H2O RETAILING CORPORATION

FINANCIAL REPORT 2022

H2O RETAILING

Profile

Hankyu Department Stores, Inc. was established in 1929 in Umeda Osaka, as the world's first railway terminal department store by Mr. Ichizo Kobayashi, the founder of the Hankyu Corporation. Helped by the ability of a railway terminal to attract customers, the store grew together with the Umeda area, and a succession of stores in other areas were subsequently opened. In 1947, the Company was spun off from Hankyu Corporation and the Hankyu Department Stores Group was formed.

On 1st October 2007, Hankyu Department Stores, Inc. changed its name to H2O RETAILING CORPORATION and became a holding company in accordance with the management integration between Hankyu Department Stores, Inc. and Hanshin Department Store, Ltd.

On 1st June 2014, H2O RETAILING CORPORATION had a management integration with Izumiya, Co., Ltd.

On 1st October 2017, the Group purchased the businesses of Sogo Kobe and Seibu Takatsuki stores from Sogo & Seibu Co., Ltd.

On 15th December 2021, H2O RETAILING CORPORATION had a management integration with Kansai Super Market Ltd.

Currently, the Group consists of 45 subsidiaries and 8 affiliates that operate retail businesses, including its core department store operations, supermarket operations and shopping centre operations.

Contents

General Business Conditions

1. Management Analysis of Financial Position, Business Performance and Cash Flows

The future information contained in these materials reflects judgements made at the end of fiscal year ended 31st March 2022.
From the current fiscal year, Hankyu Kitchen Yell Kansai, Inc., EveryD.com, Inc. and Hankyu Sennan Green Farm, which were previously included in the Other Businesses segment, were transferred to the Supermarket Business segment, and Oi Development Co., Ltd., which was also included in Other Businesses segment, was transferred to the Shopping Centre Business segment. HANKYU B&C Planning Co., Ltd. and Hankyu Freds Co., Ltd., which were included in the Other Businesses segment, were absorbed by Hankyu Bakery Co., Ltd. that is in the Supermarket Business segment on 1st April 2021. Year-on-year comparisons are shown based on the results for the previous fiscal year, which have been reclassified into the new reportable segments.
Following the management integration through a share exchange with Kansai Super Market Ltd. (*1) on 15th December 2021, Kansai Food Market Ltd., Kansai Super Market Ltd. and Kansai Super Premium Co., Ltd. were included in the Supermarket Business segment, and consolidated financial results included the operating results for the fourth quarter of above three companies.

(1) Accounting estimates that significantly affect the consolidated financial statements
In preparing the Group's consolidated financial statements, management makes various estimates that affect the reported amounts of assets and liabilities as of the balance sheet date, the disclosure of contingent assets and liabilities, and income and expenses for the reporting period.
Out of these accounting estimates, items deemed to contain a risk of significantly affecting the consolidated financial statements for the next fiscal year are described in "Notes to the Consolidated Financial Statements (Significant Accounting Estimates)" in the Consolidated Financial Statements. In addition, assumptions used to reflect the impact of COVID-19 in these estimates, which are applicable across accounting estimates, are described in "Notes to the Consolidated Financial Statements (Additional Information)" in the Consolidated Financial Statements.

(2) Business Performance for Reporting Period

Consolidated business performance for the fiscal year

(Millions of yen)

	March 2020 Cumulative Amount	March 2021 Cumulative Amount	March 2022 Cumulative Amount	YOY	Change	Versus forecast	Change
Department Store Business	473,225	347,768	385,095	110.7%	+37,327	100.3%	+1,095
Supermarket Business	354,115	292,754	327,205	111.8%	+34,451	100.6%	+2,005
Shopping Centre Business	8,725	65,024	42,879	65.9%	(22,145)	98.6%	(620)
Other Businesses	61,222	33,651	32,928	97.9%	(722)	101.9%	+628
Consolidated gross sales	897,289	739,198	788,108	106.6%	+48,910	100.4%	+3,108
Net sales	897,289	739,198	518,447	-	-	100.7%	+3,447
Department Store Business	11,486	(1,903)	939	-	+2,843	469.5%	+739
Supermarket Business	(2,503)	4,086	5,326	130.3%	+1,239	106.5%	+326
Shopping Centre Business	4,141	(757)	391	-	+1,149	-	+391
Other Businesses	2,903	(1,516)	(3,409)	-	(1,892)	-	+190
Consolidation adjustment	(4,856)	(4,347)	(2,506)	-	+1,840	-	+93
Operating income (loss)	11,171	(4,438)	740	-	+5,179	-	+1,740
Ordinary income (loss)	11,831	(2,907)	2,346	-	+5,253	469.3%	+1,846
Extraordinary income	1,707	3,049	27,032	886.3%	+23,982		
Extraordinary losses	22,875	24,172	13,792	57.1%	(10,380)		
Profit (loss) attributable to owners of parent	(13,150)	(24,791)	9,872	-	+34,663	89.7%	(1,127)

*1. Actual results in the year ended 31st March 2022 represent figures based on the previous reportable segments.

*2. The Company has applied “Accounting Standard for Revenue Recognition” from the beginning of the year ended 31st March 2022 and changed the method of recording net sales, etc. based on agreements in which purchase is recognised at the time of sales of merchandise. Because net sales have been affected significantly, YOY comparisons and YOY changes have not been provided. Figures which are equivalent to net sales up to the previous fiscal year excluding the effects of changes in accounting policies are shown as consolidated gross sales.

▶ Net sales

The Company has applied “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, 31st March 2020) and other standards from the beginning of the current fiscal year. Consolidated net sales for the fiscal year ended 31st March 2022 was ¥518,447 million. Consolidated gross sales, which is equivalent to net sales up to the previous fiscal year excluding the effects of changes in accounting policies, amounted to ¥788,108 million. Net sales on a real basis increased by 6.6% from the previous fiscal year, despite the closure of stores due to the declaration of the state of emergency and restrict of operations occurred as in the previous fiscal year.

▶ Operating income / ordinary income

Despite the impact of the COVID-19, net sales recovered from the previous fiscal year, operating income was ¥740 million (operating loss of ¥4,438 million in the previous fiscal year). Ordinary income was ¥2,346 million (ordinary loss of ¥2,907 million in the previous fiscal year).

Department Store Business

In late April 2021, a state of emergency was declared. Some stores were completely closed, and stores including both

Hankyu and Hanshin main stores shifted to operating only in the daily necessities section (43 days at 4 stores in Osaka Prefecture, including both Hankyu and Hanshin main stores and 29 days at 6 stores in Hyogo Prefecture). In August, a state of emergency declared again as the infection had spread. Some stores were refrained from holding events and restricted entry to the food floor. From October, demand for fashion and gift items became active as opportunities to go out and to meet people increased. However, COVID-19 affected throughout the fiscal year, like in January 2022, with a decrease in store visits, especially among seniors and families, due to the infection spread that occurred again.
Hanshin Umeda Main Store, which had been reconstructed, pre-opened on 8th October 2021 and full-opened from the first floor to the ninth floor on 8th December (fully opened including basement food floor on 6th April 2022). New Hanshin Umeda Main Store has strengthened its proposals for all scenes of eating and food floor expanded from three to four floors. Customer response to the new value of the experience was high, resulting in a wide range of customers visiting the store.
As results of the above, consolidated gross sales was ¥385,095 million, increased by 10.7% year on year and operating income was ¥939 million (operating loss of ¥1,903 million in the previous fiscal year). Hankyu Hanshin Department Store recorded an extraordinary loss of ¥3,819 million, including personnel expenses, rent and depreciation expenses during the period of closure.

Supermarket Business

Consolidated gross sales was ¥327,205 million, increased by 11.8% year on year and operating income was ¥5,326 million, increased by 30.3% year on year.
Although Izumiya Co., Ltd. increased sales due to the transfer of the Super Centre food division, its profit decreased due to the decrease in sales at existing stores (sales at existing stores decreased by 2.7% year on year) in reaction to the previous fiscal year's demand for eating at home and increase of cost.
Izumiya celebrated its 100th anniversary by selling commemorative merchandise and holding events in collaboration with the local community under the theme of "thankfulness" and "relationship." Super Centre stores, including Yao and Yawata stores, had renovation of transforming to Shopping Centre model and sales were affected during the renovation construction period. On the other hand, due to the impact of re-emergence of COVID-19, performance of stores in small commercial areas were good. Selling, general and administrative expenses increased due to an increase in sales commission in line with cashless payment ratio.
Hankyu Oasis Co., Ltd. decreased in sales and increased operating income by improvement of gross margin. Hankyu Oasis Co., Ltd. worked to strengthen its ability to respond to the market with a basic policy of transforming itself into a highly profitable company. Existing stores sales decreased by 0.5% year on year (number of customers decreased by 0.1% and average spend per customer decreased by 0.5% year on year. Although the number of customers was on par with the previous fiscal year, average spend per customer was slightly lower than the previous fiscal year due to a decrease in the number of items purchased per visit. Sannomiya store in April 2021 and Oyodo Minami store in March 2022 newly opened and 4 stores were renovated to change the MD to meet the changing in commercial areas and to introduce sweets sold in department stores. Selling, general and administrative expenses decreased from the previous fiscal year due to the efforts to restrain the purchase price of consumable supplies.
For Kansai Super Market Business (*2), net sales for the fourth quarter (January to March, 2022) was ¥31,042 million and operating income was ¥1,391 million. Kansai Super Market Business worked to realize a "total solution

supermarket" that solves problems through environmental initiatives and social contributions with customers, employees, and local communities. Existing stores sales of whole fiscal year increased by 0.1% year on year (number of customers increased by 1.5% and average spend per customer decreased by 1.3% year on year). The background behind the year on year increase in existing stores sales was strong sales at stores remodelled to the "Central Store model," which introduces the product line-up of the flagship Central Store, although the push from the rising demand for domestic food in the COVID-19 pandemic in the previous fiscal year has run its course. Takaishi Eki-mae store, Saidera store and Konoike store were renovated in the fiscal year. Selling, general and administrative expenses decreased from the previous fiscal year due to controlling the expenses of consumable supplies, advertising and repairs, despite recognition of expenses related to management integration procedures.

Food manufacturing subsidiaries increased their profit due to higher demand for delicatessen and bakery products at food supermarkets as wholesale customers.

Shopping Centre Business

Consolidated gross sales was ¥42,879 million, decreased by 34.1% year on year and operating income was ¥391 million (operating loss of ¥757 million in the previous year). In H2O Shopping Center Development Co., Ltd., which operates management of tenants and sales of apparel and home products at Izumiya stores, consolidated gross sales decreased significantly due to closure of direct operation area. However, operating income increased because of cost reduction and conversion to tenant business. Oi Development Co., Ltd., which operates the business hotel, increased in income and profit due to improvement of occupancy rate and reduction of cost.

Other Businesses

Consolidated gross sales was ¥32,928 million, decreased by 2.1% year on year and operating loss was ¥3,409 million (operating loss of ¥1,516 million in the previous year). In other businesses, operating income of subsidiaries, excluding the Company as the holding company, increased by ¥1,477 million from the previous year, because sales increased at a specialty retail store subsidiary, mainly due to a reduction in the number and duration of closed stores from the previous year. Operating income decreased at the Company, the holding company, mainly due to a decrease in dividends received from subsidiaries in other business segments.

▶ Profit attributable to owners of parent

The Company recorded extraordinary income of ¥27,032 million including gain on sales of non-current assets of ¥13,632 million, gain on sales of investment securities of ¥6,485 million, and gain on bargain purchase of ¥3,427 million following the management integration with Kansai Super Market Ltd. (*1), while recorded extraordinary losses of ¥13,792 million including loss related to COVID-19 of ¥4,253 million and loss on closing of stores and others of ¥2,530 million.

As a result, profit attributable to owners of parent was ¥9,872 million (loss of ¥24,791 million in the previous year).

*1. Kansai Super Market Ltd. changed its name to Kansai Food Market Ltd. and KS Division Preparation Co., Ltd. changed its name to Kansai Super Market Ltd. on 1st February 2022.

*2. Consolidated results comprised of the operating results of the following three companies with their respective periods on the basis before the application of "Accounting Standards for Revenue Recognition."

Kansai Super Market Ltd. (from 1st January 2022 to 31st January 2022) (currently Kansai Food Market Ltd.)

Kansai Super Market Ltd. (from 1st February 2022 to 31st March 2022) (company name changed from KS Division Preparation Co., Ltd.)

Kansai Super Premium Co., Ltd. (from 1st January 2022 to 31st March 2022)

Extraordinary income and losses

(Millions of yen)

Item	Amount	Main contents
Extraordinary income	27,032	(Up ¥23,982 million from the previous fiscal year)
Gain on sales of non-current assets	13,632	Sale of real estate holdings in Nakatsu, Oyodo
Gain on sales of investment securities	6,485	Sale of policy-holding shares
Gain on bargain purchase	3,427	Share exchange with Kansai Super Market
Subsidy income	3,001	Subsidies for employment adjustment
Gain on reversal of asset retirement obligations	486	H2O Shopping Center Development
Extraordinary losses	13,792	(Down ¥10,380 million from the previous fiscal year)
Loss related to COVID-19	4,253	Hankyu Hanshin Department Stores
Loss on closing of stores and others	2,530	Rebuilding of SELCY H2O Shopping Center Development
Loss on retirement of non-current assets	2,222	Hankyu Hanshin Department Stores H2O Shopping Center Development
Impairment losses	1,881	H2O Shopping Center Development Hankyu Bakery
Loss on step acquisitions	1,753	Share exchange with Kansai Super Market
Expenses for opening new stores	751	Hanshin Umeda Main Store
Loss on sale of shares of subsidiaries and associates	400	Be-u

Track records of production, orders received and sales are as follows.

(i) Track record of production

The track record of production in the fiscal year ended 31st March 2022 by business segment is as follows:

Name of business segment	Product	Amount of production (millions of yen)	YOY %
Supermarket Business	Foods	35,039	101.3
Total		35,039	101.3

Notes:

1. The amounts are based on selling price.
2. HANKYU B&C Planning Co., Ltd. and Hankyu Freds Co., Ltd., which were included in the Other Businesses segment, were absorbed by Hankyu Bakery Co., Ltd. that is in the Supermarket Business segment on 1st April 2021. YOY comparisons show figures derived through the reclassification of actual results for the year ended 31st March 2021 based on the new reportable segments.
3. Following the management integration through a share exchange with Kansai Super Market Ltd. on 15th

December 2021, the track record of production of Kansai Super Premium Co., Ltd. in the period from 1st January 2022 to 31st March 2022 is included.

4. There is no applicable information for business segments other than the above segment.

(ii) Status of orders received

There is no applicable information for the fiscal year ended 31st March 2022.

For the Supermarket Business (food manufacturing business), make-to-stock production is conducted based on the past track records of sales.

(iii) Track record of sales

The track record of sales in the fiscal year ended 31st March 2022 by business segment is as follows:

Name of business segment	Product	Net sales (millions of yen)	YOY %
Department Store Business	Clothing	89,623	107.8
	Accessories, bags and others	76,481	119.6
	Household merchandise	10,499	110.3
	Foods	123,886	104.7
	Restaurants and cafes	6,288	132.5
	General merchandise	73,237	116.1
	Service and other	5,391	101.9
	Elimination	(312)	113.0
	Reclassification (Note 3)	(253,648)	–
	Total	131,446	–
Supermarket Business	Supermarkets	311,462	111.6
	Food production	10,758	91.1
	Home delivery and delivery platform	8,511	92.6
	Service and other	1,802	364.0
	Elimination	(5,329)	67.4
	Reclassification (Note 3)	(14,136)	–
	Total	313,068	–
Shopping Centre Business	Rental management of commercial facilities	15,568	101.4
	Apparel and home products	26,850	52.6
	Hotels	2,563	127.4
	Service and other	8,615	103.9
	Elimination	(10,719)	91.5
	Reclassification (Note 3)	(2,208)	–
	Total	40,670	–
Other Businesses	Construction for interior decorating of stores	3,958	95.5
	Eating and drinking establishments	1,963	96.8
	Membership management	922	99.4
	Temporary staffing	1,599	103.9
	Others	44,515	95.8
	Elimination	(20,028)	93.4
	Reclassification (Note 3)	(4,576)	–
	Total	28,351	–

Name of business segment	Product	Net sales (millions of yen)	YOY %
Consolidation adjustment (Note 2)		4,909	–
Total		518,447	–

Notes:

1. From the current fiscal year, Hankyu Kitchen Yell Kansai, Inc., EveryD.com, Inc. and Hankyu Sennan Green Farm, which were previously included in the Other Businesses segment, were transferred to the Supermarket Business segment, and Oi Development Co., Ltd., which was also included in Other Businesses segment, was transferred to the Shopping Centre Business segment. HANKYU B&C Planning Co., Ltd. and Hankyu Freds Co., Ltd., which were included in the Other Businesses segment, were absorbed by Hankyu Bakery Co., Ltd. that is in the Supermarket Business segment on 1st April 2021. YOY comparisons show figures derived through the reclassification of actual results for the year ended 31st March 2021 based on the new reportable segments. Following the management integration through a share exchange with Kansai Super Market Ltd. on 15th December 2021, Kansai Super Market Ltd. (*), Kansai Super Premium Co., Ltd. and KS Division Preparation Co., Ltd. (*) were included in the Supermarket Business segment.
2. This is adjustment to reclassify, of net sales to external customers presented on a net basis as agent transactions in business segments, net sales to external customers from transactions that are principal transactions in consolidated accounts (intersegment transactions based on consignment buying agreements) on a gross basis in the consolidated statements of income.
3. “Consolidated gross sales,” which is equivalent to net sales up to the previous fiscal year excluding the effects of changes in accounting policies, was reclassified into net sales reflecting the changes in accounting policies. Because net sales have been affected significantly, YOY comparisons have not been provided.

* Kansai Super Market Ltd. changed its name to Kansai Food Market Ltd. and KS Division Preparation Co., Ltd. changed its name to Kansai Super Market Ltd. on 1st February 2022.

(3) Financial Position

(Millions of yen)

	31st March 2020	31st March 2021	31st March 2022		31st March 2020	31st March 2021	31st March 2022
Cash and deposits	25,958	49,991	34,724	Notes and accounts payable - trade	43,917	48,996	56,839
Notes and accounts receivable - trade	44,445	54,385	59,906	Loans payable and bonds payable	151,713	188,547	175,382
Inventories	29,688	23,339	22,639	Total liabilities	342,270	396,667	393,620
Total current assets	112,116	139,291	129,725	Shareholders' equity	221,732	192,763	202,030
Total non-current assets	474,788	486,653	524,832	Total net assets	244,634	229,277	260,938
Total assets	586,904	625,945	654,558	Total liabilities and net assets	586,904	625,945	654,558

Total assets as of 31st March 2022 increased by ¥28,613 million from the end of the previous fiscal year to ¥654,558 million. This was primarily attributable to an increase in non-current assets of ¥39,859 million mainly due to the management integration with Kansai Super Market Ltd., despite a decrease in investment securities of ¥10,516 million mainly due to sale of investment securities.
Total liabilities amounted to ¥393,620 million, a decline of ¥3,047 million from the end of the previous fiscal year. This was mainly attributable to decreases in loans payable and bonds payable of ¥13,165 million.
Total net assets stood at ¥260,938 million, up ¥31,660 million from the end of the previous fiscal year. This was mainly attributable to an increase in retained earnings of ¥7,233 million mainly due to profit attributable to owners of parent and an increase in non-controlling interests of ¥22,920 million due to management integration.
For the fiscal year under review, all indicators of capital efficiency and asset efficiency improved, with return on equity (ROE) was 4.2% (previous fiscal year: -10.5%), return on assets (ROA) was 0.4% (previous fiscal year: -0.5%), and return on invested capital (ROIC) was 0.1% (previous fiscal year: -0.8%).

(4) Cash Flows

(Millions of yen)

Major items	March 2020	March 2021	March 2022
Cash flows from operating activities	9,871	12,755	6,465
Profit (loss) before income taxes	(9,337)	(24,030)	15,586
Depreciation	18,519	18,141	17,902
Impairment losses	14,196	14,771	1,881
Loss (gain) on sales of investment securities	(692)	(0)	(6,485)
Loss (gain) on sales of non-current assets	(66)	(56)	(13,624)
Decrease (increase) in notes and accounts receivable - trade	4,857	(10,365)	(3,420)
Decrease (increase) in inventories	3,783	6,248	2,992
Increase (decrease) in notes and accounts payable - trade	(14,955)	5,326	(4,706)
Income taxes paid	(5,525)	(1,858)	(2,228)
Cash flows from investing activities	(22,451)	(20,761)	(5,203)
Purchase of property, plant and equipment	(26,675)	(13,952)	(26,304)
Proceeds from sales of property, plant and equipment	9,138	1,429	19,771
Purchase of intangible assets	(6,938)	(4,087)	(3,874)
Proceeds from sales and redemption of short-term and long-term investment securities	3,699	–	9,386
Payments of long-term loans receivable	(2,685)	(4,402)	(4,011)
Cash flows from financing activities	(16,440)	31,859	(28,578)
Net increase (decrease) in short-term loans payable	7,000	(15,000)	–
Proceeds from long-term loans payable	98	70,000	32,000
Repayments of long-term loans payable	(20,375)	(18,175)	(46,840)
Cash dividends paid	(4,944)	(4,018)	(3,093)
Purchase of treasury shares of subsidiaries	–	–	(7,383)
Operating CF + investing CF + financing CF	(29,020)	23,853	(27,316)
Cash and cash equivalents at end of year	25,958	49,991	33,174

As of 31st March 2022, cash and cash equivalents stood at ¥33,174 million, a decrease of ¥16,817 million year on year. Of this amount, an increase in cash and cash equivalents due to share exchanges was ¥9,736 million.

Net cash provided by operating activities was ¥6,465 million, down ¥6,289 million year on year.

Net cash used in investing activities was ¥5,203 million, down ¥15,557 million year on year, due in part to purchase of property, plant and equipment in conjunction with the reconstruction of the Hanshin Umeda Main Store and sale of real estate holdings and investment securities.

Net cash used in financing activities was ¥28,578 million year on year (¥31,859 million in cash flows provided by financing activities for the previous fiscal year) due in part to repayment of interest-bearing debt.

Changes in the Group’s indicators related to cash flows are as follows:

Year ended 31st March	2018	2019	2020	2021	2022
Equity ratio	42.4%	42.0%	41.5%	36.4%	36.2%
Equity ratio based on market price	36.4%	28.7%	16.7%	18.1%	15.9%
Interest-bearing debt to cash flow ratio	4.9	11.3	16.9	15.9	29.2
Interest coverage ratio (times)	32.5	21.1	12.9	16.6	6.8

Equity ratio: Equity / Total assets

Equity ratio based on market price: Market capitalization / Total assets

Interest-bearing debt to cash flow ratio: Interest-bearing debt / Operating cash flows

Interest coverage ratio: Operating cash flows / Interest expenses paid

*1 These indicators are calculated based on figures from the consolidated financial statements.

*2 Market capitalization is calculated as the stock price at the end of the period multiplied by the number of shares outstanding at the end of the period (excluding treasury shares).

*3 Operating cash flows are the cash flows from operating activities as indicated in the consolidated statements of cash flows. Interest-bearing debt is all liabilities reflected on the consolidated balance sheets that are subject to interest payments. Interest expenses paid is the amount of interest expenses paid in the consolidated statements of cash flows.

2. Management Policies and Management Issues to be Resolved

The future information contained in this material reflects judgments made by H2O Retailing Corporation at the end of fiscal year ended 31st March 2022.

(1) The Company’s Basic Management Policy

The Basic Philosophy of the Group is “To remain indispensable to the local communities through our activities of providing a model of lifestyle to local residents.” Guided by this philosophy, the Group aims to further enhance corporate value under the vision; “To be a customer’s lifestyle partner to enrich their hearts through offering ‘fun, happy and tasty’ experiences, contributing to the future of the local community, children and our planet.”

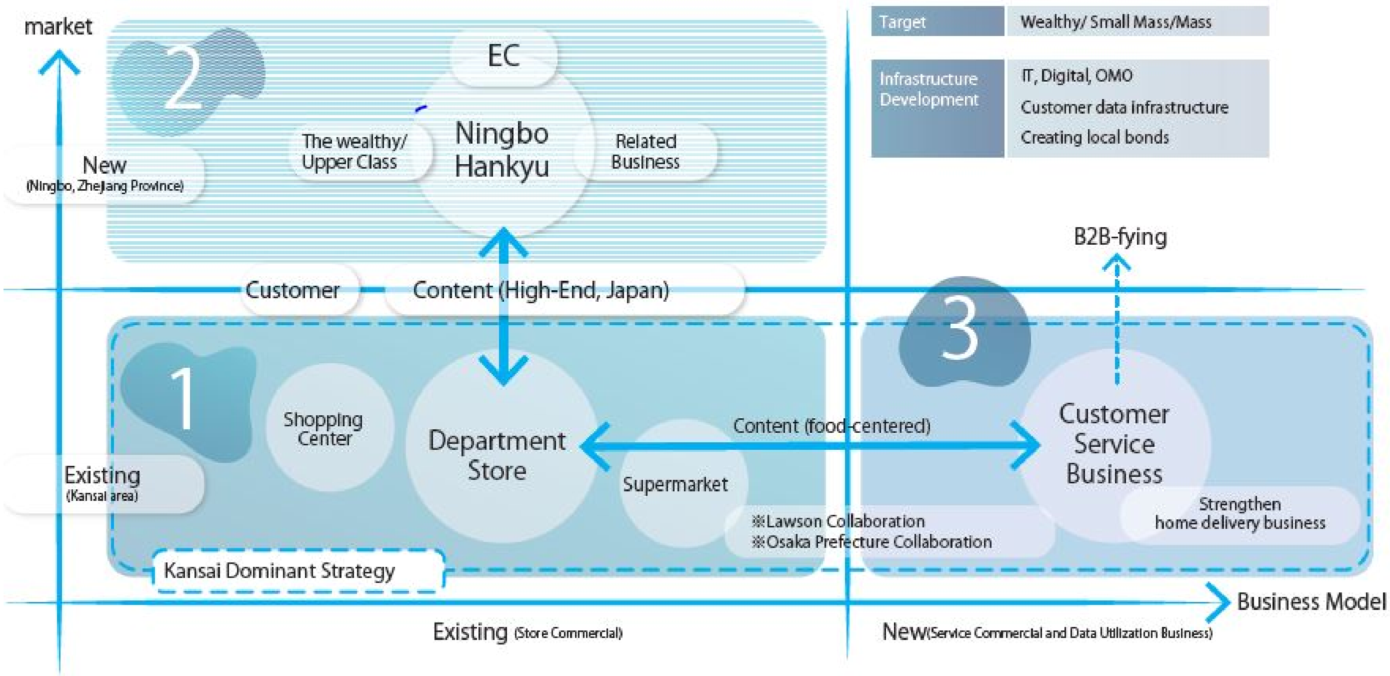
(2) Our Target Business Indicators

The Group conducts business in mature markets. To continue to enhance its enterprise value within such markets, the Group is working to improve its profitability and growth potential, focusing its corporate activities on operating income and operating income margin by business segment. The Group also aims to improve its consolidated return on equity (ROE) by realising increased operating income.

(3) The Company’s Medium- to Long-term Management Strategy and Management Issues to be Resolved

In July 2021, the Company announced Long-Term Business Plan 2030 and medium-term management plan with fiscal 2021 as the first year. We provide a variety of merchandise and services based on strong and deep ongoing relationships with our customers through direct communication and aim to continue to grow with the local community as a “communication retailer.”

[Long-Term Business Plan]



Numerical Targets (2030)	Number of Group active customers	10 million people
	Operating income	¥30.0 to 35.0 billion
		Department Store Business ¥15.0 billion or more
		Supermarket Business ¥10.0 billion or more
		Shopping Center Business ¥3.0 billion
		Ningbo / Zhejiang ¥3.0 billion
		Customer service ¥3.0 billion
	ROE	6 to 7%

1. Rebuilding and refining existing businesses

- Rebuilding the Department Store Business

  We will aim to become an entity capable of steadily and stably maintaining the scale with operating income of ¥15 billion or more as the “No. 1 fun” department store by reforming the cost restructure and at the same time promoting OMO using digital technology and putting the reconstruction of the Hanshin Umeda Main Store and the renovation of the Kobe Hankyu and Takatsuki Hankyu on track.

- Turning the Supermarket Business into a second pillar of the business

  We will move ahead with reforms to constantly earn operating income of ¥10 billion by thoroughly reviewing operations, working to improve productivity, and by reducing operating costs and our purchase prices following the integration of Izumiya and Hankyu Oasis operations.

- Establishing the Shopping Centre Business as a profitable body

  We will strengthen our sales capabilities and the promotion of operational efficiency particularly in shopping centres and business hotels with the aim of the Shopping Centre Business becoming a profitable body that secures operating income of ¥3.0 billion.

2. Challenges for new market

As the expansion of opportunities into new markets in store commercial, we will first establish the Ningbo Hankyu Business, which opened in April 2021, as the number one store in the region to make it one of earning cores of the Group in 10 years, and work with the Hankyu Umeda Main Store to provide high-end and Japan content to the affluent and upper class of Ningbo in Zhejiang, whilst also developing e-commerce and related business.

3. Challenges for new business model

As challenges for expanding business models utilizing the Kansai market and customer base we have cultivated to date, we will work on customer service business. We will aim to commercialize new services in the Kansai area by developing online axis service content centered on food, which is widely used in the mass market, strengthening the home delivery business, collaborating with real stores, and creating a network through alliances such as Lawson, Inc., and Osaka Prefecture. We intend to grow the business model into a new earning core business of the Group by providing platform based on customer data obtained there and functions developed to expand into B2B business.

- Improvement of infrastructure through promotion of IT and digitalization

  To support the realization of a communication retailer, we will prepare for a fresh development of the Kansai Dominant Strategy using customer data by developing an IT infrastructure, establishing an OMO style using digital technology and building a group database.

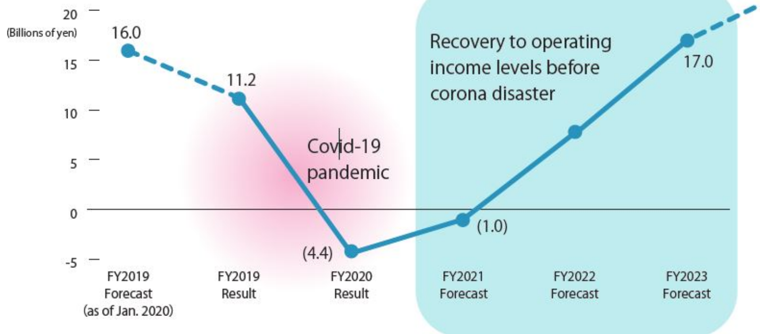
[Medium-Term Management Plan]

In the medium-term management plan for the period from fiscal 2021 to fiscal 2023, with the goal of recovering to pre-COVID-19 pandemic levels of operating income, we will promote initiatives to realize our long-term business vision by setting the following items as priority items.

Changes in key indicators

(Unit: Billions of yen)	FY2018 Result	FY2019 Result	FY2020 Result	FY2021 Forecast	FY2023 Forecast
Operating income	20.4	11.2	(4.4)	(1.0)	17.0
Ordinary income	21.4	11.8	(2.9)	(2.0)	14.0
ROE	0.8%	(5.0)%	(10.5)%	2.2%	2.6%
ROIC	3.6%	2.0%	(0.8)%	(0.2)%	3.0%

Illustration of Changes in Operating Income



Rebuilding of Department Store Business
- Establish OMO style
- Priority investment in Hanshin Umeda Main Store, Kobe Hankyu and Takatsuki Hankyu
- Cost structure reform

Turning the Supermarket business into a second pillar of the business
- Standardization of SM business and restructuring of management capabilities
- Integrated operation with manufacturing business
- Strengthen business capabilities through alliances

Start business development for future growth
- Establishment of Ningbo Hankyu Business and related business development
- Launch and expansion of customer service business

Promoting IT・Digitalization
- Building an IT infrastructure for DX
- Accelerate business reforms
- Responding to system risks and issues

In the next three years (FY2024 to FY2026), we aim to exceed the level of operating income before the Covid-19 pandemic and achieve diversification of our revenue sources.

* Figures in the above table represent data as at the time of releasing the medium-term management plan (28th July 2021).

[Sustainability Management]

Regarding the sustainability management, starting in April 2021, centred on “contribution to local communities,” we will position three key themes and two basic themes, as the “materiality” of the Group and promote initiatives.

Aiming for contribution to local communities, we are promoting initiatives to deepen local ties such as entrustment of the revitalization project of Senri-Chuo Park (Toyonaka City, Osaka), initiatives to nurture children in local communities such as Izumiya Kadoma Store’s “Children’s LOBBY,” and initiatives to preserve and inherit local nature such as the Hankyu Umeda Main Store’s eco action proposal “GOOD FOR THE FUTURE.” In addition, the Group has introduced a volunteer leave system to certain companies from April to create opportunities to participated in these initiatives across the Group.

Furthermore, as medium-term initiatives to address environmental issues, we promote environmental management to reduce our environmental impact (CO_2 emissions, food loss, plastic emissions, etc.) generated by our business activities.

- Greenhouse Gas (GHG)

  We aim to achieve a 30% decrease in the GHG emission reduction rate by 2030 (compared to fiscal 2019, *equivalent to a 48% decrease compared to fiscal 2013), and net zero by 2050.

  *For 14 major companies
- Food Recycling Rate

  We aim for 70% by 2030 (2023: 60%). *For three major companies

[Issues and Challenges in Each Business]

In Department Store Business, we aim for the most enjoyable department store by realizing joyful and affluent lifestyle for customer, enriching their hearts and empowering their future based on the group vision. Centred on Hankyu Main Store, which is flagship store of our group and Hanshin Umeda Main Store, which was reconstructed and full-opened in April 2022, we are providing brand new shopping experience and developing new business model by creating value based on brick-and-mortar stores and strengthening online communication with customers. From fiscal 2022 onward, we will begin renovation of Kobe Hankyu and Takatsuki Hankyu to enhance their competitiveness. In addition, although we returned to operating profitably in fiscal 2021, we will continue the cost structure reforms in order to lower our break-even point.

In Supermarket Business, aiming to increase operating income, we will work to further strengthen the competitiveness and improve the profitability of our mainstay food supermarkets. We will further promote the business restructuring following the integration of the supermarket management functions of Izumiya Co., Ltd. and Hankyu Oasis Co., Ltd. on which we have been working. We will also accelerate the development of a business model with enhanced market responsiveness, rebuild our chain operation management capabilities, and strengthen our sales capabilities through integrated manufacturing and sales operations. In addition, the three SM companies, including Kansai Supermarket Co., Ltd. with which the management integration was conducted in December 2021, the Company will also move forward with specific plans to achieve synergies in store operations, merchandising, payment method, logistics, private brands, refurbishment and store opening plans, and IT digitalization.

In Shopping Centre Business, H2O Shopping Center Development Co., Ltd., which was divided from Izumiya Co., Ltd. in April 2020, achieved operating profitability in fiscal 2021, one year ahead of the original schedule, by downsizing our direct operations and promoting the shift to shopping centre from general merchandise store, and at the same time, we will improve our customer mind share by promoting activities to build strong ties with the local community. In Oi Development Co., Ltd. which operates a business hotel, turned profitable in the midst of the headwind of the COVID-19 pandemic by achieving low-cost operations using IT and strengthening of sales capabilities, and will strive to further improve profitability with an eye on the post-COVID business in the future.

Furthermore, we try to develop new customer service business including online based services in the food domain through digital technologies by leveraging our unique characteristics which has variety touch points with customers in the Kansai area, and venture into new business areas to expand the Group’s customer base.

While the COVID-19, which has been continuing since 2020, is still not expected to be resolved, we will work to recover earnings through initiatives in each business based on the medium-term management plan. In addition to cost control and asset efficiency improvement, we will also make preparations to accelerate business development post-COVID-19 at the same time.

We will actively promote sustainability management and aim to further improve our corporate value by responding to trust of our stakeholders.

3. Business Risk

Of matters concerning the overview of business, financial information, etc., provided in the financial report, matters which may have significant effects on investors' judgment include those described below. However, risks and uncertainty that may be caused on future operating results and financial position are not limited to these matters. Furthermore, the extent and period of the possibility of risk materialization presented below as well as the impact on operating results are not presented as they are difficult to reasonably estimate.
Matters concerning the future in the text were judged by the Group as of the date of filing of the financial report.

(1) Business Environment
Environment surrounding retail businesses
As for the environment surrounding Japan's retail businesses, significant changes are expected, including aging population, polarization of consumption structure and tightening competition beyond business categories. These changes are expected to have considerable effects on the Group's operating results. In addition, the prolonged impact of COVID-19 may cause drastic changes to consumer lifestyles and workstyles, with refraining from going out, remote work, online shopping, and online communication taking root.
In order to respond to the changes in this environment, the Group will utilise one of its unique characteristics, in which it has various points of contact with customers in the Kansai area, and strive to build up new customer relationships and business models that fuse brick-and-mortar stores and digital technologies. Furthermore, the Company will achieve an increased market share in the Kansai area by refining and strengthening the Department Store Business, its core business, and the Supermarket Business, which is centred on food supermarkets.

(2) Laws and Regulations, and Legal Revisions

(i) Laws and regulations such as the Act on the Measures by Large-Scale Retail Stores for Preservation of Living Environment

Opening of department stores and supermarkets by the Group is subject to regulation under the Act on the Measures by Large-Scale Retail Stores for Preservation of Living Environment. Under the Act, in cases where a new store with store space of more than 1,000 m^2 is opened and where the store space of an existing store is increased to more than 1,000 m^2, local prefectural governments or ordinance-designated cities examine and control traffic congestion, noise, waste management and other matters from the standpoint of protecting the living environment of neighbourhood residents. Accordingly, the Group's future plans to open stores may be affected by such laws and regulations.
Besides, the Group is subject to laws and regulations such as the Antimonopoly Act, the Subcontract Act, environment and recycle related laws and regulations, and the Act against Unjustifiable Premiums and Misleading Representations and other laws and regulations related to consumer protection, and may also be affected by these laws and regulations.
The Group will strive to respond in a timely and appropriate manner while closely observing the legislative revision trends that affect these business activities.

(ii) Increase in the consumption tax rate resulting from the tax system revision

There is a possibility that the consumption tax rate will be raised gradually to secure the financial resources needed for future social welfare. This may cause a decline in personal consumption and have negative effects on the Group's net sales.

(3) Natural Environment and Accidents

(i) Risk of infection

There is a possibility that the spread of infectious diseases, such as COVID-19, as well as their prolonged ramifications, will cause a significant negative impact on operating results, mainly in the Department Store Business, which is one of the Group's major businesses, due to stores refraining from operating and the decrease in demand from both Japanese customers and visitors from overseas.

Furthermore, there is a possibility that the Shopping Centre Business, in which rents in commercial facilities are one source of profits, will face a significant negative impact on operating results due to a decrease in rents collected, tenants leaving, etc. as a result of refraining from operating as well as other factors.

On the other hand, assuming that operations will continue amid the spread of infection, the Group believes that the impact of COVID-19 on the operating results of the Supermarket Business, which is responsible for functions that serve as daily lifelines, will be relatively small. However, there is a possibility that costs will increase significantly due to this situation as a special response is necessary for the continuation of operations under this environment where infection is spreading, such as measures to prevent the spread of infection to customers and employees in store facilities, a response in the case that someone is infected, and a response in the case that difficulties arise in product procurement due to supply chain disruption, etc.

Based on the know-how regarding business continuity amid the spread of infection gained through the response to COVID-19 this time, the Group will work to reduce the impact when these same risks manifest in the future.

(ii) Unusual weather such as cool summer and warm winter

Many of clothing items, which are the Group's mainline merchandise, are highly fashionable and seasonable, and sales of these items are affected by weather to some extent. Therefore, cool summer, warm winter and other unusual weather may have negative effects on the Group's net sales.

(iii) Natural disasters and accidents

If business facilities including stores are damaged by unforeseeable disasters or accident such as earthquake, flood, typhoon or fire, this may have negative effects on the Group's operating results. As preparation to respond to these natural disasters and accidents, the Group is taking measures such as formulating a response manual, etc. and taking out property insurance.

(4) Others

(i) Refusal to renew a lease agreement

Many of the Group's stores and facilities are leasehold properties. If lessors including owners of buildings and land refuse to renew (in the case of fixed-term building lease agreement, refuse to resign) an agreement due to expiration of the lease period, operation of the store, etc. may become unable to be continued.

(ii) Safety of goods sold

General consumers' heightened sense of concern about foods due to outbreaks of BSE, bird flu and other diseases, occurrence of accidents such as food poisoning and health hazards, and a decrease in customer satisfaction or confidence stemming from defects in goods sold may have negative effects on the Group's net sales. As for quality control and hygiene control of goods sold, "Quality Control Promotion Subcommittee" and "Food Hygiene Quality Control Promotion Subcommittee" have been set up within the Group to aggressively promote measures to ensure safety and security of goods for customers.

(iii) Management of customer information

If customer information is leaked to outsiders as a result of any unpredictable accident or contingent event, this may cause a reduction in credibility of the Group and have negative effects on its net sales. As for management of customer information, the Group ensures the strict operation of rules and the education of employees based on the personal information management regulations and the management manual and strives to comply with the Act on the Protection of Personal Information.

(iv) Information system

The Group utilises information systems in each field to promote streamlining of operations and provide high-quality services. However, if any unforeseeable contingency, such as earthquake, fire, massive blackout or computer virus, disrupts the smooth operation of information system, this may have negative effects on the Group's operating results.

(v) Overseas business risk

The Group operates stores in China. Therefore, the political climate, economic environment, changes in laws and regulations, terrorist acts and other factors in China may have negative effects on its operating results and financial position.

In addition, items denominated in the local currency including net sales, expenses and assets of stores in China are converted into yen to prepare consolidated financial statements. Exchange rate fluctuations at the time of conversion may affect these items.

Corporate Governance System

(1) Outline of Corporate Governance System

(i) Corporate Governance System

a. Basic views on corporate governance

The Company's basic philosophy is "To remain indispensable to the local communities through our activities of providing a model of lifestyle to local residents," and under its vision of "To be a customer's lifestyle partner to enrich their hearts through offering 'fun, happy and tasty' experiences, contributing to the future of the local community, children and our planet," the Company considers that its purpose is to contribute to society overall while meeting the expectations of its stakeholders, who are customers, shareholders, business partners, and employees.

Based on the basic philosophy and management vision, the Company will perform swift, efficient and strong-minded decision making and work to increase its medium- to long-term corporate value, while meeting various stakeholders' expectations and emphasising compliance. To this end, the Company will also ensure the enhancement of corporate governance.

b. Outline and rationale of corporate governance system

In the H2O Retailing Group, H2O Retailing Corporation (the Company), a holding company, is responsible for the business planning, management and oversight of the entire Group. It seeks through proper and legal means to raise the corporate value of Group companies by building a corporate governance system that facilitates fast-acting and efficient businesses.

The Company has adopted a "Company with an Audit and Supervisory Committee" (hereinafter, "ASC") system with a view to increasing its corporate value over the medium to long term.

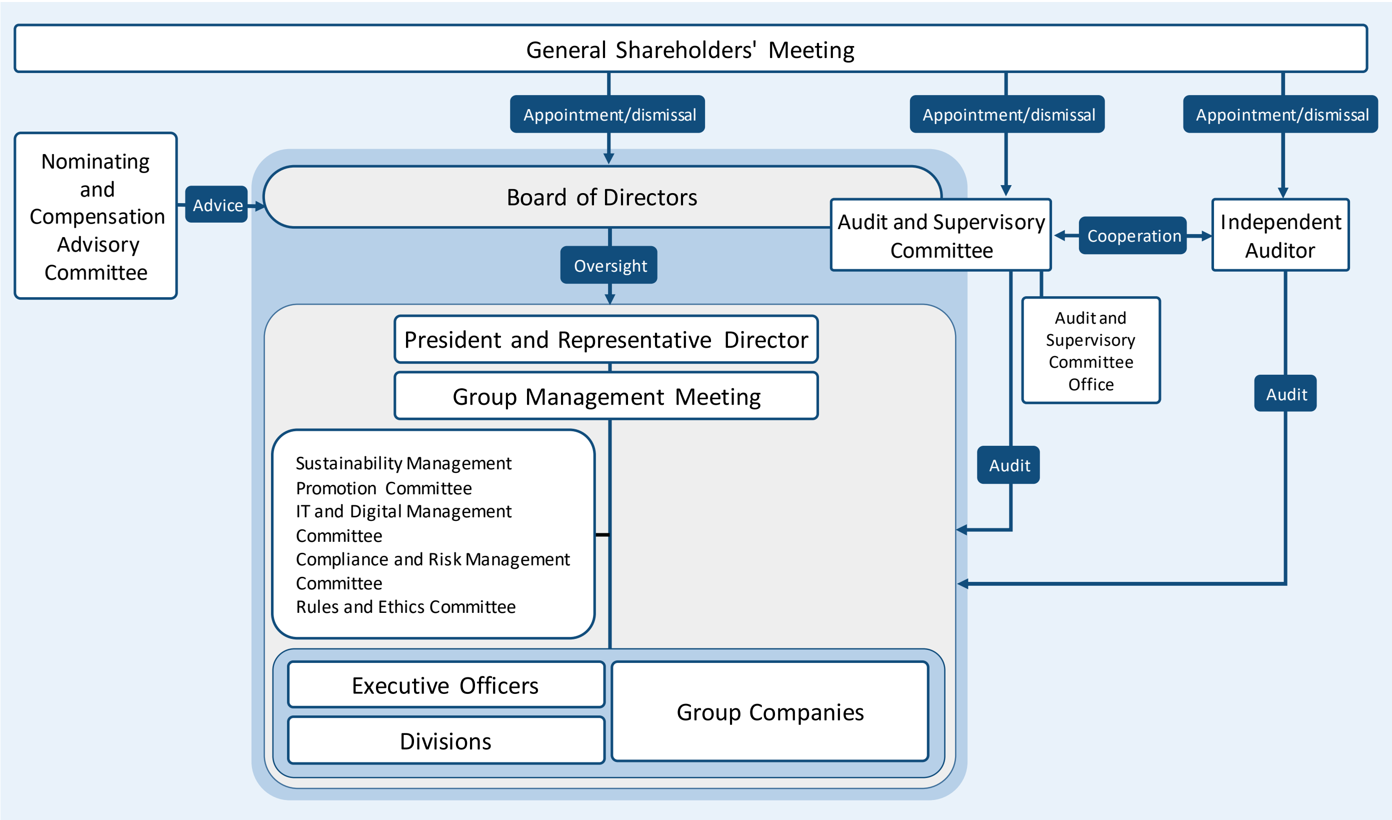
The Company's Board of Directors consists of nine (9) directors (five (5) directors are ASC members), including four (4) outside directors (four (4) outside directors are ASC members). Thus, more than one-third of directors on the Board of Directors are outside directors. For names of the members, please see "(2) Status of Officers, (i) Officers." The Chairman of the Board of Directors is Mr. Naoya Araki, President and Representative Director and the Chairman of the ASC is Mr. Toshimitsu Konishi, Director, standing ASC member.

To ensure the fairness and transparency of the process of appointing directors and deciding compensation for directors, the Company will continue to have a voluntary Nominating and Compensation Advisory Committee (Note 1). Regarding the agenda on appointing candidates for directors or compensation for directors, in view of the basic principles regarding the corporate governance stipulated by the Company, the Nominating and Compensation Advisory Committee considers the agenda and advises the Board of Directors before the Board of Directors makes a decision. As for directors who are ASC members, decisions concerning their nominations are made with the consent of the ASC, and decisions concerning their compensation are made through discussion among ASC members.

In addition, the Group Management meeting (Note 2), which consists of representative directors and full-time directors, has been established as an organization for efficient management decision-making of the Company and its Group companies, and deliberates and approves important matters such as management plans, business policies, and investments of the Company and its group companies, including matters to be discussed at meetings of the Board of Directors. The Company and its Group companies have clearly defined business responsibilities established through the adoption of an executive officer system. The directors and the Board of Directors of each company have adopted this system for managing and overseeing the business execution of the executive officers.

The ASC audits and supervises business execution through means such as the exercise of voting rights held by ASC members at Board of Directors' meetings and the exercise of the right to state opinions on personnel affairs and compensation of directors who are not ASC members.

■Corporate Governance Framework



Note 1: Nominating and Compensation Advisory Committee

The committee consists of independent outside directors (Mr. Naoshi Ban and Mr. Kenjiro Nakano), which comprise the majority of the committee, and Mr. Naoya Araki, President and Representative Director. The Chairman is Mr. Naoshi Ban, independent outside director.

Note 2: Group Management Meeting

The meeting consists of the Company's full-time directors (Mr. Naoya Araki, Mr. Katsuhiro Hayashi and Mr. Toshihiko Yamaguchi) and Audit and Supervisory Committee Member (Mr. Toshimitsu Konishi) and the Company's executive officers (Mr. Gaku Watanabe, Mr. Masaru Ikejima, Mr. Kenji Uno, Mr. Yasuhiro Imai, Mr. Hideki Kashihara and Mr. Toru Koyama). The Chairman is Mr. Naoya Araki, President and Representative Director.

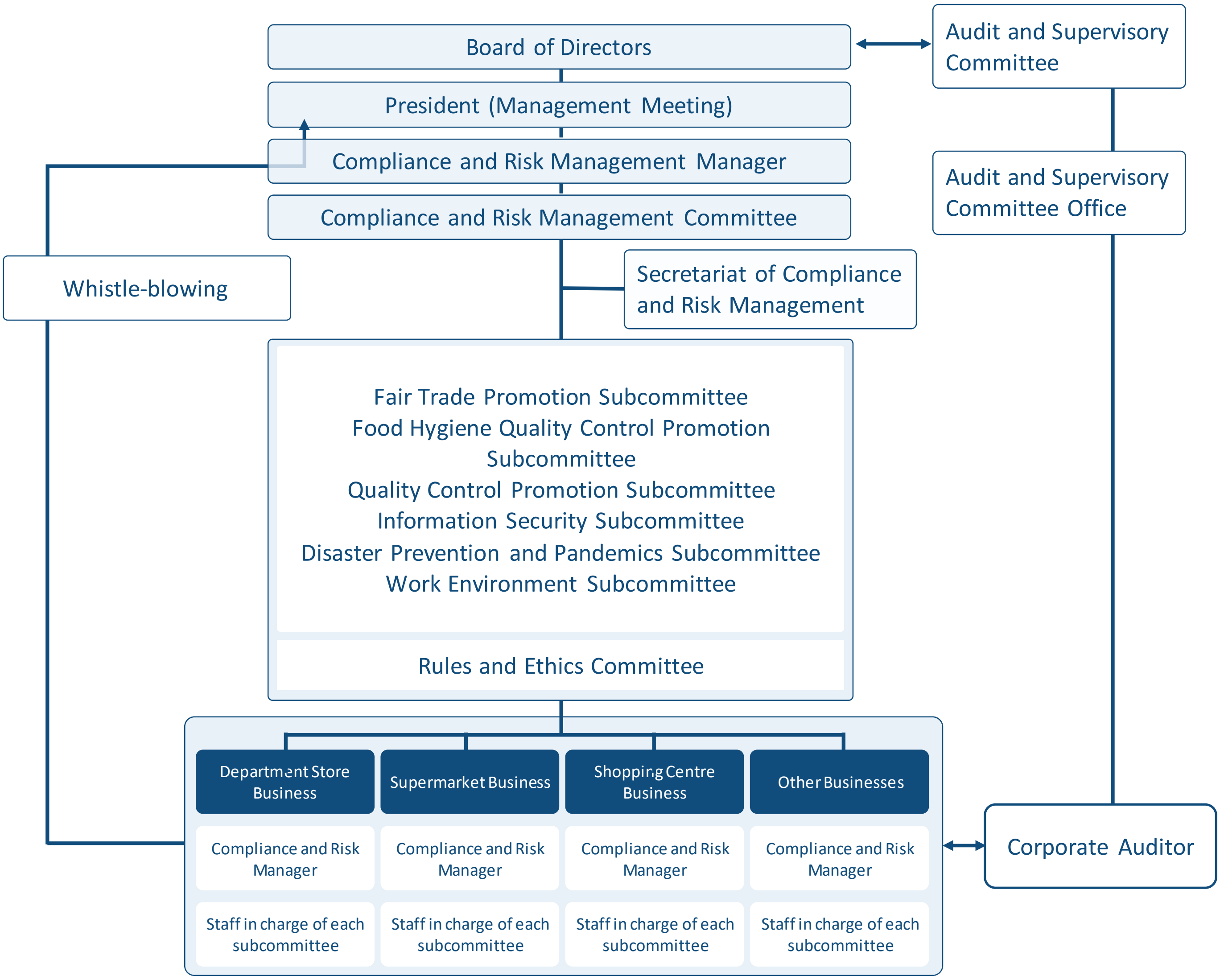
c. Internal control and risk management system

■Group Compliance and Risk Management System

The Company resolved the framework of its control system to ensure business appropriateness as follows:

A. Ensuring performance of duties by directors and employees in full compliance with laws and regulations as well as the Company's Articles of Incorporation

Compliance



The H2O Retailing Group has a code of conduct stipulating basic principles so that executives and employees will act in accordance with the Companies' code of ethics, laws, rules and regulations. We have also compiled the Group Compliance Regulations, establishing basic policies and rules to ensure Group-wide compliance. In addition, we appoint outside directors with the necessary knowledge and experience to help the Group ensure full compliance.

In addition to establishing the "Compliance and Risk Management Committee" (Note 1) to take the lead in building and developing a compliance system, each business of the Company and the Group has a person in charge of carrying out compliance policy and sharing information.

In addition, the Group has set up a whistle-blowing system and established rules for disciplinary action in the case of legal and regulatory violations or instances of fraud committed by Group executives or employees.

The Company has an internal audit function and audits the status of compliance in accordance with “Internal Audit Policy.”

Ensuring the reliability of financial reporting

At each company in the Group, we have set up internal control systems to ensure the reliability of financial reporting. At the Company, we carry out appraisals of the implementation and operational status of internal controls related to financial reporting on a Group-wide basis in accordance with the Financial Instruments and Exchange Act and related laws and regulations.

Eliminating antisocial forces

The “H2O Retailing Group code of conduct” explicitly prohibits any accession by the Group to unacceptable demands made by antisocial elements that threaten public order and safety. We are also strengthening our partnerships with specialist external organisations such as the police and lawyers, and have created systems for insulating ourselves from all contact with antisocial elements.

Note 1: Compliance and Risk Management Committee

The committee consists of officers of the Company and major subsidiaries (Mr. Katsuhiro Hayashi, Mr. Toshihiko Yamaguchi, Mr. Kimihiko Kitabe, Mr. Norifumi Morii, Mr. Yukichika Sato, Mr. Masaru Ikejima, and Mr. Tomoyuki Umemoto). The Chairman is Mr. Masaru Ikejima, Managing Executive Officer of the Company, who is in charge of compliance and risk management for the Group.

B. Storage and management of information related to execution of duties by directors

Internal documentation related to the execution of duties by directors and executives and other information is stored and managed based on laws and regulations for archiving.

C. Regulations and other systems for management of risk of loss

Risk management systems

We have compiled a framework of risk management procedures which establishes principles for the prevention of risk events, reporting when risk events occur and dealing with the consequences of risk event occurrence.

Basic policies and regulations for risk management enable Group companies to take precautionary measures against risk and to minimise losses when risk events occur. The Compliance and Risk Management Committee collates risk related information and prepares countermeasures while Group companies voluntarily create their own systematic measures to deal with risk based on individual Group company characteristics. Concurrently, a system for pooling information regarding risk faced by all companies in the Group is in place.

D. Ensuring effective performance of duties by Directors

In order to clarify the management supervisory responsibilities of directors and the responsibilities of executive officers and to promote more efficient performance of duties by directors, an executive officer system has been introduced at all Group companies, with the Group Management meeting responsible for effective business decision-making for the Company and the Group. This body manages business performance on a monthly and quarterly basis and assesses the progress of business plans at the Board of Directors meetings and Group Management meetings, making revisions to targets as necessary.

Authority and responsibility have also been clarified based on approval procedures for the issuing and acceptance of management instructions based on job grade.

E. Ensuring sound conduct of business in the Group companies

Based on Group company management protocol, business planning, marketing policies and other important operational matters at Group companies are taken up or reported at Group Management meetings and Board of Directors' meetings.

The Company's internal auditing, compliance and risk management systems apply to all companies in the Group.

F. Audit assistants and their independence from directors who are not ASC members and effectiveness of instruction by ASC in cases in which an ASC seeks help in performing auditing duties

At a request by the ASC, dedicated ASC staff members are selected to help the ASC carry out its duties. These assistants do not report to directors who are not ASC members.

G. Reporting to the ASC by directors who are not ASC members and employees, other reporting to the ASC and ensuring such reporting will not become the basis for any unfair treatment

ASC members regularly hold meetings with representative directors, dedicated ASC staff members, staff members of internal control divisions (Finance and Accounting, General Affairs, Human Resources and Information Technology Promotion, etc.) and the Group Corporate Auditors Committee, attend important meetings such as Group Management meetings and review the approval documents and minutes of Group Management meetings and other committee meetings.

When requested by the ASC, the Group's directors and employees shall promptly report to the ASC regarding matters related to the administration of business. Upon discovering any issue such as the violation of laws and regulations which may cause significant loss to the Company or Group companies, the Group's directors and employees shall report to ASC members or corporate auditors of the respective companies of the Group who subsequently report to the Company's ASC.

The status of the Group's internal audits, compliance, risk management and internal whistle-blower system is regularly reported to the Company's ASC.

All members of the Group are informed that it is strictly prohibited to treat any director, officer or employee unfairly on the grounds that they have provided a relevant report for the ASC or corporate auditors.

H. System to ensure that audits by ASC are executed effectively

Based on requests from the ASC, dedicated ASC staff members are designated as corporate auditors of each company of the Group. When the ASC requests the hiring of outside experts such as lawyers or certified public accountants as their advisors and when ASC members request relevant expenses to fulfil their roles in advance, the Company promptly bears such costs in accordance with applicable laws and regulations. The Company establishes an annual budget for such costs for ASC members.

The following summarises the status of operations for the year ended 31st March 2022.

(1) In order to ensure proper operations, the Company prescribed the internal rules of "H2O Retailing Group Code of Conduct" and "Group Compliance Regulations" and established the Group's operations rules, which summarise the basic matters with which each of Group companies shall comply. All directors and employees are informed of these rules.

As compliance and risk management initiatives, we have set up subcommittees in various fields including fair trading, quality control, information security, harassment, disaster prevention and pandemics to promote measures and share information. In the current fiscal year, as measures to respond to the revised Act on the Protection of Personal Information, principally in information security, we amended our personal information management regulations and Privacy Policy across the Group and implemented the placement of a cookie banner on the website of each group company and other measures. At the same time, we maintained a system and various regulations for the Company to centrally manage information security measures of the entire Group.

In addition, we hold a "compliance liaison meeting" to promote compliance and take precautionary measures against risk in the Group, and make known cases in line with the change of the times, such as moral harassment, as a measure against harassment. At the same time, we inform each group company of the revisions of the Whistleblower Protection Act, the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members, and the Ordinance for Enforcement of the Road Traffic Act, our policies to respond to the revisions as the Group, and promoted the thorough implementation of the responses.

The Companies have a whistle-blower hotline named "Compliance Hotline," and the Company and some major subsidiaries have divisions in charge of the Hotline. This internal whistle-blowing system is in continuous operation, and the status of whistle-blowing is regularly reported to Representative Directors and a standing ASC member.

In order to ensure the reliability of financial reporting, we added two companies, Kansai Food Market Ltd. and Kansai Super Market Ltd., to the scope of our assessments of group-wide controls during the year, following the management integration through a share exchange with Kansai Super Market Ltd. on 15th December 2021, and the company split of the said company on 1st February 2022, and implemented an evaluation of the status of the Group's control and an evaluation of the status of development and operation of internal controls, primarily of Hankyu Hanshin Department Stores, Inc., Izumiya Co., Ltd. and Hankyu Oasis Co., Ltd., on a business process level.

In relation to antisocial forces, the Company continues to ensure that clauses for the elimination of organised crime groups are included in relevant contracts and documents.

(2) With respect to the audit system, the Company continues to assign 15 dedicated staff members who support the duties of the ASC as requested by the ASC and designate each staff member as a corporate auditor or a person taking responsibility of internal audit function.

Additionally, ASC members periodically hold meetings with Representative Directors and staff members in the internal control divisions (Business Strategy Division, Management Planning Division, Finance Division, System Division, General Affairs and Human Resources Division and J-SOX Division) while the standing ASC member attends important meetings such as Group Management meetings.

(ii) Outline of the Liability Limitation Agreements

As of 22nd June 2022, the Company entered into a liability agreement with each outside director in accordance with Article 427, paragraph (1) of the Companies Act ("Act") for the purpose of limiting liability as prescribed in Article 423, paragraph (1) of the Act. Under the agreement, the maximum amount of liability of an outside director shall be limited to the amount prescribed in the Act.

(iii) Outline of the Directors and Officers Liability Insurance Agreement

The Company has entered into a directors and officers liability insurance agreement as stipulated in Article 430-3, paragraph (1) of the Act. An outline of the agreement is as follows.

a. Scope of the insured

All directors (including ASC members), corporate auditors and executive officers of the Company and the Group (excluding Kansai Food Market Ltd. and its subsidiaries)

b. Effective share of insurance premiums paid by the insured

Insurance premiums for the insured who belong to the Company (directors including ASC members and executive officers of the Company) are fully paid by the Company, including premiums for riders.

c. Outline of insured events eligible for compensation

The insurance policy compensates for damages that may be incurred by the insured due to the insured assuming liability for the execution of their duties or receiving a claim in relation to the pursuit of such liability. There are certain exemptions, including events arising from criminal acts committed by the insured and events arising from acts committed by the insured with the knowledge that such acts are in violation of laws and regulations.

d. Measures to ensure the appropriateness of the execution of duties by directors and officers is maintained

In addition to the exemptions described in c., the agreement stipulates a deductible, and damages up to the deductible will not be compensated.

(iv) Exemption from Liability of Directors

The Company provides in the Articles of Incorporation that, at a resolution of the Board of Directors' meeting, the liability of directors (including former directors) who fail to perform their duties shall be exempt by a statutory limit based on Article 426, paragraph (1) of the Act. This provision enables directors to perform their duties without the effects of anxiety and allows the Company to continue inviting outside directors with deep insights and a wealth of experience. The above provision also applies to the corporate auditors (including former corporate auditors) before a resolution of the 97th Annual General Shareholders' Meeting held on 22nd June 2016.

(v) Number of Directors as Provided in the Articles of Incorporation

The Company provides in the Articles of Incorporation that the number of directors excluding directors who are ASC members shall be ten (10) or less and that of directors who are ASC members shall be five (5) or less.

(vi) Selection of Directors

The Company provides in the Articles of Incorporation that a resolution of a Shareholders' Meeting shall be made by a majority of the votes of the shareholders present at meetings where shareholders holding one third or more of the votes of the shareholders entitled to exercise voting rights are present. It is also provided in the Articles of Incorporation that directors shall not be appointed by cumulative voting.

(vii) Matters Regarding Dividends

For the purpose of implementing a dividend policy corresponding to the status of business operations, the Company provides in the Articles of Incorporation that matters regarding dividends, including matters prescribed in each items of Article 459, paragraph (1) of the Act, shall be resolved at a Board of Directors' meeting regardless of a resolution by a Shareholders' Meeting unless otherwise prescribed in laws and regulations.

(viii) Requirement for Resolution of a Special Proposal at a Shareholders' Meeting

For the purpose of smooth deliberations regarding a special proposal at a Shareholders' Meeting, the Company provides in the Articles of Incorporation that a special proposal submitted at a Shareholders' Meeting as prescribed in Article 309, paragraph (2) of the Act shall be resolved by a majority of two thirds or more of the votes of the shareholders present at meetings where the shareholders holding one third or more of the votes of the shareholders entitled to exercise voting rights are present.

(2) Status of Officers

(i) Officers

Male: 7; Female: 2 (The ratio of female officers is 22.2%)

Title	Name	Date of birth	Brief history		Term of office	Number of company shares held
President and Representative Director Chairman of the Board of Directors	Naoya Araki	14 May 1957	Apr. 1981	Joined Hankyu Department Stores, Inc.	(Note) 2	14,800
			Apr. 2003	General Manager, Suburban Store Development Office, Hankyu Department Stores, Inc.		
			Apr. 2004	Executive Officer, Hankyu Department Stores, Inc.		
			Oct. 2008	Executive Officer, Hankyu Hanshin Department Stores, Inc.		
			Jun. 2010	Director and Executive Officer, Hankyu Hanshin Department Stores, Inc.		
			Mar. 2012	President and Representative Director, Hankyu Hanshin Department Stores, Inc.		
			Jun. 2012	Representative Director, H2O RETAILING CORPORATION		
			Apr. 2020	President and Representative Director, H2O RETAILING CORPORATION (present position)		
			Apr. 2020	Chairman and Representative Director, Hankyu Hanshin Department Stores, Inc. (present position)		

Title	Name	Date of birth	Brief history		Term of office	Number of company shares held
Representative Director and Executive Vice President In charge of the Supermarket Business	Katsuhiro Hayashi	20 January 1958	Apr. 1982	Joined Hankyu Department Stores, Inc.	(Note) 2	19,700
			Apr. 2002	General Manager, Public Relations Office, Hankyu Department Stores, Inc.		
			Apr. 2005	General Manager, Compliance Office, Hankyu Department Stores, Inc.		
			Jun. 2009	Director and Executive Officer, H2O RETAILING CORPORATION		
			Jun. 2009	Executive Officer, Hankyu Hanshin Department Stores, Inc.		
			Apr. 2012	Director and Executive Officer, Hankyu Hanshin Department Stores, Inc.		
			Apr. 2014	Director and Managing Executive Officer, H2O RETAILING CORPORATION		
			Apr. 2014	Director and Managing Executive Officer, Hankyu Hanshin Department Stores, Inc.		
			Apr. 2015	Representative Director and Senior Managing Executive Officer, H2O RETAILING CORPORATION		
			Apr. 2015	In charge of the Human Resources Office (present position), the General Affairs Office, and the Public Relations Office, H2O RETAILING CORPORATION		
			Apr. 2015	Representative Director and Senior Managing Executive Officer, Hankyu Hanshin Department Stores, Inc.		
			Apr. 2017	Representative Director and Executive Vice President, H2O RETAILING CORPORATION (present position)		
			Nov. 2019	President and Representative Director, H2O Foods Group Co., Ltd. (present position)		
			Apr. 2020	In charge of the Supermarket Business, H2O RETAILING CORPORATION (present position)		
			Dec. 2021	President and Representative Director, Kansai Food Market Ltd. (present position)		

Title	Name	Date of birth	Brief history		Term of office	Number of company shares held
Representative Director In charge of the Department Store Business	Toshihiko Yamaguchi	21 August 1963	Apr. 1986	Joined Hankyu Department Stores, Inc.	(Note) 2	7,700
			Apr. 2009	Store Manager, Kawanishi Hankyu Department Store, Hankyu Hanshin Department Stores, Inc.		
			Apr. 2011	Sales Service Executive Manager, Yurakucho Hankyu Department Store, Hankyu Hanshin Department Stores, Inc.		
			Aug. 2011	Sales Service Executive Manager, Hankyu Men's Tokyo, Hankyu Hanshin Department Stores, Inc.		
			Apr. 2012	Store Manager, Hankyu Men's Tokyo, Hankyu Hanshin Department Stores, Inc.		
			Apr. 2014	Executive Officer, Hankyu Hanshin Department Stores, Inc.		
			Apr. 2018	Director and Executive Officer, Hankyu Hanshin Department Stores, Inc.		
			Apr. 2020	President and Representative Director, Hankyu Hanshin Department Stores, Inc. (present position)		
			Jun. 2020	Representative Director, in charge of the Department Store Business, H2O RETAILING CORPORATION (present position)		

Title	Name	Date of birth	Brief history		Term of office	Number of company shares held
Director	Kazuo Sumi	19 April 1949	Apr. 1973	Joined Hankyu Corporation (currently Hankyu Hanshin Holdings, Inc.)	(Note) 2	32,100
			Jun. 2000	Director, Hankyu Corporation		
			Jun. 2002	Managing Director, Hankyu Corporation		
			Jun. 2003	President and Representative Director, Hankyu Corporation		
			Oct. 2007	Director, H2O RETAILING CORPORATION (present position)		
			Jun. 2017	Chairman and Representative Director, Group CEO, Hankyu Hanshin Holdings, Inc. (present position)		
Director Standing Audit and Supervisory Committee Member	Toshimitsu Konishi	17 April 1944	Apr. 1967	Joined Hankyu Department Stores, Inc.	(Note) 3	30,600
			Sep. 1988	General Manager, Accounting Department, Hankyu Department Stores, Inc.		
			Jun. 2000	Director, Hankyu Department Stores, Inc.		
			Apr. 2002	President and Representative Director, Hankyu Foods Co., Ltd.		
			Jun. 2002	Adviser, Hankyu Department Stores, Inc.		
			Jun. 2004	Standing Corporate Auditor, Hankyu Department Stores, Inc.		
			Oct. 2007	Standing Auditor, H2O RETAILING CORPORATION		
			Oct. 2008	Auditor, Hankyu Hanshin Department Stores, Inc. (present position)		
			Jun. 2016	Director (Standing Audit and Supervisory Committee Member), H2O RETAILING CORPORATION (present position)		
			Dec. 2021	Director (Audit and Supervisory Committee Member), Kansai Food Market Ltd. (present position)		

Title	Name	Date of birth	Brief history		Term of office	Number of company shares held
Director Audit and Supervisory Committee Member	Naoshi Ban	30 September 1946	Apr. 1969	Joined Mitsubishi Logistics Corporation	(Note) 3	14,800
			Jun. 2000	Director, Mitsubishi Logistics Corporation		
			Jun. 2001	Managing Director, Mitsubishi Logistics Corporation		
			Jun. 2003	President and Representative Director, Mitsubishi Logistics Corporation		
			Jun. 2008	Representative Director and Chairman, Mitsubishi Logistics Corporation		
			Jun. 2010	Chairman of the Board, Mitsubishi Logistics Corporation		
			Apr. 2013	Director and Senior Corporate Advisor, Mitsubishi Logistics Corporation		
			Jun. 2013	Senior Corporate Advisor, Mitsubishi Logistics Corporation		
			Jun. 2015	Director, H2O RETAILING CORPORATION		
			Jun. 2016	Director and Audit and Supervisory Committee Member, H2O RETAILING CORPORATION (present position)		
			Apr. 2018	Special Advisor, Mitsubishi Logistics Corporation		

Title	Name	Date of birth	Brief history		Term of office	Number of company shares held
Director Audit and Supervisory Committee Member	Kenjiro Nakano	13 August 1947	Apr. 1971	Joined Sumitomo Bank, Ltd.	(Note) 3	5,600
			Apr. 1998	Director, Sumitomo Bank, Ltd.		
			Jun. 2002	Managing Executive Officer, Sumitomo Mitsui Banking Corporation		
			Jun. 2004	Managing Director cum Managing Executive Officer, Sumitomo Mitsui Banking Corporation		
			Jun. 2005	Senior Managing Director cum Senior Managing Executive Officer, Sumitomo Mitsui Banking Corporation		
			Apr. 2006	Representative Director cum Deputy President Executive Officer, Sumitomo Mitsui Banking Corporation		
			Apr. 2008	Representative Director cum Deputy Chairman, Sumitomo Mitsui Banking Corporation		
			Jun. 2010	President, Keihanshin Real Estate Co., Ltd. (currently Keihanshin Building Co., Ltd.)		
			Jun. 2013	Outside Director of Maruichi Steel Tube Ltd. (present position)		
			Jun. 2016	Chairman, Keihanshin Building Co., Ltd.		
			Jun. 2016	Director and Audit and Supervisory Committee Member, H2O RETAILING CORPORATION (present position)		
			Jun. 2022	Special Advisor, Keihanshin Building Co., Ltd. (present position)		
Director Audit and Supervisory Committee Member	Mayumi Ishihara	3 May 1963	Apr. 1997	Registered as attorney with the Osaka Bar Association	(Note) 3	500
			Apr. 1997	Joined Oh-Ebashi LPC & Partners		
			Jun. 2013	Outside Auditor, Morishita Jintan Co., Ltd.		
			Feb. 2016	Outside Director, Morito Co., Ltd. (present position)		
			Apr. 2016	Outside Director (Audit and Supervisory Committee Member), OS Co., Ltd. (present position)		
			Jun. 2016	Director and Audit and Supervisory Committee Member, H2O RETAILING CORPORATION (present position)		
			Jun. 2018	Outside Director (Audit and Supervisory Committee Member), Morishita Jintan Co., Ltd. (present position)		

Title	Name	Date of birth	Brief history		Term of office	Number of company shares held
Director Audit and Supervisory Committee Member	Nobuko Sekiguchi	3 July 1968	Nov. 2005	Joined Capcom Co., Ltd.	(Note) 3	100
			Oct. 2007	Accounting Manager, Capcom Co., Ltd.		
			Apr. 2011	Corporate Officer in Management of Corporate Planning, Capcom Co., Ltd.		
			Apr. 2016	Managing Corporate Officer in Manager of Corporate Planning & Manager of Human Resources Division, Capcom Co., Ltd.		
			Mar. 2019	Left Capcom Co., Ltd.		
			Jun. 2019	Outside Director, Duskin Co., Ltd. (present position)		
			Jun. 2020	Director and Audit and Supervisory Committee Member, H2O RETAILING CORPORATION (present position)		
			Jun. 2022	Outside Director (Audit and Supervisory Committee Member), Kobe Steel, Ltd. (present position)		
Total						125,900

Notes:

1. Mr. Naoshi Ban, Mr. Kenjiro Nakano, Ms. Mayumi Ishihara and Ms. Nobuko Sekiguchi are outside directors.
2. One year from the conclusion of the Annual General Shareholders' Meeting held on 22nd June 2022.
3. Two years from the conclusion of the Annual General Shareholders' Meeting held on 22nd June 2022.
4. The Chairman of the Board of Directors is Mr. Naoya Araki.
5. The Company is a Company with an Audit and Supervisory Committee. The Chairman of the Audit and Supervisory Committee is Mr. Toshimitsu Konishi. The members of the Audit and Supervisory Committee are Mr. Naoshi Ban, Mr. Kenjiro Nakano, Ms. Mayumi Ishihara and Ms. Nobuko Sekiguchi.

(ii) Outside Directors

The number of directors from outside the Company is four (4), of whom four (4) are ASC members.

a. Relationship with outside directors

Mr. Naoshi Ban has actively given advice and opinions at Board of Directors' meetings, etc., as an outside director based on his extensive management experience of having served as a President and Chairman of a business enterprise and his broad insights. The Company has appointed him again as an outside director and ASC member, expecting that he will contribute to the sustainable enhancement of the corporate value of the Group by utilising his experience, etc. in the supervision and audit of the Group. Furthermore, since he fulfils the requirements as prescribed in the below mentioned "Independence Criteria for Outside Directors," the Company appointed Mr. Ban as an independent director. Mr. Ban has no special interests in the Company.

Mr. Kenjiro Nakano has actively given advice and opinions at Board of Directors' meetings, etc., as an outside director based on his extensive experience and his broad insights as the manager of a financial institution. The Company has appointed him again as an outside director and ASC member, expecting that he will contribute to the sustainable enhancement of the corporate value of the Group by utilising his experience, etc. in the supervision and audit of the Group. Mr. Nakano is a former director of Sumitomo Mitsui Banking Corporation, which is one of the main banks of the Company. However, he has never served with the bank, even as an advisor, since his retirement more than 10 years ago in June 2010. Thus, he fulfils the requirements as prescribed in the below mentioned “Independence Criteria for Outside Directors,” and the Company appointed Mr. Nakano as an independent director. Mr. Nakano has no special interests in the Company.

Ms. Mayumi Ishihara has actively given advice and opinions at Board of Directors’ meetings, etc., as an outside director based on her professional knowledge, experience and broad insights as an attorney-at-law, although she has no experience in corporate management except as an outside director. The Company has appointed her again as an outside director and ASC member, expecting that she will contribute to the sustainable enhancement of the corporate value of the Group by utilising her experience, etc. in the supervision and audit of the Group. Since she fulfils the requirements as prescribed in the below mentioned “Independence Criteria for Outside Directors,” the Company appointed Ms. Ishihara as an independent director. Ms. Ishihara has no special interests in the Company.

Ms. Nobuko Sekiguchi has extensive experience, accomplishments, and knowledge, etc. of accounting, corporate planning, and personnel system reforms in operating companies and management consulting. The Company has appointed her as an outside director and ASC member, expecting that she will contribute to the sustainable enhancement of the corporate value of the Group by drawing on these attributes in the supervision and audit of the Group. Since she fulfils the requirements as prescribed in the below mentioned “Independence Criteria for Outside Directors,” the Company appointed Ms. Sekiguchi as an independent director. Ms. Sekiguchi has no special interests in the Company.

For details regarding shareholdings of each outside director, please see “(i) Officers.”

The Company has established the independence criteria for outside directors as follows:

Independence Criteria for Outside Directors

To maintain their independence from the Company, outside directors of the Company shall not meet any of the following criteria.

(1) A person for whom the Company and its subsidiaries (collectively, “the Group”) is a principal business partner (Note 1) or an executing person (“the executing person”) of such party, including a managing director, an executive officer, a person who has similar authority, a manager or an employee.

(2) A principal business partner (Note 2) of the Group or the executing person of such party.

(3) An expert such as an attorney-at-law, a certified public accountant, a certified tax accountant or a consultant who receives a certain amount (Note 3) of money or other property from the Group in addition to compensation for being a director and/or corporate auditor.

(4) A person who belongs to the audit firm which is the statutory accounting auditor of the Group and conducts audit work for the Group.

(5) A major shareholder of the Company (directly or indirectly holding 10% or more of the total voting rights) or

the executing person of such major shareholder.

(6) An executing person of a company of which the Group is the major shareholder.

(7) In cases in which the Group's executive director, a director who is a standing ASC member or a full-time corporate auditor also holds the post of outside director or outside auditor of other companies, the executing person of such companies.

(8) The executing person of Hankyu Hanshin Toho Group (including the Group).

(9) A person receiving more than a defined amount (Note 4) of donations from the Group or, in cases in which the person is a corporation or an association, the executing person of the party.

(10) Any person identified in any of (1) to (9) above in the past five years or any executing person of the Group in the past ten years.

(11) Any person whose spouse or relatives within the second degree of kinship are identified in any of (1) to (10) above (limited to key persons (Note 5), excluding above (3) and (4)).

(12) Any person with whom any special circumstances exist that would result in a conflict of interest with the Company.

Notes:

1. "A person for whom the Group is a principal business partner" means a party offering products and/or services to the Group whose total amount of transactions with the Group in the previous fiscal year exceeds the greater of ¥100 million or 2% of the consolidated sales of the party.
2. "A principal business partner" means (a) a party to whom the Group offers products and/or services whose total amount of transactions with the Group in the previous fiscal year exceeds 2% of the consolidated net sales of the Company and (b) a party to whom the Group owes liabilities as loans of 2% or more of the consolidated total assets of the Company as of the previous fiscal year end.
3. "Certain amount" means (a) ¥10 million a year of compensation (except director's remuneration) received from the Group in the previous fiscal year in cases in which the expert is an individual offering services to the Group or (b) the total amount of compensation received from the Group in the previous fiscal year reaches 2% of the total revenue of a party in cases in which the expert belongs to a party such as a corporation or association offering services to the Group.
4. "Defined amount" means ¥10 million a year in the previous fiscal year.
5. "Key person" means an executing person with relevant authority as a director, operating officer, executive officer and/or senior manager.

b. Main activities of outside directors during the fiscal year ended 31st March 2022

Classification	Name	Main Activities
Director who is an ASC member	Naoshi Ban	Attended all 12 Board of Directors' meetings (excluding written resolutions) and all 11 ASC meetings held during the reporting period, to raise issues from a wide range of perspectives on M&A, restructuring and business management of subsidiaries, progress management and challenges for investments in IT, etc., and other matters based on his extensive management experience of having served as a President and Chairman of a business enterprise, appropriately giving his opinions on measures and asking questions. In addition, he chaired the Nominating and Compensation Advisory Committee, a voluntary committee, offering appropriate advice at the committee's meetings and striving to improve the transparency and objectivity for personnel affairs and compensation of the management.
Director who is an ASC member	Kenjiro Nakano	Attended all 12 Board of Directors' meetings (excluding written resolutions) and all 11 ASC meetings held during the reporting period, to raise issues on matters including finance and management administration of subsidiaries based on his extensive management experience as corporate manager of a financial institution and real estate business, appropriately giving his opinions and asking questions on management strategies, etc. of subsidiaries including real estate transactions and the Supermarket Business. In addition, he served as a member of the Nominating and Compensation Advisory Committee, a voluntary committee, offering appropriate advice at the committee's meetings and striving to improve the transparency and objectivity for personnel affairs and compensation of the management.

Classification	Name	Main Activities
Director who is an ASC member	Mayumi Ishihara	Attended all 12 Board of Directors' meetings (excluding written resolutions) and all 11 ASC meetings held during the reporting period, not only to make remarks on governance, compliance and legal risks in the matters including management integration with Kansai Super Market Ltd., newly made transactions in each business and proposal for sale of assets based on her knowledge and experience as an attorney, but also to raise issues from perspectives including a consumer perspective and a perspective on diversity, giving her opinions on measures and asking questions.
Director who is an ASC member	Nobuko Sekiguchi	Attended all 12 Board of Directors' meetings (excluding written resolutions) and all 11 ASC meetings held during the reporting period, appropriately giving her opinions on measures and asking questions based on her experience at business enterprises and in consulting work mainly by raising issues on progress management and challenges for IT investments, utilization and development of human resources in specialized fields such as IT and ESG. In addition, while serving as a member of the IT and Digital Management Committee, she also attended meetings for business reports from executive divisions such as the Finance Office and the Management Planning Office of the Company.

(3) Status of Audits

(i) Internal audits and ASC's audits

The Company has five (5) ASC members, consisting of four (4) outside directors and one (1) director (standing ASC member). The Company assigns professionals with corporate management experience and specialised knowledge of law and other subjects as outside directors. Mr. Toshimitsu Konishi, who has substantial knowledge of finance and accounting who had served as an accounting manager in the Company for approximately 30 years has been assigned as the standing ASC member. The standing ASC member is assigned as an ASC member with the authority to be reported to and to investigate. In addition, 14 assistant employees, consisting of nine (9) dedicated auditors, each of whom serves as corporate auditor of four (4) to five (5) subsidiaries besides administrative operation of the ASC, and five (5) persons taking responsibility of internal audit function, assist the standing ASC member at the ASC Office.

The office in charge of financial reporting, as stipulated in the Financial Instruments and Exchange Act (J-SOX) (six (6) members), is established to secure the reliability of financial reporting. They work to strengthen the audit function by making proposals for improvements based on regular interviews and on-site audits and assessing internal controls in financial reporting and in business processes.

With regard to activities of the ASC, the ASC developed audit plans and implemented focused audits and ordinary audits in accordance with the standards for ASC's audits, etc., the standards for audits of internal control system and others. Outside directors who are ASC members attended Board of Directors' meetings and regular meetings with representative directors, and gave their opinions and asked questions as necessary from the standpoint of attorneys and specialists with extensive business management experience. The standing ASC member attends the monthly "Group Management meeting" and the "Group Compliance Committee meeting," which are held as needed. The standing ASC member expresses his opinions at these meetings as necessary and inspected final decision reports on key matters as well as the minutes of the meetings, and heard reports regarding the execution of operations directly from internal control divisions.

The ASC meeting was held 11 times during the fiscal year ended 31st March 2022. All five (5) directors who are ASC members attended all 11 meetings. At each meeting, the standing ASC member spent approximately two (2) hours making an explanation on the content of agendas for the Board of Directors' meeting and a detailed report on the status of audits. Concurrently, a consensus on the ASC's opinion in consideration of the supervisory function over executives was formed through discussions about management issues, and the ASC provided advice and recommendations on the role of the holding company to representative directors for embodiment of the management philosophy as necessary.

In addition, two (2) outside directors who are ASC members have become the Chairman and a member of the voluntary Nominating and Compensation Advisory Committee, and at ASC meetings, they discussed policy on determining nominations and remuneration to consolidate their opinions, as well as discussing an ideal organisational structure that enables practice of aggressive governance, and providing advice and recommendations to representative directors as necessary.

Regarding the auditing of subsidiaries, the standing ASC member concurrently serves as an ASC member of Kansai Food Market Ltd., the listed company, and as a corporate auditor of Hankyu Hanshin Department Stores, Inc. and H2O Foods Group Co., Ltd., the core subsidiaries, while the standing corporate auditor or dedicated staff members who are assistant employees assume the position of corporate auditors of other subsidiaries, leading to augmentation of the reporting system to the standing ASC member by closely monitoring the site through auditing visits. At the same time, these corporate auditors work to perform more effective audits by holding meetings of the Group Board of Corporate Auditors Committee where appropriate and verifying the progress of audit plans through individual opinion exchanges with the standing ASC member and corporate auditors of subsidiaries. Regarding the coordination with the internal audit division, the standing ASC member weekly receives a report on assessment of internal control concerning financial reporting and internal control concerning business processes from the function in charge of J-SOX, which was established to secure the reliability of financial reporting, and a report on the method and results of business audits from an assistant employee in charge of internal audits who coordinates with the internal audit function of major companies while conducting activities centred on business audits of Hankyu Hanshin Department Stores, Inc.

In terms of liaison with the independent auditors, the ASC members are working closely to exchange opinions. For example, they exchange opinions about key audit matters when drafting the audit plan, while the standing ASC member confirms the progress of the audit procedures and exchanges opinions on issues in audits once a month in principle, and at ASC meetings, close coordination is maintained through discussion about major issues in auditing and the audit procedures on a quarterly basis.

(ii) Accounting audits

a. Name of the auditing firm

KPMG AZSA LLC.

b. Continuous auditing period

47 years

This number of years covers the period from the establishment of KPMG AZSA LLC.'s predecessor, Shinwa Audit Corporation, but a possibility remains that the continuous auditing period exceeds this period due to the remarkable difficulty in conducting an investigation.

c. Certified public accountants who executed the audits

Mr. Koji Narumoto, Mr. Tatsuya Kido and Ms. Aki Yuge

d. Composition of assistants with the audits

13 other certified public accountants and 18 other staff members

e. Selection policy and evaluation of auditing firm

In appointing an auditing firm, the Company takes into account the independence of the independent auditors, status of quality management, appropriateness of audit execution structure, ample auditing experience in other industries and companies, enriched relevant services, appropriateness of audit fees, and others.

If the independent auditors fall under any of the matter set forth in each item of Article 340, paragraph (1) of the Companies Act, the ASC dismisses the independent auditors. In addition, if quality and efficiency of audits might be lowered and there is no prospect for improvement in consideration of the independent audit's number of years of continuous audits, audit fees and others, or if the ASC judges, in light of assessment of the independent auditors, that a change of the independent audit is reasonable to further increase the appropriateness of audits, the ASC determines the content of proposal for dismissal or non-reappointment of the independent auditors to be submitted to a General Shareholders' Meeting.

Based on these policies, the ASC deliberated on the appropriateness of the independent auditors based on an evaluation of their score on 20 evaluation items following the "Practical Guide for Audit & Supervisory Board Members, etc., Regarding Evaluation and Formulation of Selection Standards for Accounting Auditors" issued by the Japan Audit & Supervisory Board Members Association. As a result, the ASC judged the selection of KPMG AZSA LLC. as the independent auditor to be appropriate.

(iii) Fees paid to independent auditors

a. Details of fees paid to certified public accountants, etc.

Classification	For the year ended 31st March 2021		For the year ended 31st March 2022	
	Audit fees (millions of yen)	Fees for non-audit services (millions of yen)	Audit fees (millions of yen)	Fees for non-audit services (millions of yen)
The Company	67	—	74	—
Consolidated subsidiaries	142	—	160	3
Total	210	—	235	3

The details of non-audit services for consolidated subsidiaries for the year ended 31st March 2022 were referred work.

b. Details of fees paid to certified public accountants, etc. and their network (KPMG International) (excluding a.)

Classification	For the year ended 31st March 2021		For the year ended 31st March 2022	
	Audit fees (millions of yen)	Fees for non-audit services (millions of yen)	Audit fees (millions of yen)	Fees for non-audit services (millions of yen)
The Company	—	—	—	—
Consolidated subsidiaries	11	—	12	—
Total	11	—	12	—

c. Other significant fees paid

For the year ended 31st March 2021

Suzhou Izumiya Co., Ltd., H2O (China) Investment Co., Ltd. and Suzhou Izumiya Supermarkets Co., Ltd., consolidated subsidiaries of the Company, paid ¥11 million in fees to a member firm of KPMG to which certified public accountants acting as the Company's independent auditors belong.

For the year ended 31st March 2022

Suzhou Izumiya Co., Ltd., H2O (China) Investment Co., Ltd. and Suzhou Izumiya Supermarkets Co., Ltd., consolidated subsidiaries of the Company, paid ¥12 million in fees to a member firm of KPMG to which certified public accountants acting as the Company's independent auditors belong.

d. Policy to determine audit fees

Audit fees to independent auditors are determined based on the items to be audited, the contents and procedures of the audits, the number of days required for audits and the appropriateness of the audit fees considering the scale and characteristics of the business of the Company.

e. Reasons for consent to the independent auditors' remuneration by the ASC

In accordance with the "Practical Guide for Cooperation with Accounting Auditors" issued by the Japan Audit & Supervisory Board Members Association, the Company's ASC examined the number of hours required for audits in the past, evaluated audit results, reviewed fee trends in the past and compared the fees with those paid by other companies in the same business. The ASC also had an interview with the independent auditors to evaluate their credentials and examined the appropriateness and reasonableness of fee calculations and the basis of estimates, including the number of hours and staff estimated in the audit planning and audit procedures for significant audit issues. As a result, the Company's ASC agreed to the amounts of fees to the independent auditors.

(4) Compensation for Directors

(i) Compensation paid to directors

Classification	Total compensation (millions of yen)	Total compensation by type (millions of yen)			Number of directors
		Basic compensation (fixed compensation)	Performance-based compensation (bonus)	Non-monetary compensation (stock option based compensation)	
Directors (excluding ASC members) (excluding outside directors)	147	128	—	18	5
Directors (ASC members) (excluding outside directors)	27	26	—	0	1
Outside directors	38	36	—	2	4

Note 1: Performance-based compensation

Bonuses that are performance-based compensation, as compensation paid according to consolidated operating results for one fiscal year, shall use consolidated operating income as the performance indicator and take into account position, assessment, profit attributable to owners of parent, and other factors. Consolidated operating income in the year ended 31st March 2022 is as stated in the "Consolidated Statements of Operations."

Note 2: Non-monetary compensation

The Company grants stock option-based compensation as non-monetary compensation. There are two (2) types of stock option-based compensation, namely the stock option-based compensation with continuous service conditions, for which all directors, including ASC members, are eligible, and the stock option-based compensation with performance-based conditions, for which executive directors are eligible. The details are as described in "(ii) Matters regarding Policy on Determining Compensation for Directors, 1) Method to determine policy on determining individual compensation for directors."

The performance-based indicators for the stock option-based compensation with performance-based conditions shall be as follows, and will be determined based on each of the business results. As consolidated ordinary income is one of the target income indicators, and consolidated ROIC is an indicator of capital efficiency, these two indicators have been chosen. While consolidated ordinary income, which is the performance indicator, in the year ended 31st March 2022 is as stated in the "Five-Year Summary," consolidated ROIC was 0.14%. Consequently, the number of exercisable units of the stock option-based compensation with performance-based conditions for the allotment in July 2019 and July 2020 is zero.

・ Allotment in July 2019 and July 2020

Indicator	Target for fiscal 2021	Weight
(i) Consolidated ordinary income	¥25.0 billion	50%
(ii) Consolidated ROIC	4.0%	50%

・ Allotment in August 2021

Indicator	Target for fiscal 2023	Weight
(i) Consolidated ordinary income	¥14.0 billion	50%
(ii) Consolidated ROIC	3.0%	50%

(ii) Matters regarding Policy on Determining Compensation for Directors

1) Method to determine policy on determining individual compensation for directors

At the Board of Directors' meeting held on 25th February 2021, the Company decided on the Policy on Determining Individual Compensation for Directors (the "Decision-making Policy").

2) Outline of the Decision-making Policy

Compensation for the Company's directors is designed based on the views on compensation for directors stipulated in the basic principles regarding corporate governance as well as the following basic policy. The compensation is comprised of monthly basic compensation, an annual bonus that reflects single-fiscal-year performance and other factors, stock option-based compensation with continuous service conditions, and stock option-based compensation with performance-based conditions. These types of compensation are combined according to each director's expected duties.

[Basic policy]

・ The plan should contribute to the sustainable growth and to the improvement of medium- to long-term corporate value of the Company group.

・ The plan should motivate the executive directors and executive officers to achieve the objectives of the mid-term plan.

・ The plan should help the Company group secure human resources who are capable of carrying out its mission and of achieving sustainable growth.

・ The plan should facilitate shared awareness with shareholders as well as an outlook that gives weight to the shareholder.

[Types of compensation, timing of payment and recipients]

		Timing of payment	Executive Directors, etc.	Non-executive Directors
Stock compensation	Stock option-based compensation with performance-based conditions	Annually (July)	○	–
	Stock option-based compensation with continuous service conditions	Annually (July)	○	○
Cash compensation	Bonus (performance-based compensation)	Annually (June)	○	–
	Basic compensation (fixed compensation)	Monthly	○	○

* Executive directors and executive officers are referred to as “Executive Directors, etc.” and directors other than Executive Directors, etc., such as outside directors and directors who are ASC members, are referred to as “Non-executive Directors.”

Policy on determining the ratio of each type of compensation against individual compensation for directors

Regarding compensation for Executive Directors, etc., approximately 50% is basic compensation, which is a fixed compensation, and approximately 50% is the annual bonus and stock compensation, which are types of compensation linked to business results and stock prices.

Amount of individual compensation or policy on determining calculation method thereof

<Basic compensation>

Basic compensation is set in accordance with individual job responsibility and position. For Executive Directors, etc., basic compensation is revised every April in accordance with an assessment for previous fiscal year on the basis of the compensation table according to stages of the amount of consolidated operating income. To Non-executive Directors, compensation shall be paid in accordance with individual role.

<Bonus>

Bonuses shall be compensation paid according to consolidated operating results for one fiscal year, determined in accordance with position and assessment based on a compensation table corresponding to the level of consolidated operating income. In addition, profit attributable to owners of parent and other factors shall be considered. Approval of the total amount of bonuses for directors shall be obtained at a General Shareholders’ Meeting each year. Because consolidated operating income and profit attributable to owners of parent are target indicators for single-fiscal-year performance, they have been chosen as indicator for performance-based compensation.

<Stock option-based compensation>

Stock compensation shall be the following two (2) types of stock options:

・ Stock option-based compensation with continuous service conditions

  Subscription rights to shares, which can be exercised by any eligible person for allotment of the subscription rights to shares after losing any position as officer, such as director (including ASC member), corporate auditor and executive officer of the Company and its subsidiaries (but provided that the loss is for retirement due to expiration of the terms of office or any other valid reason accepted by the Company), are granted to Executive Directors, etc. and Non-executive Directors in accordance with the position each year.

・ Stock option-based compensation with performance-based conditions

  In terms of management indicators targeted in the mid-term plan and other indicators predetermined by the Company’s Board of Directors (such as consolidated net sales, each stage of income, ROE and ROIC), the number of exercisable units is determined within the range of 0 to 100% of allotted subscription rights to shares in accordance with achievement levels of the indicators in the final fiscal year for the mid-term plan, and subscription rights to shares, which can be exercised after losing any position as officer, such as director (including ASC member), corporate auditor and executive officer of the Company and its subsidiaries (but provided that the loss is for retirement due to expiration of the terms of office or any other valid reason accepted by the Company), are granted to Executive Directors, etc. in accordance with the position each year.

Method of determining individual compensation

As for compensation for directors, etc., the Board of Directors decides the agenda for the General Shareholders' Meeting and individual amounts of compensation after consideration by the Nominating and Compensation Advisory Committee. As for compensation for directors who are ASC members, individual amounts are determined through discussion by directors who are ASC members.

Reasons the Board of Directors determined that individual compensation for directors pertaining to the current fiscal year is in line with the decision-making policy

The Nominating and Compensation Advisory Committee, a majority of whose members are independent outside directors, conducts deliberation and advises the Board of Directors with regard to individual compensation for directors, which in turn makes a resolution based on the advice.

In deliberating on individual compensation for directors, the Nominating and Compensation Advisory Committee considers factors such as the level of compensation for other executives and employees within the industry and the Company, while evaluating whether such individual compensation is consistent and in line with the decision-making policy. In addition, the Board of Directors also verifies that the individual compensation for directors is in line with the decision-making policy before deciding on individual compensation.

The maximum compensation based on a resolution of the General Shareholders' Meeting is outlined below.

a. At the 97th Annual General Shareholders' Meeting held on 22nd June 2016, the total amount of basic compensation for directors excluding directors who are ASC members was set at a maximum of ¥300 million per year (of which a maximum of ¥50 million is for outside directors), and basic compensation for directors who are ASC members was set at a maximum of ¥90 million per year. As of the conclusion of the 97th Annual General Shareholders' Meeting, the number of directors was eight (8), including one (1) outside director, and the number of directors who are ASC members was four (4).

b. Bonus amounts are decided at a Shareholders' Meeting each time they are paid.

c. At the 102nd Annual General Shareholders' Meeting held on 22nd June 2021, it was resolved as described below that stock option based compensation would be based on a different framework from the annual compensation described above.

・ Total amount of compensation for directors (excluding directors who are ASC members)

It was resolved that the upper limit would be set at ¥129 million per year (including ¥9 million for outside directors). Of the amount, the upper limit of ¥93 million per year will be set for stock option-based compensation with continuous service conditions (including a maximum of ¥9 million for outside directors) and the upper limit of ¥36 million per year would be set for stock option-based compensation with performance-based conditions. As of the conclusion of the 102nd Annual General Shareholders' Meeting, the number of directors excluding directors who are ASC members was five (5), none of whom were outside directors. Although outside directors other than directors who are ASC members were not appointed at the time of the resolution, the amount of compensation was set with an eye to the possibility of future appointment.

・ Total amount of compensation for directors who are ASC members

It was resolved that the upper limit would be set at ¥22.5 million per year. As of the conclusion of the 102nd Annual General Shareholders' Meeting, the number of directors who are ASC members was five (5).

(5) Holding Status

(i) Criteria and idea for division of investment securities

With regard to division of investment securities held for portfolio investment purposes and those held for other than portfolio investment purposes, the Company classifies investment securities which are held for the purpose of gain on sale as portfolio investment purposes and those which are held for the purpose of building good relationships with business partners and related parties such as business alliance partners and contributing to smooth promotion of the Company group’s businesses and improvement of corporate value over the medium to long term as purposes other than portfolio investment purposes.

In principle, as its policy, the Company does not hold investment securities which are held for portfolio investment purposes.

(ii) Investment securities which are held for other than portfolio investment purposes

a. Holding policy and method for verification of reasonableness of holdings as well as details of verification by the Board of Directors, etc., in relation to whether or not the holding of individual stock is appropriate

- When the Company considers that holding the stock helps build a good relationship with business partners and related parties such as business alliance partners and contributes to smooth promotion of the Company group’s businesses and improvement of corporate value over the medium to long term, it may hold the stock of the business partner, etc., as a policy-holding shares.
- The Company judges whether or not to exercise voting rights for stocks held as a policy-holding shares, for each proposal from a viewpoint of whether doing so contributes to improvement of the Group’s corporate value over the medium to long term, also taking into account the holding purpose.
- If a company that holds stock of the Company as a policy-holding shares (hereinafter, the “policy-holding shareholder”) expresses its intention to sell that stock, the Company shall not perform actions such as indicating a reduction in transactions with this company as a means for preventing the sale.
- For transactions with policy-holding shareholders, economic reasonableness of the transactions is fully verified so that any transactions that may harm the common interests of the Company and shareholders are not conducted.
- The Company has been pushing forward reduction in stocks of which the holding necessity is considered low. The Board of Directors will continue to verify holding purposes, details of transactions, dividend yields, holding risks and other matters, and consider selling stocks of which the holding necessity is considered low in view of market trends and other factors, also taking into account the Company’s capital cost. As a result, the Company sold eight stocks (including one stock which was partially sold) for ¥9,386 million in fiscal 2021.

b. Number of investment securities and balance sheet value

	Number of different stocks (stock)	Total amount of balance sheet value (millions of yen)
Unlisted shares	26	4,740
Shares other than unlisted shares	7	71,101

Stocks of which the number of shares increased in the fiscal year ended 31st March 2022.

	Number of different stocks (stock)	Total amount of acquisition cost related to the increase in the number of shares (millions of yen)	Reason for the increase in the number of shares
Unlisted shares	1	24	To strengthen business management relationship
Shares other than unlisted shares	—	—	—

Stocks of which the number of shares decreased in the fiscal year ended 31st March 2022.

	Number of different stocks (stock)	Total amount of sale value related to the decrease in the number of shares (millions of yen)
Unlisted shares	—	—
Shares other than unlisted shares	8	9,386

c. Information on the number of shares, balance sheet value, etc., of specified investment securities and shares deemed held by stock

Specified investment securities

Stock	For the year ended 31st March 2022 Number of shares Balance sheet value (millions of yen)	For the year ended 31st March 2021 Number of shares Balance sheet value (millions of yen)	Purpose of holding, quantitative effects of holding, and reason for the increase in the number of shares	Whether or not the stock of the Company is held
Toho Co., Ltd.	12,297,852 57,000	13,664,280 61,352	(Purpose of holding) To strengthen relationship with the Hankyu Hanshin Toho Group from a group-wide perspective (Method of verifying reasonableness of holding) Based on the relationship of the Hankyu Hanshin Toho Group, the Company has judged that there are positive effects of holding the stock. The decrease in the number of shares is due to the partial sale of shares held by the Company in the year ended 31st March 2022.	None
Takashimaya Co., Ltd.	8,887,000 10,326	8,887,000 10,495	(Purpose of holding) To strengthen relationship between both companies through business alliance, mainly in the Department Store Business segment (Method of verifying reasonableness of holding) The Company has determined that there are certain positive effects on promotion of businesses, such as a joint effort for products in the business alliance.	Yes
SRS HOLDINGS CO., LTD.	2,557,404 2,063	2,557,404 2,196	(Purpose of holding) To strengthen the business management relationship from a group-wide perspective (Method of verifying reasonableness of holding) As a result of taking into account the business relationship with this company, the Company has considered that there are positive effects of holding the stock.	None
Kato Sangyo Co., Ltd.	363,300 1,151	363,300 1,298	(Purpose of holding) To strengthen the business management relationship, mainly in the Supermarket Business segment (Method of verifying reasonableness of holding) As a result of taking into account the business relationship with this company (transaction for purchase of goods), the Company has considered that there are positive effects of holding the stock.	Yes

<table>
<tr><th rowspan="3">Stock</th><th>For the year ended 31st March 2022</th><th>For the year ended 31st March 2021</th><th rowspan="3">Purpose of holding, quantitative effects of holding, and reason for the increase in the number of shares</th><th rowspan="3">Whether or not the stock of the Company is held</th></tr>
<tr><th>Number of shares</th><th>Number of shares</th></tr>
<tr><th>Balance sheet value (millions of yen)</th><th>Balance sheet value (millions of yen)</th></tr>
<tr><td rowspan="2">Umenohana Co., Ltd.</td><td>374,500</td><td>374,500</td><td rowspan="2">(Purpose of holding) To strengthen relationship between both companies through business alliance, mainly in the Department Store Business segment
(Method of verifying reasonableness of holding) As a result of taking into account the business relationship with this company (transaction for purchase of goods), the Company has considered that there are positive effects of holding the stock.</td><td rowspan="2">None</td></tr>
<tr><td>387</td><td>422</td></tr>
<tr><td rowspan="2">MatsukiyoCocokara & Co. (Note 1)</td><td>34,340</td><td>34,340</td><td rowspan="2">(Purpose of holding) To strengthen relationship between both companies through business alliance, mainly in the Supermarket Business segment
(Method of verifying reasonableness of holding) As a result of taking into account the business relationship with this company, the Company has considered that there are positive effects of holding the stock.</td><td rowspan="2">Yes</td></tr>
<tr><td>148</td><td>171</td></tr>
<tr><td rowspan="2">Tokyo Rakutenchi Co., Ltd.</td><td>5,500</td><td>5,500</td><td rowspan="2">(Purpose of holding) To strengthen relationship with the Hankyu Hanshin Toho Group from a group-wide perspective
(Method of verifying reasonableness of holding) Based on the relationship of the Hankyu Hanshin Toho Group, the Company has judged that there are positive effects of holding the stock.</td><td rowspan="2">None</td></tr>
<tr><td>22</td><td>26</td></tr>
<tr><td rowspan="2">Kansai Food Market Ltd. (Note 2)</td><td>—</td><td>3,200,000</td><td rowspan="2">This company has made a transition to the Company’s subsidiary through a share exchange on 15th December 2021.</td><td rowspan="2">None</td></tr>
<tr><td>—</td><td>3,593</td></tr>
<tr><td rowspan="2">Mitsubishi UFJ Financial Group, Inc.</td><td>—</td><td>3,012,740</td><td rowspan="2">The Company sold shares of this company during the year ended 31st March 2022.</td><td rowspan="2">None (Note 3)</td></tr>
<tr><td>—</td><td>1,782</td></tr>
<tr><td rowspan="2">Asahi Group Holdings, Ltd.</td><td>—</td><td>217,360</td><td rowspan="2">The Company sold shares of this company during the year ended 31st March 2022.</td><td rowspan="2">None</td></tr>
<tr><td>—</td><td>1,013</td></tr>
<tr><td rowspan="2">Sumitomo Mitsui Financial Group, Inc.</td><td>—</td><td>120,528</td><td rowspan="2">The Company sold shares of this company during the year ended 31st March 2022.</td><td rowspan="2">None (Note 3)</td></tr>
<tr><td>—</td><td>482</td></tr>
</table>

Stock	For the year ended 31st March 2022	For the year ended 31st March 2021	Purpose of holding, quantitative effects of holding, and reason for the increase in the number of shares	Whether or not the stock of the Company is held
	Number of shares	Number of shares		
	Balance sheet value (millions of yen)	Balance sheet value (millions of yen)		
Joshin Denki Co., Ltd.	—	56,000	The Company sold shares of this company during the year ended 31st March 2022.	None
	—	176		
Sumitomo Mitsui Trust Holdings, Inc.	—	25,370	The Company sold shares of this company during the year ended 31st March 2022.	None
	—	97		
Onward Holdings Co., Ltd.	—	193,417	The Company sold shares of this company during the year ended 31st March 2022.	None
	—	60		
Toyo Seikan Group Holdings, Ltd.	—	33,000	The Company sold shares of this company during the year ended 31st March 2022.	None
	—	43		

* For stocks for which it is difficult to describe quantitative effects of holding, the method of verifying reasonableness of holding has been provided.

Note 1: Cocokara fine Inc. made a transition to a wholly-owned subsidiary of Matsumotokiyoshi Holdings Co., Ltd. through the share exchange on 1st October 2021 (hereinafter, the “Share Exchange”). Due to the Share Exchange, the Company received allotment of common stock of Matsumotokiyoshi Holdings Co., Ltd. at the ratio of 1.7 shares per share of common stock of cocokara fine Inc. Matsumotokiyoshi Holdings Co., Ltd. changed its company name to MatsukiyoCocokara & Co. at the same time as the Share Exchange taking effect. The number of shares for the year ended 31st March 2021 shows the number of shares after the share exchange.

Note 2: Kansai Super Market Ltd. changed its name to Kansai Food Market Ltd. on 1st February 2022.

Note 3: A group company holds stock of the Company.

Note 4: “—” denotes that the Company does not hold the stock.

(iii) Investment securities which are held for portfolio investment purposes

None

(iv) Investment securities whose purpose for holding was changed from portfolio investment purposes to purposes other than portfolio investment purposes during the fiscal year ended 31st March 2022

None

(v) Investment securities whose purpose for holding was changed from purposes other than portfolio investment purposes to portfolio investment purposes during the fiscal year ended 31st March 2022

None

Five-Year Summary

	Millions of yen				
Years ended 31st March	2018	2019	2020	2021	2022
For the year:					
Net sales	¥921,871	¥926,872	¥897,289	¥739,198	¥518,447
Cost of sales	655,646	660,636	641,253	527,294	299,766
Gross profit	266,224	266,235	256,035	211,903	218,680
Selling, general and administrative expenses	243,459	245,813	244,863	216,342	217,939
Interest expenses	1,003	728	772	848	940
Profit before income taxes	23,219	8,050	(9,337)	(24,030)	15,586
Profit attributable to owners of parent	14,636	2,162	(13,150)	(24,791)	9,872
Comprehensive income	21,380	3,592	(30,174)	(11,005)	9,235
Per share information (in yen and U.S. dollars)					
Basic profit per share	118.54	17.50	(106.38)	(200.45)	79.84
Diluted profit per share	117.90	17.39	-	-	79.26
Cash dividends	40.00	40.00	40.00	25.00	25.00
At year-end:					
Inventories	¥35,295	¥33,919	¥29,687	¥23,337	¥22,638
Property, plant and equipment (book value)	280,661	284,860	273,165	261,386	301,245
Total assets	659,582	663,335	586,904	625,945	654,558
Long-term debt	106,931	136,718	118,613	142,133	174,282
Shareholders' equity	242,390	239,755	221,732	192,763	202,030
Ratio analysis:					
Gross profit / Net sales (%)	28.88	28.72	28.53	28.67	42.18
Profit (loss) before income taxes / Net sales (%)	2.52	0.87	(1.04)	(3.25)	3.01
Profit (loss) attributable to owners of parent / Net sales (%)	1.59	0.23	(1.47)	(3.35)	1.90
Profit (loss) attributable to owners of parent / Total assets (%)	2.25	0.33	(2.10)	(4.09)	1.54
Profit (loss) attributable to owners of parent / Shareholders' equity (%)	6.16	0.90	(5.70)	(11.96)	5.00
Shareholders' equity / Total assets (%)	36.75	36.14	37.78	30.80	30.87
Long-term debt / Shareholders' equity (times)	0.44	0.57	0.53	0.74	0.86
Net sales / Inventories (times)	26.12	27.33	30.22	31.67	22.90
Net sales / Total assets (times)	1.40	1.40	1.53	1.18	0.79

Note 1. Amounts less than one million yen are rounded down.

2. As for “Profit attributable to owners of parent / Total assets”, the Company uses the average of total assets at the beginning and end of the year.

3. As for “Profit attributable to owners of parent / Shareholders’ equity”, the Company uses the average of shareholders’ equity at the beginning and end of the year.

4. The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, 31st March 2020) and other standards have been applied from the beginning of the year ended 31st March 2022.

The respective amount for the previous year was reclassified to conform to the current year’s presentation.

Consolidated Balance Sheets

H2O RETAILING CORPORATION and Consolidated Subsidiaries

As of 31st March, 2021 and 2022	Millions of yen 2021	2022
Assets		
Current assets		
Cash and deposits (Notes 11 and 13)	¥ 49,991	¥ 34,724
Notes and accounts receivable - trade (Note 13)	54,385	59,906
Merchandise and finished goods	21,546	21,002
Work in process	118	231
Raw materials and supplies	1,673	1,405
Accounts receivable - other (Note 13)	7,025	7,398
Other	4,811	5,368
Allowance for doubtful accounts (Note 13)	(261)	(311)
Total current assets	139,291	129,725
Non-current assets		
Property, plant and equipment (Notes 7 and 27)		
Buildings and structures	297,009	345,658
Accumulated depreciation	(195,136)	(223,168)
Buildings and structures, net	101,873	122,490
Machinery, equipment and vehicles	7,726	9,280
Accumulated depreciation	(5,186)	(6,376)
Machinery, equipment and vehicles, net	2,539	2,903
Land	139,126	162,462
Construction in progress	8,684	2,220
Other	42,867	50,019
Accumulated depreciation	(33,706)	(38,852)
Other, net	9,161	11,167
Property, plant and equipment, net	261,386	301,245
Intangible assets		
Goodwill	2,704	2,197
Other	14,024	14,245
Total intangible assets	16,729	16,443
Investments and other assets		
Investment securities (Notes 7, 13 and 14)	114,748	104,231
Long-term loans receivable	11,253	16,044
Guarantee deposits (Notes 7 and 25)	70,029	73,074
Net defined benefit asset (Note 16)	1,898	4,156
Deferred tax assets (Note 18)	11,453	10,495
Other	2,000	1,943
Allowance for doubtful accounts	(2,845)	(2,802)
Total investments and other assets	208,538	207,143
Total non-current assets	486,653	524,832
Total assets	¥ 625,945	¥ 654,558

See accompanying notes.

	Millions of yen	
	2021	2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade (Notes 7 and 13)	¥ 48,996	¥ 56,839
Current portion of long-term loans payable (Notes 7, 13 and 26)	46,414	1,100
Accounts payable - other (Notes 13 and 16)	26,890	24,764
Lease obligations (Notes 12 and 26)	910	1,267
Income taxes payable (Note 18)	1,678	3,546
Gift certificates	28,077	9,211
Advances received	8,611	32,320
Provision for bonuses	3,284	4,177
Provision for directors' bonuses	23	24
Provision for loss on store closings	348	1,457
Provision for point card certificates	1,854	-
Asset retirement obligations (Note 20)	940	620
Other (Note 7)	16,502	12,334
Total current liabilities	184,531	147,663
Non-current liabilities		
Bonds payable (Notes 13 and 26)	20,000	20,000
Long-term loans payable (Notes 13 and 26)	122,133	154,282
Deferred tax liabilities (Note 18)	23,805	26,938
Deferred tax liabilities for land revaluation (Note 7)	266	266
Provision for directors' retirement benefits	172	228
Provision for redemption of gift certificates	4,635	3,079
Net defined benefit liability (Note 16)	12,839	13,260
Long-term accounts payable - other (Note 16)	158	386
Lease obligations (Notes 12 and 26)	12,883	12,248
Long-term guarantee deposited	9,530	10,651
Asset retirement obligations (Note 20)	3,193	3,580
Other (Note 7)	2,517	1,034
Total non-current liabilities	212,136	245,956
Total liabilities	396,667	393,620
Net assets (Note 10)		
Shareholders' equity		
Capital stock:	17,796	17,796
Common stock, Authorised - 150,000,000 shares, Issued - 125,201,396 shares in 2021 and 2022		
Capital surplus	92,633	95,086
Retained earnings	85,065	92,299
Treasury shares - 1,469,808 shares in 2021 - 1,989,253 shares in 2022	(2,732)	(3,151)
Total shareholders' equity	192,763	202,030
Accumulated other comprehensive income (Note 9)		
Valuation difference on available-for-sale securities	38,668	35,881
Revaluation reserve for land (Note 7)	124	303
Foreign currency translation adjustment	(960)	565
Remeasurements of defined benefit plans	(2,462)	(1,936)
Total accumulated other comprehensive income	35,370	34,814
Subscription rights to shares	1,138	1,168
Non-controlling interests	4	22,924
Total net assets	229,277	260,938
Total liabilities and nets assets	¥ 625,945	¥ 654,558

See accompanying notes.

Consolidated Statements of Operations

H2O RETAILING CORPORATION and Consolidated Subsidiaries

	Millions of yen	
Years ended 31st March, 2021 and 2022	2021	2022
Net sales	¥ 739,198	¥ 518,447
Cost of sales (Note 8)	527,294	299,766
Gross profit	211,903	218,680
Selling, general and administrative expenses		
Salaries and allowances	65,032	67,553
Rent expenses	36,365	40,468
Other	114,943	109,918
Total selling, general and administrative expenses	216,342	217,939
Operating income (loss)	(4,438)	740
Non-operating income		
Interest income	371	533
Dividend income	1,418	1,062
Gain on debt settlement	1,862	1,105
Foreign exchange gains	401	1,530
Other	1,008	835
Total non-operating income	5,062	5,068
Non-operating expenses		
Interest expenses	848	940
Provision for redemption of gift certificates	1,068	729
Share of loss of entities accounted for using equity method	561	901
Other	1,052	891
Total non-operating expenses	3,530	3,462
Ordinary income (loss)	(2,907)	2,346
Extraordinary income (Note 8)		
Gain on sales of non-current assets	-	13,632
Gain on sales of investment securities	-	6,485
Gain on bargain purchase	-	3,427
Subsidy income	2,683	3,001
Gain on reversal of asset retirement obligations	-	486
Penalty income	366	-
Total extraordinary income	3,049	27,032
Extraordinary losses (Notes 8 and 16)		
Loss due to COVID-19	5,353	4,253
Loss on store closings	2,103	2,530
Loss on retirement of non-current assets	1,944	2,222
Impairment loss	14,771	1,881
Loss on step acquisitions	-	1,753
Expenses for store openings	-	751
Loss on sale of shares of subsidiaries and associates	-	400
Total extraordinary losses	24,172	13,792
Profit (loss) before income taxes	(24,030)	15,586
Income taxes - current (Note 18)	1,467	4,166
Income taxes - deferred (Note 18)	(706)	1,399
Total income taxes	761	5,566
Profit (loss)	(24,791)	10,020
Profit attributable to non-controlling interests	0	148
Profit (loss) attributable to owners of parent	¥ (24,791)	¥ 9,872

See accompanying notes.

Consolidated Statements of Comprehensive Income

H2O RETAILING CORPORATION and Consolidated Subsidiaries

	Millions of yen	
Years ended 31st March, 2021 and 2022	2021	2022
Profit (loss)	¥ (24,791)	¥ 10,020
Other comprehensive income (loss) (Note 9)		
Valuation difference on available-for-sale securities	13,233	(2,774)
Foreign currency translation adjustment	52	326
Remeasurements of defined benefit plans, net of tax	384	463
Share of other comprehensive income (loss) of entities accounted for using equity method	115	1,199
Total other comprehensive income (loss)	13,786	(784)
Comprehensive income (loss)	¥ (11,005)	¥ 9,235
Comprehensive income (loss) attributable to:		
Owners of parent	¥ (11,005)	¥ 9,173
Non-controlling interests	0	61

See accompanying notes.

Consolidated Statements of Changes in Net Assets

H2O RETAILING CORPORATION and Consolidated Subsidiaries

	Millions of yen				
	Shareholders' equity				
Years ended 31st March 2021 and 2022	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at 1st April 2020	¥17,796	¥92,650	¥114,184	¥(2,899)	¥221,732
Cumulative effects of changes in accounting policies			(308)		(308)
Restated balance	17,796	92,650	113,875	(2,899)	221,424
Changes of items during period					
Dividends of surplus			(4,018)		(4,018)
Loss attributable to owners of parent			(24,791)		(24,791)
Purchase and disposal of treasury shares		(17)		167	149
Net changes of items other than shareholders' equity					-
Total changes of items during period	-	(17)	(28,810)	167	(28,660)
Balance at 31st March 2021	¥17,796	¥92,633	¥85,065	¥(2,732)	¥192,763
Balance at 1st April 2021	¥17,796	¥92,633	¥85,065	¥(2,732)	¥192,763
Cumulative effects of changes in accounting policies			454		454
Restated balance	17,796	92,633	85,520	(2,732)	193,218
Changes of items during period					
Dividends of surplus			(3,093)		(3,093)
Profit attributable to owners of parent			9,872		9,872
Purchase and disposal of treasury shares		4		(419)	(414)
Increase due to share exchanges		2,449			2,449
Purchase of shares of consolidated subsidiaries		(1)			(1)
Net changes of items other than shareholders' equity					-
Total changes of items during period	-	2,452	6,778	(419)	8,812
Balance at 31st March 2022	¥17,796	¥95,086	¥92,299	¥(3,151)	¥202,030

	Millions of yen							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehen-sive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at 1st April 2020	¥25,435	¥124	¥(1,128)	¥(2,846)	¥21,584	¥1,312	¥4	¥244,634
Cumulative effects of changes in accounting policies								(308)
Restated balance	25,435	124	(1,128)	(2,846)	21,584	1,312	4	244,325
Changes of items during period								
Dividends of surplus								(4,018)
Loss attributable to owners of parent								(24,791)
Purchase and disposal of treasury shares								149
Net changes of items other than shareholders' equity	13,233	-	168	384	13,786	(174)	0	13,611
Total changes of items during period	13,233	-	168	384	13,786	(174)	0	(15,048)
Balance at 31st March 2021	¥38,668	¥124	¥(960)	¥(2,462)	¥35,370	¥1,138	¥4	¥229,277
Balance at 1st April 2021	¥38,668	¥124	¥(960)	¥(2,462)	¥35,370	¥1,138	¥4	¥229,277
Cumulative effects of changes in accounting policies								454
Restated balance	38,668	124	(960)	(2,462)	35,370	1,138	4	229,731
Changes of items during period								
Dividends of surplus								(3,093)
Profit attributable to owners of parent								9,872
Purchase and disposal of treasury shares								(414)
Increase due to share exchanges								2,449
Purchase of shares of consolidated subsidiaries								(1)
Net changes of items other than shareholders' equity	(2,787)	178	1,526	526	(556)	29	22,920	22,394
Total changes of items during period	(2,787)	178	1,526	526	(556)	29	22,920	31,206
Balance at 31st March 2022	¥35,881	¥303	¥565	¥(1,936)	¥34,814	¥1,168	¥22,924	¥260,938

Consolidated Statements of Cash Flows

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Years ended 31st March 2021 and 2022	Millions of yen 2021	2022
Cash flows from operating activities		
Profit (loss) before income taxes	¥ (24,030)	¥ 15,586
Depreciation	18,141	17,902
Impairment loss	14,771	1,881
Loss on store closings	1,603	1,086
Amortisation of goodwill	546	507
Increase (decrease) in allowance for doubtful accounts	(156)	7
Increase (decrease) in provision for bonuses	(630)	445
Increase (decrease) in provision for directors' bonuses	(66)	2
Increase (decrease) in net defined benefit liability	(766)	(422)
Increase (decrease) in remeasurements of defined benefit plans	384	463
Increase (decrease) in provision for directors' retirement benefits	16	56
Increase (decrease) in provision for redemption of gift certificates	401	262
Increase (decrease) in provision for loss on store closings	269	1,108
Increase (decrease) in provision for point card certificates	(97)	-
Interest and dividend income	(1,789)	(1,596)
Interest expenses	848	940
Foreign exchange losses (gains)	(401)	(1,529)
Gain on bargain purchase	-	(3,427)
Subsidy income	(2,683)	(3,001)
Penalty income	(366)	-
Loss due to COVID-19	4,865	3,700
Loss (gain) on step acquisitions	-	1,753
Share of (profit) loss of entities accounted for using equity method	561	901
Loss (gain) on sale of investment securities	(0)	(6,485)
Loss (gain) on sale of shares of subsidiaries and associates	-	400
Loss (gain) on sales of non-current assets	(56)	(13,624)
Loss on retirement of non-current assets	1,114	1,130
Decrease (increase) in notes and accounts receivable - trade	(10,365)	(3,420)
Decrease (increase) in inventories	6,248	2,992
Increase (decrease) in notes and accounts payable - trade	5,326	(4,706)
Increase (decrease) in accrued consumption taxes	2,714	(2,869)
Increase (decrease) in gift certificates	201	(37)
Increase (decrease) in advances received	(847)	(208)
Other	3,064	(859)
Subtotal	18,820	8,939
Interest and dividend income received	1,640	1,535
Interest expenses paid	(769)	(945)
Income taxes paid	(1,858)	(2,228)
Subsidies received	2,683	3,001
Penalty income received	366	-
Payments for loss due to COVID-19	(4,848)	(3,601)
Payments for additional retirement benefit for early retirement	(3,279)	(237)
Cash flows from operating activities	12,755	6,465

Cash flows from investing activities				
Purchase of property, plant and equipment		(13,952)		(26,304)
Proceeds from sales of property, plant and equipment		1,429		19,771
Purchase of intangible assets		(4,087)		(3,874)
Proceeds from sales of intangible assets		-		1
Payments for asset retirement obligations		(158)		(260)
Purchase of investment securities		(219)		(125)
Proceeds from sale of investment securities		-		9,386
Payments for transfer of business (Note 11)		(150)		-
Payments into time deposits		-		(1,400)
Proceeds from withdrawal of time deposits		-		900
Payments of long-term loans receivable		(4,402)		(4,011)
Collection of long-term loans receivable		449		451
Payments for guarantee deposits		(317)		(341)
Proceeds from collection of guarantee deposits		695		620
Payments for sale of shares of subsidiaries resulting in change in scope of consolidation		(47)		(18)
Cash flows from investing activities		(20,761)		(5,203)
Cash flows from financing activities				
Net increase (decrease) in short-term loans payable		(15,000)		-
Proceeds from long-term loans payable		70,000		32,000
Repayments of long-term loans payable		(18,175)		(46,840)
Proceeds from sales of treasury shares		0		0
Purchase of treasury shares		(1)		(473)
Purchase of treasury shares of subsidiaries		-		(7,383)
Cash dividends paid		(4,018)		(3,093)
Repayments of lease obligations		(943)		(1,027)
Repayments of investments in silent partnerships		-		(1,760)
Cash flows from financing activities		31,859		(28,578)
Effect of exchange rate change on cash and cash equivalents		179		763
Net increase (decrease) in cash and cash equivalents		24,033		(26,553)
Cash and cash equivalents at beginning of year		25,958		49,991
Increase in cash and cash equivalents resulting from share exchanges	¥	-	¥	9,736
Cash and cash equivalents at end of year (Note 11)	¥	49,991	¥	33,174

See accompanying notes.

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

H2O RETAILING CORPORATION (“the Company”) and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen. The accompanying consolidated financial statements have been restructured and translated into English, with some expanded descriptions, from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

As permitted by the regulations under the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been rounded. As a result, the totals shown in the accompanying consolidated financial statements in yen do not necessarily agree with the sums of the individual amounts.

2. Summary of Significant Accounting Policies

Consolidation and investments in associates

The accompanying consolidated financial statements include the accounts of the Company and significant companies (together, “the Companies”) over which the Company has power of control through majority voting rights or the existence of certain other conditions evidencing control by the Company. Investments in associates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method.

The consolidated financial statements include the accounts of the Company and its 45 (50 in 2021) majority owned subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation. The principal subsidiaries are Hankyu Hanshin Department Stores, Inc., Izumiya Co., Ltd. and Hankyu Oasis Co., Ltd.

From the year ended 31st March 2022, the following companies have been included in the scope of consolidation.

- Kansai Food Market Ltd. (due to acquisition of shares)
- Kansai Super Market Ltd. (due to acquisition of shares)
- KANSAI SUPER PREMIUM CO.,LTD. (due to acquisition of shares)

It is certain that this change in the scope of consolidation will have a significant impact on the consolidated financial statements for the year ending 31st March 2023. Outline of this impact is considered as an increase in sales in the consolidated statements of operations.

From the year ended 31st March 2022, the following companies have been excluded from the scope of consolidation.

- Hankyu B&C Planning (due to merger with Hankyu Bakery Co., Ltd., a consolidated subsidiary of the Company)
- Hankyu Freds Co., Ltd. (due to merger with Hankyu Bakery Co., Ltd., a consolidated subsidiary of the Company)
- H2O Asset Management Co., Ltd. (due to merger with Hankyu Hanshin Department Stores, Inc., a consolidated subsidiary of the Company)

From the year ended 31st March 2022, the following companies have been excluded from the scope of consolidation. Profit and losses for the period until extinguishment due to absorption-type merger, liquidation and sale of shares were included in the consolidated statements of operations.

- Fountain Forest Ltd. (due to liquidation)
- H2O STYLE NET Co., Ltd. (due to merger with Hankyu Hanshin Department Stores, Inc., a consolidated subsidiary of the Company)
- Be-U Co., Ltd. (due to sale of shares)
- KAETOKU SERVICE Co., Ltd. (due to liquidation)
- H.D. Base Mode Ltd. (due to liquidation)

The equity method was applied to 8 (8 in 2021) associates for the year ended 31st March 2022. The principal associates were Ningbo Development Co., Ltd. and Hankyu Hanshin Point Co., Ltd.

The equity method was not applied to the following associates for the year ended 31st March 2022.

- SUPER NATIONAL Co., Ltd.
- MASAMI CATTLE RANCH INC.

The equity method was not applied since excluding the abovementioned associates from the equity method would have a minor impact on the consolidated financial statements and no significance as a whole in terms of profit or loss (amount corresponding to the equity interest) and retained earnings (amount corresponding to the equity interest).

In the year ended 31st March 2022, 4 (4 in 2021) consolidated subsidiaries had a financial year ending 31st December. With respect to the period from the subsidiaries' year-end to 31st March, necessary adjustments were made for significant transactions to reflect them appropriately in the consolidated financial statements.

Securities

Investment securities consist principally of marketable and nonmarketable equity securities. The Companies categorise the securities as "available-for-sale". Available-for-sale securities other than equity securities without market price are stated at fair value. Unrealised holding gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realised gains and losses on sales of such securities are determined principally by the average cost method. Available-for-sale securities without market price are stated at average cost.

If the fair market value of available-for-sale securities declines significantly, the securities are stated at fair market value, and the difference between fair market value and the carrying amount is recognised as loss in the period of decline. If the net asset value of available-for-sale securities with no available fair market value declines significantly, the securities are written down to the net asset value and charged to income. In these cases, the fair market value or the net asset value will be carried forward as book value to the next year.

Inventories

Inventories are stated at cost. The book value of inventories is reduced on the basis of declines in profitability and is determined principally by the retail method for merchandise and finished goods and the weighted average method for work in process and raw materials and supplies.

Property, plant and equipment

Property, plant and equipment, excluding lease assets, are carried at cost. Depreciation is computed principally by the straight-line method at rates based on the estimated useful life of the asset. Expenditures for maintenance and repairs, including minor replacements and betterments, are charged to income as incurred. The estimated useful lives of buildings and structures, machinery, equipment and vehicles, and other assets are 1 to 60 years, 2 to 17 years, and 1 to 20 years, respectively.

Software

Software is amortised using the straight-line method over the estimated useful life of 5 years.

Leased assets

Leased assets under lease contracts that do not transfer ownership of the leased property to the lessee are depreciated using the straight-line method over the period of the lease with a residual value at zero.

Allowance for doubtful accounts

The allowance for doubtful accounts is provided in amounts management considers sufficient to cover possible losses on collection. With respect to normal trade accounts receivable, it is stated at an amount based on the actual rate of historical bad debts, and for certain doubtful receivables, the uncollectible amounts are individually estimated.

Provision for bonuses

The Companies accrue estimated amounts of employee bonuses based on the estimated amount to be paid in the subsequent period.

Provision for directors' bonuses

The Companies accrue bonuses for directors based on estimated payments to be made after the end of the year.

Provision for loss on store closings

The Companies provide provision for loss on the closing of stores based on the estimated amount to be incurred in the future.

Provision for point card certificates

The Companies provided provision for point card certificates based on the estimated amount to be incurred for sales promotion expenses from the use of points given to customers. Due to adoption of "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan (ASBJ) Statement No. 29, 31st March 2020) and other related guidance, the Companies do not record provision for point card certificates from the year ended 31st March 2022.

Provision for directors' retirement benefits

With regard to retirement benefits for directors of some consolidated subsidiaries, the liability for lump-sum payments is stated at the amount which would be required to be paid if they retired as of the balance sheet date. The amount of provision for executive officers' severance and retirement benefits as of 31st March 2021 and 2022 was ¥15 million and ¥18 million, respectively.

Provision for redemption of gift certificates

The Companies record a liability for gift certificates upon the issuance of the certificates to its customers. If the gift certificates are not redeemed by customers within a certain time period, the Companies reverse the liability and recognise a gain. A provision is recorded by the Companies for the unredeemed gift certificates previously recognised as gain based on the estimated future redemption of those certificates. Due to adoption of "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, 31st March 2020) and other related guidance, the Companies record contract liabilities (included in "Advances received") for the gift certificates issued by the Companies and record the provision for gift certificates issued by Japan Department Stores Association, etc. which are redeemable in other stores from the year ended 31st March 2022.

Revenue recognition

Revenue recognition when selling goods

The Companies sells groceries, clothing items, personal items, household goods, etc. mainly at department stores, food supermarkets, and commercial facilities. For such goods sales, revenue is recognised at the time of the transfer of goods to customers as a performance obligation is deemed to be satisfied at that time. Payment of the goods are received at the time of the transfer of goods to customers when the performance obligation is satisfied.

For the goods sales regarded as agent transactions where the Companies do not have control over goods or services transferred to customers, revenue is recognised at the net of total amount receivable from customers less payable to supplier. Also, The Companies recognise performance obligation for gift certificates issued by the Companies and recognise revenue when they are redeemed. The Companies recognise revenue proportionally for the portion of the gift certificates which are not redeemed and on which the Companies expect to gain the right (deemed not to be redeemed) based on the percentage of collection for the portion expected to be redeemed. For the Companies' point systems, the Companies recognise a performance obligation for points granted to members and recognise revenue at the time when the points are used with allocation of transaction prices based on the independent sales price calculated considering expected future expirations.

Providing services of commercial real estate management

The Companies operate businesses relating to development, operation, and management of commercial facilities such as operation of shopping centers and provision of building maintenance services. As the services are continuously provided to commercial facilities, a performance obligation is deemed to be satisfied over a certain period of time and accordingly, revenue is recognised when the services are rendered.

Retirement benefits

The Companies apply the benefit formula to attribute the estimated amount of retirement benefits to the fiscal year upon calculation of projected benefit obligation. Past service cost is recognised in expenses in equal amounts within the average of the estimated remaining service years. Actuarial gains and losses are recognised in expenses in equal amounts within the average of the estimated remaining service years commencing with the following period.

Unrecognised actuarial gains and losses and unrecognised past service cost are recorded in "Remeasurements of defined benefit plans" in "Accumulated other comprehensive income" under "Net assets" with the tax effect adjustments.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currency are translated into Japanese yen at the rates prevailing at each balance sheet date, and the resulting translation gains and losses are charged to income. In the translation of the financial statements of the overseas subsidiary, assets and liabilities are translated at the rates prevailing at the subsidiary's balance sheet date, revenue and expenses are translated using the average exchange rate for the fiscal year, and shareholders' equity accounts are translated at historical rates. The resulting foreign currency translation adjustment is shown as a separate component of net assets.

Hedge accounting

(a) Accounting method

Deferral hedge accounting is adopted for hedge transactions. The Company applies the designation method for foreign exchange forward contracts and for currency swaps in cases in which the specific requirements for this treatment are fulfilled. The Company applies the special accounting treatment for interest rate swaps in cases in which the specific requirements for this treatment are fulfilled.

(b) Hedging instruments and hedged items

(1) Hedging instruments: Interest rate swaps, currency swaps
Hedged items: Loans payable

(2) Hedging instruments: Foreign exchange forward contracts
Hedged items: Monetary assets and liabilities denominated in foreign currency

(c) Policies on hedges

As for interest related derivatives, interest rate swaps are used to exchange floating rates to fixed rates. In addition, foreign exchange forward contracts and currency swaps are used to avoid losses from foreign exchange market fluctuation. As a policy, the Company does not enter derivatives for speculative purpose or with a high leverage effect.

(d) Evaluation of hedge effectiveness

The Companies assess hedge effectiveness by comparing the cumulative variation in cash flows of hedged items and the cumulative variation in cash flows of the hedging instruments. The Companies do not evaluate the effectiveness of hedges for interest rate swaps under special accounting treatment since the interest payments and terms of the swaps are consistent with those of the hedged items.

Goodwill

The difference between the cost of investments in consolidated subsidiaries and the equity in their net assets at the date of acquisition is generally amortised over 10 to 20 years. However, if the amount is insignificant, it is charged as expense as incurred.

Cash flow statements

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Consumption taxes

The non-deductible portion of consumption taxes relating to assets is accounted for as expense in the same year the taxes are incurred.

Per share information

Computations of basic profit per share are based on the weighted average number of shares outstanding during each period. For diluted profit per share for the years ended 31st March 2021 and 2022, see Note 24.

Cash dividends per share presented in the five-year summary of the accompanying consolidated financial statements are dividends applicable to the respective years, including dividends to be paid after the end of the year.

3. Significant Accounting Estimates

Impairment on non-current assets

(1) Amounts recorded in the consolidated financial statements for the year ended 31st March 2022

The Group operates various types of retail stores such as department stores, GMS, supermarkets, etc., and constantly makes capital investments in new stores, renewal of facilities, etc.

As for non-current assets recorded from such capital investments, recoverable amounts (useable values or net saleable values) are estimated and book values as of the balance sheet date are recorded in the consolidated balance sheets to the extent that the assets are deemed to have a recoverable amount capable of exceeding that book value.

The amounts recorded in the consolidated balance sheets after the above estimates and valuations as of 31st March 2021 and 2022 were as follows:

	Millions of yen	
	2021	**2022**
Property, plant and equipment	¥ 261,386	¥ 301,245
Intangible assets	16,729	16,443

(2) Methods used to estimate the recoverable amounts
The recoverability of non-current assets is determined on each measuring unit principally based on stores.

When there is an indication of impairment such as incurring operating losses for two consecutive fiscal years in a certain store, future expected operating cash flows by store after allocating corporate expenses as common department are estimated over the economic remaining useable years of the major non-current assets of the relevant store. Impairment losses are recorded for the store where the estimated future operating cash flows are below book values of store assets as of the balance sheet date.

The recorded amounts of the impairment losses are calculated as difference between the present values of the future expected operating cash flows by store after allocating corporate expenses discounted using the weighted average cost of capital (WACC) and book values of store assets as of the balance sheet date.

Expected amounts by store reflect every identifiable element which effects store operations including new store openings by competitors in neighborhood areas, changes in external circumstances such as demographic trends in trade areas, effects of policies to decrease costs corresponding to environmental changes and measures to attract customers, etc. based on the recent customer trends.

Discount rates are calculated using the weighted average methods with the cost of equity calculated using the capital asset pricing model (CAPM) and the cost of debt calculated using the actual borrowing rates based on the debt equity ratio (D/E ratio) of the Group as of the balance sheet date. 3.6% is used for the year ended 31st March 2022.

Regardless of the above, for stores and other assets on which the decision of closing or sales were made, impairment loss is recognised to reduce the book value to the recoverable amount which is measured at the net saleable values primarily based on the value appraised by real estate appraisers.

(3) Effects on the consolidated financial statements for the year ending 31st March 2023
The estimates could be affected by changes in the future uncertain economic conditions, etc. There could be significant effects on the consolidated financial statements for the year ending 31st March 2023 if timing or amounts of the actual cash flows differ from the estimates or the discount rates fluctuate significantly due to fluctuation in share prices or borrowing rates, etc.

Recoverability of deferred tax assets

(1) Amounts recorded in the consolidated financial statements
Each entity of the Group has temporary deductible differences derived from impairment losses on stores whose profitability has declined, tax loss carryforwards, etc. Deferred tax assets are recognised to the extent that the

amounts are reasonably expected to reduce the future tax burden by estimating the amounts of future taxable income and timing and amounts of utilising temporary deductible differences.

The amounts of deferred tax assets are same as those described in Note 18, “Income Taxes”.

(2) Methods used to estimate the recoverable amounts

To determine the recognition of deferred tax assets, each entity of the Group is classified into five categories in accordance with “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26) based on level of taxable income in prior years, situation of temporary deductible differences, situation of significant tax loss carryforwards, etc. According to the classification, scheduling of expected utilization of taxable income and temporary deductible differences of each entity of the Group is projected and only the amounts that are expected to be recoverable are recorded.

Calculation of estimated future taxable income of each entity of the Group is provided carefully considering the trends of operating results of each entity to date, expected changes in the external circumstances in the future and the effects of measures, etc. to improve profitability corresponding to changes in the external circumstances.

(3) Effects on the consolidated financial statements for the year ending 31st March 2023

The estimates could be affected by changes in the future uncertain economic conditions, etc. There could be significant effects on the consolidated financial statements for the year ending 31st March 2023 if timing or amounts of the actual taxable income differ from the estimates.

4. Additional Information

Accounting Estimates Relating to the Spread of the Novel Coronavirus (COVID-19)

The Company made accounting estimates based on the assumption that the effects of the COVID-19 on the operating results will continue while the situation will gradually recover towards the end of first half of the year ending 31st March 2023. The actual results may be different from this assumption since there are uncertain factors for estimating the timing when the COVID-19 is ending, etc.

5. Change in Accounting Policies

Revenue Recognition

From the beginning of the year ended 31st March 2022, the Companies adopted “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, 31st March 2020, hereinafter, the “Statement No. 29”) and other related guidance. The Companies recognise revenue at the time of the transfer of promised goods or services to customers in an amount to which the Companies expect to be entitled in exchange for those goods or services.

For transactions regarded as agent transactions where the Companies do not have control over goods or services transferred to customers, revenue is presented on a net basis. For the point system for sales promotion, the Companies recognise contract liabilities by regarding granted points as performance obligations, and recognise revenue at redemption or expiration when performance obligations lapse. Additionally, the Companies recognise revenue for the portion of the gift certificates issued by the Companies which are not redeemed and on which the Companies expect to gain the right (deemed not to be redeemed) based on the percentage of collection for the portion expected to be redeemed.

The Companies apply the Statement No. 29 and other related guidance in accordance with the transitional treatment as stipulated in Paragraph 84 of the Statement. The cumulative impact of retrospective application of the new accounting policy prior to the beginning of the year ended 31st March 2022 is added to or deducted from retained earnings at the beginning of the year ended 31st March 2022 so that the new accounting policy is adopted from the balance at the beginning of the year ended 31st March 2022.

As a result of this change, in the year ended 31st March 2022, net sales decreased by ¥269,661 million, cost of sales decreased by ¥262,160 million, selling, general and administrative expenses decreased by ¥7,548 million, operating income increased by ¥47 million, ordinary income and profit before income taxes decreased by ¥251 million each, and retained earnings increased by ¥454 million as of the beginning of the year ended 31st March 2022.

Profit before income taxes in the consolidated statements of cash flows for the year ended 31st March 2022 decreased by ¥251 million. The effect on the per share information for the year ended 31st March 2022 was immaterial.

As a result of adoption of the Statement No. 29 and other related guidance, part of "gift certificates", "provision for point card certificates", "other" in current liabilities and "provision for redemption of gift certificates" in non-current liabilities in the consolidated balance sheets as of 31st March 2021 are included in "advances received" in the consolidated balance sheets as of 31st March 2022. Also, among items accounted for as "gift certificates" and "provision for redemption of gift certificates", gift certificates issued by the Companies are recorded as contract liabilities and gift certificates issued by Japan Department Stores Association, etc. which are redeemable in other stores are recorded as financial liabilities. According to the transitional treatment as stipulated in Paragraph 89-2 of the Statement No. 29, no reclassification under new presentation was made for the year ended 31st March 2021. Also as per the transitional treatment as stipulated in Paragraph 89-3 of the Statement No. 29, notes on revenue recognition were not disclosed for the year ended 31st March 2021.

Fair Value Measurement

From the beginning of the year ended 31st March 2022, the Companies adopted "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, 4th July 2019, hereinafter, the "Statement No. 30") and related standard and guidance. The new accounting policies as stipulated in these standards and guidance are applied prospectively in accordance with the transitional treatment as stipulated in Paragraph 19 of the Statement No. 30 and Paragraph 44-2 of "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, 4th July 2019). There is no effect of adopting these standards and guidance on the consolidated financial statements. Fair value information of financial instruments by level of inputs is disclosed in Note 13, "Financial Instruments". According to the transitional treatment as stipulated in Paragraph 7-4 of "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Statement No. 19, 4th July 2019), notes for the year ended 31st March 2021 were not disclosed.

6. Changes in Presentation

Matters related to the Consolidated Statements of Operations

"Foreign exchange gains" recorded in "Other" under "Non-operating income" for the year ended 31st March 2021 is separately presented as the amount of "Foreign exchange gains" is over 10 percent of total non-operating income for the year ended 31st March 2022. In order to reflect this change in presentation, the consolidated financial statements for the year ended 31st March 2021 were reclassified.

As a result, ¥1,410 million recorded in "Other" under "Non-operating income" in the consolidated statements of operations for the year ended 31st March 2021 is reclassified to "Foreign exchange gains" of ¥401 million and "Other" of ¥1,008 million.

Matters related to the Consolidated Statements of Cash Flows

"Foreign exchange losses (gains)" recorded in "Other" under "Cash flows from operating activities" for the year ended 31st March 2021 is separately presented as its significance increased for the year ended 31st March 2022. In order to reflect this change in presentation, the consolidated financial statements for the year ended 31st March 2021 were reclassified.

As a result, "Other" of ¥2,663 million recorded under "Cash flows from operating activities" for the consolidated statements of cash flows for the year ended 31st March 2021 is reclassified to "Foreign exchange losses (gains)" of ¥(401) million and "Other" of ¥3,064 million.

7. Matters Related to Consolidated Balance Sheets

1. Of the notes and accounts receivable, the amount of receivables from contracts with customers is disclosed in Note 21.

2. Due to the acceptance of national subsidies, the following reduction entry amount was deducted from the acquisition cost of relevant assets.

	Millions of yen	
	2021	**2022**
Reduction entry amount:	¥ 568	¥ 568
Buildings and structures	407	407
Machinery, equipment and vehicles	64	64
Land	58	58
Other	38	38

3. Assets related to associates were as follows:

	Millions of yen	
	2021	**2022**
Investment securities (stocks)	¥ 10,106	¥ 10,875
[Investments in entities under common control]	[9,191]	[9,474]

4. Pledged assets

Assets pledged as collateral and corresponding secured liabilities are summarised below.

	Millions of yen	
	2021	**2022**
Buildings and structures	¥ —	¥ 833
Land	—	7,927
	¥ —	¥ 8,761
Current portion of long-term loans payable	¥ —	¥ 660
	¥ —	¥ 660

Deposits under the Installment Sales Act were as follows:

	Millions of yen	
	2021	**2022**
Guarantee deposits	¥ 134	¥ 133

Deposits under the Real Estate Brokerage Act were as follows:

	Millions of yen	
	2021	**2022**
Guarantee deposits	¥ 10	¥ 10

Deposits under the Travel Business Act were as follows:

	Millions of yen	
	2021	**2022**
Guarantee deposits	¥ 2	¥ 2

Deposits and secured liabilities under the Payment Services Act were as follows:

	Millions of yen	
	2021	**2022**
Guarantee deposits	¥ —	¥ 100
Advances received	—	157

5. Land revaluation

In accordance with the Act on Revaluation of Land and Act on Partial Amendment to the Act on Revaluation of Land,

land used for business owned by the Company and some consolidated subsidiaries was revaluated. The unrealised gains and losses, net of deferred taxes, were excluded from the statements of operations and reported as “Revaluation reserve for land” in net assets, and the relevant deferred taxes were shown as “Deferred tax liabilities for land revaluation” in liabilities as of 31st March 2021 and 2022.

Revaluation method: Calculated by making reasonable adjustments to roadside land prices and appraisal values for property tax specified in Article 2, Item 3 and Item 4 of the “Order for Enforcement of the Act on Revaluation of Land” (Cabinet Order No. 119, issued on 31st March 1998).

Date of revaluations: 28th February 2002 and 31st March 2002

Related information was as follows:

	Millions of yen			
Difference between book value of land after revaluation and market value of land		2021		**2022**
	¥	(792)	¥	(792)

6. Commitment agreements

In order to obtain working funds efficiently, the Company had loan commitment agreements with 3 financial institutions. The loan commitment facilities and unused balances as of 31st March 2021 and 2022 were as follows:

	Millions of yen			
		2021		**2022**
Total loan commitment facilities	¥	50,000	¥	50,000
Outstanding balances		—		—
Unused balances	¥	50,000	¥	50,000

Some consolidated subsidiaries provide financial services using card loans and credit cards. The overdraft commitment facilities and unused balances as of 31st March 2021 and 2022 were as follows:

	Millions of yen			
		2021		**2022**
Total overdraft commitment facilities	¥	12,795	¥	13,981
Outstanding balances		406		417
Unused balances	¥	12,388	¥	13,563

The overdraft commitment facilities include overdraft contracts that are executed subject to the customer’s use of funds and credit condition. Thus, the total facilities are not always executed.

7. Specified accounts pertaining to business combination

For the years ended 31st March 2021 and 2022, due to the business transfer from Sogo & Seibu Co., Ltd. effective on 1st October 2017, specified accounts pertaining to business combination were recorded for expenses necessary for replacing customer credit cards (new issuance) in the amount of ¥443 million and ¥385 million, respectively. In the consolidated balance sheets, they were recorded in “Other” under “Non-current liabilities”.

8. Matters Related to Consolidated Statements of Operations

1. Revenue from contracts with customers

Net sales are not disclosed to classify revenue from contracts with customers and revenue from others. The amount of revenue from contracts with customers is disclosed in Note 21.

2. Reduction in the book value of inventories

Reduction in book value of inventories held for ordinary sale due to a decline in profitability for the years ended 31st March 2021 and 2022 was as follows:

	Millions of yen	
	2021	**2022**
Cost of sales	¥ 706	¥ 494

3. Gain on sales of non-current assets

Gain on sales of non-current assets for the year ended 31st March 2022 consisted mainly of gain on sales of land by H2O RETAILING CORPORATION and Hankyu Hanshin Department Stores, Inc.

4. Gain on sales of investment securities

Gain on sales of investment securities for the year ended 31st March 2022 consisted of gain on sales of shares of Toho Co., Ltd. And Mitsubishi UFJ Financial Group, Inc., etc. by H2O RETAILING CORPORATION.

5. Gain on bargain purchase

Gain on bargain purchase for the year ended 31st March 2022 consisted of share exchanges with Kansai Super Market Ltd. (currently Kansai Food Market Ltd.)

6. Subsidy income

Subsidy income for the years ended 31st March 2021 and 2022 consisted of employment adjustment subsidy for personnel expenses for employees on leave.

7. Gain on reversal of asset retirement obligations

Gain on reversal of asset retirement obligations for the year ended 31st March 2022 was due to the reversal of the difference between actual retirement costs and asset retirement obligations which were recorded as reserves for restoration expenses for buildings rented by H2O Shopping Center Development Co., Ltd. from external companies in line with the termination of the contracts.

8. Penalty income

Penalty income for the year ended 31st March 2021 consisted mainly of penalty income Hankyu Oasis Co., Ltd. received due to tenants closing before the end of lease agreements.

9. Loss due to COVID-19

Loss due to COVID-19 for the years ended 31st March 2021 and 2022 is summarised below:

	Millions of yen	
	2021	**2022**
Personnel expenses for employees on leave	¥ 3,285	¥ 1,874
Rent and depreciation expenses while businesses were closed	1,728	1,847
Other (Store disinfection expenses, event cancellation fees and other)	339	531
Total	¥ 5,353	¥ 4,253

10. Loss on store closings

Loss on store closings for the years ended 31st March 2021 and 2022 is summarised below:

	Millions of yen	
	2021	**2022**
SELCY	¥ 44	¥ 1,312
Izumiya Stores	1,466	673
asnas Stores	-	253
Hankyu Hanshin Department Stores	93	199
Hankyu Oasis Stores	164	12
Other	333	78
Total	¥ (*1) 2,103	¥ (*2) 2,530

*1. The amounts included an impairment loss of ¥1,603 million, rent penalty and other of ¥162 million, expenses for store closings of ¥154 million and a loss on retirement of non-current assets of ¥78 million in connection with store closings for the year ended 31st March 2021.

*2. The amounts included expenses for store closings of ¥1,354 million, an impairment loss of ¥849 million and additional payment on retirement allowance and cost for support for reemployment of ¥287 million for the year ended 31st March 2022.

11. Loss on retirement of non-current assets consisted of the following:

	Millions of yen	
	2021	**2022**
Buildings and structures	¥ 531	¥ 411
Machinery, equipment and vehicles	23	25
Removal cost	(*1) 882	1,084
Other	584	701
Total	¥ (*1) 2,022	¥ 2,222

*1. The amounts included a loss on retirement of non-current assets for Yao Mall store and other of Qanat Co. Ltd. of ¥78 million for the year ended 31st March 2021, which is presented in “Loss on store closings” under “Extraordinary losses”.

12. Impairment loss

The Companies recognise asset groups based on certain rules. As for stores and others, asset groups are based on the management unit of performance. As for the idle assets and the assets to be sold, each individual asset constitutes an asset group.

The Companies recorded impairment loss for the year ended 31st March 2021 as follows:

Company	Asset Group	Use	Location	Type of Assets	*Millions of yen*
Hankyu Hanshin Department Stores, Inc.	Takatsuki Hankyu, Kobe Hankyu and other	Store	Takatsuki City, Osaka and other	Buildings and structures	¥3,938
				Machinery, equipment and vehicles	37
				Other	310
H2O Shopping Center Development Co., Ltd.	Nishinomiya Gardens store, Fukumachi store, Hakubaicho store and other	Store	Osaka City, Osaka and other	Buildings and structures	¥2,732
				Machinery, equipment and vehicles	17
				Land	293
				Other	304
Hankyu Shopping Center Development Co., Ltd.	Rakuhoku Hankyu Square and other	Store	Kyoto City, Kyoto and other	Buildings and structures	¥1,432
				Machinery, equipment and vehicles	112
				Other	304
H2O Asset Management Co., Ltd.	Kyuedosaki store, Okubo store and other	Land and buildings for rent, and store	Inashiki City, Ibaraki and other	Buildings and structures	¥782
				Land	662
				Other	37
Izumiya Co., Ltd.	Izumifuchu store, Shinchujo store, Harayamadai store and other	Store	Izumiotsu City, Osaka and other	Buildings and structures	¥925
				Machinery, equipment and vehicles	58
				Other	297
Shinko Management, Inc.	Takatsuki Hankyu and Kobe Hankyu	Store	Takatsuki City, Osaka and other	Buildings and structures	¥1,217
Hankyu Oasis Co., Ltd.	Fukushima Fukumarudori Store and other	Store	Osaka City, Osaka and other	Buildings and structures	¥551
				Machinery, equipment and vehicles	26
				Land	69
				Other	282
asnas Co., Ltd.	Hanshin Umeda Higashiguchi Store and other	Store and other	Osaka City, Osaka and other	Buildings and structures	¥1,290
				Machinery, equipment and vehicles	45
				Goodwill	54
				Other	589

For Hankyu Hanshin Department Stores, Inc., H2O Shopping Center Development Co., Ltd., Hankyu Shopping Center Development Co., Ltd., Izumiya Co., Ltd., Hankyu Oasis Co., Ltd., asnas Co., Ltd. and other companies, impairment loss was recognised to the recoverable amounts for asset groups in stores with continuous negative cash flows from operating activities and asset groups in closed stores.

For H2O Asset Management Co., Ltd. and Shinko Management, Inc., impairment loss was recognised to the recoverable amounts for asset groups in stores with continuous negative cash flows from operating activities.

The recoverable amounts of assets were principally the present value of expected cash flows from on-going use and subsequent disposal of the assets based on a discount rate of 3.6%. For some asset groups, the recoverable amounts were the net saleable values.

As a result, the Companies recognised a total of ¥16,374 million of impairment loss, of which, ¥1,603 million in connection with the closing of H2O Shopping Center Development Co., Ltd. and other stores was included in "Loss on store closings" and ¥14,771 million was included in "Impairment loss" under "Extraordinary losses" in the consolidated statements of operations.

The Companies recorded impairment loss for the year ended 31st March 2022 as follows:

Company	Asset Group	Use	Location	Type of Assets	*Millions of yen*
H2O Shopping Center Development Co., Ltd.	Katata store, Edosaki rental property, Yao store	Store and rental property	Otsu City, Shiga and other	Buildings and structures	¥854
				Machinery, equipment and vehicles	0
				Land	8
				Other	43
HANKYU BAKERY Co., LTD	Takatsuki factory and other	Factory and store	Takatsuki City, Osaka and other	Buildings and structures	¥343
				Machinery, equipment and vehicles	325
				Other	33
Hankyu Oasis Co., Ltd.	Ibaraki station front store and other	Store	Ibaraki City, Osaka and other	Buildings and structures	¥328
				Machinery, equipment and vehicles	11
				Other	114
Hankyu Hanshin Department Stores, Inc.	Hankyu Beauty Studio and other	Store	Osaka City, Osaka and other	Buildings and structures	¥172
				Machinery, equipment and vehicles	3
				Other	29
Izumiya Co., Ltd.	Kokubucho store and other	Store and other	Osaka City, Osaka and other	Buildings and structures	¥219
				Machinery, equipment and vehicles	27
				Other	213

For H2O Shopping Center Development Co., Ltd., HANKYU BAKERY Co., LTD, Hankyu Oasis Co., Ltd., Hankyu Hanshin Department Stores, Inc., Izumiya Co., and other companies, impairment loss was recognised for asset groups in stores with continuous negative cash flows from operating activities and asset groups in closed stores.

The recoverable amounts of assets were principally the present value of expected cash flows from on-going use and subsequent disposal of the assets based on a discount rate of 3.6%. For some asset groups, the recoverable amounts were the net saleable values based on the expected sales amounts and the real estate appraisal values, etc.

As a result, the Companies recognised a total of ¥2,730 million of impairment loss, of which, ¥849 million in connection with the closing of H2O Shopping Center Development Co., Ltd., Hankyu Hanshin Department Stores, Inc. and other stores was included in "Loss on store closings" and ¥1,881 million was included in "Impairment loss" under "Extraordinary losses" in the consolidated statements of operations.

13. Loss on step acquisitions

For the year ended 31st March 2022, loss on step acquisitions consisted of additional acquisition of shares of Kansai Super Market Ltd. (currently Kansai Food Market Ltd.) in order to make it a consolidated subsidiary of the Company.

14. Expenses for store opening

For the year ended 31st March 2022, expenses for store opening consisted of grand opening of Hanshin Umeda main store of Hankyu Hanshin Department Stores, Inc. after renewal.

15. Loss on sale of shares of subsidiaries and associates

For the year ended 31st March 2022, loss on sale of shares of subsidiaries and associates consisted of sale of all shares of Be-U Co., Ltd., a consolidated subsidiary of the Company.

9. Matters Related to Consolidated Statements of Comprehensive Income

The recycling and effect of deferred income taxes on other comprehensive income for the years ended 31st March 2021 and 2022 is summarised as follows:

	Millions of yen	
	2021	**2022**
Other comprehensive income		
Valuation difference on available-for-sale securities		
Amount arising for the year	¥ 19,068	¥ 799
Reclassification adjustments	—	(4,731)
Amount before the effect of deferred income tax	19,068	(3,932)
Effect of deferred income tax	(5,834)	1,157
Valuation difference on available-for-sale securities	13,233	(2,774)
Foreign currency translation adjustment		
Amount arising for the year	52	326
Reclassification adjustments	—	—
Amount before the effect of deferred income tax	52	326
Effect of deferred income tax	—	—
Foreign currency translation adjustment	52	326
Remeasurements of defined benefit plans, net of tax		
Amount arising for the year	(123)	96
Reclassification adjustments	573	549
Amount before the effect of deferred income tax	450	645
Effect of deferred income tax	(66)	(182)

Remeasurements of defined benefit plans, net of tax		384		463
Share of other comprehensive income of entities accounted for using equity method				
Amount arising for the year		115		1,199
Total other comprehensive income	¥	13,786	¥	(784)

10. Matters Related to Consolidated Statements of Changes in Net Assets

1. Changes in the number of shares issued and outstanding during the years ended 31st March 2021 and 2022 were as follows:

Common stock outstanding

	Number of shares	
	2021	**2022**
Balance at beginning of year	125,201,396	125,201,396
Increase	–	–
Decrease	–	–
Balance at end of year	125,201,396	125,201,396

Treasury shares outstanding

	Number of shares	
	2021	**2022**
Balance at beginning of year	1,558,219	1,469,808
Acquisition of treasury shares by ToSTNeT (Tokyo Stock Exchange Trading NeTwork)	–	550,000
Increase due to purchase of odd-lot shares	2,414	1,945
Increase in shares held by newly consolidated subsidiary	–	125
Decrease due to sales of shares of the Company by newly consolidated subsidiary	–	(125)
Decrease due to sales of odd-lot shares	(325)	–
Decrease due to exercise of stock options	(90,500)	(32,500)
Balance at end of year	1,469,808	1,989,253

2. Subscription rights to shares

	Millions of yen	
	2021	**2022**
H2O Retailing Corporation:		
March 2009 stock options	¥ 8	¥ 8
March 2010 stock options	17	17
March 2011 stock options	22	22
February 2012 stock options	28	28
March 2013 stock options	65	65
March 2014 stock options	61	61
March 2015 stock options	144	117
March 2016 stock options	145	129
March 2017 stock options	160	145
March 2018 stock options	174	174
June 2018 stock options	152	152
July 2019 stock options A (stock-based compensation with seniority-based conditions)	106	106
July 2020 stock options A (stock-based compensation with seniority-based conditions)	50	49
July 2021 stock options A (stock-based compensation with seniority-based conditions)	–	81
August 2021 stock options B (stock-based compensation with performance-based conditions)	–	7
Total	¥ 1,138	¥ 1,168

3. Dividends

Dividends paid in the year ended 31st March 2021

Resolution	Class of shares	Millions of yen Total dividends	Yen Dividend per share	Record date	Effective date
25th May 2020 Board of Directors' meeting	Common stock	¥2,472	¥20.00	31st March 2020	9th June 2020
30th October 2020 Board of Directors' meeting	Common stock	¥1,545	¥12.50	30th September 2020	30th November 2020

Dividends with a record date in the year ended 31st March 2021 but an effective date in the year ending 31st March 2022

Resolution	Class of shares	Source	Total dividends (*Millions of yen*)	Dividend per share (*Yen*)	Record date	Effective date
11th May 2021 Board of Directors' meeting	Common stock	Retained earnings	¥1,546	¥12.50	31st March 2021	1st June 2021

Dividends paid in the year ended 31st March 2022

Resolution	Class of shares	Total dividends (*Millions of yen*)	Dividend per share (*Yen*)	Record date	Effective date
11th May 2021 Board of Directors' meeting	Common stock	¥1,546	¥12.50	31st March 2021	1st June 2021
5th November 2021 Board of Directors' meeting	Common stock	¥1,546	¥12.50	30th September 2021	30th November 2021

Dividends with a record date in the year ended 31st March 2022 but an effective date in the year ending 31st March 2023

Resolution	Class of shares	Source	Total dividends (*Millions of yen*)	Dividend per share (*Yen*)	Record date	Effective date
17th May 2022 Board of Directors' meeting	Common stock	Retained earnings	¥1,540	¥12.50	31st March 2022	1st June 2022

4. Net assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Companies Act (the "Act"), in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividends or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Act, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit or could be capitalised generally by a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Act, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with the Act.

11. Cash Flows Information

1. The reconciliation of cash and deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of 31st March 2021 and 2022 was as follows:

	Millions of yen	
	2021	**2022**
Cash and deposits	¥ 49,991	¥ 34,724
Time deposits with maturities exceeding three months	–	(1,550)
Cash and cash equivalents	¥ 49,991	¥ 33,174

2. Major components of the assets and liabilities related to a business transfer in consideration of cash and cash equivalents

The following is a summary of assets and liabilities related to a transfer of the HBC business and other of Izumiya Co., Ltd., the amount of business transferred and the payments for the business transfer:

	Millions of yen
	2021
Current assets	¥ 202
Non-current assets	84
Current liabilities	(45)
Non-current liabilities	(285)
Other	44
Amount of business transferred	1
Cash and cash equivalents	(151)
Diff: Payments for transfer of business	¥ 150

3. Significant noncash transactions were as follows:

Assets and liabilities in connection with finance lease transactions and asset retirement obligations

	Millions of yen	
	2021	**2022**
Assets and liabilities in connection with finance lease transactions	¥ 5	¥ 24
Asset retirement obligations	986	604

Transactions by share exchanges for the year ended 31st March 2022

The following is a summary of assets and liabilities at the beginning of consolidation of Kansai Super Market Ltd. and its consolidated subsidiaries by share exchanges. Capital surplus increased by ¥2,449 million due to share exchanges.

	Millions of yen
	2022
Current assets	¥ 16,843
Non-current assets	49,987
Current liabilities	(26,798)
Non-current liabilities	(7,703)
Gain on bargain purchase	(3,427)
Non-controlling interests	(12,032)
Acquisition cost of shares	¥ 16,867

Current assets include ¥9,736 million of cash and cash equivalents at the beginning of consolidation, which is recorded in “Increase in cash and cash equivalents resulting from share exchanges”.

12. Lease Transactions

Finance lease transactions

The Companies as lessee

Finance leases that are not deemed to transfer ownership of the lease property to the lessee

(1) Breakdown of lease investment assets

Property, plant and equipment

Store facilities (buildings and structures) and merchandise display shelves and computers (other) in the supermarket business are included in property, plant and equipment.

(2) Method of depreciation of leased assets

The method of depreciation of leased assets are same as those described in Note 2, "Summary of Significant Accounting Policies".

Operating lease transactions

Future lease payments for non-cancellable operating leases:

The Companies as lessee

	Millions of yen	
	2021	**2022**
Payments due within one year	¥ 14,879	¥ 17,612
Payments due after one year	52,279	49,619
Total	¥ 67,159	¥ 67,231

The Companies as lessor

	Millions of yen	
	2021	**2022**
Payments due within one year	¥ 2,382	¥ 2,447
Payments due after one year	10,953	10,696
Total	¥ 13,336	¥ 13,143

13. Financial Instruments

1. Matters related to financial instruments

(1) Policies for financial instruments

In accordance with their capital investment plan, the Companies procure needed funds primarily through loans from banks, commercial papers and the issuance of bonds. Temporary surplus funds are invested in highly secure financial assets. Derivative transactions are carried out within the confines of real demand according to internal control regulations, and no speculative transactions are performed.

(2) Financial instruments and their risks

Notes and accounts receivable - trade, which are operating receivables, and accounts receivable - other are subject to credit risk. Investment securities are subject to market price volatility risk.

Notes and accounts payable - trade, which are operating payables, and accounts payable - other are almost all subject to payment deadlines of one year or less. Commercial papers are used to procure necessary funds mainly for short-term operations. Long-term loans payable and bonds payable are mainly for capital investment. Repayment deadlines are at most 15 years and 11 months after the closing of accounts. Some are subject to interest rate risk because of floating interest rates. Moreover, notes and accounts payable - trade, accounts payable - other, long-term loans payable and bonds payable are subject to the liquidity risk of the inability to make payment by the payment due date.

The Company enters into interest rate swap transactions to hedge the fluctuation risk of interests on loans. The Company also enters into foreign exchange forward contracts and currency swap transactions to hedge foreign exchange market fluctuation risk of monetary assets and liabilities denominated in foreign currency. Hedging instruments and hedged items, policies on hedges and the evaluation of hedge effectiveness are stated in Note 2, "Summary of Significant Accounting Policies".

(3) Risk management system for financial instruments

Management of credit risk (risk of customer default on contract)

At Hankyu Hanshin Department Stores, Inc., a consolidated subsidiary, the management of customer service units cooperates with the accounting office concerning notes and accounts receivable - trade arising from sales activities according to sales management guidelines and credit management guidelines and routinely monitors the status of key customers by managing due dates and balances for each. At the same time, this company attempts to quickly determine if there are concerns about the collection of payment from particular customers due to worsening financial conditions. Other consolidated subsidiaries also manage credit risk in the same way.

Management of market risk (risk of fluctuation in interest rates and foreign exchange markets)

To limit the risk of fluctuation in interest rate payments for long-term loans payable and bonds payable and to limit the risk of foreign exchange market fluctuation of monetary assets and liabilities denominated in foreign currency, the Company conducts derivative transactions only with major and highly trusted financial institutions according to derivative management guidance.

Management of price volatility risk

The Company and Hankyu Hanshin Department Stores, Inc. invest in and manage securities and investment securities according to securities management guidance. Other consolidated subsidiaries also manage price volatility risk in the same way.

Management of liquidity risk

The Company and Hankyu Hanshin Department Stores, Inc. manage liquidity risk for accounts payable - trade and long-term loans payable following a cash management plan that the financial department prepares and updates based on reports provided by all departments in accordance with accounting rules. Other consolidated subsidiaries also manage liquidity risk in the same way.

2. Matters related to fair value of financial instruments

The book values recorded in the consolidated balance sheets for the years ended 31st March 2021 and 2022 (the consolidated closing date for the reporting term) and fair values and differences between them are set forth in the table below.

	Millions of yen		
	2021		
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 49,991	¥ 49,991	¥ –
(2) Notes and accounts receivable - trade	54,385		
Allowance for doubtful accounts	(205)		
	54,180	54,180	–
(3) Accounts receivable - other	7,025		
Allowance for doubtful accounts	(39)		
	6,985	6,985	–
(4) Investment securities			
Available-for-sale securities	98,131	98,131	–
Total assets	¥ 209,289	¥ 209,289	¥ –
(1) Notes and accounts payable - trade	¥ 48,996	¥ 48,996	¥ –
(2) Accounts payable - other	26,890	26,890	–
(3) Short term loans payable	–	–	
(4) Bonds payable	20,000	20,050	50
(5) Long-term loans payable (*1)	168,547	168,555	7
Total liabilities	¥ 264,434	¥ 264,492	¥ 57
Derivative transactions:			
Hedge accounting is applied	¥ –	¥ –	¥ –
Total derivative transactions	¥ –	¥ –	¥ –

(*1) Figures shown include current portion of long-term loans payable.

(*2) Financial instruments whose fair value is not readily determinable

	Millions of yen
	2021
Unlisted securities	¥ 16,616
Guarantee deposits	70,029
Long-term guarantee deposited	9,530

These financial instruments have no market price and their future cash flow cannot be estimated. Because the fair value is not readily determinable, they have not been included in the above table.

Guarantee Deposits: In connection with its department store business and supermarket business, the Company has entered into long-term lease agreements for store sites and other premises. Under such agreements, lessors in Japan generally require the lessee to make substantial deposits in addition to monthly rental payments. A large portion of such deposits is generally refundable only on termination of the lease. The deposits bear no interest or bear interest only at a nominal rate.

	Millions of yen		
	2022		
	Book value	Fair value	Difference
(1) Investment securities			
Available-for-sale securities (*3)	¥ 86,764	¥ 86,764	¥ –
(2) Guarantee deposits	73,074		
Allowance for doubtful accounts	(2,046)		
	71,028	68,963	(2,064)
Total assets	¥ 157,792	¥ 155,727	¥ (2,064)
(1) Bonds payable	¥ 20,000	¥ 20,013	¥ 13
(2) Long-term loans payable (*4)	155,382	154,004	(1,377)
Total liabilities	¥ 175,382	¥ 174,017	¥ (1,364)
Derivative transactions:			
Hedge accounting is applied	¥ –	¥ –	¥ –
Total derivative transactions	¥ –	¥ –	¥ –

(*1) Disclosure of “Cash and deposits”, “Notes and accounts receivable – trade” and “Notes and accounts payable – trade” is omitted since their book value approximates their fair value because of their short repayment periods.

(*2) Disclosure of “Accounts receivable – other”, “Accounts payable – other” and “Long-term guarantee deposited” is omitted because they are not significant.

(*3) Securities without market price are not included. Book value of the financial instruments is as follows:

	Millions of yen
	2022
Unlisted securities	¥ 17,467

(*4) Figures shown include current portion of long-term loans payable.

Note: 1. Expected proceeds from redemption after the balance sheet date for monetary claims and securities that have maturities

2021	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
	Millions of yen			
Cash and deposits	¥ 49,991	¥ –	¥ –	¥ –
Notes and accounts receivable - trade	54,385	–	–	–
Accounts receivable - other	7,025	–	–	–
Total	¥ 111,402	¥ –	¥ –	¥ –

2022	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
	Millions of yen			
Cash and deposits	¥ 34,724	¥ –	¥ –	¥ –
Notes and accounts receivable - trade	59,906	–	–	–
Accounts receivable - other	7,398	–	–	–
Guarantee deposits	8,729	12,901	16,926	32,471
Total	¥ 110,758	¥ 12,901	¥ 16,926	¥ 32,471

The redemption schedule for guarantee deposits is based on the contract terms and other conditions.

Note: 2. Expected payments from redemption after the balance sheet date for bonds payable, long-term loans payable, lease obligations and other interest bearing debts

2021	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
	Millions of yen					
Short-term loans payable	¥ –	¥ –	¥ –	¥ –	¥ –	¥ –
Bonds payable	–	–	–	10,000	–	10,000
Long-term loans payable	46,414	365	15,289	289	27,789	78,457
Lease obligations	910	926	1,757	653	675	8,870
Total	¥ 47,324	¥ 1,292	¥ 17,047	¥ 10,943	¥ 28,465	¥ 97,328

2022	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
	Millions of yen					
Bonds payable	¥ –	¥ –	¥ 10,000	¥ –	¥ –	¥ 10,000
Long-term loans payable	1,100	15,288	212	46,111	17,111	75,156
Lease obligations	1,267	1,972	718	685	698	8,173
Total	¥ 2,367	¥ 17,260	¥ 10,930	¥ 46,797	¥ 17,810	¥ 93,758

3. Fair value information of financial instruments by level of inputs

The fair values of financial instruments are categorised into the following three levels based on the observability and the significance of the inputs used to determine the fair values:

Level 1 fair value: fair value measured using observable inputs, i.e. quoted prices in active markets for assets or liabilities that are the subject of the measurement.
Level 2 fair value: fair value measured using observable inputs other than Level 1 inputs.
Level 3 fair value: fair value measured using unobservable inputs.

If multiple inputs are used that are significant to the fair value measurement, the fair value measurement is categorised in its entirety in the level of the lowest level input that is significant to the entire measurement.

(1) Financial instruments measured at fair values in the consolidated balance sheets

	Millions of Yen			
	Fair value			
2022	Level 1	Level 2	Level 3	Total
Investment securities	¥	¥	¥	¥
Available-for-sale securities	86,764	–	–	86,764
Total assets	¥ 86,764	¥ –	¥ –	¥ 86,764

(2) Financial instruments other than those measured at fair values in the consolidated balance sheets

	Millions of Yen			
	Fair value			
2022	Level 1	Level 2	Level 3	Total
Guarantee deposits	¥ –	¥ 68,963	¥ –	¥ 68,963
Total assets	¥ –	¥ 68,963	¥ –	¥ 68,963
Bonds payable	¥ –	¥ 20,013	¥ –	¥ 20,013
Long-term loans payable	–	154,004	–	154,004
Total liabilities	¥ –	¥ 174,017	¥ –	¥ 174,017

Note: Valuation techniques and inputs used for the measurement of fair values

Assets

(1) Investment securities

Listed equity securities are measured using quoted prices. Fair value of listed equity securities is classified as Level 1, because they are exchanged in active markets.

(2) Guarantee deposits

The fair values of guarantee deposits are determined based on the current value obtained by discounting future cash flows reflecting recoverability at the interest rate of Japanese Government Bonds over contract terms, and are classified as Level 2.

Liabilities

(1) Bonds payable and (2) Long-term loans payable

The fair value of bonds payable and long-term loans payable is determined by discounting the current value at the assumed applicable interest rates should new bonds or loans be taken with the same total principal and interest, and is classified as Level 2. Bonds and long-term loans that are based on floating interest rates reflect market interest rates over the short term. In addition, because the Company's credit status has not changed substantially since taking on these loans and as the fair value approximates book value, the book value is deemed to be the fair value. For long-term loans that are based on floating interest rates and hedged by interest rate swaps under the exceptional method, the sum of principal and the interest accounted for as an integral part of the interest rate swaps is discounted by using the reasonably estimated loan interest rate applied to the same kind of loans.

Derivative transactions

Interest rate swaps under the exceptional method are accounted for as an integral part of long-term loans payable, hedged items. Thus, their fair value is included in that of long-term loans payable (See (2) above).

14. Investment Securities

The following tables summarise acquisition cost and book value (fair value) of available-for-sale securities with available fair values as of 31st March 2021 and 2022.

Available-for-sale securities with book value exceeding acquisition cost:

	Millions of yen					
	2021			**2022**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥21,254	¥ 81,363	¥ 60,108	¥ 18,843	¥73,983	¥ 55,140
Total	¥21,254	¥ 81,363	¥ 60,108	¥ 18,843	¥73,983	¥ 55,140

Available-for-sale securities with book value not exceeding acquisition cost:

	Millions of yen					
	2021			**2022**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 21,185	¥16,768	¥(4,417)	¥ 15,956	¥12,780	¥(3,176)
Total	¥ 21,185	¥16,768	¥(4,417)	¥ 15,956	¥12,780	¥(3,176)

Unlisted securities (¥6,510 million in 2021 and ¥6,591 million in 2022) are not included in the above tables since they are equity securities without market price.

The following table summarises sales of available-for-sale securities for the years ended 31st March 2021 and 2022:

	Millions of yen					
	2021			**2022**		
	Sales	Gains of sales	Losses on sales	Sales	Gains of sales	Losses on sales
Equity securities	¥ –	¥ –	¥ –	¥ 9,386	¥ 6,485	¥ –

The Companies recognise impairment loss on investment securities when the market value of securities decreases by 50% or more of the acquisition cost as of the balance sheet date or the market value continues to decrease by 30% or more throughout the fiscal year.

The “acquisition cost” which appears in the tables above is the book value after impairment loss. Impairment loss for the year ended 31st March 2021 was insignificant and its disclosure was omitted. There was no impairment loss for the year ended 31st March 2022.

15. Derivative Transactions

Derivatives for which hedge accounting is applied

(1) Currency related

For the year ended 31st March 2021

			Millions of yen		
			2021		
Method of hedge accounting	Type of derivative transactions	Hedged items	Contract amount	Due after one year	Fair value
Designation method for foreign exchange forward contract	Currency swaps Receive USD/ Pay JPY	Long-term loans	¥ 3,500	¥ –	(Note)

Note: Currency swaps under the designation method are accounted for as an integral part of long-term loans payable, hedged items. Thus, their fair value is included in that of long-term loans payable.

For the year ended 31st March 2022

There were no currency related derivative transactions.

(2) Interest related

For the year ended 31st March 2021

			Millions of yen		
			2021		
Method of hedge accounting	Type of derivative transactions	Hedged items	Contract amount	Due after one year	Fair value
Exceptional method for interest rate swaps	Interest rate swaps Pay fixed/ Receive floating	Long-term loans	¥ 3,500	¥ –	(Note)

Note: Interest rate swaps under the exceptional method are accounted for as an integral part of long-term loans payable, hedged items. Thus, their fair value is included in that of long-term loans payable.

For the year ended 31st March 2022

			Millions of yen		
			2022		
Method of hedge accounting	Type of derivative transactions	Hedged items	Contract amount	Due after one year	Fair value
Exceptional method for interest rate swaps	Interest rate swaps Pay fixed/ Receive floating	Long-term loans	¥ 2,375	¥ 2,000	(Note)

Note: Interest rate swaps under the exceptional method are accounted for as an integral part of long-term loans payable, hedged items. Thus, their fair value is included in that of long-term loans payable.

16. Employees' Severance and Retirement Benefits

The Companies provide three types of retirement benefit plans, unfunded lump-sum payment plans, defined benefit pension plans and defined contribution pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salary at the time of retirement or termination, length of service and certain other factors.

The Company and Hankyu Hanshin Department Stores, Inc. have retirement benefits plans which consist of unfunded lump-sum payment plans, cash balance defined benefit pension plans and defined contribution pension plans. Izumiya Co., Ltd. and H2O Shopping Center Development Co., Ltd. have unfunded lump-sum payment plans, defined benefit pension plans and defined contribution pension plans. In April 2017, these companies transferred a portion of the defined benefit pension plans and unfunded lump-sum payment plans to defined contribution plans. Kansai Super Market Ltd. has unfunded lump-sum payment plans and defined benefit pension plans. Other subsidiaries also have unfunded lump-sum payment plans, defined benefit pension plans or defined contribution pension plans. The Company, Hankyu Hanshin Department Stores, Inc. and Izumiya Co., Ltd. each have a retirement benefit trust in their retirement benefit plans. Additional retirement benefits may be provided upon the retirement of employees, where those benefits are not considered to be retirement benefit obligations as calculated under actuarial methods in accordance with the accounting standard for retirement benefits. The employees of the Company, who are seconded from the subsidiaries, are provided with the respective subsidiaries' retirement benefit plans. The simplified method is used to calculate net defined benefit liability and retirement benefit cost for defined benefit pension plans and unfunded lump-sum payment plans of the Company and unfunded lump-sum payment plans of some subsidiaries.

1. Defined benefit plans (excluding plans under the simplified method)

(1) Changes in projected benefit obligation were as follows:

	Millions of yen	
	2021	**2022**
Projected benefit obligation - beginning balance	¥ 46,918	¥ 44,984
Increase due to share exchanges	–	5,302
Service cost	1,785	1,797
Interest cost	112	121
Changes in actuarial differences	348	(393)
Retirement benefits paid	(3,515)	(3,060)
Decrease due to business divesture	(665)	–
Projected benefit obligation - ending balance	¥ 44,984	¥ 48,751

(2) Changes in plan assets were as follows:

	Millions of yen	
	2021	**2022**
Plan assets - beginning balance	¥ 34,845	¥ 35,752
Increase due to share exchanges	–	5,396
Expected return on plan assets	1,076	1,141
Changes in actuarial differences	225	(297)
Employers' contributions	2,497	1,202
Retirement benefits paid	(2,466)	(2,277)
Decrease due to business divesture	(425)	–
Plan assets - ending balance	¥ 35,752	¥ 40,917

(3) Ending balances of projected benefit obligation and plan assets and amounts included in the consolidated balance sheets as of 31st March 2021 and 2022 were as follows:

	Millions of yen	
	2021	**2022**
Projected benefit obligation under funded plans	¥ 35,309	¥ 38,099
Plan assets	(35,752)	(40,917)
	(443)	(2,817)
Projected benefit obligation under non-funded plans	9,675	10,652
Net balance in the consolidated balance sheets	¥ 9,232	¥ 7,834
Net defined benefit liability	¥ 11,130	¥ 11,990
Net defined benefit asset	(1,898)	(4,156)
Net balance in the consolidated balance sheets	¥ 9,232	¥ 7,834

(4) Components of retirement benefit cost were as follows:

	Millions of yen	
	2021	**2022**
Service cost	¥ 1,785	¥ 1,797
Interest cost	112	121
Expected return on plan assets	(1,076)	(1,141)
Amortisation of actuarial differences	670	626
Amortisation of past service cost	(73)	(76)
Other	38	19
Retirement benefit cost	¥ 1,456	¥ 1,347

(5) Remeasurements of defined benefit plans in other comprehensive income before the effect of deferred income tax were as follows:

	Millions of yen			
	2021		**2022**	
Past service cost	¥	(105)	¥	(76)
Actuarial differences		555		722
Total	¥	450	¥	645

(6) Remeasurements of defined benefit plans in accumulated comprehensive income before the effect of deferred income tax were as follows:

	Millions of yen			
	2021		**2022**	
Unrecognised past service cost	¥	(482)	¥	(406)
Unrecognised actuarial differences		4,069		3,346
Total	¥	3,586	¥	2,940

(7) Information on plan assets was as follows:

(i) The breakdown of plan assets by major category was as follows:

	2021	**2022**
General account of life insurance	38%	35%
Debt securities	34%	35%
Real estate investment funds	14%	13%
Cash and deposits	12%	11%
Equity securities	2%	2%
Other	0%	4%
Total	100%	100%

Total plan assets include 2% contribution to the retirement benefit trust in the retirement benefit plans for the years ended 31st March 2021 and 2022.

(ii) Long-term expected rate of return on plan assets is determined based on the current and future allocation of plan assets and the current and long-term return on various components of the assets.

(8) Actuarial assumptions (weighted-average rate) were as follows:

	2021	**2022**
Discount rate	0.25%	0.31%
Long-term expected rate of return	3.12%	2.97%
Estimated rate of salary increase	1.12%	1.07%

Note: Estimated rate of salary increase is an expected rate of increase in retirement benefit points.

2. Defined benefit plans under the simplified method

(1) Changes in projected benefit obligation for the defined benefit plans under the simplified method were as follows:

	Millions of yen	
	2021	**2022**
Projected benefit obligation - beginning balance	¥ 1,859	¥ 1,709
Defined benefit cost	248	240
Retirement benefits paid	(231)	(206)
Employers' contributions	(1)	—
Decrease due to transfer to defined contribution plans	—	(384)
Decrease due to exclusion from consolidation	—	(59)
Decrease due to business divestiture	(147)	—
Other	(18)	(31)
Projected benefit obligation - ending balance	¥ 1,709	¥ 1,269

(2) Ending balances of projected benefit obligation and plan assets and amounts included in the consolidated balance sheets as of 31st March 2021 and 2022 were as follows:

	Millions of yen	
	2021	**2022**
Projected benefit obligation under funded plans	¥ 74	¥ —
Plan assets	(15)	—
	59	—
Projected benefit obligation under non-funded plans	1,650	1,269
Net balance in the consolidated balance sheets	1,709	1,269
Net defined benefit liability	1,709	1,269
Net balance in the consolidated balance sheets	¥ 1,709	¥ 1,269

(3) Retirement benefit cost calculated by the simplified method was ¥248 million and ¥240 million for the years ended 31st March 2021 and 2022, respectively. Additional retirement benefits of ¥237 million were recorded as "Loss on store closings" under "Extraordinary losses" for the year ended 31st March 2022.

3. The amount required for contributions to the defined contribution plans of the Company and its consolidated subsidiaries was ¥548 million and ¥615 million for the years ended 31st March 2021 and 2022, respectively.

4. With the transfer of a portion of the unfunded lump-sum payment plans to defined contribution plans, the plan assets to be transferred to the defined contribution plans amounted to ¥387 million and are planned to be transferred over 8 years beginning from the year ended 31st March 2018. Also, in the year ended 31st March 2022, some subsidiaries started the transfer of the unfunded lump-sum payment plans to defined contribution plans, and the plan assets to be transferred to the defined contribution plans amounted to ¥425 million and are planned to be transferred over 4 years beginning from the year ended 31st March 2022. The plan assets not yet transferred amounted to ¥93 million and ¥429 million as of 31st March 2021 and 2022, respectively, and were recorded under "Accounts payable - other" and "Long-term accounts payable - other".

17. Stock Options

1. The amount of cost and its presentation in the consolidated statements of operations

	Millions of yen	
	2021	**2022**
Selling, general and administrative expenses	¥ 50	¥ 88

2. The amount of income from forfeiture due to non-exercise of options and its presentation in the consolidated statements of operations

	Millions of yen	
	2021	**2022**
"Other" under "Non-operating income"	¥ 32	¥ —

3. Outline of stock options

The number of shares means total shares to be issued upon exercise of subscription rights to shares and is adjusted for the reverse stock split (two-to-one share) executed on 1st September 2014.

	Subscription rights to shares issued in March 2009 as stock options
Title and number of grantees	5 directors, 1 executive officer of the Company and 4 directors, 8 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (Note 1)	46,000 common shares
Date of issue	31st March 2009
Exercise conditions	No provisions (Note 2)
Intended service period	No provisions
Exercise period	From 1st April 2009 to 31st March 2039

	Subscription rights to shares issued in March 2010 as stock options
Title and number of grantees	6 directors, 1 executive officer of the Company and 4 directors, 16 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (Note 1)	82,500 common shares
Date of issue	31st March 2010
Exercise conditions	No provisions (Note 2)
Intended service period	No provisions
Exercise period	From 1st April 2010 to 31st March 2040

	Subscription rights to shares issued in March 2011 as stock options
Title and number of grantees	6 directors of the Company and 10 directors, 7 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (Note 1)	97,000 common shares
Date of issue	31st March 2011
Exercise conditions	No provisions (Note 2)
Intended service period	No provisions
Exercise period	From 1st April 2011 to 31st March 2041

	Subscription rights to shares issued in February 2012 as stock options
Title and number of grantees	6 directors, 1 executive officer of the Company and 9 directors, 8 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (Note 1)	99,500 common shares
Date of issue	29th February 2012
Exercise conditions	No provisions (Note 2)
Intended service period	No provisions
Exercise period	From 1st March 2012 to 28th February 2042

	Subscription rights to shares issued in March 2013 as stock options
Title and number of grantees	6 directors of the Company and 8 directors, 9 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (Note 1)	99,000 common shares
Date of issue	31st March 2013
Exercise conditions	No provisions (Note 2)
Intended service period	No provisions
Exercise period	From 1st April 2013 to 31st March 2043

	Subscription rights to shares issued in March 2014 as stock options
Title and number of grantees	6 directors of the Company and 10 directors, 7 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (Note 1)	101,000 common shares
Date of issue	31st March 2014
Exercise conditions	No provisions (Note 2)
Intended service period	No provisions
Exercise period	From 1st April 2014 to 31st March 2044

	Subscription rights to shares issued in March 2015 as stock options
Title and number of grantees	6 directors of the Company and 9 directors, 11 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (Note 1)	109,000 common shares
Date of issue	31st March 2015
Exercise conditions	No provisions (Note 2)
Intended service period	No provisions
Exercise period	From 1st April 2015 to 31st March 2045

	Subscription rights to shares issued in March 2016 as stock options
Title and number of grantees	5 directors, 1 executive officer of the Company and 7 directors, 14 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (Note 1)	110,000 common shares
Date of issue	31st March 2016
Exercise conditions	No provisions (Note 2)
Intended service period	No provisions
Exercise period	From 1st April 2016 to 31st March 2046

	Subscription rights to shares issued in March 2017 as stock options
Title and number of grantees	4 directors, 2 executive officers of the Company and 7 directors, 13 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (Note 1)	106,500 common shares
Date of issue	31st March 2017
Exercise conditions	No provisions (Note 2)
Intended service period	No provisions
Exercise period	From 1st April 2017 to 31st March 2047

	Subscription rights to shares issued in March 2018 as stock options
Title and number of grantees	3 directors, 3 executive officers of the Company and 7 directors, 12 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (Note 1)	100,500 common shares
Date of issue	31st March 2018
Exercise conditions	No provisions (Note 2)
Intended service period	No provisions
Exercise period	From 1st April 2018 to 31st March 2048

	Subscription rights to shares issued in June 2018 as stock options
Title and number of grantees	3 directors, 3 executive officers of the Company and 8 directors, 10 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (Note 1)	98,500 common shares
Date of issue	30th June 2018
Exercise conditions	No provisions (Note 2)
Intended service period	No provisions
Exercise period	From 1st July 2018 to 30th June 2048

	Subscription rights to shares issued in July 2019 as stock options (A) (stock-based compensation with seniority-based conditions)
Title and number of grantees	5 directors (excluding audit and supervisory committee ("ASC") members), 4 directors as ASC members, 4 executive officers of the Company and 9 directors, 1 corporate auditor, 11 executive officers of subsidiaries of the Company
Number of stock options (Note 1)	112,500 common shares
Date of issue	15th July 2019
Exercise conditions	Note 3
Intended service period	No provisions
Exercise period	From 16th July 2019 to 15th July 2049

	Subscription rights to shares issued in July 2019 as stock options (B) (stock-based compensation with performance-based vesting conditions)
Title and number of grantees	3 directors (excluding non-executive officers), 4 executive officers of the Company and 8 directors (excluding non-executive officers), 11 executive officers of subsidiaries of the Company
Number of stock options (Note 1)	41,000 common shares
Date of issue	15th July 2019
Exercise conditions	Note 4
Intended service period	No provisions
Exercise period	From 16th July 2019 to 15th July 2049

	Subscription rights to shares issued in July 2020 as stock options (A) (stock-based compensation with seniority-based conditions)
Title and number of grantees	4 directors (excluding ASC members), 5 directors as ASC members, 4 executive officers of the Company and 9 directors, 1 corporate auditor, 10 executive officers of subsidiaries of the Company
Number of stock options (Note 1)	113,000 common shares
Date of issue	15th July 2020
Exercise conditions	Note 3
Intended service period	No provisions
Exercise period	From 16th July 2020 to 15th July 2050

	Subscription rights to shares issued in July 2020 as stock options (B) (stock-based compensation with performance-based vesting conditions)
Title and number of grantees	3 directors (excluding non-executive officers), 4 executive officers of the Company and 8 directors (excluding non-executive officers), 10 executive officers of subsidiaries of the Company
Number of stock options (Note 1)	39,000 common shares
Date of issue	15th July 2020
Exercise conditions	Note 4
Intended service period	No provisions
Exercise period	From 16th July 2020 to 15th July 2050

	Subscription rights to shares issued in July 2021 as stock options (A) (stock-based compensation with seniority-based conditions)
Title and number of grantees	4 directors (excluding ASC members), 5 directors as ASC members, 4 executive officers of the Company and 8 directors, 2 corporate auditors, 10 executive officers of subsidiaries of the Company
Number of stock options (Note 1)	109,500 common shares
Date of issue	15th July 2021
Exercise conditions	Note 3
Intended service period	No provisions
Exercise period	From 16th July 2021 to 15th July 2051

	Subscription rights to shares issued in August 2021 as stock options (B) (stock-based compensation with performance-based vesting conditions)
Title and number of grantees	3 directors (excluding non-executive officers), 4 executive officers of the Company and 7 directors (excluding non-executive officers), 10 executive officers of subsidiaries of the Company
Number of stock options (Note 1)	37,000 common shares
Date of issue	31st August 2021
Exercise conditions	Note 4
Intended service period	No provisions
Exercise period	From 1st September 2021 to 31st August 2051

Notes:

1. The number of options is listed as the number of shares.
2. Exercise is subject to the following conditions.

(1) The grantee can exercise subscription rights to shares only for five years from the following day of the date the grantee loses the position either as directors, corporate auditors or executive officers of the Company or Hankyu Hanshin Department Stores, Inc., a subsidiary of the Company, (“the commencement date of exercise”) within the above exercise period of the subscription rights to shares.

(2) Regardless of (1), the grantee can exercise subscription rights to shares only for each of the following period when stipulated in the following (a) or (b) (except in case of (b) that subscription rights to shares of the target company of reorganisation are granted to the grantee in accordance with note 8 below).

(a) In case the commencement date of exercise does not come before the date one year prior to the last day of the exercise period

From the following day of the date one year prior to the last day of the exercise period until the last day of the exercise period

(b) In case a resolution of a merger agreement in which the Company becomes a disappearing company, or share exchange agreement or share transfer plan in which the Company becomes a wholly-owned subsidiary is approved by the shareholders' meeting of the Company (or resolved by the Board of Directors' meeting if the resolution by the shareholders' meeting is not required)

Within 15 days from the following day of the date of the approval

(3) The grantee cannot exercise the subscription rights to shares if the grantee renounces the subscription rights to shares.

3. Exercise is subject to the following conditions.

(1) The grantee can exercise subscription rights to shares only for five years from the following day of the date the grantee loses the position either as directors (including ASC members), corporate auditors or executive officers of the Company or subsidiaries of the Company, ("the commencement date of exercise") within the above exercise period of the subscription rights to shares.

(2) Regardless of (1), the grantee can exercise subscription rights to shares only for each of the following period when stipulated in the following (a) or (b) (except in case of (b) that subscription rights to shares of the target company of reorganisation are granted to the grantee in accordance with note 8 below).

(a) In case the commencement date of exercise does not come before the date one year prior to the last day of the exercise period

From the following day of the date one year prior to the last day of the exercise period until the last day of the exercise period

(b) In case a resolution of a merger agreement in which the Company becomes a disappearing company, or share exchange agreement or share transfer plan in which the Company becomes a wholly-owned subsidiary is approved by the shareholders' meeting of the Company (or resolved by the Board of Directors' meeting if the resolution by the shareholders' meeting is not required)

Within 15 days from the following day of the date of the approval

(3) Regardless of the above (1) and (2), the grantee cannot exercise the subscription rights to shares if the grantee does not have a position as directors, etc. of the target company as of the end of the fiscal year in which the date of allotment is pertaining to, except in case where there is a separate arrangement.

4. Exercise is subject to the following conditions

(1) The grantee can exercise number of exercisable rights fixed within the rage from 0% to 100% of the allotted subscription rights to shares, depending on a degree of achievement of the management indicator or other indicator that is preassigned in the mid-term plan by the Board of Directors of the Company, in the final year of the mid-term plan only for five years from the following day of the date the grantee loses the position (only when resignation due to expiration of term of office or other legitimate reason that the Company permits) either as directors (including ASC members), corporate auditors or executive officers of the Company or subsidiaries of the Company, ("the commencement date of exercise") within the above exercise period of the subscription rights to shares.

The performance-based indicators are as follows. For the year ended 31st March 2022, consolidated ordinary income was as stated in the consolidated statements of operations and consolidated ROIC was 0.14%. As a result, the number of exercisable rights for performance-based stock options allotted to "Subscription rights to shares issued in July 2019 as stock options (A)" and "Subscription rights to shares issued in July 2020 as stock options (A)" was zero.

Performance-based criteria for July 2019 and July 2020

Indicator	Target figure	Proportion
(a) Consolidated ordinary income	¥25 billion	50%
(b) Consolidated ROIC	4.0%	50%

Performance-based criteria for August 2021

Indicator	Target figure	Proportion
(c) Consolidated ordinary income	¥14 billion	50%
(d) Consolidated ROIC	3.0%	50%

(2) Regardless of (1), the grantee can exercise subscription rights to shares only for each of the following period when stipulated in the following (a) or (b) (except in case of (b) that subscription rights to shares of the target company of reorganisation are granted to the grantee in accordance with note 8 below).

(a) In case the commencement date of exercise does not come before the date one year prior to the last day of the exercise period

From the following day of the date one year prior to the last day of the exercise period until the last day of the exercise period

(b) In case a resolution of a merger agreement in which the Company becomes a disappearing company, or share exchange agreement or share transfer plan in which the Company becomes a wholly-owned subsidiary is approved by the shareholders' meeting of the Company (or resolved by the Board of Directors' meeting if the resolution by the shareholders' meeting is not required)

Within 15 days from the following day of the date of the approval

(3) Regardless of the above (1) and (2), the grantee cannot exercise the subscription rights to shares until the following conditions are satisfied, except in case where there is a separate arrangement.

(a) The number of exercisable rights is fixed.

(b) The grantee maintains a position of directors, etc. at the target company as of the end of the fiscal year in which the date of allotment is pertaining to.

4. Scale and changes in stock options

The following table describes the scale and changes in stock options that existed during the year ended 31st March 2022. The number of stock options has been translated into the number of shares and is adjusted for the reverse stock split (two-to-one share) executed on 1st September 2014.

In the year ended 31st March 2022:	March 2009 stock options	March 2010 stock options	March 2011 stock options	February 2012 stock options	March 2013 stock options	March 2014 stock options	March 2015 stock options	March 2016 stock options	March 2017 stock options	March 2018 stock options	June 2018 stock options
Before vested											
As of 31st March 2021	—	—	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	—	—	—
Outstanding	—	—	—	—	—	—	—	—	—	—	—
After vested											
As of 31st March 2021	8,500	15,500	23,000	26,000	34,000	39,000	67,500	81,000	97,500	97,500	94,500
Vested	—	—	—	—	—	—	—	—	—	—	—
Exercised	—	—	—	—	—	—	12,500	9,000	9,000	—	—
Forfeited	—	—	—	—	—	—	—	—	—	—	—
Outstanding	8,500	15,500	23,000	26,000	34,000	39,000	55,000	72,000	88,500	97,500	94,500

In the year ended 31st March 2022:	July 2019 stock options (A) (stock-based compensation with seniority-based conditions)	July 2019 stock options (B) (stock-based compensation with performance-based vesting conditions)	July 2020 stock options (A) (stock-based compensation with seniority-based conditions)	July 2020 stock options (B) (stock-based compensation with performance-based vesting conditions)	July 2021 stock options (A) (stock-based compensation with seniority-based conditions)	August 2021 stock options (B) (stock-based compensation with performance-based vesting conditions)
Before vested						
As of 31st March 2021	—	39,000	—	37,000	—	—
Granted	—	—	—	—	109,500	37,000
Forfeited	—	39,000	—	37,000	—	—
Vested	—	—	—	—	109,500	—
Outstanding	—	—	—	—	—	37,000
After vested						
As of 31st March 2021	107,500	—	109,000	—	—	—
Vested	—	—	—	—	109,500	—
Exercised	—	—	2,000	—	—	—
Forfeited	—	—	—	—	—	—
Outstanding	107,500	—	107,000	—	109,500	—

Price information

	Yen										
In the year ended 31st March 2022:	March 2009 stock options	March 2010 stock options	March 2011 stock options	February 2012 stock options	March 2013 stock options	March 2014 stock options	March 2015 stock options	March 2016 stock options	March 2017 stock options	March 2018 stock options	June 2018 stock options
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1
Average exercise price	¥—	¥—	¥—	¥—	¥—	¥—	¥837	¥853	¥829	¥—	¥—
Fair value at the grant date	¥986	¥1,136	¥984	¥1,100	¥1,932	¥1,566	¥2,141	¥1,798	¥1,645	¥1,791	¥1,615

	Yen					
In the year ended 31st March 2022:	July 2019 stock options (A) (stock-based compensation with seniority-based conditions)	July 2019 stock options (B) (stock-based compensation with performance-based vesting conditions)	July 2020 stock options (A) (stock-based compensation with seniority-based conditions)	July 2020 stock options (B) (stock-based compensation with performance-based vesting conditions)	July 2021 stock options (A) (stock-based compensation with seniority-based conditions)	August 2021 stock options (B) stock-based compensation with performance-based vesting conditions)
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1
Average exercise price	¥―	¥―	¥798	¥―	¥―	¥―
Fair value at the grant date	¥995	¥985	¥460	¥452	¥741	¥699

5. Valuation method for estimating per share fair value of stock options

Valuation technique used for valuating fair value of subscription rights to shares issued in July and August 2021 as stock options and granted during the year ended 31st March 2022 was as follows:

Stock options (A) (stock-based compensation with seniority-based conditions)

Valuation method used was Adjusted Black-Scholes option-pricing model.

Principal parameters and estimation method

	July 2021 stock options (A)
Expected volatility of the underlying stock (Note 1)	32.36%
Remaining expected life of the option (Note 2)	7.1 years
Expected dividends on the stock (Note 3)	¥25.0 per share
Risk-free interest rate during the expected option term (Note 4)	(0.120)%

Notes: 1. In the year ended 31st March 2022, the fair value of stock options was calculated on the basis of the Company’s weekly share price movements from June 2014 to July 2021.

2. This period has been calculated using the average period of service for directors (or executive officers) of the Company and the average period of service for directors (or executive officers) from allotment date to retirement date as of the issuing date of the stock options.

3. In the year ended 31st March 2022, the amount of expected dividends was calculated based on the actual dividends paid as the interim dividend and the final dividend for the year ended 31st March 2021.

4. This rate has been calculated using the compound interest rate on Japanese Government Bonds whose remaining period is similar to that of the stock options.

Stock options (B) (stock-based compensation with performance-based vesting conditions)

Valuation method used was Adjusted Black-Scholes option-pricing model.

Principal parameters and estimation method

	August 2021 stock options (B)
Expected volatility of the underlying stock (Note 1)	32.36%
Remaining expected life of the option (Note 2)	7.3 years
Expected dividends on the stock (Note 3)	¥25.0 per share
Risk-free interest rate during the expected option term (Note 4)	(0.104)%

Notes: 1. In the year ended 31st March 2022, the fair value of stock options was calculated on the basis of the Company's weekly share price movements from May 2014 to August 2021.

2. This period has been calculated using the average period of service for directors (or executive officers) of the Company and the average period of service for directors (or executive officers) from allotment date to retirement date as of the issuing date of the stock options.

3. In the year ended 31st March 2022, the amount of expected dividends was calculated based on the actual dividends paid as the interim dividend and the final dividend for the year ended 31st March 2021.

4. This rate has been calculated using the compound interest rate on Japanese Government Bonds whose remaining period is similar to that of the stock options.

6. Method used to estimate the number of vested subscription rights to shares

Because it is difficult to estimate the number of forfeitures in the future reasonably, only the actual number of forfeitures is reflected to estimate the number of vested subscription rights to shares. For stock options (B) (stock-based compensation with performance-based vesting conditions), the number of forfeitures due to non-vesting is estimated, considering vesting conditions.

18. Income Taxes

1. Income taxes consist of corporation, inhabitants and enterprise taxes.

Significant components of the Companies' deferred tax assets and liabilities as of 31st March 2021 and 2022 were as follows:

	Millions of yen	
	2021	**2022**
Deferred tax assets:		
Tax loss carryforwards (Note 2)	¥ 23,577	¥ 33,679
Provision for redemption of gift certificates	1,481	1,892
Provision for bonuses	1,055	1,362
Net defined benefit liability	4,230	3,705
Depreciation	570	495
Impairment loss	10,651	12,517
Retirement benefit trust assets	88	96
Provision for loss on store closings	120	452
Asset retirement obligations	1,431	1,436
Shares in subsidiaries	1,358	1,358
Valuation on the consolidation	734	1,086
Provision for point card certificates	565	—
Contract liabilities	—	803
Allowance for doubtful accounts	1,050	1,058
Unrealised gains and losses on intercompany asset transfers	14,056	3,598
Reserved loss of subsidiaries	157	—
Specified accounts pertaining to business combination	161	136
Other	4,407	3,543
	65,698	67,224
Valuation allowance pertaining to tax loss carryforwards (Note 2)	(17,706)	(29,166)
Valuation allowance pertaining to total amount of temporary deductible differences	(27,033)	(20,305)
Valuation allowance (Note 1)	(44,739)	(49,472)
Total deferred tax assets	20,958	17,752
Deferred tax liabilities:		
Reserve for tax purpose reduction entry of non-current assets	(4,539)	(3,594)
Valuation differences of fair value in consolidation	(5,702)	(9,187)
Valuation gain on investment securities resulting from conversion of retirement benefit trust assets (equity securities)	(3,511)	(3,160)
Valuation difference on available-for-sale securities	(17,112)	(15,954)
Unrealised gains and losses on intercompany asset transfers	(992)	(877)
Other	(1,452)	(1,420)

Total deferred tax liabilities	(33,311)	(34,195)
Net deferred tax assets (liabilities)	¥ (12,352)	¥ (16,443)

Notes: 1. Valuation allowance increased by ¥4,732 million mainly due to the valuation allowance pertaining to tax loss carryforwards in the amount of ¥11,460 million recognised by the consolidated subsidiaries, an increase in valuation allowance pertaining to impairment loss in the amount of ¥2,725 million and a decrease in valuation allowance pertaining to unrealised gains and losses on intercompany asset transfers in the amount of ¥9,902 million.

2. Expected maturity of the deferred tax assets after the balance sheet date for tax loss carryforwards

Millions of yen

2021	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years	Total
Tax loss carryforwards (*1)	¥ 156	¥ 221	¥ 720	¥ 2,502	¥ 1,748	¥ 18,227	¥ 23,577
Valuation allowance	(156)	(158)	(646)	(1,911)	(1,619)	(13,213)	(17,706)
Deferred tax assets	–	62	74	590	128	5,014	(*2) 5,871

*1. The amount of tax loss carryforwards was calculated by using the statutory tax rate.

*2. For tax loss carryforwards of ¥23,577 million (applying the statutory tax rate), deferred tax assets of ¥5,871 million were recorded which mainly consisted of deferred tax assets related to tax loss carryforwards of ¥4,799 million recognised by the Company and Hankyu Hanshin Department Stores, Inc. The Company judged the respective deferred tax assets related to tax loss carryforwards as recoverable based on the estimated future taxable income.

Millions of yen

2022	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years	Total
Tax loss carryforwards (*1)	¥ 124	¥ 358	¥ 1,916	¥ 1,651	¥ 1,932	¥ 27,695	¥ 33,679
Valuation allowance	(124)	(265)	(538)	(1,629)	(1,914)	(24,694)	(29,166)
Deferred tax assets	–	92	1,377	22	18	3,001	(*2) 4,512

*1. The amount of tax loss carryforwards was calculated by using the statutory tax rate.

*2. For tax loss carryforwards of ¥33,679 million (applying the statutory tax rate), deferred tax assets of ¥4,512 million were recorded which mainly consisted of deferred tax assets related to tax loss carryforwards of ¥4,424 million recognised by the Company and Hankyu Hanshin Department Stores, Inc. The Company judged the respective deferred tax assets related to tax loss carryforwards as recoverable based on the estimated future taxable income.

2. Reconciliation of the differences between the statutory tax rate and the effective income tax rate for the year ended 31st 2022 was as follows:

	2022
Statutory tax rate	30.6%
Adjustments:	
Entertainment expenses	0.3
Dividend income	(6.7)
Per capita inhabitant tax	2.4
Amortisation of goodwill	1.1
Loss on step acquisitions	3.4
Gain on bargain purchase	(6.7)
Increase (decrease) of valuation allowance	12.3
Other	(0.9)
Effective income tax rate	35.7%

Note: Reconciliation of the differences between the statutory tax rate and the effective income tax rate was omitted because loss before income taxes was recognised for the year ended 31st March 2021.

19. Business Combination

Business combination by acquisition

Izumiya Co., Ltd. (hereinafter, "Izumiya") and Hankyu Oasis Co., Ltd. (hereinafter, "Hankyu Oasis"), the Company's consolidated subsidiaries, conducted share exchanges with Kansai Super Market Ltd. (hereinafter, "Kansai Super") on 15th December 2021.

(1) Outline of the business combination

(a) Name of acquired company and its business outline

Name: Kansai Super Market Ltd.

Business: Operation of supermarket chain mainly dealing with groceries and stores rental

(b) Reason for the business combination

The Company considers the supermarket business centered on food supermarkets as an engine of "Kansai Dominant Strategy" in long-term business vision 2030 and mid-term management plan (from the year ended 31st March 2022 to the year ending 31st March 2024) and is aiming to make it a second pillar earning ¥10 billion or more following the department store business.

In such an environment, the Company conducted the share exchanges based on its judgment that the business combination between Izumiya and Hankyu Oasis, the core companies of the Group's supermarket business, and Kansai Super will enable the Company to speedily and effectively achieve synergies between these companies and to promote effective strategies for establishing a business style required under the new normal.

(c) Date of the business combination

15th December 2021 (deemed acquisition date as 31st December 2021)

(d) Legal form of the business combination

Share exchanges for Kansai Super as a wholly owned parent and Izumiya as a wholly owned subsidiary.

Share exchanges for Kansai Super as a wholly owned parent and Hankyu Oasis as a wholly owned subsidiary.

(e) Name of the company after the business combination

Kansai Super Market Ltd. (renamed Kansai Food Market Ltd. as of 1st February 2022)

(f) Ratio of voting rights acquired

Before share exchanges 10.66% (After acquisition of share from opposing shareholders 12.72%)

Additional acquisition on the date of business combination 50.06%

After acquisition 62.78%

(g) Basis for determining the acquirer

Through the share exchanges, Kansai Super issued 33,834,909 shares to the Company, a shareholder of Izumiya and Hankyu Oasis immediately before the share exchanges came into effect. As a result, the Company holds more than half of the voting rights of Kansai Super and became the acquirer.

(2) Period for which the acquired company's business results are included in the consolidated statements of

operations

The consolidated statements of operations for the year ended 31st March 2022 included business results of the acquired company for the period from 1st January 2022 to 31st March 2022.

(3) Acquisition cost of the acquired company and details of each class of consideration

			Millions of yen
			2022
Consideration for acquisition	Fair value of shares of Kansai Super held immediately before the business combination at the date of the business combination	¥	3,417
	Fair value of shares of Izumiya and Hankyu Oasis issued at the date of the business combination		13,450
Acquisition cost		¥	16,867

(4) Share exchange rate by classification of shares, calculation method and number of shares issued

(a) Share exchange rate by classification of shares

11,909 shares of common stock of Kansai Super for each share of common stock of Izumiya and 5,000 shares of common stock of Kansai Super for each share of common stock of Hankyu Oasis were allocated.

(b) Calculation method for share exchange rate

For the abovementioned share exchange rate, the Company assigned SMBC Nikko Securities Inc. as a financial advisor and a third party calculation agent, which is independent of the Companies and Kansai Super. To determine the share exchange rate, SMBC Nikko Securities Inc. applied market stock price method, comparable companies analysis method, and discount cash flow method (hereinafter, “DCF”) for Kansai Super, and comparable companies analysis method and DCF for Izumiya and Hankyu Oasis.

The Company determined the abovementioned share exchange rate was reasonable for each shareholder by referring to the calculation results by the third party calculation agent, considering financial status, future outlook, and stock price movements of Kansai Super, Izumiya and Hankyu Oasis, and having deliberate negotiations and consultations with Kansai Super.

(c) Number of shares issued

Izumiya 2,001 shares

Hankyu Oasis 2,001 shares

(5) Difference between acquisition cost of the acquired company and sum of acquisition cost by transaction up to acquisition

Loss on step acquisitions ¥1,753 million

(6) Details and amounts of main acquisition costs

Advisory costs ¥372 million

(7) Details of assets acquired and liabilities assumed at the date of the business combination

		Millions of yen
		2022
Current assets	¥	16,843
Non-current assets		49,987
Total assets	¥	66,830
Current liabilities	¥	26,798
Non-current liabilities		7,703
Total liabilities	¥	34,502

(8) Amount of and reason for gain on bargain purchase

(a) Amount of gain on bargain purchase

¥3,427 million

The allocation of acquisition cost was provisionally accounted for based on the available reasonable information as of the preparation of the quarterly consolidated financial statements for the third quarter ended 31st December 2021, and was finalized during the fourth quarter ended 31st March 2022.

(b) Reason for gain on bargain purchase

Fair value of net assets was greater than acquisition cost at the time of business combination.

(9) Estimated impact on the consolidated statements of operations for the year ended 31st March 2022 on the assumption that the business combination was completed at the beginning of the year ended 31st March 2022

		Millions of yen
		2022
Net sales	¥	615,353
Operating income		1,889
Ordinary income		3,725
Profit before income taxes		16,565
Profit attributable to owners of parent		8,862
Profit per share		71.67

Method for calculating the estimated impact

On the assumption that the business combination was completed at the beginning of the year ended 31st March 2022, the estimated impact was calculated by adding the consolidated financial results of the Kansai Super Group for the period from April to December 2021, before the business combination, to the full-year consolidated financial results of the Company and then adjusting the impact of the financial results for the abovementioned period on gain on bargain purchase.

This note is not audited.

20. Asset Retirement Obligations

1. Asset retirement obligations recorded on the consolidated balance sheets

(1) Outline of the asset retirement obligations

The obligation to restore properties to their original state pursuant to real estate lease agreements for store properties, etc.

(2) Calculation method for asset retirement obligations

For the years ended 31st March 2021 and 2022, an estimated usage period of 1 to 47 years and 1 to 39 years, a discount rate of 0.0% to 2.65% and 0.0% to 2.28%, respectively, were used to calculate the amount of asset retirement obligations.

(3) Changes in the total amount of asset retirement obligations

For the year ended 31st March 2021, asset retirement obligations increased by ¥986 million since it became possible to estimate the restoration costs for closing of the group companies. Decrease due to fulfillment of asset retirement obligations is related mainly to Izumiya Co., Ltd.

For the year ended 31st March 2022, asset retirement obligations increased by ¥576 million since it became possible to estimate the restoration costs for closing of the group companies. Decrease due to fulfillment of asset retirement obligations is related mainly to H2O Shopping Center Development Co., Ltd.

Changes in the balances were as follows:

	Millions of yen	
	2021	**2022**
Balance at beginning of year	¥ 3,255	¥ 4,134
Increase due to estimate changes	986	576
Increase due to acquisition of property, plant and equipment	–	27
Adjustments with passage of time	47	47
Decrease due to fulfilment of asset retirement obligations	(150)	(998)
Decrease due to exclusion from consolidation	(4)	(65)
Increase due to management integration	–	520
Other	–	(41)
Balance at end of year	¥ 4,134	¥ 4,201

2. Asset retirement obligations not recorded on the consolidated balance sheets

The Companies are obligated to restore properties to their original state upon leaving based on the real estate leasing agreements for stores, offices, etc. However, when the leasing period of leased assets is unclear and the future leaving is not yet planned, asset retirement obligations are not recorded as it is not possible to reasonably estimate the asset retirement obligations.

21. Revenue from Contracts with Customers

1. Information on breakdown of revenue from contracts with customers

Relationship between information on breakdown of revenue of each reportable segment and "Net sales to external customers" described in Note 22 for the year ended 31st March 2022 was as follows. Other revenues were rental income based on the accounting standard for lease transactions.

	Millions of yen					
As of and for the year ended 31st March 2022	Department Store Business	Supermarket Business	Shopping Centre Business	Other Businesses	Adjustments (Note 1)	Total
Revenue from contracts with customers	¥ 382,974	¥ 323,426	¥ 32,641	¥ 31,118	¥ –	¥ 770,161
Other revenues	2,120	3,778	10,237	1,809	–	17,947
Gross sales (Note 2)	385,095	327,205	42,879	32,928	–	788,108
Reclassification (Note 2)	(253,648)	(14,136)	(2,208)	(4,576)	4,909	(269,661)
Net sales to external customers	¥ 131,446	¥ 313,068	¥ 40,670	¥ 28,351	¥ 4,909	¥ 518,447

Notes: 1. Adjustments are to reclassify net sales to external customers from transactions that are principal transactions on a consolidated basis (transactions based on intersegment consumption purchase contracts), included in net sales to external customers presented as agent transactions in each reportable segment, into gross sales in the consolidated statements of operations.

2. "Gross sales", which is equivalent to net sales up to the year ended 31st March 31, 2021 excluding the effects of changes in accounting policies, was reclassified to net sales reflecting the changes in accounting policies.

2. Information to understand revenue from contracts with customers

Same as those described in Note 2, "Summary of Significant Accounting Policies"

3. Information to understand revenue from contracts with customers for the year ended 31st March 2022 and for the year ending 31st March 2023

(1) Balance of contract liabilities

Beginning and ending balances of contract liabilities from contracts with customers for the year ended 31st March 2022

	Millions of yen	
	2022	
Receivables from contracts with customers (beginning balance)		
Notes receivable - trade	¥	5
Accounts receivable - trade		54,312
	¥	54,318
Receivables from contracts with customers (ending balance)		
Notes receivable - trade		17
Accounts receivable - trade		59,819
	¥	59,836
Contract liabilities (beginning balance)	¥	24,658
Contract liabilities (ending balance)	¥	25,111

Note: Contract liabilities recorded in "Advances received" in the consolidated balance sheets were the balances of performance obligations not satisfied as of the year end, mainly the remaining balance of gift certificates issued by the Companies, electronic money and granted points. Of the revenue recognised for the year ended 31st March 2022, ¥11,342 million was included in the beginning balance of contract liabilities.

(2) Transaction price apportioned to remaining performance obligations

For the transaction price apportioned to remaining performance obligations, the Companies recognise revenue according to actual usage of gift certificates, electronic money and points, etc. The total transaction price apportioned to remaining performance obligations and the period in which related revenue recognition is expected are as follows:

	Millions of yen	
	2022	
Within 1 year	¥	11,488
Over 1 year but within 2 years		2,324
Over 2 years		11,298

22. Segment Information

1. General information about reportable segments

The Companies' reportable segments are components of the Companies whose operating results are regularly reviewed by the Board of Directors when making resource allocation and performance assessment decisions and for which discrete financial information is available. The Companies have designated "Department Store Business", "Supermarket Business", "Shopping Centre Business" and "Other Businesses" as reportable segments.

The "Department Store Business" segment is primarily engaged in the sale of clothing, accessories, home furnishings, foods and others. The "Supermarket Business" segment is engaged in supermarkets and food production, etc. The "Shopping Centre Business" segment is engaged in rental management of commercial facilities and building maintenance. The "Other Businesses" segment is engaged in remodeling, membership management, temporary staffing, eating and drinking establishments, information processing and others.

According to a change in management classification due to reorganisations of group companies, Hankyu Kitchen Yell Kansai, Inc., EveryD.com, Inc., and Hankyu Sennan Green Farm were transferred to "Supermarket Business" and Oi Development Co., Ltd. was transferred to "Shopping Centre Business" from "Other Businesses". Hankyu B&C Planning and Hankyu Freds Co., Ltd., which were included in "Other Businesses", were merged to Hankyu Bakery Co., Ltd., which is categorised in "Supermarket Business" as of 1st April 2021. Also, due to management integration with Kansai Super Market Ltd. (*1) by share exchanges as of 15th December 2021, Kansai Super Market Ltd., KANSAI SUPER PREMIUM CO.,LTD. and KS Division Preparation Co., Ltd. (*1) are included in "Supermarket Business". Results for the year ended 31st March 2021 were reclassified to reflect the changes of reportable segments.

(*1) As of 1st February 2022, Kansai Super Market Ltd. and KS Division Preparation Co., Ltd. were renamed Kansai Food Market Ltd. and Kansai Super Market Ltd., respectively.

2. Basis of measurement about reportable segment net sales, segment income and loss, segment assets and other items

The accounting policies for the reportable segments are basically the same as those described in Note 2, "Summary of Significant Accounting Policies". Income by reportable segment is presented on an operating income basis. Intersegment sales and transfers are recognised based on current market prices.

As described in Note 5, the Companies have adopted "Accounting Standard for Revenue Recognition" and other related guidance from the beginning of the year ended 31st March 2022, and changed the accounting policy relating to revenue recognition. Accordingly, the Companies changed the calculation method for segment income (loss) as well. As a result, compared with the previous method, net sales and segment income decreased by ¥253,648 million and ¥8 million, respectively, in "Department Store Business" segment, net sales and segment income decreased by ¥14,136 million and ¥2 million, respectively, in "Supermarket Business" segment, net sales decreased by ¥2,208 million in "Shopping Centre Business" segment, and net sales decreased by ¥5,330 million and segment income increased by ¥58 million in "Other Businesses" segment in the year ended 31st March 2022.

3. Information on net sales, segment income (loss), segment assets and other items by reportable segment

	Millions of yen					
As of and for the year ended 31st March 2021	Department Store Business	Supermarket Business	Shopping Centre Business	Other Businesses	Adjustments	Total
Net sales						
External customers	¥ 347,768	¥ 292,754	¥ 65,024	¥ 33,651	¥ –	¥ 739,198
Intersegment	276	7,908	11,712	21,453	(41,350)	–
Total net sales	¥ 348,044	¥ 300,662	¥ 76,737	¥ 55,104	¥ (41,350)	¥ 739,198
Segment income (loss)	¥ (1,903)	¥ 4,086	¥ (757)	¥ (1,516)	¥ (4,347)	¥ (4,438)
Segment assets	¥ 184,775	¥ 102,664	¥ 180,542	¥ 518,959	¥ (360,996)	¥ 625,945
Other items						
Depreciation	¥ 5,930	¥ 3,797	¥ 3,776	¥ 4,701	¥ (64)	¥ 18,141
Amortisation of goodwill	–	546	–	–	–	546
Investment in associated companies accounted for by the equity method	257	–	–	9,849	–	10,106
Impairment loss	6,056	2,912	6,127	1,278	–	16,374
Increase in property, plant and equipment and intangible assets	10,305	3,907	2,754	5,810	(78)	22,699

Notes: 1. Adjustments are as follows:

Adjustment of segment income (loss) was ¥(4,347) million for the year ended 31st March 2021 and comprised the elimination of intersegment transactions.

For the year ended 31st March 2021, adjustment of assets was ¥(360,996) million and included ¥(190,320) million offset elimination of investments and capital, ¥(166,526) million offset elimination of debts and credits and ¥(2,744) million adjustment for unrealised gains and losses on non-current assets.

Adjustment of depreciation amounting to ¥(64) million and adjustment of increase in property, plant and equipment and intangible assets amounting to ¥(78) million consisted of the elimination of intersegment transactions for the year ended 31st March 2021.

2. Segment income (loss) is reconciled to operating loss in the consolidated statements of operations.

3. Among the businesses of Izumiya Co., Ltd, which were included in the "Supermarket Business" segment for the year ended 31st March 2020, clothing and home furnishings sales and tenant management businesses were divested to H2O Shopping Center Development Co., Ltd. as of 1st April 2020. As a result, net sales of ¥59,981 million (net sales to external customers of ¥55,763 million and intersegment net sales of ¥4,218 million) and segment loss of ¥ (3,710) million, which were previously included in "Supermarket Business" segment, are included in "Shopping Centre Business" segment for the year ended 31st March 2021. In addition, segment assets of "Shopping Centre Business" increased by ¥23,967 million while those of the "Supermarket Business" decreased by the same amount comparing to the end of the year ended 31st March 2020.

As of and for the year ended 31st March 2022	Department Store Business	Supermarket Businesses	Shopping Centre Business	Other Businesses	Adjustments	Total
	Millions of yen					
Net sales						
External customers	¥ 131,446	¥ 313,068	¥ 40,670	¥ 28,351	¥ 4,909	¥ 518,447
Intersegment	312	5,329	10,719	19,275	(35,636)	–
Total net sales	¥ 131,758	¥ 318,398	¥ 51,389	¥ 47,627	¥ (30,726)	¥ 518,447
Segment income (loss)	¥ 939	¥ 5,326	¥ 391	¥ (3,409)	¥ (2,506)	¥ 740
Segment assets	¥ 176,337	¥ 157,366	¥ 157,244	¥ 484,815	¥ (321,205)	¥ 654,558
Other items						
Depreciation	¥ 6,275	¥ 4,048	¥ 3,097	¥ 4,544	¥ (63)	¥ 17,902
Amortisation of goodwill	–	507	–	–	–	507
Investment in associated companies accounted for by the equity method	273	–	–	10,215	–	10,489
Impairment loss	214	1,416	902	197	–	2,730
Increase in property, plant and equipment and intangible assets	15,947	3,838	1,787	4,009	(327)	25,256

Notes: 1. Adjustments are as follows:

Adjustment of net sales to external customers of ¥4,909 million comprised the elimination of intersegment transactions as well as an adjustment to reclassify net sales to external customers from transactions that are principal transactions on a consolidated basis (transactions based on intersegment consumption purchase contracts), included in net sales to external customers presented as agent transactions in each reportable segment, into gross sales in the consolidated statements of operations.

Adjustment of segment income (loss) was ¥(2,506) million for the year ended 31st March 2022 and comprised the elimination of intersegment transactions.

For the year ended 31st March 2022, adjustment of assets was ¥(321,205) million and included ¥(193,272) million offset elimination of investments and capital, ¥(126,376) million offset elimination of debts and credits and ¥(1,256) million adjustment for unrealised gains and losses on non-current assets.

Adjustment of depreciation amounting to ¥(63) million and adjustment of increase in property, plant and equipment and intangible assets amounting to ¥(327) million consisted of the elimination of intersegment transactions for the year ended 31st March 2022.

2. Net sales and segment income (loss) are reconciled to net sales and operating income in the consolidated statements of operations.

3. For the year ended 31st March 2022, the Companies acquired shares of Kansai Super Market Ltd. (renamed Kansai Food Market Ltd. as of 1st February 2022) and included the company in the scope of consolidation.

As a result, segment assets of "Supermarket Business" increased by ¥62,083 million compared to the end of the year ended 31st March 2021.

(Related Information)

Amortisation of goodwill and unamortised balance by reportable segments

	Millions of yen					
As of and for the year ended 31st March 2021	Department Store Business	Supermarket Business	Shopping Centre Business	Other Businesses	Adjustments	Total
Goodwill						
Amortisation	¥ –	¥ 546	¥ –	¥ –	¥ –	¥ 546
Impairment	¥ –	¥ 54	¥ –	¥ –	¥ –	¥ 54
Unamortised balance	¥ –	¥ 2,704	¥ –	¥ –	¥ –	¥ 2,704

	Millions of yen					
As of and for the year ended 31st March 2022	Department Store Business	Supermarket Business	Shopping Centre Business	Other Businesses	Adjustments	Total
Goodwill						
Amortisation	¥ –	¥ 507	¥ –	¥ –	¥ –	¥ 507
Impairment	¥ –	¥ –	¥ –	¥ –	¥ –	¥ –
Unamortised balance	¥ –	¥ 2,197	¥ –	¥ –	¥ –	¥ 2,197

Gain on bargain purchase by reportable segment

Gain on bargain purchase of ¥3,427 million was recorded due to management integration with Kansai Super Market Ltd. (renamed Kansai Food Market Ltd. as of 1st February 2022) in "Supermarket Business" segment for the year ended 31st March 2022.

There was no gain on bargain purchase by reportable segment for the year ended 31st March 2021.

23. Related Party Transactions

For the year ended 31st March 2021

Transactions with related parties

(1) Transactions between the reporting entity of the consolidated financial statements and related parties: None

(2) Transactions between subsidiaries of the reporting entity of the consolidated financial statements and related parties

(a) Directors, corporate auditors and major individual shareholders of the reporting entity of the consolidated financial statements: None

(b) Companies whose parent is the same as the parent of the reporting entity or the other related companies

<table>
<tr><th>Classification</th><th>Name of company or individual</th><th>Location</th><th>Capital or investment</th><th>Occupation or business lines</th><th>Ownership of voting rights (%)</th><th>Nature of relationship</th><th>Nature of transactions</th><th>Value of transactions</th><th>Accounting designation</th><th>Ending balance</th></tr>
<tr><td rowspan="13">Subsidiaries of companies that have significant stakes in the reporting entity</td><td rowspan="6">Hankyu Corporation</td><td rowspan="6">Kita-ku, Osaka City</td><td rowspan="6">¥100 million</td><td rowspan="6">Railway operations, real estate rental and dealership operations, stage revues, retailing</td><td rowspan="6">–</td><td rowspan="6">Same person serving concurrently as director or corporate auditor for both parties,

Rental of real estate</td><td rowspan="4">Rental expenses</td><td rowspan="4">¥7,944 million</td><td>Accounts receivable - other</td><td>¥706 million</td></tr>
<tr><td>Prepaid expenses</td><td>¥203 million</td></tr>
<tr><td>Accounts payable - other</td><td>¥20 million</td></tr>
<tr><td>Accrued expenses</td><td>¥1 million</td></tr>
<tr><td>Fees for display of signs, etc.</td><td>¥7 million</td><td>Prepaid expenses</td><td>¥0 million</td></tr>
<tr><td>Return of guarantee money</td><td>¥6 million</td><td>Guarantee deposits</td><td>¥24,865 million</td></tr>
<tr><td rowspan="7">HANSHIN ELECTRIC RAILWAY CO., LTD.</td><td rowspan="7">Fukushima -ku, Osaka City</td><td rowspan="7">¥29,384 million</td><td rowspan="7">Railway operations, real estate rental and dealership operations, sports business, travel business</td><td rowspan="7">11.95% shares of the Company directly held</td><td rowspan="7">Same person serving concurrently as director or corporate auditor for both parties,

Rental of real estate</td><td rowspan="4">Rental expenses</td><td rowspan="4">¥2,364 million</td><td>Accounts receivable - other</td><td>¥174 million</td></tr>
<tr><td>Prepaid expenses</td><td>¥65 million</td></tr>
<tr><td>Accounts payable - other</td><td>¥1 million</td></tr>
<tr><td>Accrued expenses</td><td>¥19 million</td></tr>
<tr><td>Fees for display of signs, etc.</td><td>¥0 million</td><td>Prepaid expenses</td><td>–</td></tr>
<tr><td>Deposits of guarantee money</td><td>–</td><td rowspan="2">Guarantee deposits</td><td rowspan="2">¥8,575 million</td></tr>
<tr><td>Return of guarantee money</td><td>–</td></tr>
</table>

Business terms and policies for determination of business terms

Notes: 1. Rent expenses for buildings are determined by current market rates.

2. All other matters are determined according to general terms and conditions.

For the year ended 31st March 2022

Transactions with related parties

(1) Transactions between the reporting entity of the consolidated financial statements and related parties: None

(2) Transactions between subsidiaries of the reporting entity of the consolidated financial statements and related parties

(a) Directors, corporate auditors and major individual shareholders of the reporting entity of the consolidated financial statements: None

(b) Companies whose parent is the same as the parent of the reporting entity or the other related companies

Classification	Name of company or individual	Location	Capital or investment	Occupation or business lines	Ownership of voting rights (%)	Nature of relationship	Nature of transactions	Value of transactions	Accounting designation	Ending balance
Subsidiaries of companies that have significant stakes in the reporting entity	Hankyu Corporation	Kita-ku, Osaka City	¥100 million	Railway operations, real estate rental and dealership operations, stage revues, retailing	–	Same person serving concurrently as director or corporate auditor for both parties, Rental of real estate	Rental expenses	¥9,352 million	Accounts receivable - other	¥72 million
									Prepaid expenses	¥195 million
									Accounts payable - other	¥51 million
									Accrued expenses	¥1 million
							Fees for display of signs, etc.	¥6 million	Prepaid expenses	¥0 million
							Return of guarantee money	¥0 million	Guarantee deposits	¥24,921 million
	HANSHIN ELECTRIC RAILWAY CO., LTD.	Fukushima-ku, Osaka City	¥29,384 million	Railway operations, real estate rental and dealership operations, sports business, travel business	12.00% shares of the Company directly held	Same person serving concurrently as director or corporate auditor for both parties, Rental of real estate	Rental expenses	¥3,118 million	Accounts receivable - other	¥165 million
									Prepaid expenses	¥68 million
									Accounts payable - other	¥2 million
									Accrued expenses	¥23 million
							Fees for display of signs, etc.	¥0 million	Prepaid expenses	–
							Deposits of guarantee money	–	Guarantee deposits	¥8,649 million
							Return of guarantee money	¥21 million		
	Hankyu Hanshin Properties	Kita-ku, Osaka City	¥12,426 million	Office and shopping centre rental	–	Sales of land	Sales of land	¥128 million	–	–

	Corp.			and real estate development business			Gain on sales of non-current assets	¥4,227 million	–	–

Business terms and policies for determination of business terms

Notes: 1. Rent expenses for buildings are determined by current market rates.

2. All other matters are determined according to general terms and conditions.

3. Sales of land are executed at fair prices reflecting market prices through bids.

24. Per Share Information

Reconciliation of the difference between basic and diluted profit per share (Earnings Per Share "EPS") for the years ended 31st March 2021 and 2022 was as follows:

	Millions of yen	
	2021	**2022**
Basic profit per share calculation:		
Profit (loss) (numerator):		
Profit (loss) attributable to owners of parent	¥ (24,791)	¥ 9,872
Amounts not belonging to common stockholders	–	–
Profit (loss) attributable to owners of parent concerning common stock	(24,791)	9,872
Shares (denominator):		
Weighted average number of shares	123,680,359	123,651,665
Basic EPS (yen)	¥ (200.45)	¥ 79.84
Diluted profit per share calculation:		
Profit (numerator):		
Profit attributable to owners of parent	¥ –	¥ –
Amounts not belonging to common stockholders	–	–
Profit attributable to owners of parent concerning common stock	–	–
Effect of dilutive securities - convertible bonds	–	–
Adjusted profit	–	–
Shares (denominator):		
Weighted average number of shares	123,680,359	123,651,665
Assumed exercise of subscription rights to shares	–	904,744
Adjusted weighted average number of shares	123,680,359	124,556,409
Diluted EPS (yen)	¥ –	¥ 79.26
Overview of potentially dilutive shares that were not included in the computation of diluted EPS because they have no dilutive effect	Subscription rights to shares of 876,500 shares	–

Net assets per share (Book value Per Share "BPS") calculation for the years ended 31st March 2021 and 2022 was as follows:

	Millions of yen	
	2021	**2022**
<u>Net assets per share calculation:</u>		
Net assets	¥ 229,277	¥ 260,928
Deduction from net assets	1,142	24,093
(Subscription rights to shares)	(1,138)	(1,168)
(Non-controlling interests)	(4)	(22,924)
Net assets concerning common stock	228,134	236,844
Number of shares used for the calculation of net assets per share	123,731,588	123,212,143
BPS (yen)	1,843.78	1,922.25

25. Short-term and Long-term Loans, Bonds Payable and Lease Obligations

Short-term loans and long-term debt, including finance lease obligations, at 31st March 2021 and 2022 consisted of the following.

	Millions of yen	
	2021	**2022**
Short-term loans payable	¥ –	¥ –
Current portion of long-term loans payable (0.135% in 2021 and 0.625% in 2022)	46,414	1,100
Lease obligations, current portion	910	1,267
Long-term loans payable (0.251% in 2021 and 0.296% in 2022), excluding current portion, due through 2037	122,133	154,282
Lease obligations, excluding current portion, due through 2037	12,883	12,248
0.706% H2O Retailing unsecured bonds, due 2024	10,000	10,000
0.480% H2O Retailing unsecured bonds, due 2028	10,000	10,000

Notes: 1. Interest rates on loans payable present weighted average interest rates as at the balance sheet date.

2. Average interest rates on lease obligations have not been provided because certain consolidated subsidiaries record lease obligations in the consolidated balance sheets at the amount before deduction of the amount equivalent to interest rates included in lease payments.

Annual maturities of long-term debt including loans payable, long-term bonds payable and lease obligations as at 31st March 2022 were as follows:

	Millions of yen
	2022
2024	¥ 17,260
2025	930
2026	46,796
2027	17,809

26. Subsequent Events

Grant of Subscription Rights to Shares as Stock Option Based Compensation

The Company grants two types of stock option based compensation with seniority-based conditions and performance-based conditions depending on the roles required for respective directors (including ASC members), corporate auditors and executive officers of the Company and its subsidiaries. At the Board of Directors' meeting held on 22nd June 2022, the Company resolved the grant of subscription rights to shares as follows in order to grant the stock option based compensation for the year ending 31st March 2023.

Stock option based compensation with seniority-based conditions

1. Grant date
   15th July 2022
2. Number of subscription rights to shares issued
   1,035 units
3. Type and number of shares subject to subscription rights to shares
   103,500 shares of common stock of the Company
4. Exercise price
   ¥1 per share
5. Exercise period
   From 16th July 2022 to 15th July 2052
6. Title and number of grantees
   3 directors (excluding ASC members), 5 directors serving as ASC members, and 4 executive officers of the Company
   8 directors, 2 corporate auditors and 10 executive officers of the subsidiaries of the Company
7. Increase in shareholders' equity as a result of the issuance of shares upon the exercise of subscription rights to shares
   (1) The amount of capital stock to be increased as the result of the issuance of shares upon the exercise of subscription rights to shares shall be one half of the maximum amount of capital stock increase calculated in accordance with Article 17, Paragraph 1 of the Regulations on Accounting of Companies, and any amounts of less than ¥1 shall be rounded up.
   (2) The amount of legal capital surplus to be increased as the result of the issuance of shares upon the exercise of subscription rights to shares shall be calculated as the maximum amount of the capital stock increase provided in paragraph (1) above, minus the amount of capital stock to be increased pursuant to paragraph (1) above.
8. Calculation of payment price of subscription rights to shares
   The payment price shall be the fair market value calculated in accordance with the Black-Scholes model as of the grant date of the subscription rights to shares.
   For the grantees who are directors or executive officers of the Company ("Officers of the Company"), the payable amount for subscription rights to shares shall be offset by the remuneration of Officers of the Company. For the grantees who are directors, corporate auditors or executive officers of the subsidiaries of the Company ("Officers of the Subsidiaries"), the payable amount of the subsidiaries of the Company for the remuneration shall be assumed by the Company and the payable amount for subscription rights to shares shall be offset by the remuneration of the Officers of the Subsidiaries.

Stock option based compensation with performance-based conditions

1. Grant date

   15th July 2022

2. Number of subscription rights to shares issued

   360 units

3. Type and number of shares subject to subscription rights to shares

   36,000 shares of common stock of the Company

4. Exercise price

   ¥1 per share

5. Exercise period

   From 16th July 2022 to 15th July 2052

6. Title and number of grantees

   2 directors (excluding non-executive directors) and 4 executive officers of the Company

   7 directors (excluding non-executive directors) and 10 executive officers of the subsidiaries of the Company

7. Increase in shareholders' equity as a result of the issuance of shares upon the exercise of subscription rights to shares

   (1) The amount of capital stock to be increased as the result of the issuance of shares upon the exercise of subscription rights to shares shall be one half of the maximum amount of capital stock increase calculated in accordance with Article 17, Paragraph 1 of the Regulations on Accounting of Companies, and any amounts of less than ¥1 shall be rounded up.

   (2) The amount of legal capital surplus to be increased as the result of the issuance of shares upon the exercise of subscription rights to shares shall be calculated as the maximum amount of the capital stock increase provided in paragraph (1) above, minus the amount of capital stock to be increased pursuant to paragraph (1) above.

8. Calculation of payment price of subscription rights to shares

   The payment price shall be the fair market value calculated in accordance with the Black-Scholes model as of the grant date of the subscription rights to shares.

   For the grantees who are directors or executive officers of the Company ("Officers of the Company"), the payable amount for subscription rights to shares shall be offset by the remuneration of Officers of the Company. For the grantees who are directors or executive officers of the subsidiaries of the Company ("Officers of the Subsidiaries"), the payable amount of the subsidiaries of the Company for the remuneration shall be assumed by the Company and the payable amount for subscription rights to shares shall be offset by the remuneration of the Officers of the Subsidiaries.

27. Additional information

Transfer of Significant Property, Plant and Equipment 1

The Company resolved to transfer the following property, plant and equipment at the Board of Directors' meeting held on 30th September 2021. The overview is as follows:

(1) Reason for the transfer

To improve an efficiency in the use of assets by effective allocation of management resources and to strengthen the financial conditions

(2) Overview of the transfer

Agreement date of transfer: 30th September 2021

Type of the assets (current status): Land

Location of the assets: 1857-18, 4-50-1, Esakacho, Suita City, Osaka

Date of transfer: 31st March 2023

Transfer price and transferee: It cannot be disclosed due to confidentiality to the transferee; however, the transferee and the transfer price are determined using a fair method by bidding.

(3) Effect on profit or loss

Approximately ¥8,500 million of gain on sales of property, plant and equipment is expected to be recorded under extraordinary income for the fourth quarter ending 31st March 2023 which contains the date of transfer.

Transfer of Significant Property, Plant and Equipment 2

The Company resolved to transfer the following property, plant and equipment owned by Hankyu Hanshin Department Stores, Inc., a consolidated subsidiary of the Company, at the Board of Directors' meeting held on 24th November 2021. The overview is as follows:

(1) Reason for the transfer

To improve an efficiency in the use of assets by effective allocation of management resources and to strengthen the financial conditions

(2) Overview of the transfer

Agreement date of transfer: 24th November 2021

Type of the assets (current status): Land

Location of the assets: 1-32-13, Sagisu, Fukushima-ku, Osaka City

Date of transfer: late December 2023

Transfer price and transferee: It cannot be disclosed due to confidentiality to the transferee; however, the transferee and the transfer price are determined using a fair method by bidding.

(3) Effect on profit or loss

Approximately ¥3,300 million of gain on sales of property, plant and equipment is expected to be recorded under extraordinary income for the third quarter ending 31st December 2023 which contains the date of transfer.

Corporate Data

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Outline of the Company (as of 31st March 2022)

Date of Establishment	March 1947
Stated Capital	¥17,796 million
Authorised Shares	150,000,000
Issued and Outstanding Shares	125,201,396
Shareholders	56,176
Employees	125 (H2O Retailing Corporation) 9,856 (Consolidated basis)

Principal Shareholders (as of 31st March 2022)

Shareholders	Number of shares (thousands of shares)	Ratio of shareholdings
Hanshin Electric Railway Co., Ltd.	14,749	12.0%
The Master Trust Bank of Japan, Ltd. (Trust account)	13,185	10.7%
Hankyu Hanshin Holdings, Inc.	10,336	8.4%
Takashimaya Co., Ltd.	6,259	5.1%
Custody Bank of Japan, Ltd. (Trust account)	5,188	4.2%
Izumiya Kyowakai Assn.	3,033	2.5%
H2O Retailing Group Employees' Shareholding Association	1,881	1.5%
NORTHERN TRUST GLOBAL SERVICES SE, LUXEMBOURG RE LUDU RE: UCITS CLIENTS 15.315 PCT NON TREATY ACCOUNT (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo branch)	1,819	1.5%
DFA INTL SMALL CAP VALUE PORTFOLIO (Standing proxy: Citibank, N.A., Tokyo Branch)	1,711	1.4%
BNYMSANV AS AGENT/CLIENTS LUX UCITS NON TREATY 1 (Standing proxy: MUFG Bank, Ltd.)	1,385	1.1%

Principal Consolidated Subsidiaries

Subsidiary	Primary business activities
Department Store Business	
Hankyu Hanshin Department Stores, Inc.	Department Stores
Shinko Management, Inc.	Management of property
Supermarket Business	
EveryD.com, Inc.	Supply of the system and the know-how of home-delivery service
H2O Foods Group Co., Ltd.	Management planning and administration of the food business
Hankyu Oasis Co., Ltd.	Supermarkets
Izumiya Co., Ltd.	General merchandise stores, supermarkets and supercentres
Hankyu Foods, Inc.	Manufacture and sale of laver seaweed and dried foods
Hankyu Kitchen Yell Kansai, Inc.	Membership-based home-delivery service providing groceries and commodities in Kansai Area
Hankyu Sennan Green Farm	Production of organic farm products
Hankyu Bakery Co., Ltd.	Manufacture and sale of bread
Hankyu delica i, Inc.	Manufacture and sale of prepared food
Hankyu Food process Co., Ltd.	Process and sales of fresh food
KANSAI FOOD MARKET LTD.	Management planning and administration of supermarkets
KANSAI SUPER MARKET LTD.	Supermarkets
KANSAI SUPER PREMIUM CO.,LTD.	Logistics, manufacture and processing of food, security guard services
Qanat Co., Ltd.	Supermarkets
Shopping Centre Business	
Hankyu Maintenance Service Co., Ltd.	General building maintenance
Hankyu Shopping Center Development Co., Ltd.	Operational management of commercial facilities
Kanso Co., Ltd.	General building maintenance
Oi Development Co., Ltd.	Operational management of a hotel
Other Businesses	
F.G.J Co., Ltd.	Sales of personal care products
H2O Smile Co., Ltd.	Contractor engaged in office work and light work for the

	company
H2O System Co., Ltd.	Data processing and systems development
Hankyu Act For	Contractor engaged in bookkeeping and payroll calculation
Hankyu Department Stores Uniform	Sales of uniforms
Hankyu Hanshin Department Stores Tomonokai, Inc.	Membership organisation for customer service
Hankyu Hello Dog Co., Ltd.	Sales of pet-accessories
Hankyu Home Styling Co., Ltd.	Sales of furniture and interior goods
Hankyu Job Yell Co., Ltd.	Manpower dispatching and fee-charging employment agency
Hankyu Kensou Co., Ltd.	Manufacture and sales of furniture and furnishings
Hankyu Quality Support	Quality testing and consulting service
Hankyu Trading Services Co., Ltd.	Foreign trade business
Hankyu Wedding	Costume salon for bridal use
Heart Dining, Inc.	Management of cafe, restaurants and company cafeteria
Persona Co., Ltd.	Management of services for members of Persona card
Souq Company Co., Ltd.	Product planning/manufacture/wholesaling, event planning and Internet sales, etc.
Suzhou Izumiya Co., Ltd.	A department store in Suzhou, China

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