retail business to allow us to incorporate our customers.

H₂O 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.

- CO₂ 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 CO₂ 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

	FY2015	FY2016	FY2017
LED adoption	45%	46%	51%
Impact on reduction (year-on-year)	△415kW	△41kW	△360kW

■ 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, CO₂ 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 wastewater 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

■ CO₂ 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 CO₂.

In FY2017, 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 FY2017	1,190t (FY2016: 1,038t)
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Efforts to Reduce Container and Packaging Materials

In the H₂O 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 “Hokusei Region” 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 Hokusei region have stopped providing shopping bags free of charge.

*Hokusei 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 (FY2017)	No. of stores charging for bags (as of June 2018)
Izumiya	51.6%	22 stores
Hankyu Oasis	51.8%	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 38% 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 (FY2017)
Hankyu Hanshin Department Stores	69.2%
Izumiya	26.3%
Hankyu Oasis	42.3%

Recycling Business Aimed at “Adapting to a Circular Economy”

At Kanzo Co., Ltd., we are undertaking recycling business which is aimed at helping us “adapt to a circular economy.” At Kanzo's Tsumori Eco-Center, recycling of 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 PET bottles which are collected from store customers and pulverized. The Tsumori Eco-Center has also acquired 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

At the Eco Workshops held by Izumiya, local children are taught about the importance of caring for nature and the environment, and as part of this, they are introduced to actual environmental initiatives being undertaken by Izumiya.

FY2017	No. of events: 109	Participants: 5,651 (up 64% from previous year)
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In addition, at the Izumiya Nishi-Kobe Store, environmental awareness-raising events are held each year in conjunction with the Kobe City government. These events feature workshops on such subjects as how to create a 'green curtain' from bitter melon, or how to wrap items in cloth instead of paper or plastic. A total of 159 people have participated.

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 CO₂ 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 CO₂.

Participation in the “One Million Person Candle Night,” the Ministry of the Environment's CO₂ Reduction “Light Down Campaign”

At Hankyu Hanshin Department Stores, we participate in various nationwide CO₂ 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 CO₂ reductions.

Environmental Data (FY2017)

INPUT	Units	Hankyu Hanshin Department Stores	Izumiya	Hankyu Oasis
No. of target stores		15	84	79
Energy (total)	(kl)	42,487	52,393	23,336
Electricity	(thousand kWh)	143,612	181,657	85,939
Gas	(m ³)	2,885,113	4,880,000	1,060,135
Localized heating and cooling	(GJ)	98,844	—	—
Water (total)	(m ³)	929,588	1,059,000	358,291
Packaging materials (total)	(t)	1,437	1,708	1,550
Paper	(t)	780	73 *1	31
Wrapping paper	(t)	128	—	—
Shopping bags	(t)	130	683	365
Trays and wrapping	(t)	145	952	1,155
Other	(t)	254	—	—
Office paper (photocopying paper)	(t)	25	142	59



*1 includes paper containers

OUTPUT	Units	Hankyu Hanshin Department Stores	Izumiya	Hankyu Oasis
CO ₂ emissions volume	(t-CO ₂)	82,749	103,632	46,895
Waste (total)	(t)	12,671	22,904	11,440
Recycling (total)	(t)	8,270	15,482	8,008
Cardboard	(t)	4,243	13,646	6,536
Paper	(t)	1,073	— *2	219
Plastic	(t)	446	707	262
Food waste	(t)	2,196	3,672	992
Other	(t)	312	—	—

*2 included in cardboard

Recovered in-store	Units	Hankyu Hanshin Department Stores	Izumiya	Hankyu Oasis
Trays	(t)	1.3	102	256
Milk cartons	(t)	1.9	194	77
PET bottles	(t)	5.5	429	370

Key Environmental Targets (FY2017)

Hankyu Hanshin Department Stores

Key Items	FY2017 Environmental Target	Result	Assessment	FY2018 Environmental Target
Energy Conservation Energy usage	0.0261 *1	0.0265	×	Year-on-year 1% reduction 0.0262
Resource Conservation Container packaging usage	3.37 *2	3.22	○	Year-on-year 1% reduction 3.19
Waste Recycling Improvement Food waste recycling rate	71.7%	69.2%	×	Year-on-year 1% increase 70.2%

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

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

Izumiya

Key Items	FY2017 Environmental Target	Result	Assessment	FY2018 Environmental Target
Energy Conservation Stores: CO ₂	FY2011 comparison 23% reduction (CO ₂ conversion)	40.5% reduction (CO ₂ conversion)	○	FY2013 comparison 20% reduction (CO ₂ conversion)
Energy Conservation Head Office: Power consumption	FY2011 comparison 32% reduction	29.5% reduction	×	FY2013 comparison 20% reduction
Resource Conservation Bring-your-own-bag adoption	55.50%	51.60%	×	53.50%

Hankyu Oasis

Key Items	FY2017 Environmental Target	Result	Assessment	FY2018 Environmental Target
Energy Conservation Energy usage	0.0273 *3	0.0274	×	Year-on-year 1% reduction 0.0271
Resource Conservation Bring-your-own-bag adoption	51.00%	51.79%	○	52.00%
Waste Recycling Improvement Food waste recycling rate	44.80%	42.30%	×	44.80%

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

Accommodating a Diversity of Work Styles

As was mentioned earlier, our employees are our most important corporate resource, and in addition to bolstering the training we provide them, we strive to put in place a working environment and structures that enable all employees, and the diverse range of values which they represent, to feel welcomed and able to perform at the best of their ability.

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 53 female senior managers and 452 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	53 (51)	15% (13%)
Izumiya	24 (18)	8% (6%)
Hankyu Oasis	13 (13)	9% (9%)

(as of April 2018)

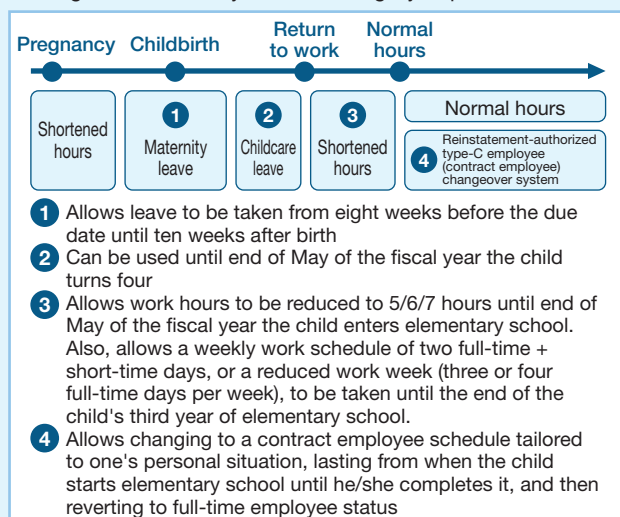
Employee-friendly Workplaces

Retail business is primarily 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 adapted to an employee's work duties and situation is available to not just female employees but to all employees, such as "Caregiver Leave" or "Caregiver Shortened Hour" scheduling for employees requiring non-standard schedules or who need support balancing work and caregiver responsibilities, or the rehiring system enabling employees to be rehired after leaving their positions because of marriage, childbirth, childcare, spousal work transfer, care-giving responsibilities, etc.

Flexible work scheduling

● Hour adjustment system

Employee shift hours can be flexibly increased or decreased in 30 minute or 1 hour increments up to four hours in response to business volume.

● Flex-time

Outside of core hours, employees are free to set their own hours for arriving and leaving work

Workplace Childcare Facilities: "H₂O Nursery School"

We have established workplace childcare facilities in line with the government's private sector-led childcare facilities initiative. Such facilities have been established for the Daily Qanat Izumiya Abiko Store, and they offer flexible child-minding hours capable of accommodating the supermarket's varied hours and the employees' varied shifts, and many employees of the supermarket take advantage of its services. We will continue establishing similar childcare facilities in other areas and stores as part of our ongoing efforts to create workplaces more accommodating of employee needs.



Inside a childcare facility

Promoting Understanding of Diversity

We promote greater understanding of diversity within our organization through proactive measures which include communications via in-house newsletters and seminars aimed at executives and managers in group companies.



Information communication via the "H₂O Tsushin" in-house newsletter



Scene from a diversity promotion seminar

Promoting Hiring of People with Disabilities

In 2016, H₂O 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 2.27% (as of June 2018) for the H₂O 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. In addition, we utilize a variety of approaches aimed at controlling long work hours, including setting reduction targets for each business division, introducing a flexible shift system, conducting job improvement surveys, and putting in place a new shift system that monitors and promptly responds to the overtime situation.

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 H₂O 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 physicians who are readily available to any employee who is feeling physically or mentally unwell.

Personnel Data (as of March 31, 2018)

		Hankyu Hanshin Department Stores	Izumiya	Hankyu Oasis
No. of employees	Men	1,244	1,289	696
	Women	1,957	688	226
Avg. years of service	Men	23 years and 6 months	22 years and 2 months	18 years and 6 months
	Women	22 years and 7 months	17 years and 11 months	11 years and 6 months
Childcare leave claimants*		113	45	11
Caregiver leave claimants*		12	1	1
Paid leave claim rate		37.5%	29.4%	22.3%

* No. of claimants for FY2017

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 300+ seats



Priority-use elevators

Further, to enhance the shopping experience for the growing number of customers coming from overseas, we have enhanced the scope of service we offer, such as by adding translations in four languages to the store guides and in-store signage of our main stores; employing multilingual sales staff; introducing duty-free shopping by credit card; and offering a phone interpretation hotline and free Wi-Fi service.

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.

Corporate Social Responsibility Initiatives

A key mission of the H2O 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.

H2O Retailing Group Corporate Social Responsibility Initiatives Policies

Within the H2O 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 H2O Santa

In 2012, we launched the H2O 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.



Major Activities

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

The Hankyu Umeda Main Store has installed a permanent "H2O Santa Charity Guide" on its 9th and 12th floors where the activities of different NPO are showcased. In addition, the activities of the NPOs are presented at an "H2O Santa Charity Talk Event" held every Saturday in the store's Festival Plaza.

Further, an "H2O Santa NPO Festival" is held twice a year; during the FY2017 festivals, activities from 25 different NPOs were presented.



H2O Santa Charity Talk Event



H2O 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 FY2017

- Kumamoto Earthquake Disaster Assistance Charity Dance Festival
- The *Kumamon* Exhibition
 - H2O Santa Helps with Kumamoto Recovery -

3 Introduction of Volunteering Opportunities

Through the H2O Santa website and H2O 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. Additionally, in 2017 we hosted the "1st H2O Santa Symposium," where the topic of discussion was "Child Abuse and Social Safeguards: The Future of Collaboration Between Health Care and Social Welfare - Building Bridges for Children's Future." The symposium served as an opportunity for experts to come together to find accelerated solutions to pressing issues, as well as to develop new networks.

Please visit the website to learn more about H2O Santa activities.

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

Fair Trade and Ethical Fashion Options

In the central section of Umeda SOUQ on the 10th floor of the Hankyu Umeda Main Store, a permanent display area has been installed which features the Love&sense Fair Trade select shop created by Ms. Tamae Takatsu. Love&sense was created to provide impoverished people in the rural areas and urban slums of Asia, Africa, Central and South America and elsewhere with job opportunities which enable them to better provide for themselves.

Additionally, the fashion market in recent years is focusing more attention on designers who practice ethical manufacturing that benefits society and the natural environment. At the Hankyu Umeda Main Store, we host pop-up events which assemble brands that are turning natural materials and motifs into high fashion offering a more enriching daily life and enjoyable, natural appearance. We are creating a casual space amidst the fashion and shopping for customers to learn about Fair Trade and ethical fashion.



"Love&sense" on the 10th 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 H₂O 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

H₂O 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 400 group employees, families and client staff have participated in volunteer activities.

Also, the staff of H₂O 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

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 H₂O 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 H₂O 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.

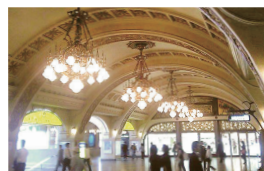
■ Preserving Valuable Architecture for New Stores

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 and fall of 2018, the Hankyu Umeda Main Store held a store-wide campaign based on the theme of “A New Japanese Aesthetic.”

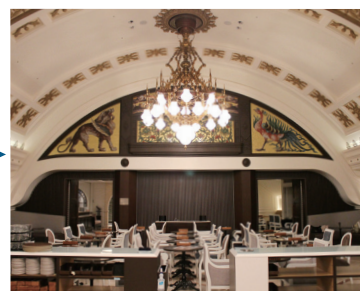
This campaign combines the unbroken lineage of traditional Japanese culture and superior handiwork with contemporary sensibilities to show customers how outstanding Japanese craftsmanship can offer them a more abundant life.



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

Corporate Governance

In line with our basic 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 basic 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 H₂O 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

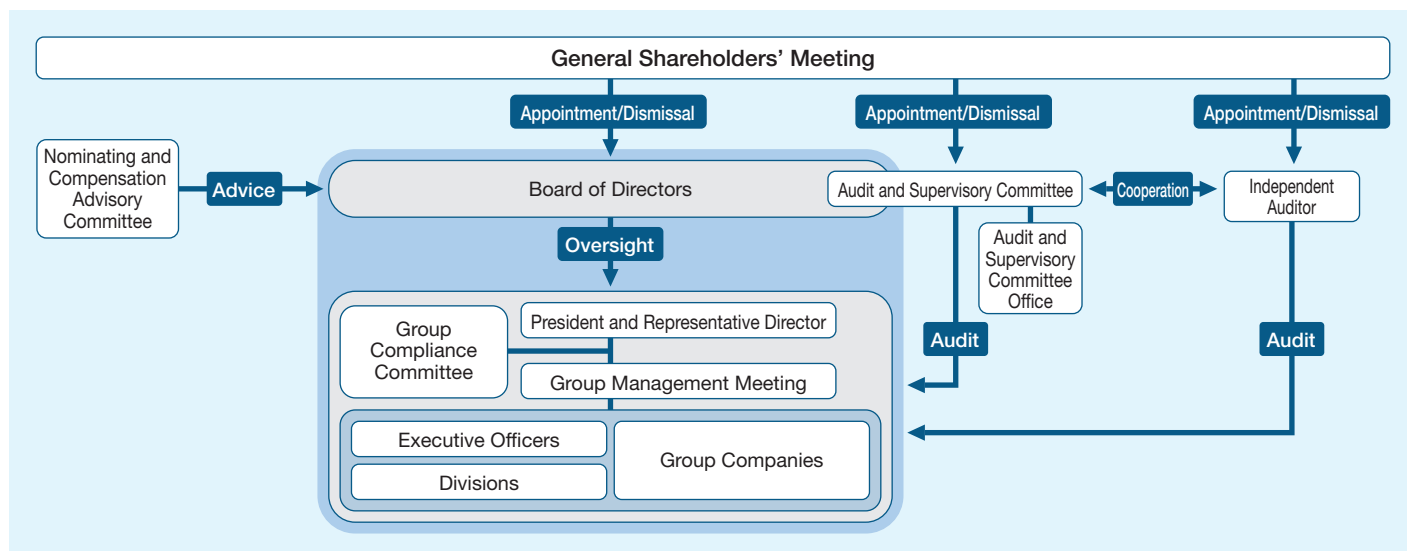
Our Board of Directors is comprised of eleven Directors (four of whom serve on the Audit and Supervisory Committee), and of these, four are Outside Directors (three of whom serve on the Audit and Supervisor Committee). Thus, one-third of the Board of Directors are Outside Directors.

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 committee meetings. In FY2017, we revised the agenda criteria from a risk perspective to promote more robust debate and discussion. 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 H₂O 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 fosters 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. Gender, age and other such factors are not a consideration. Candidates chosen from within the H₂O 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 financial and compliance-related proposals, as well as from among representative members of key subsidiaries. From outside the H₂O 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.

■ Executive Compensation

Compensation for our executive directors is determined according to a system which incentivizes short-term and medium-to-long-term improvements in performance by combining a monthly base pay with annual performance-related bonuses and share price-dependent company share rewards. Compensation is divided between 50% base pay and 50% performance and share price rewards. In the case of non-executive directors, compensation is provided exclusively through a monthly base pay.

The Board of Directors utilizes the advice of the Nominating and Compensation Advisory Committee as the basis for the director compensation proposals it puts forward at the General Shareholders' Meeting and for the specific compensation amounts decided for each Director. Also, the specific compensation provided to the individual Directors on the Audit and Supervisory Committee is decided based on discussion with the Directors on the Audit and Supervisory Committee in question.

Fixed compensation

Base salary	All Directors	Compensation based on role and position; reviewed every April
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Performance and share price-related compensation

Annual bonus	Directors (not Outside Directors and Audit and Supervisory Committee members)	Compensation based on fiscal year consolidated results (based primarily on operating income and current net income) Approved annually at the General Shareholders' Meeting
Share-based payment of stock options		Stock options which can be exercised within five years of stepping down from the role of executive officer; amount depends on role and position

Compensation caps

Base salary	Directors not on the Audit and Supervisory Committee	Up to 300 million yen annually (of this, up to 50 million yen for Outside Directors)
	Directors on the Audit and Supervisory Committee	Up to 90 million yen annually
Share-based payment of stock options	Directors not on the Audit and Supervisory Committee	Up to 120 million yen annually

■ Nominating and Compensation Advisory Committee

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. This committee reviews Director candidate nominations and Director compensation-related policies and content before making recommendations 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)

■ Analysis and Evaluation of the Board of Directors' Effectiveness

We regularly conduct an analysis and evaluation on the effectiveness of the Board of Directors, in March 2018, we surveyed all of our Directors, following this up in April with opinion exchange meetings with our Representative Directors, Outside Directors and Audit and Supervisory Committee Member Directors to hear their thoughts about the Board of Directors' composition, running, agenda, support system, etc.

After analyzing all the data, the resulting assessment was that each item looked at is showing improvement and the Board of Directors is functioning effectively. However, it was noted that room for improvement still exists in terms of medium-to-long-term and risk-focused active discussion; thus, efforts are being made to further bolster effectiveness in this area.

■ 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 H₂O 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.

As part of our efforts to provide more robust and expedited information communication in 2018, we integrated our shareholder communications with the notice of the annual general shareholders' meeting and sent these out earlier than usual. Additionally, we put this information up on the website a week before sending it out.

■ 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

We are inspecting, and are already reducing, our portfolio of cross-held shares; however, 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 review all of the shares we hold, as necessary, to determine whether they 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.

Also, with regard to exercising our voting rights, we will make a comprehensive determination based on 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

Position	Name	Reasons for Selection	Attendance in FY2017 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 ₂ O Retailing Group operations contributes to an increase in the group's corporate value.	8 of 10 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 ₂ O Retailing Group operations contributes to an increase in the group's corporate value.	10 of 10 meetings 10 of 10 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 ₂ O Retailing Group operations contributes to an increase in the group's corporate value.	9 of 10 meetings 9 of 10 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 ₂ O Retailing Group operations contributes to an increase in the group's corporate value.	9 of 10 meetings 10 of 10 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 H₂O Retailing Corporation.

- 1 A party for whom H₂O Retailing Corporation or its subsidiaries ("the Group") is a major client^(note 1), 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^(note 2) 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^(note 3).
- 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 H₂O 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^(note 4) 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 the criteria 1 to 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 the criteria 1 to 10 above apply (excludes 3 and 4; limited to major personnel^(note 5)).
- 12 A party not meeting any of the above criteria but for whom special circumstances exist which could create a conflict of interest with H₂O 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 H₂O 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 H₂O 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 H₂O 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.

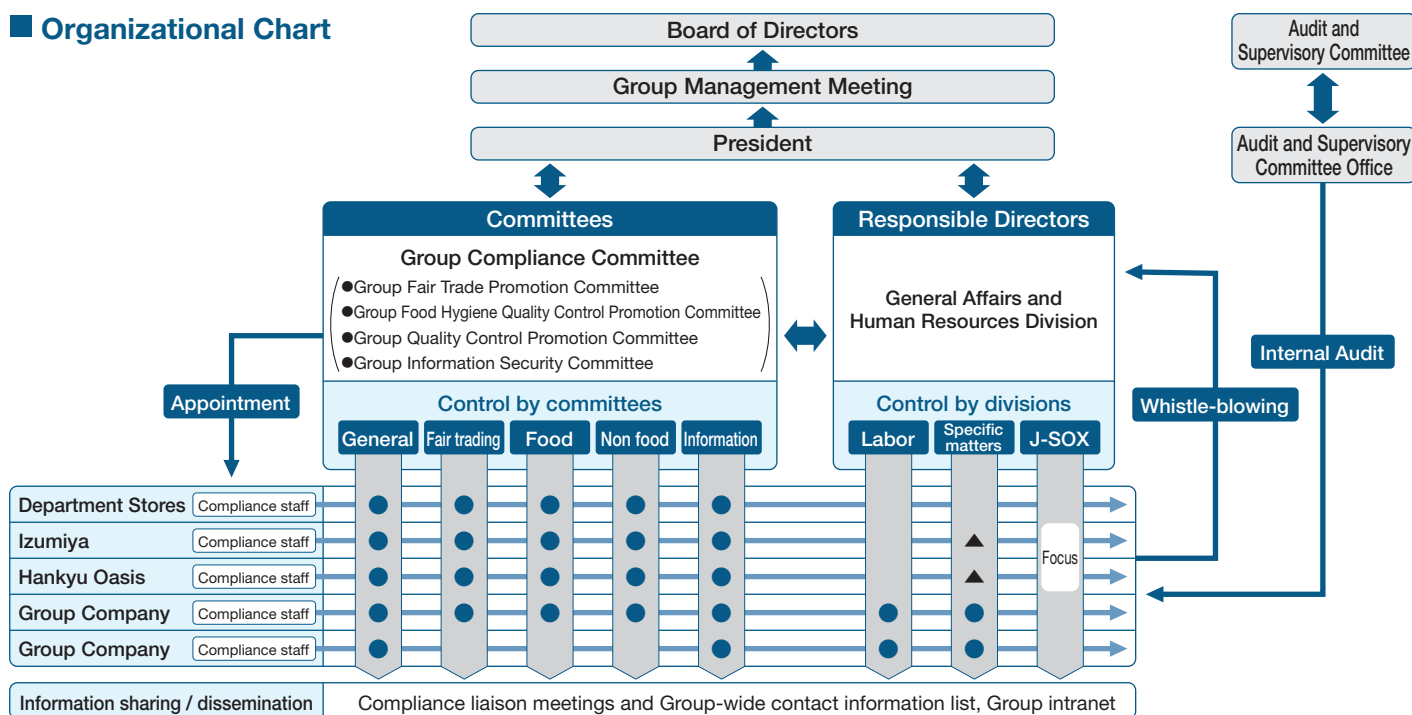
Management System

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 H₂O Retailing Group Code of Conduct to clarify the basic policies, ethics, laws, rules, etc., which apply to corporate officers and employees in the H₂O 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 H₂O 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 H₂O Retailing Group (in the case of H₂O 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 FY2017
Group Compliance Committee	<ul style="list-style-type: none"> Surveyed each group company's general risk and safety and health systems; performed separate inspections, ordered corrective action, etc., for problem companies Surveyed all executives and managers in the group regarding H₂O Retailing Group Code of Conduct implementation Hosted a group compliance liaison conference and shared information about human resources management, handling of revisions to the law and other matters
Group Fair Trade Promotion Committee	<ul style="list-style-type: none"> Provided corrective guidance and performed management system development in response to each group company's status with regard to the Act against Unjustifiable Premiums and Misleading Presentations and Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors To help prevent cartel formation, performed surveys of initiatives with business partners and formulated rule
Group Food Hygiene Quality Control Promotion Committee	<ul style="list-style-type: none"> Held Food Sanitation Act amendment-focused explanatory meetings for group companies and clients Conducted fact-finding surveys and provided corrective guidance to accompany implementation of the Food Labeling Act
Group Quality Control Promotion Committee	<ul style="list-style-type: none"> Implemented self-checks focused on advertising display and representation optimization Implemented self-inspections of in-store merchandise and on-site inspections of self-manufactured products
Group Information Security Committee	<ul style="list-style-type: none"> Surveyed and issued corrective guidance to group companies regarding their personal information management systems Held explanatory meetings about important matters arising from revision of the Installment Sales Act, and conducted surveys of companies' management systems

■ 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 and IP wireless telephones to enable communication with the Head Office and confirmation of employee safety status to be performed quickly following a disaster.

In 2018, the results of the responses taken following numerous natural disasters, including the earthquake in northern Osaka, the torrential storms in western Japan and the severe winds from Typhoon #21, were studied and used to revise the first-response manual for disasters and to help develop systems for rapid business continuation and 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 FY2016, 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 1,000 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: 12 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. On October 3, 2018, in response to subsidiary company Hankyu Hanshin Department Stores raising the cost of 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 took a variety of other steps in response; additionally, they have further bolstered their auditing system so as to prevent recurrence of this sort of situation.

■ Internal Reporting System

In order to facilitate internal reporting from group employees (including client company staff), we have established an H₂O Retailing Group Compliance Hotline which connects with consultation staff in the H₂O 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.

■ Safeguards Against Antisocial Forces

The H₂O 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. Among other activities, the committee regularly draws up group guidelines and audits management systems, as well as provides guidance to group companies on workflow and customer information handling manual creation and updating.

Within each group company, as well, 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.

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This report contains forecasts made by H₂O Retailing Corporation based on information available at the time of the report's creation, and no guarantee is made about the accuracy of this information or the forecasts.