



May 13, 2025

[Translation]

To whom it may concern

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Notice Concerning Introduction of Restricted Shares as Compensation for Officers

H2O RETAILING CORPORATION (the “Company”) resolved at a meeting of its Board of Directors held today to introduce restricted shares in accordance with a review of its executive compensation plan, and to submit a proposal concerning this plan to the 106th Ordinary General Meeting of Shareholders scheduled to be on June 25, 2025 (the “General Meeting of Shareholders”). The Company hereby announces that it has decided to submit a proposal for this plan to the General Meeting of Shareholders.

1. Purpose and conditions of Introduction of the Plan

(1) Purpose of Introduction

The current compensation for the Company’s officers, based on the following basic policy, is a structure combining a monthly basic compensation, an annual bonus reflecting the performance for a single year, and a combination of stock-compensation-type stock options a share-based compensation linked to share prices.

[Basic policy]

- To contribute to the Group’s sustainable growth and enhancement of its corporate value over the medium- to long-term
- To motivate Directors and Executive Officers who execute business operations to achieve the goals of the medium-term plan
- To secure human resources suitable for achieving the Group’s mission and realizing sustainable growth
- To promote awareness with shareholders and raise awareness of the importance of shareholders

As part of the recent efforts to improve its compensation system for officers, the Company proposes to introduce a new restricted stock compensation plan (hereinafter referred to as the “Plan”) as a share-based compensation in lieu of the existing stock-compensation-type stock option plan. The purposes of this proposal include providing Directors with incentives to contribute to the sustainable enhancement of the corporate value of the Company, promoting the sharing of value between Directors and shareholders, and further raising the awareness of the Director’s performance and share value.

(2) Conditions for introduction

If the Plan is introduced, the Company’s Directors shall, based on the resolution of the Board of Directors of the Company, make in-kind contribution of all the monetary compensation claims granted to them by the Company as consideration for their performance of duty, and shall, in return, receive shares of the Company’s common stock (shares with transfer restriction; hereinafter referred to as “Restricted Shares”) that will be issued or disposed of by the Company (hereinafter this scheme is referred to as the “In-Kind Contribution Scheme”). Accordingly, the introduction of the Plan is conditional on the shareholders’ approval at the General Meeting of Shareholders to the provision of such compensation.

Note that the compensation amounts pertaining to the basic compensation and the stock-compensation-type stock options for Directors have been approved at the General Meetings of Shareholders as follows.

<<Basic compensation>>

The annual amount for Directors (excluding Directors who are Audit and Supervisory Committee Members) is a maximum of 300 million yen (including 50 million yen for Outside Directors), and that for Directors who are Audit and Supervisory Committee Members is a maximum of 90 million yen, both of which were approved at the Annual General Meeting of Shareholders held on June 22, 2016.

<<Compensation amounts pertaining to stock-compensation-type stock options>>

Separately from the basic compensation, the annual amount for Directors (excluding Directors who are Audit and Supervisory Committee Members) is set at a maximum of 129 million yen (including 9 million yen for Outside Directors), and that for Directors who are Audit and Supervisory Committee Members is set at a maximum of 22.5 million yen, both of which were approved at the Annual General Meeting of Shareholders held on June 22, 2021.

In newly introducing the Plan, the Company plans to request your approvals at the General Meeting of Shareholders to the setting of the maximum amount of compensation for Directors under the Plan separately from the existing maximum amount of compensation, as well as to the outline of the agreement on allotment of Restricted Shares (hereinafter referred to as the “Allotment Agreement”) scheduled to be concluded between the Company and Directors.

Subject to the approval of this proposal at this Annual General Meeting of Shareholders, the existing stock-compensation-type stock option plan shall be abolished, and any new stock-compensation-type stock options shall not be allocated thereafter. Provided, however, that stock-compensation-type stock options having been already granted shall continue to exist.

2. Outline of the Plan

The Restricted Shares to be granted under the Plan consists of the following two types: (a) service condition type, the condition for lifting transfer restrictions of which is to hold the position of the Company’s Director or any other position specified by the Board of Directors of the Company for a certain consecutive period; and (b) performance condition type, the condition for lifting transfer restrictions of which is to achieve the performance conditions specified in advance by the Board of Directors of the Company. Directors eligible for the service condition-type Restricted Shares (hereinafter referred to as “Eligible Directors (i)”) shall be Executive Directors and Non-executive Directors, while Directors eligible for the performance condition-type Restricted Shares (hereinafter referred to as “Eligible Directors (ii)”) shall be Executive Directors (hereinafter the Eligible Directors (i) and the Eligible Directors (ii) collectively referred to as “Eligible Directors”).

☐Service condition type

(1)Transfer restriction period

Eligible Directors (i) must not transfer, create a security interest in or otherwise dispose of shares granted as service condition-type Restricted Shares (hereinafter referred to as “Shares with Service Conditions”) during a period from the grant date thereof to the date when he/she loses the Company’s Director or any other position specified by the Board of Directors of the Company due to expiration of term (hereinafter referred to as the “Transfer Restriction Period (i)”).

(2)Lifting of transfer restrictions

The Company shall lift the transfer restrictions on all of the Shares with Service Conditions held by an Eligible Director at the time of expiration of the Transfer Restriction Period (i) on condition that the Eligible Director (i) continue to hold the position of the Company’s Director or any other position specified by the Board of Directors of the Company for a period specified by the Board of Directors of the Company.

☐Performance condition type

(1)Transfer restriction period

Eligible Directors (ii) must not transfer, create a security interest in or otherwise dispose of shares granted as performance condition-type Restricted Shares (hereinafter referred to as “Shares with Performance Conditions”) during a period within 5 years from the grant date thereof, specified by the Board of Directors of the Company (hereinafter referred to as the “Transfer Restriction Period (ii)”).

(2)Lifting of transfer restrictions

The Company shall lift the transfer restrictions on all or part of the Shares with Performance Conditions at the time of expiration of the Transfer Restriction Period (ii) on condition that an Eligible Director (ii) continue to held the position specified by the Board of Directors of the Company for a period by the Board of Directors of the Company, as well as that the requirements separately set forth in the agreement on allotment of Restricted Shares, such as the achievement of the numerical performance targets set by the Board of Directors of the Company, be satisfied.

Eligible Directors shall receive shares of the Company's common stock that will be issued or disposed of by the Company under the In-Kind Contribution Scheme based on the Plan. The annual total number of shares of the Company's common stock issued or disposed of under the In-Kind Contribution Scheme shall be a maximum of 50,500: 40,000 for Directors excluding Directors who are Audit and Supervisory Committee Members and Outside Directors, 3,000 for Outside Directors, and 7,500 for Directors who are Audit and Supervisory Committee Members provided. However, the number of shares issued or disposed of may be reasonably adjusted in the event the adjustment of the number of shares is inevitable for reasons such as a stock split or a reverse stock split of the Company's common stock.

Furthermore, the annual total amount of shares of monetary compensation claims to be paid for the grant of Restricted Shares shall be a maximum of 151.5 million yen:120 million yen for Directors excluding Directors who are Audit and Supervisory Committee Members and Outside Directors, 9 million yen for Outside Directors, and 22.5 million yen for Directors who are Audit and Supervisory Committee Members, separately from the existing maximum amount of compensation for Directors as described above. Note that the amount to be paid in per such share shall be determined by the Board of Directors of the Company within a range that will not be a particularly advantageous amount for the Eligible Director who receives said shares based on the closing price of the Company's common stock on the Tokyo Stock Exchange on its business day preceding the day when each resolution pertaining to the allotment of Restricted Shares is made by the Board of Directors of the Company (or the closing price immediately prior thereto if no transaction is made on such business day).

Specific timing of provision and allocation to each Eligible Director shall be determined by the Board of Directors for Directors (excluding Directors who are Audit and Supervisory Committee Members) and by deliberations among Directors who are Audit and Supervisory Committee Members for themselves.

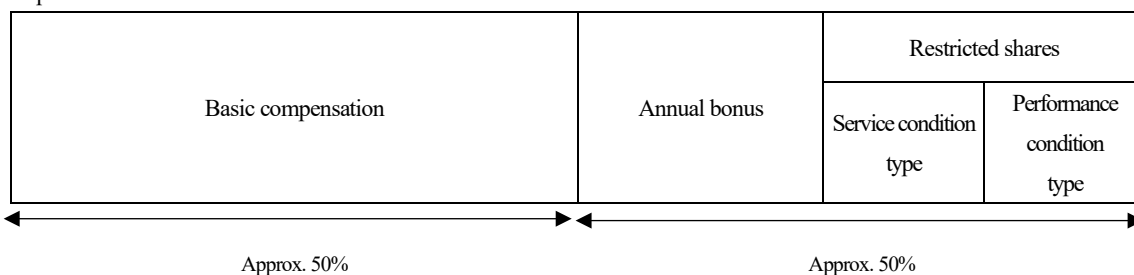
In the issuance or disposal of shares of the Company's common stock under the Plan, the Allotment Agreement shall be concluded between the Company and an Eligible Director. The Allotment Agreement shall include the following provisions.

- 1)Eligible Directors must not transfer, create a security interest in or otherwise dispose of the shares of the Company's common stock that are allotted according to the Allotment Agreement during a predetermined period.
- 2)The Company shall acquire, free of charge, such shares of the Company's common stock when a certain reason arises.

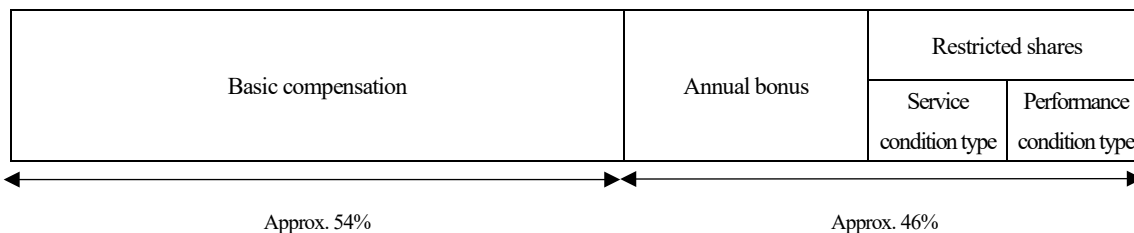
<<Reference>> Overall outline of the officer compensation system of the Company

<<Illustrative diagram of the officer compensation system>>

Representative Directors



Executive Directors



Among Executive Directors, Representative Directors and Directors who concurrently serve as the president of core companies of the Group will receive compensation with the following percentage split as a benchmark: fixed compensation (basic compensation) of approximately 50%, and variable compensation (annual bonus and share-based compensation) of approximately 50%. This compensation allocation scheme is designed so that higher the rank of an Eligible Director, higher the ratio of the share-based compensation to the variable compensation, and also higher the ratio of the Shares with Performance Conditions to the share-based compensation.

Note: The above is an illustrative diagram intended to facilitate understanding of the composition of compensation for officers. The width (length in the transverse direction) of each element is not directly proportionate to the amount of each compensation.

<< Each compensation and eligible recipients>>

		Executive Directors	Non-executive Directors
Stock Compen-sation	Restricted Shares with Performance Conditions	○	—
	Restricted Shares with Service Conditions	○	○
Cash Compen-sation	Annual bonus	○	—
	Basic compensation	○	○

If this proposal is approved at the General Meeting of Shareholders, Restricted Shares to be granted to the Company's Directors will be issued. The same Restricted Shares will also be issued mutatis mutandis to Executive Officers not concurrently serving as the Company's Directors and the directors, corporate auditors (corresponding to Audit and Supervisory Committee Members), and executive officers of Hankyu Hanshin Department Stores, Inc., a subsidiary of the Company. The issuance of all these Restricted Shares are subject to a resolution of the Board of Directors of the Company under the Companies Act. We will also expand the scope of applicable subsidiaries in the future.

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