

Online Disclosure of the Notice of Convocation of the 5th Ordinary General Meeting of Shareholders

Business Report

Systems to ensure appropriate business operations

Outline of the operation of the systems to ensure appropriate business operations

Consolidated Financial Statements

Notes to Consolidated Financial Statements

Financial Statements

Notes to Financial Statements

SATUDORA HOLDINGS CO., LTD.

The above matters are provided to our shareholders by posting them on the Company website (<https://satudora-hd.co.jp/ir/>) in accordance with laws and regulations and Article 15 of our Articles of Incorporation.

Systems to ensure appropriate business operations

SATUDORA HOLDINGS CO., LTD. (hereinafter referred to as “the Company”) has established, in accordance with the Basic Policy for the Establishment of Internal Control Systems, the following systems to ensure that the performance of duties by Directors complies with laws and regulations and the Articles of Incorporation, as well as to ensure appropriate business operations of the Company. The Board of Directors operates in accordance with this Basic Policy and has established a lawful and appropriate business execution system.

(1) **System to ensure that the performance of duties by Directors and employees complies with laws and regulations and the Articles of Incorporation**

- ① The Company Group has established the Group Code of Business Conduct and Ethics, which clearly states the rules of conduct that all Directors and employees of the Company Group shall observe not only laws, regulations, the Articles of Incorporation, and internal regulations, but also social norms in the performance of their duties. At the same time, the Directors and employees shall be thoroughly informed and carry out their duties based on their principles of conduct.
- ② The Company has established the Control Committee as an organization that oversees activities related to compliance with ethics, laws, the Articles of Incorporation, and internal regulations, and has assigned a General Affairs and Legal Team from the General Affairs and Legal Group to promote the Company Group's compliance with ethics and laws.
- ③ The Company Group has established Whistleblower Regulations, and in the event that a violation of ethics, laws, regulations, the Articles of Incorporation, or internal regulations is committed or is likely to be committed by a Director or an employee of the Company Group, the violation should be discussed and reported to the internal or external Whistleblower Hotline. In addition, the Company shall strive to ensure the proper operation of the Whistleblower Regulations to protect those who report or consult on matters in accordance with the Whistleblower Protection Act.
- ④ The legality of the performance of duties by Directors (excluding those who are members of the Audit and Supervisory Committee) shall be ensured through mutual supervision by the Board of Directors and audits by the Audit and Supervisory Committee. The Board of Directors shall, in principle, meet once a month to receive reports from Directors and other personnel regarding the performance of their duties and to review the maintenance and operation of the internal control systems in a timely manner.

(2) **System for the storage and management of information related to the performance of duties by Directors**

The Company shall maintain a system whereby the Board of Directors and other important decision-making information are recorded, stored and managed in accordance with laws and regulations, the Articles of Incorporation, and internal regulations, and is available for inspection by Directors and Audit and Supervisory Committee Members.

(3) **Regulations and other systems for managing the risk of loss of the Company and its Group Companies**

- ① The Company has established the Control Committee as an organization that oversees risk management and has also assigned a Corporate Planning Team from the Business Management Group to promote risk management for the Company Group.

- ② The Corporate Planning Team from the Business Management Group analyzes and evaluates anticipated risks according to their risk factors, frequency of occurrence, degree of impact, and other criteria, identifies major risks, prepares risk maps, establishes regulations regarding the system and methods for managing risks, and all relevant Directors and employees shall comply with these regulations.
- ③ The Company Group shall strive to incorporate requests from customers into its management and shall take appropriate measures without neglecting these requests.
- ④ The Internal Audit Office shall conduct audits on the Company Group's risk management conditions and report the results to the Board of Directors on a regular basis or as necessary.
- ⑤ The Group has established Group Crisis Management Regulations, and in the event of an unforeseen situation, the Company Group shall establish a task force headed by the President and CEO to take prompt action, prevent further damage, and minimize losses.

(4) System to ensure the efficient performance of duties by Directors

- ① The Company shall regularly hold the Group Management Meetings, which will be chaired by the President and CEO, as an advisory body for making important business execution decisions and shall report to the Board of Directors through prompt and careful deliberations.
- ② The Company's Board of Directors shall determine the division of duties of each Director and shall establish Segregation of Duties Regulations and Administrative Authorities Regulations to clarify the authority and responsibilities of Directors in charge of business operations and to ensure the proper execution of business operations.

(5) System to ensure the appropriate business operations of the corporate group consisting of the Company and its Group Companies

- ① As a holding company, the Company shall manage and supervise the business operations of each Group Company, allocate management resources efficiently throughout the Group, and develop systems to ensure the appropriate business operations of each Group Company.
- ② The Company's Internal Audit Office shall conduct internal audits on a regular basis or as necessary and shall further develop the system to report the results of the audits to the President and CEO of the Company, Audit and Supervisory Committee, and relevant departments.
- ③ The Company shall provide advice and guidance to its Group Companies regarding the development of internal control systems for major internal control items such as legal compliance and management of risk of loss, as necessary.
- ④ The Internal Audit Office shall conduct internal audits of the Group Companies' management status and business activities and shall work with the Auditors of the Group Companies to improve internal control systems.

(6) Matters regarding employees who are requested by the Audit and Supervisory Committee to assist in performing its duties

The Company has assigned the proper personnel as employees to assist the Audit and Supervisory Committee in its duties.

- (7) **Matters regarding the independence from Directors of employees who are to assist the Audit and Supervisory Committee in its duties and matters related to ensuring the effectiveness of instructions to these employees**
- ① Employees who are to assist the Audit and Supervisory Committee in performing its duties shall be subject only to the directions and orders of Audit and Supervisory Committee Members and the Audit and Supervisory Committee, and shall not be subject to the directions and orders of Directors or other employees.
 - ② The exercise of authority over personnel affairs, such as performance evaluations, transfers, and disciplinary actions regarding these employees, shall be decided with the prior consent of the Audit and Supervisory Committee members and the Audit and Supervisory Committee, and independence from Directors shall be ensured.
- (8) **System for Directors and employees to report to the Audit and Supervisory Committee**
- ① Directors and employees shall report the following items to the Audit and Supervisory Committee on a regular basis, and the Audit and Supervisory Committee Members shall attend Board of Directors Meetings, Group Management Meetings and other important meetings to receive reports.
 - (a) Matters to be resolved and reported by the Board of Directors
 - (b) Monthly, quarterly, half-yearly, and full-year business results, projections, and business conditions
 - (c) Matters that may cause significant damage to the Company
 - (d) Matters that may have a significant impact on the Company's management or business results and projections
 - (e) Other important matters to be discussed and approved
 - ② Directors and employees shall immediately report to the Audit and Supervisory Committee any violations of laws and regulations or other facts that may cause significant damage to the Company as soon as they are discovered.
- (9) **System to ensure that those who have submitted a report to the Audit and Supervisory Committee will not suffer from any disadvantageous treatment due to their reporting**
- It shall be prohibited to give any disadvantageous treatment to Officers and employees of the Company Group who have submitted a report to the Audit and Supervisory Committee for the reason of reporting to the Audit and Supervisory Committee, and all Officers and employees of the Company Group shall be informed to that effect.
- (10) **Other systems to ensure that audits by the Audit and Supervisory Committee are conducted effectively**
- ① The Audit and Supervisory Committee shall hold regular meetings with the Representative Director to exchange opinions on issues to be addressed by the Company, important auditing issues, and other matters in order to ensure mutual communication.
 - ② The Audit and Supervisory Committee shall maintain close cooperation with the Accounting Auditor on a regular basis and actively exchange opinions and information.
 - ③ The Audit and Supervisory Committee shall receive reports on internal audits from the Internal Audit Office, and shall meet with the Internal Audit Office to exchange information and work in close cooperation.

(11) Matters concerning procedures for the advance payment or redemption of expenses incurred in the execution of duties by Audit and Supervisory Committee Members and other matters related to policies for handling expenses and debts incurred from these duties

In the event that a Member of the Audit and Supervisory Committee makes a request for advance payment or redemption of expenses incurred in performing his or her duties, the Company shall promptly process the expenses or debts, except in cases where it is recognized that the expenses or debts are not necessary for performing the duties of the Member of the Audit and Supervisory Committee.

(12) System to ensure appropriate financial reporting

- ① The Company Group places importance on reliable financial reporting and has established regulations such as accounting regulations and bylaws for accounting regulations to ensure appropriate financial reporting, and all Directors and employees shall comply with these rules.
- ② In order to ensure appropriate financial reporting, the Company Group has established the Control Committee, which is responsible for promoting internal control over financial reporting.
- ③ In order to ensure appropriate financial reporting, in accordance with the Financial Instruments and Exchange Act and other applicable laws and regulations, the Company Group has established an internal control system that oversees financial reporting, and regularly and continuously assesses the effectiveness of its development and operation, and takes necessary corrective actions.

(13) Basic policy on exclusion of antisocial forces and its development

- ① In order to maintain public confidence and ensure appropriate and sound business operations, the Company Group has established in its Group Code of Business Conduct and Ethics a resolute stance against antisocial forces that pose a threat to the order and safety of civil society, and is committed to decisively rejecting unreasonable and improper demands and severing ties with antisocial forces.
- ② The Company Group has established the Group Antisocial Forces Handling Regulations as a system to eliminate anti-social forces and assigned a person responsible for the prevention of unreasonable demands, while the General Affairs and Legal Team of the General Affairs and Legal Group collaborate with each department to collect and exchange information. In the event of unreasonable demands from antisocial forces, the Company Group shall place the highest priority on ensuring the safety of its employees and shall take systematic measures to deal with the situation, rather than leaving it to the person or department in charge.

In addition, even if an unreasonable demand is the result of the Company's misconduct, the Company shall not provide funds to antisocial forces or conduct transactions to conceal the fact, and shall take legal action from both civil and criminal perspectives.
- ③ The Company Group has prepared a manual for dealing with antisocial forces, in order to cope with unforeseen situations such as unreasonable demands by antisocial forces, and is working to acquire knowledge and disseminate it internally by providing training courses for personnel responsible for preventing unreasonable demands as well as internal training. In addition, the Company Group has established close cooperative relationships with external specialized organizations such as the police, Centers for Removal of Criminal Organizations, and legal counsel.

Outline of the Operation of the System to Ensure Appropriate Business Operations

The outline of the operation of the system to ensure appropriate business operations of the Company during the current fiscal year is as follows.

(1) Compliance initiatives

In an effort to promote compliance, the Company Group has established internal regulations and a Code of Business Conduct and Ethics, and is working to ensure that employees are fully aware of these regulations through internal training and other awareness-raising activities.

(2) Risk management initiatives

The Company Group has established a Control Committee to oversee risk management, which reports on management issues at regular Group Management Meetings held by senior management, and in the event that various risks become apparent, the Control Committee discusses solutions, shares information, and takes action.

(3) Initiatives to ensure the proper and efficient performance of duties by Directors

There were 17 Board of Directors Meetings held during the current term, at which Directors and Audit and Supervisory Committee Members actively exchanged opinions on important matters for discussion. Outside Directors, in cooperation with the Audit and Supervisory Committee, provide advice and opinions from their respective perspectives and actively make proposals regarding the performance of duties by Directors.

(4) Initiatives for the implementation of internal audits

Based on the internal audit program for the fiscal year, the Internal Audit Office conducts internal audits of the operations of each department and Group Company and monitors internal control systems to ensure appropriate and efficient business activities and operations. Audit results are promptly reported to Directors, senior management, and the Audit and Supervisory Committee, and appropriate improvements and follow-ups are made accordingly.

(5) Initiatives to ensure that audits by the Audit and Supervisory Committee are conducted effectively

The Audit and Supervisory Committee met four times during the current term and thoroughly discussed and addressed audit policies and audit plans, while Audit and Supervisory Committee Members (including selected Audit and Supervisory Committee Members) attended the Board of Directors Meetings, Group Management Meetings, and other important meetings, and held meetings with the Representative Director, Accounting Auditor, Internal Audit Office, and Control Committee as appropriate, in order to ensure that audits are conducted effectively.

Notes to Consolidated Financial Statements

1. Notes to significant matters serving as basis for the preparation of Consolidated Financial Statements

(1) Disclosure of scope of consolidation

Information about consolidated subsidiaries

- Number of subsidiaries 7 subsidiaries
- Names of subsidiaries SAPPORO DRUG STORE CO., LTD.
 Create Co., Ltd.
 Regional Marketing Co., Ltd.
 GRIT WORKS CO., LTD.
 TAIWAN SATUDORA CO., LTD.
 CoelaQanth, Inc.
 RxR Innovation Initiative CO., LTD.
- Reason for inclusion within the scope of consolidation
 RxR Innovation Initiative CO., LTD. is included within the scope on consolidation because it was established in the current consolidated fiscal year.

(2) Disclosure about application of equity method

Names of associates to which the equity method is not applied and reasons for not applying the equity method

EZODEN Co., Ltd.

Regional Marketing Ryukyu, Inc.

Hokkaido MD Organization, Inc.

(Reasons for not applying the equity method)

EZODEN Co., Ltd., Regional Marketing Ryukyu, Inc., and Hokkaido MD Organization Inc. are excluded from the scope of application of the equity method because they are small in scale, and their profit or loss (amount corresponding to equity) and retained earnings (amount corresponding to equity) would not have a material impact on the Consolidated Financial Statements if they were excluded from the scope of the equity method, and they are insignificant as a whole.

(3) Disclosure about fiscal years, etc. of consolidated subsidiaries

Of the consolidated subsidiaries, Regional Marketing Co., Ltd., GRIT WORKS CO., LTD., CoelaQanth, Inc., and RxR Innovation Initiative CO., LTD. close their accounts on the last day of April. In addition, TAIWAN SATUDORA CO., LTD. closes its account on the last day of February.

In preparing the Consolidated Financial Statements, Financial Statements that share the same closing date are currently used.

However, necessary adjustments are made for consolidation purposes for significant transactions that occur between the consolidated closing dates.

(4) Disclosure of accounting policies

① Valuation of significant assets and valuation method

(a) Securities

Other securities

that have market value

Stated at market value, based on quoted market prices as of the fiscal year-end (valuation differences are reported as a component of shareholders' equity, and the costs of securities sold are calculated using the moving average method).

without market value

Stated at cost, as determined by the moving average method.

(b) Inventories

Merchandise

Stated at cost, as determined by the retail method (values on the Balance Sheet are subject to the book value reduction method based on decreased profitability).

② Significant depreciation methods for depreciable assets

(a) Property, plant and equipment (excluding leased assets)

Declining-balance method is used (however, the straight-line method is used for buildings acquired on or after April 1, 1998 (excluding facilities attached to buildings) as well as for facilities attached to buildings and structures acquired on or after April 1, 2016).

The useful life of main assets are as follows.

Buildings and structures 8 to 39 years

Tools, furniture and fixtures 3 to 15 years

(b) Intangible assets (excluding leased assets)

Straight-line method is used.

Moreover, the depreciation of software for internal use is calculated based on the usable period (five years).

(c) Leased assets

Leased assets related to finance leases under which ownership is not transferred are depreciated using the straight-line method over the lease period with a residual value of zero.

③ Disposition method for deferred assets

Organization expenses

Organization expenses are equally amortized over a period of five years from the time of the company's establishment.

④ Accounting standards for significant provisions

(a) Allowance for doubtful accounts

Allowance for doubtful accounts is provided for the estimated unrecoverable amount of trade receivables and loans receivable, based on the loan loss ratio for general accounts receivable and on an individual assessment of recoverability for doubtful accounts receivable.

- (b) Provision for bonuses
- The allocation of employee bonuses is based on the portion of the estimated amount of bonus payment as attributable to the current consolidated fiscal year.
- ⑤ Significant hedge accounting methods
- (a) Hedge accounting methods
- Special treatment is applied to interest rate swaps that meet the requirements for special treatment.
- (b) Hedging instruments and hedged items
- Hedging instruments: Interest rate swap transactions
Hedged items: Interest on borrowings
- (c) Hedging policy
- In accordance with the Company's internal regulations on risk management, the Company enters into interest rate swap transactions in order to effectively avoid future interest rate risks associated with financial obligations and does not enter into such transactions for speculative purposes.
- (d) Hedging effectiveness evaluation method
- Hedging effectiveness is evaluated based on the judgment that the interest rate swaps meet the requirements for special treatment.
- ⑥ Other significant matters for preparing Consolidated Financial Statements
- (a) Accounting methods for retirement benefits
- Retirement benefit obligations are recorded based on the estimated amount at the end of the current consolidated fiscal year in order to prepare for retirement benefits for employees. The method of attributing the estimated amount of retirement benefits to the period up to the current consolidated fiscal year is based on the calculation of benefits.
- Actuarial differences are amortized by the straight-line method over a fixed number of years (three years) within the average remaining service period of employees at the time of occurrence of each consolidated fiscal year, starting from the consolidated fiscal year following the time of occurrence.
- Unrecognized actuarial differences are recorded as accumulated adjustment for retirement benefits in accumulated other comprehensive income under net assets, after adjusting for tax effects.
- (b) Standards for the translation of significant foreign currency-denominated assets and liabilities into Japanese currency
- Foreign currency-denominated receivables and payables are translated into Japanese yen using the spot exchange rate on the consolidated closing date, with translation differences recorded as gains or losses. Assets and liabilities of overseas consolidated subsidiaries are translated into yen using the spot exchange rate on the closing day of the fiscal year of the overseas consolidated

subsidiary, and revenue and expenses are translated into yen using the average exchange rate during the fiscal year, with translation differences included in the foreign currency translation adjustments account under net assets.

(c) Accounting for consumption taxes

The tax-exclusion method is used for accounting for the national and local consumption taxes.

2. Notes - Changes in presentation

The Accounting Standard for Disclosures on Accounting Estimates (ASBJ Statement No. 31, March 31, 2020) has been applied from the current consolidated fiscal year, and (Notes to accounting estimates) has been disclosed.

3. Notes to accounting estimates

Valuation of non-current assets in the form of stores at SAPPORO DRUG STORE CO., LTD.

(1) Value recorded in the Consolidated Financial Statements for the current consolidated fiscal year

Value of stores of SAPPORO DRUG STORE CO., LTD.

Property, plant and equipment: 11,141 million yen, Impairment losses: 163 million yen

(2) Information on the contents of significant accounting estimates related to identified items

① Calculation method

At SAPPORO DRUG STORE CO., LTD., the basic unit is the store, which is the smallest unit that generates cash flow, and the Company identifies signs of impairment when the operating income of each store becomes negative on a continuous basis, when the market value of non-current assets declines significantly, or when a decision is made to close a store. For property, plant and equipment of stores for which indications of impairment loss were identified in the current consolidated fiscal year, if the total amount of undiscounted future cash flow is less than the carrying amount of the asset, the carrying amount is reduced to the recoverable amount, and the amount of the reduction is recorded as impairment loss. The recoverable amount is measured based on the value in use, and if the estimated future cash flow is negative, it is calculated as zero.

② Major assumptions

The major assumptions used in estimating future cash flows are future sales forecasts based on business plans approved by the Board of Directors, and future forecasts of gross profit margins and of selling, general and administrative expenses. Future sales forecasts are based on the assumption that sales will grow or diminish at a certain rate based on the number of years in operation and the actual results of previous years. In addition, the gross profit margin and selling, general and administrative expenses are forecast based on the actual results of previous fiscal years.

Furthermore, it is still unclear when COVID-19 will be contained, and it is assumed that it will continue to impact the inbound format until around the end of the next consolidated fiscal year.

③ Impact on the Consolidated Financial Statements for the next consolidated fiscal year

The major assumptions used in estimating future cash flows are based on the best estimates. However, they may be affected by future changes in economic conditions, the containment of COVID-19, and other factors. If it becomes necessary to revise the major assumptions, there may be new impairment losses in the Consolidated Financial Statements for the next fiscal year.

4. Notes to Consolidated Balance Sheet

Accumulated depreciation of property, plant and equipment 8,543 million yen

5. Notes to Consolidated Statement of Income

Impairment losses

During the current consolidated fiscal year, the Company Group recorded impairment losses in the following asset groups.

Region	Purpose	Class
Hokkaido and other regions	12 stores	Buildings and other facilities
Hokkaido	Former Group head office	Land

In the Company Group, the basic unit is the store, which is the smallest unit to generate cash flow, and assets for lease and idles assets are grouped by property unit.

Regarding stores deemed to be closed and stores with continuously negative operating income, the Company reduced the value to their recoverable amount and recorded the amount of reduction as impairment loss. The recoverable amount is calculated based on the value in use. Moreover, the value in use is calculated as zero because the valuation based on estimated future cash flows is negative.

The former Group head office was reduced to its sale value due to relocation, and the amount of the reduction was recorded as impairment loss.

The breakdown of value is as follows.

Land	19 million yen
Buildings and structures	131 million yen
Tools, furniture and fixtures	32 million yen
Total	183 million yen

6. Notes to Consolidated Statement of Changes in Equity

(1) Class and total number of issued shares at the end of the current consolidated fiscal year

Ordinary shares 4,742,000 shares

(2) Disclosure of dividends of surplus

① Dividends paid

Resolution	Class of shares	Total amount of dividends (millions of yen)	Dividend paid per share (yen)	Record date	Effective date
August 12, 2020 Ordinary General Meeting of Shareholders	Ordinary shares	128	28	May 15, 2020	August 13, 2020

② Dividends for which the record date falls within the current consolidated fiscal year but for which the effective date falls within the next consolidated fiscal year

Resolution	Class of shares	Source of dividends	Total amount of dividends (millions of yen)	Dividend paid per share (yen)	Record date	Effective date
August 11, 2021 Ordinary General Meeting of Shareholders	Ordinary shares	Retained earnings	128	28	May 15, 2021	August 12, 2021

(3) Number of shares to be issued upon exercise of share acquisition rights by the Company as of the last day of the current consolidated fiscal year

Ordinary shares 20,000 shares

7. Notes to Financial Instruments

(1) Matters regarding information about financial instruments

① Policy on financial instruments

The Company Group procures necessary funds (mainly through bank loans) based on its capital expenditure program. Temporary surplus funds are mainly invested in highly liquid financial assets, and short-term working capital is procured through bank loans. Derivatives are used to avoid interest-rate risk, with a policy of not engaging in speculative transactions.

② Description of financial instruments, their risks and risk management system

Trade receivables, which are accounts receivable - trade, are exposed to the credit risk of customers. To manage this risk, the Company manages due dates and outstanding balances for each customer in accordance with internal regulations, and has a system to monitor the credit status of major customers.

Investment securities are shares of companies with which the Company has business relationships and are exposed to the risk of market price fluctuations. To manage this risk, the Company periodically monitors the market value and financial conditions of issuers (client companies) and continuously reviews the status of shareholding.

Guarantee deposits and leasehold deposits are mainly related to rentals of stores, and are exposed to the credit risk of the lenders. To manage this risk, the Company manages outstanding balances for each lender and has a system to monitor the credit status of major lenders.

Most of the accounts payable - trade and accounts payable - other are due within four months.

Borrowings and lease obligations related to finance leases are mainly for the purpose of procuring funds for capital expenditures, with a maximum redemption date of 12 years after the account closing date. A portion of these is exposed to interest-rate risk.

The Company executes and manages derivatives in accordance with internal regulations that stipulate transaction authorities. In addition, when using derivatives, the Company conducts transactions only with highly creditworthy financial institutions in order to mitigate credit risk. Hedging effectiveness is evaluated based on the judgment that the interest rate swaps meet the requirements for special treatment.

Trade payables and borrowings are exposed to liquidity risk, which is managed by preparing cash flow plans in a timely manner.

Moreover, a portion of borrowings is subject to financial covenants, exposing the Company to liquidity risk.

③ Supplementary explanations regarding the market value of financial instruments

The market value of financial instruments includes values based on market prices or reasonable calculations in the absence of market price quotations. The market value calculation rests on variable factors and therefore is subject to change depending on the different assumptions used.

(2) Matters regarding the market value of financial instruments

The amount on the Consolidated Balance Sheet, the market value, and their difference as of May 15, 2021, are as follows.
Those for which the market value is deemed to be extremely difficult to determine are not included.

	Amount on the Consolidated Balance Sheet (millions of yen)	Market value (millions of yen)	Difference (millions of yen)
① Cash and deposits	2,659	2,659	-
② Accounts receivable - trade	2,768	2,768	-
③ Investment securities	12	12	-
④ Leasehold and guarantee deposits	5,958		
Allowance for doubtful accounts (*1)	△11		
	5,947	5,851	△95
Total assets	11,387	11,292	△95
⑤ Accounts payable - trade	11,634	11,634	-
⑥ Short-term borrowings	100	100	-
⑦ Long-term borrowings	11,524	11,522	△2
⑧ Accounts payable - other	2,396	2,396	-
⑨ Lease obligations (*2)	380	455	74
Total liabilities	26,036	26,109	72
Derivatives	-	-	-

(*1) Leasehold and guarantee deposits are deducted from the allowance for doubtful accounts, which is recorded individually.

(*2) Current portion of long-term borrowings and lease obligations are included.

(Note)

1. Calculation method of the market value of financial instruments and matters regarding securities and derivatives

Assets

① Cash and deposits and ② Accounts receivable – trade

As these items are settled within a short period of time, their market value is approximate to their carrying amount, and therefore is stated at the carrying amount.

③ Investment securities

The market value of stocks is stated at the price quoted on the stock exchange.

④ Leasehold and guarantee deposits

Their present value is calculated by estimating their expected redemption period and discounting it using the yield of a highly secure long-term bond.

Liabilities

⑤ Accounts payable - trade, ⑥ Short-term borrowings and ⑧ Accounts payable – other

As these items are settled within a short period of time, their market value is approximate to their carrying amount, and therefore is stated at the carrying amount.

⑦ Long-term borrowings and ⑨ Lease obligations

The market value of these items is calculated based on the present value discounted at an interest that applies when the total amount of principal and interest are used in a new borrowing or lease transaction.

Derivatives

Items given special treatment as interest rate swaps are treated together with long-term borrowings that are subject to hedging, and therefore their market value is presented together with the market value of the relevant long-term borrowings.

2. Financial instruments for which the market value is deemed to be extremely difficult to determine

Category	Amount on the Consolidated Balance Sheet (millions of yen)
Shares not listed	38
Preferred shares	24

These are not included in “③ Investment securities” because they do not have market prices and it is extremely difficult to determine their market value.

8. Notes - Per share information

(1) Net assets per share	1,876.77 yen
(2) Basic earnings per share	125.10 yen

9. Notes - Significant events after reporting period

None.

Notes to Financial Statements

1. Notes - Significant accounting policies

(1) Valuation standards and methods for securities

Shares of subsidiaries and associates Stated at cost, as determined by the moving average method.

Other securities

without market value Stated at cost, as determined by the moving average method.

(2) Depreciation methods for non-current assets

Property, plant and equipment Declining-balance method is used.

Intangible assets Straight-line method is used.

(3) Disposition method for deferred assets

Organization expenses Organization expenses are equally amortized over a period of five years from the time of the company's establishment.

(4) Other matters serving as basis for preparation of Financial Statements

Accounting for consumption taxes The tax-exclusion method is used for accounting for the national and local consumption taxes.

2. Notes to Balance Sheet

(1) Accumulated depreciation of property, plant and equipment 2 million yen

(2) Monetary claims and liabilities to subsidiaries and associates

Short-term receivables 50 million yen

Short-term payables 66 million yen

3. Notes to Statement of Income

Volume of transactions with subsidiaries and associates	Operating revenue	778 million yen
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Volume of other operating transactions	336 million yen
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Volume of non-operating transactions	0 million yen
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4. Notes to Consolidated Statement of Changes in Equity

Class and number of treasury shares as of the last day of the current fiscal year

Ordinary shares 147,474 shares

5. Notes - Tax effect accounting

The main cause for deferred tax assets is due to the denial of accrued shareholder benefits expenses.

6. Notes - Transactions with related parties

Subsidiaries and associates

(Unit: millions of yen)

Class	Company name	Percentage of voting rights held (owned)	Relationship with related party	Transaction description	Transaction amount (Note) 3	Item	Balance at end of period
Subsidiaries	SAPPORO DRUG STORE CO., LTD.	100% directly owned	Management guidance	Acceptance of consulting fee income (Note) 1	636	—	—
			Interlocking directorate	Acceptance of loaned employees (Note) 2	306	Accounts payable - other Accrued expenses	24 39

(Note)

1. The consulting fee income is reasonably determined through mutual consultation.
2. The personnel expenses for loaned employees paid by SAPPORO DRUG STORE CO., LTD. were determined on the basis of actual expenses.
3. Consumption taxes are not included in the transaction amount.

7. Notes - Per share information

- (1) Net assets per share 1,858.47 yen
- (2) Basic earnings per share 33.26 yen

8. Notes - Significant events after reporting period

None.