H_2O RETAILING CORPORATION

FINANCIAL REPORT 2013

H_2O 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. Currently, the Group consists of 46 subsidiaries and 6 affiliates that operate retail businesses, including its core department store operations, supermarket operations and shopping center operations.

Contents

General Business Conditions

1. Analysis of Business Performance and Financial Position
(1) Analysis of Business Performance
Business Performance for the Reporting Period

Consolidated business results for the reporting period

	Millions of yen	YOY %
Net sales	525,154	103.9
Operating income	10,670	107.2
Net income	6,201	586.6

With the medium- to long-term goal of increasing its market share in the Kansai commercial area, the Group pursued various measures under separate plans for each business. In the department store business, which is the Group's core operational sector, we marked the commencement of a new stage thanks to the completion of reconstruction work on the Hankyu Umeda Flagship Store in November 2012.

In the Department Store Business, the Hankyu Umeda Flagship Store posted steady sales growth from October 2012, when the Phase II Building opened for business ahead of the store as a whole. Net sales of the Hankyu Umeda Flagship Store for the full term rose 18.7% over the previous term. In addition, our main branch stores, including HANKYU MEN'S TOKYO, the Nishinomiya Hankyu Store, and the Hakata Hankyu Store, also posted sales in excess of those of the previous year, and the branch stores as a whole recorded firm sales. Thanks to these factors, sales in the Department Store Business were up by 2.1% year on year.

Additionally, net sales increases over the previous term were posted by the Supermarket Business, the Property Management Business and the Other Businesses operated by the Group. In the operating income account, operating income decreased in the Property Management Business and in the Other Businesses, whereas year-on-year growth in operating income was posted by the Department Store Business and the Supermarket Business. In the Group's consolidated results, year-on-year growth was registered in operating income and net income.

The following is a breakdown of performance by business segment.

Department Store Business

Results for Department Store Business

	Millions of yen	YOY %
Sales	383,318	102.1
Segment income (operating income)	7,842	136.1

In the Umeda district, where our Hankyu and Hanshin main stores are located, these two main stores plus the HANKYU MEN'S OSAKA registered combined sales of ¥233,938 million, up 7.8% over the previous term.
As a result of the reconstruction work carried out on our Hankyu Umeda Flagship Store, aggregate sales for the first two quarters of fiscal 2012 fell by 15.4% compared with sales for the first two quarters of the previous term, but with the advance opening on 25th October of the Phase II Building of the store, aggregate sales for the third and fourth quarters posted a year-on-year gain of 49.7%, and sales for the full term posted a year-on-year increase of 18.7%.

At our branch stores, sales for the full term were down by 5.7% year on year. This was due mainly to the closure of the Kobe Hankyu Store and a reduction in the sales floorspace of the Tsuzuki Hankyu Store. Otherwise, sales at existing stores held firm. In particular, HANKYU MEN'S TOKYO was popular with fashion-conscious customers, posting year-on-year sales growth of 26.2%. The Nishinomiya Hankyu Store, meanwhile, maintained its popularity with consumers, posting a year-on-year gain of 4.2%. The Hakata Hankyu Store, which opened the previous year, recorded eight consecutive months of year-on-year sales increases from August, when the one-time effect of the store's opening had already diminished, finishing the full term with sales edging up 0.5% year on year. Thus our main branch stores all surpassed their performance for the previous year. Sales on an existing store basis were up 1.8% year on year, excluding the figures for the Kobe Hankyu and Tsuzuki Hankyu stores.

For reference: sales of the Group’s department stores

	Millions of yen	YOY %
Hankyu Umeda main store	144,699	116.1%
Senri Hankyu	17,186	99.5%
Sakai Kitahanada Hankyu	10,287	100.3%
Kawanishi Hankyu	17,712	97.8%
Takarazuka Hankyu	8,885	99.8%
Nishinomiya Hankyu	24,180	104.2%
Sanda Hankyu	1,395	98.9%
Hakata Hankyu	37,462	100.5%
HANKYU MEN’S TOKYO	11,468	126.2%
Oi Hankyu Food Hall	4,557	96.0%
Tsuzuki Hankyu	5,988	76.5%
Hanshin Umeda Main Store	89,239	96.6%
Amagasaki Hanshin	3,786	101.6%
Hanshin Nishinomiya	4,507	98.4%
Hanshin Mikage	574	65.0%

General Business Conditions

Note1. Figures for Hankyu Umeda main store includes sales of Hankyu Ings and the HANKYU MEN'S OSAKA. Hankyu Umeda Flagship Store, which has been under reconstruction, opened the Phase II Building for business on 25th October 2012, ahead of the store as a whole. On 21st November 2012, the Hankyu Umeda Flagship Store opened as a whole. Hankyu Ings closed on 18th November 2012 because of the relocation to Hankyu Umeda Flagship Store.
2. The Yurakucho Hankyu Store was closed for refurbishing from 19th July 2011 to 14th October 2011 and reopened under the name HANKYU MEN'S TOKYO on 15th October 2011.
3. The second-floor sales area of the Hanshin Mikage Store in Kobe was closed on 24th July 2011.
4. The second, third and fourth floor of Tsuzuki Hankyu were remodelled into a shopping center on 3rd October 2012. After the remodelling, the revenue has been posted in Hankyu Shopping Center Development Co.,Ltd.

The Supermarket Business

Results for Supermarket Business

	Millions of yen	YOY %
Sales	93,328	101.9
Segment income (operating income)	1,811	100.7

Our subsidiary Hanshoku Co., Ltd., which operates the Group's Hankyu Oasis chain of supermarkets with a strong focus on food items, has been pursuing an aggressive strategy of store openings at city-centre locations to take advantage of the recent increase in city-centre populations (due to the fall in residential land prices). The company opened five new stores during the reporting period. Hanshoku also continued its policy of converting more existing stores into a new store prototype aimed at gaining higher levels of popularity among consumers through greater use of over-the-counter sales, among other new marketing measures.

Specifically, five new stores were opened in the latter half of fiscal 2012. These included the Hankyu Oasis Nishi-tanabe Store (Abeno Ward, Osaka) in September 2012, the Abiko Store (Sumiyoshi Ward, Osaka) in November 2012, and the Tenroku Store (Kita Ward, Osaka) in March 2013. All these stores got off to a favourable start. On the other hands, as a result of increased competition from outlets newly opened by rival supermarket operators, sales at existing stores that had not yet been renovated suffered a decline of 2.6% from the previous term. However, starting with the Hankyu Oasis Mikage Store (Higashi-nada Ward, Kobe), which was reopened after renovation in April 2012, five stores have been renovated, and sales at these stores after reopening have posted steady growth, up 2.6% year on year on average. As a result, Hanshoku Co., Ltd. posted year-on-year growth of 1.7% in sales and 0.4% in operating income.

Food processing subsidiary Hankyu Bakery Co., Ltd. took steps during the reporting period to expand its production and sale of ¥100 bread/pastry. As a result, the company posted year-on-year gains of 9.0% in sales and 32.8% in operating income.

Property Management Business

Results for Supermarket Business

	Millions of yen	YOY %
Sales	13,770	105.5
Segment income (operating income)	1,594	91.6

In the Property Management Business, Oi Development Co., Ltd. recorded a year-on-year improvement of 8.2 percentage points to 93.3% in the guest room occupancy rate at the Ours Inn Hankyu, a business hotel situated close to the Japan Railways Oimachi Station. As a result, sales by Oi Development Co., Ltd. rose 7.0% year on year, while operating income rose 3.5%.

Hankyu Shopping Center Development Co., Ltd., which is involved in the management and operation of commercial facilities, recorded year-on-year decreases of 12.7% in sales and 41.9% in operating income, due to closing for renovation work the building housing the Mosaic Ginza Hankyu store.

Hankyu Seisakusho Co., Ltd., which is involved in design and interior decoration management for commercial facilities, received a large increase in orders during the reporting period, both from Group members and from companies outside the Group, and posted year-on-year increases of 83.3% in sales and 385.8% in operating income.

Other Businesses

Results for Other Businesses

	Millions of yen	YOY %
Sales	34,738	135.7
Segment income (operating income)	619	39.8

In the Other Businesses segment, Kazokutei Co., Ltd., which became a subsidiary of the Company in September 2011, made a full-term contribution to sales. Thanks to this, total sales for the segment rose year on year. However, the Group registered a year-on-year decline in operating income, owing to an increase in operating costs involved in the home delivery business as well as a decrease in contributions toward the operation of the Group paid by subsidiaries to the Group's holding company H2O Retailing Corporation.

2. Management Policies

(1) The Company's Basic Management Policy

The Group's fundamental corporate philosophy is to continue as an enterprise that is indispensable to the local communities in which it operates by offering new lifestyle models to the residents of those communities. At present, the Group operates a variety of businesses centred on the department store business, the supermarket business, the property management business and the restaurant business, principally in the region of Western Japan stretching from Kyoto through Osaka to Kobe.

In operating these businesses, we aim to be a strong corporation. To realise this goal we place great importance on compliance with social norms, while at the same time working constantly to realise innovation in the sphere of management, thereby enabling prompt responses to changes in the competitive environment. Through these means, we aim to meet the expectations of all our stakeholders, including our customers, shareholders, business partners and employees. It is also our firm belief that the raison d'être of any business corporation is to contribute to the good of society as a whole. On the basis of this philosophy, we aim to maintain a sound financial structure and, principally through our retail businesses, to offer our customers high-quality merchandise and excellent services. In this way, we hope to achieve continued growth as a business corporation.

(2) Our Target Business Indicators

To continue into the future the enhancement of its enterprise value within a mature market, the Group is working to improve its growth potential and raise its profitability and is conducting its corporate activities with a focus on operating income and the operating income margin. We are also aiming to improve return on equity (ROE) by realising increased operating income.

(3) The Company's Medium- to Long-Term Management Strategy

For a number of years we have been following a growth strategy drawn up on the basis of the Group's medium- to long-term operational strategy. With the completion in November last year of the reconstruction work on the Hankyu Umeda Flagship Store, we have now entered a new stage in the Group's development.

The Group's business operations are currently focused on the retailing business, principally department stores and supermarkets, mainly in the Kansai region, and our basic policy is to expand our market share within this region. To make this goal a reality, we have invested approximately ¥240 billion from fiscal 2005 to fiscal 2014.

The business environment in which the Group operates is expected to become still more difficult in the near future, with the declining Japanese population and the consumption tax increase scheduled for April 2014. In view of these factors, we have adopted a strategy for expanding the scale of our business operations to enhance the Group's synergistic effect, thereby strengthening the Group's business base and leading to increased profitability.

(4) Management Issues to be Resolved

In light of changes in the socio-economic environment such as increased competition across industry sectors and business categories, as well as an ageing society with declining birthrates, we aim to ensure – through the use of M&As and other measures – that the Group continues to expand its operational scale and grow as an independent corporate group capable of flexible and appropriate response to whatever changes may occur in the social environment. We will also draw up business growth strategies covering the medium and long term and will work to reengineer our business base through measures to reinforce the Group's earning power, including steps to enhance operational efficiency.

In the department store business, we plan to carry out renovation and refurbishing work on all our stores, including the Hankyu and Hanshin main stores and all our branch stores, taking the unique features of each store's location fully into account. In this way, we plan to improve our business performance and ensure that the department store business as a whole plays the role of a solid and dependable business base.

Our aim is to take maximum advantage of the strong brand image and excellent profitability created by the Group to enhance the synergy generated through business operations by the entire Group and obtain a still larger share of the market.

Corporate Governance System

1) Corporate Governance System

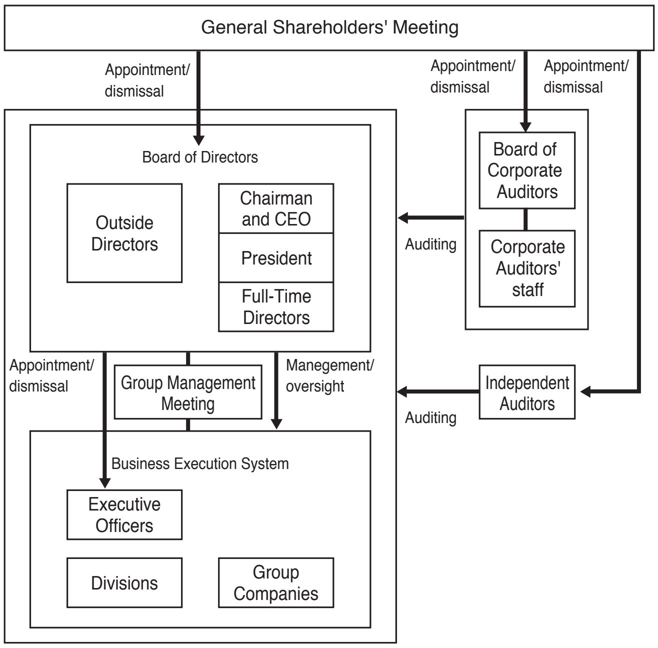
Outline and Rationale of Corporate Governance System
In the H2O Retailing Group, H2O Retailing Corporation (the Company), a holding company, is responsible for the business planning, management and oversight of the entire Group. It seeks through proper and legal means to raise the corporate value of Group companies by building a corporate governance system that facilitates fast-acting and efficient companies. The Company has adopted a corporate governance system with a corporate auditor system and has appointed several highly independent outside directors (board of directors and corporate auditors). As a holding company, the Company has enhanced its management and oversight functions of the business activities in the Group companies through the stronger oversight of corporate auditors.

The Board of Directors and Board of Corporate Auditors are explained below.
(Board of Directors)
The Board of Directors consists of nine members, with one highly independent director with corporate management experience appointed from outside the Company.

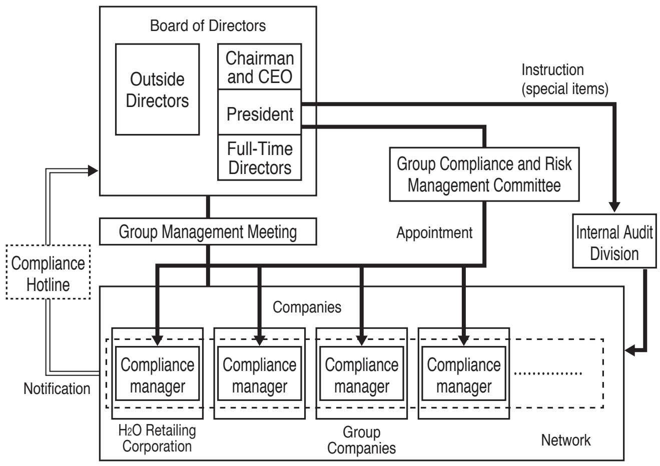
(Board of Corporate Auditors)
The Board of Corporate Auditors consists of four members, with three highly independent corporate auditors, including specialists with corporate management and legal experience, appointed from outside the Company.

In addition, for quick decision making and efficient management of the Group, the Group Management Meeting was established as the fronting body for the Board of Directors, making decisions on important matters for the Group companies. Group companies, including H2O Retailing Corporation, have clearly defined business responsibilities through the adoption of the executive officer system. The directors and the Board of Directors of each company have adopted this system for managing and overseeing of executive officers.

Corporate auditors and the Board of Corporate Auditors oversee the directors, the Board of Directors and executive officers. To clearly define the responsibilities of directors and executive officers, a term of office of one year has been established.



2) Internal Control and Risk Management System



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 based on the Companies' code of ethics, laws, rules and regulations. We have also compiled the Group Compliance Regulations and established basic policies and rules to ensure Groupwide compliance. In addition, we appoint outside directors and auditors with the necessary knowledge and experience to help us ensure full compliance.

In addition to establishing a Group Compliance and Risk Management Committee to take the lead in the creation of a system for ensuring compliance throughout the Group, we have appointed the presidents of Group companies (and executives in change of general affairs for H2O Retailing Corporation, Hankyu Hanshin Department Stores, Inc. and Hanshoku Co., Ltd.) as compliance officers for each company. They jointly carry out compliance policy and pool information. In addition, we have 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.

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 relating to financial reporting on a Groupwide basis based on the Financial Instruments and Exchange Act and related legislation 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 organizations such as the police and lawyers, and have created systems for insulating ourselves from all contact with antisocial elements.

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

Internal documentation relating to the execution of duties by directors and executives and other information is appropriately 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 minimize losses when risk events occur. The Group Compliance and Risk Management Committee collates risk-related information and prepares countermeasures, while Group companies voluntarily create their own systematic measures to deal with the risk based on individual Group company characteristics. At the same time, we have in place a system for pooling of information regarding risk faced by all companies in the Group.

D. Ensuring effective performance of duties by Directors

In order to clarify the management supervisory responsibilities of directors and the executive responsibilities of executive officers and to promote more efficient performance of duties by directors, we have introduced the executive officer system at all Group companies and set up a Group Management Meeting to be 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 progress of business plans at the Board of Directors meetings and the Group Management Meeting, making revisions to targets as necessary. We have also clarified where authority and responsibility lie based on a set of approval procedures for issuing and acceptance of management instructions based on job grade.

E. Ensuring sound conduct of business in the Group (Company, parent company and subsidiaries)

Based on our Group company management protocol, the Group Management Meeting must give prior approval for business planning, marketing policies and other important operational matters at Group companies. Important matters for the Group are taken up or reported at 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 in cases where corporate auditors seek help in performing auditing duties

At a corporate auditor’s request, audit assistants are selected to help the auditors carry out their duties and do not report to directors.

G. Reporting to corporate auditors by directors and employees, other reporting to corporate auditors, and ensuring effective audits by corporate auditors

Meetings are held between corporate auditors and representative directors and corporate auditors and staff. Regular meetings of the Group Corporate Auditors Committee are held, corporate auditors attend important meetings of the Group Management Meeting and other important meetings, and approval documents and minutes from Group Management Meeting and other committee meetings are circulated to all concerned parties. When requested by corporate auditors, the company appoints full-time officers as auditors at subsidiaries.

3) Internal Audits, Corporate Auditors’ Audits and Accounting Audits

The Company has four corporate auditors, three outside corporate auditors and one full-time auditor. The Company assigns professionals with corporate management experience and specialised knowledge of law or other subjects as outside corporate auditors. A professional from within the Company with substantial knowledge of finance and accounting and who has served as an accounting manager in the Company is assigned as full-time corporate auditor. In addition, a staff of seven works in the Corporate Auditors' Office to augment the corporate auditors' audit.

In the consolidated reporting period, the internal audit division (three members) and the officer in charge of financial reporting as stipulated in the Financial Instruments and Exchange Act (J-SOX) (three members) were responsible for internal audits. They worked to strengthen the audit function by making proposals for improvements based on regular interviews and on-site audits and assessing the internal control systems for financial reporting and work processes.

In the consolidated reporting period, following audit plans for the corporate auditors' audit, the corporate auditors attend regular meetings with directors and the president. Outside corporate auditors give their opinion and ask questions as necessary from the standpoint of a specialist with extensive business management experience or an attorney. All full-time corporate auditors attend the monthly Group Management Meeting, the weekly 830 Meetings and the Group Compliance and Risk Management Committee, which is held as needed. The full-time corporate auditors express their opinions at these meetings as necessary and inspect final decision reports on key matters as well as the minutes of the meeting. They are also directly briefed on the execution of Company business affairs by the internal control division (Finance and Accounting Office, General Affairs Office, System Planning Office, etc.).
Regarding the auditing of subsidiaries, full-time corporate auditors assume the position of corporate auditors of Hankyu Hanshin Department Stores, Inc., a core company, while corporate auditors' staff assumes the position of dedicated auditors of other subsidiaries and these lead to the augmentation of the audit system. Full-time corporate audictors and corporate audictors' staff work to perform more effective audits by closely monitoring the site through auditing visits, holding a quarterly Group Board of Corporate Auditors' meeting and verifying the progress of the audit plan.

With respect to internal audits, the Group has strengthened its auditing function by having a full-time corporate auditor verify the audit plan (particularly for the business audit) at the beginning of a term, receive regularly reports on audit plan progress and the results of findings and exchange views.

The Company has designated KPMG AZSA LLC. as its accounting auditing firm. The certified public accountants who executed the accounting audit were Mr. Tohei Nitta and Mr. Yusuke Kawasaki. Assisting them with the audit were 19 other certified public accountants and 13 other staff. In drafting the accounting audit plan, the auditors exchange opinions about important accounting audit matters. A full-time corporate auditor receives monthly audit result reports, and at the Board of Corporate Auditors, close coordination is maintained through mutual verification of audit plan progress.

At the Board of Corporate Auditors, details of the audit status are reported and explained by a full-time corporate auditor, and an audit consensus is formed through the discussion of business issues.

4) Outside Directors and Outside Corporate Auditors
The Company has one outside director and three outside corporate auditors.
Relationship with outside directors and outside corporate auditors
Mr. Yohsaku Fuji has been appointed as an outside director for his management supervisory and investigative skills based on his extensive management experience and broad insight. Furthermore, since the Company has determined that he has no conflict of interest with shareholders and has no cause for it as defined by the stock exchange, Mr. Yohsaku Fuji has been appointed as an independent director. Mr. Fuji also has no special interests in the Company. Mr. Fuji is a senior advisor to Kansai Electric Power Co., Inc., President and Director General of the Institute of Nuclear Safety System, Inc., and an outside director of Sumitomo Life Insurance Company. There are no particular conflicts of interest that require disclosure between these three companies and the Company.

Mr. Hideyuki Takai has been appointed as an outside corporate auditor for his management supervisory and investigative skills based on his career as former president and former representative director of Toho Co., Ltd., a core company of the Hankyu Hanshin Toho Group. Mr. Hideyuki Takai currently serves as a senior advisor to Toho Co., Ltd., and up to April 2012, he served as an outside director of Tokyo Rakutenchi Co., Ltd. The Company owns 7.2% of all issued shares of Toho Co., Ltd. and 0.08% of all issued shares of Tokyo Rakutenchi Co., Ltd. The Toho Co., Ltd., of which he was the president and representative director, has business relationships with the Hankyu Hanshin Department Stores, Inc. that include the rental of real estate.

Mr. Toshihisa Takamura has been appointed as an outside corporate auditor for his management supervisory and investigative skills based on his deep insight as an attorney. Furthermore, since the Company has determined that he has no conflict of interest with shareholders and has no cause for it as defined by the stock exchange, Mr. Toshihisa Takamura has been appointed as an independent corporate auditor. Mr. Takamura has no particular conflict of interest with the Company, nor does he serve in any capacity with another company that has a conflict of interest with the Company.

Mr. Masashi Muromachi has been appointed as an outside corporate auditor for his management supervisory and investigative skills based on his extensive management experience and broad insight. Furthermore, since the Company has determined that he has no conflict of interest with shareholders and has no cause for it as defined by the stock exchange, Mr. Masashi Muromachi has been appointed as an independent corporate auditor. Mr. Muromachi also has no special interests in the Company. Mr. Muromachi has retained his position as a permanent advisor to Toshiba Corporation, but there are no particular conflicts of interest between Toshiba Corporation and the Company that require disclosure.

Regarding standards and policies on the independence of candidates for the posts of outside director and outside corporate auditor with respect to the appointing company, the Company applies no unique standards. In addition to the requirements established by by the Companies Act, we take into account the criteria recommended by stock exchange on independence of outside directors and independent directors, and we appoint those persons whom we believe capable of bringing their experience in various fields and their insight to bear on the function of management oversight that they will be expected to perform.

Main Activities of Outside Directors and Outside Corporate Auditors During the Reporting Period

Classification	Name	Main Activities
Director	Yohsaku Fuji	Attended all six Board of Directors' meeting (excluding written resolutions) held during the reporting period, giving his opinion on measures and asking questions based on his extensive management experience.
Corporate Auditor	Hideyuki Takai	Attended all six Board of Directors' meetings (excluding written resolutions) and all eight Board of Corporate Auditors' meeting held during the reporting period, giving his opinion on measures and asking questions based on his extensive management experience.
Corporate Auditor	Toshihisa Takamura	Attended all six Board of Directors' meeting (excluding written resolutions) and all eight Board of Corporate Auditors' meetings held during the reporting period, giving his opinion on measures and asking questions based primarily on his specialized knowledge as an attorney.
Corporate Auditor	Masashi Muromachi	Attended four out of five Board of Directors' meeting (excluding written resolutions) and four out of five Board of Corporate Auditors' meetings held after his inauguration on 22nd June 2012, giving his opinion on measures and asking questions based on his extensive management experience.

5) Compensation for Directors and Corporate Auditors

For directors, we have instituted a system of compensation that allows for higher incentives for improving short and medium- to long-term performance. Specifically, it consists of the following three components: 1) a monthly salary which is linked to the position of director and not directly linked to the performance of the Companies, 2) an annual bonus that reflects single-year performance and other factors, and 3) stock option-based compensation that is linked to stock price. However, the compensation for part-time directors, including outside directors, is dependent on the role expected to be performed. Moreover, compensation for corporate auditors, just as for part-time directors, is dependent on the role expected to be performed and consists only of monthly compensation and is determined through discussion with the corporate auditors, taking into account directors' compensation. The maximum compensation paid by the Company is based on a resolution of the General Shareholders' Meeting and is outlined below.

a. At the 69th Ordinary General Shareholders' Meeting (held on 29th June 1988), basic compensation was set at a maximum of ¥26 million per month for all directors and at a maximum of ¥4 million per month for all corporate auditors.

b. Bonuses are decided at each General Shareholders' Meeting.

c. At the 89th Ordinary General Shareholders' Meeting (held on 24th June 2008), it was resolved that stock option-based compensation for directors (excluding outside directors) would be based on a different framework from the monthly compensation described above and set at a maximum annual compensation of ¥120 million.

Classification	Total compensation (millions of yen)	Total compensation by type (millions of yen)			Number of directors receiving
		Basic compensation	Stock option-based compensation	Bonus	
Directors (excluding outside directors)	286	181	69	36	10
Corporate auditors (excluding outside corporate auditors)	25	25	-	-	1
Outside directors and corporate auditors	29	29	-	-	5

6) Shareholdings

a. Number of different investment securities and the total balance sheet value of those investment securities whose purpose for holding is for other than net investment purposes

Number of different stocks: 51

Balance sheet value: ¥70,032 million

b. Description, number of shares, balance sheet value and purpose for holding investment securities whose purpose for holding is for other than net investment purposes

In the year ended 31st March 2011

Stock	Number of shares	Balance sheet value (millions of yen)	Purpose of holding
Takashimaya Co., Ltd.	33,083,000	17,567	To strengthen relationship between both companies through business partnership
Toho Co., Ltd.	13,664,280	16,301	To strengthen relationship with the Hankyu Hanshin Toho Group
Mitsubishi UFJ Financial Group, Inc.	2,949,110	1,132	For financial policy reasons
Mitsubishi Logistics Corporation	1,109,000	1,031	To strengthen business management relationship
Toho Real Estate Co., Ltd.	840,236	437	To strengthen relationship with the Hankyu Hanshin Toho Group
T & D Holdings, Inc.	154,400	317	For financial policy reasons
Sumitomo Mitsui Financial Group, Inc.	117,168	303	For financial policy reasons
Asahi Breweries, Ltd.	217,000	300	To strengthen business management relationship
Daiwa Securities Group Inc.	504,998	193	For financial policy reasons
Chuo Mitsui Trust Holdings, Inc	247,523	73	For financial policy reasons
Toyo Seikan Kaisha, Ltd.	33,000	45	To facilitate business activity
Onward Holdings Co., Ltd.	68,672.959	42	To strengthen business management relationship
Asahi Broadcasting Corporation	90,000	37	To facilitate business activity
The Sankei Building Co., Ltd.	66,528	33	To facilitate business activity
Resona Holdings, Inc.	78,445	31	For financial policy reasons
Tokio Marine Holdings, Inc.	12,600	28	For financial policy reasons
Kubota Corporation	20,000	16	To facilitate business activity
Aplus Financial Co., Ltd.	294,368	15	To strengthen business management relationship
Tokyo Rakutenchi Co., Ltd.	55,000	14	To strengthen relationship with the Hankyu Hanshin Toho Group
Mitsubishi Heavy Industries, Ltd.	30,000	11	To facilitate business activity
Osaka Securities Finance Co., Ltd.	60,000	10	For financial policy reasons
Fukushima Industries Corp.	7,350	7	To facilitate business activity
Tokyo Theatres Company, Incorporated	50,000	6	To facilitate business activity
Asahi Kasei Corporation	10,000	6	To facilitate business activity
Tobu Railway Co., Ltd.	15,450	5	To facilitate business activity
Nippon Telegraph And Telephone Corporation	1,020	4	To facilitate business activity
Kobayashi Pharmaceutical Co., Ltd.	900	3	To strengthen business management relationship
Mizuho Securities Co., Ltd.	13,784	3	For financial policy reasons
Tokyo Dome Corporation	15,434	3	To facilitate business activity
Taisho Pharmaceutical Co., Ltd.	1,000	2	To facilitate business activity

Corporate Governance System

In the year ended 31st March 2012

Stock	Number of shares	Balance sheet value (millions of yen)	Purpose of holding
Takashimaya Co., Ltd.	33,083,000	22,728	To strengthen relationship between both companies through business partnership
Toho Co., Ltd.	13,664,280	20,756	To strengthen relationship with the Hankyu Hanshin Toho Group
Mitsubishi UFJ Financial Group, Inc.	2,949,110	1,215	For financial policy reasons
Mitsubishi Logistics Corporation	1,109,000	1,083	To strengthen business management relationship
Toho Real Estate Co., Ltd.	840,236	440	To strengthen relationship with the Hankyu Hanshin Toho Group
Asahi Group Holdings, Ltd.	217,000	398	To strengthen business management relationship
Sumitomo Mitsui Financial Group, Inc.	117,168	319	For financial policy reasons
T & D Holdings, Inc.	308,800	296	For financial policy reasons
Daiwa Securities Group Inc.	504,998	165	For financial policy reasons
Sumitomo Mitsui Trust Holdings, Inc	248,719	66	For financial policy reasons
Onward Holdings Co., Ltd.	79,810.08	54	To strengthen business management relationship
Asahi Broadcasting Corporation	90,000	41	To facilitate business activity
Toyo Seikan Kaisha, Ltd.	33,000	39	To facilitate business activity
Resona Holdings, Inc.	78,445	30	For financial policy reasons
Tokio Marine Holdings, Inc.	12,600	29	For financial policy reasons
Tokyo Rakutenchi Co., Ltd.	55,000	17	To strengthen relationship with the Hankyu Hanshin Toho Group
Aplus Financial Co., Ltd.	294,368	16	To strengthen business management relationship
Kubota Corporation	20,000	16	To facilitate business activity
Mitsubishi Heavy Industries, Ltd.	30,000	12	To facilitate business activity
Osaka Securities Finance Co., Ltd.	60,000	11	For financial policy reasons
Fukushima Industries Corp.	7,350	9	To facilitate business activity
Tobu Railway Co., Ltd.	15,450	7	To facilitate business activity
Tokyo Theatres Company, Incorporated	50,000	6	To facilitate business activity
Asahi Kasei Corporation	10,000	5	To facilitate business activity
Tokyo Dome Corporation	15,434	4	To facilitate business activity
Mizuho Financial Group, Inc.	30,900	4	For financial policy reasons
Nippon Telegraph And Telephone Corporation	1,020	4	To facilitate business activity
Kobayashi Pharmaceutical Co., Ltd.	900	4	To strengthen business management relationship
Taisho Pharmaceutical Holdings Co., Ltd.	300	2	To facilitate business activity
The Royal Hotel, Ltd.	10,132	1	To facilitate business activity

Corporate Governance System

In the year ended 31st March 2013

Stock	Number of shares	Balance sheet value (millions of yen)	Purpose of holding
Takashimaya Co., Ltd.	33,083,000	30,966	To strengthen relationship between both companies through business partnership
Toho Co., Ltd.	13,664,280	26,782	To strengthen relationship with the Hankyu Hanshin Toho Group
Mitsubishi Logistics Corporation	1,109,000	1,936	To strengthen business management relationship
Mitsubishi UFJ Financial Group, Inc.	2,949,110	1,646	For financial policy reasons
Umenohana Co., Ltd.	3,745	702	To strengthen relationship between both companies through business partnership
Wacoal Holdings Corp.	534,000	541	To strengthen business management relationship
Asahi Group Holdings, Ltd.	217,000	488	To strengthen business management relationship
Sumitomo Mitsui Financial Group, Inc.	117,168	442	For financial policy reasons
T & D Holdings, Inc.	308,800	351	For financial policy reasons
Daiwa Securities Group Inc.	504,998	331	For financial policy reasons
Sumitomo Mitsui Trust Holdings, Inc	248,719	110	For financial policy reasons
Onward Holdings Co., Ltd.	90,942.04	77	To strengthen business management relationship
Asahi Broadcasting Corporation	90,000	76	To facilitate business activity
Aplus Financial Co., Ltd.	294,368	52	To strengthen business management relationship
Toyo Seikan Kaisha, Ltd.	33,000	44	To facilitate business activity
Tokio Marine Holdings, Inc.	12,600	33	For financial policy reasons
Tokyo Rakutenchi Co., Ltd.	55,000	24	To strengthen relationship with the Hankyu Hanshin Toho Group
Tokyo Theatres Company, Incorporated	50,000	10	To facilitate business activity
Kobayashi Pharmaceutical Co., Ltd.	900	4	To strengthen business management relationship
The Royal Hotel, Ltd.	10,132	1	To facilitate business activity
FUKAGAWA-SEIJI CO., LTD.	10,000	1	To facilitate business activity
Tobu Railway Co., Ltd.	450	0	To facilitate business activity

c. Investment securities whose purpose for holding is for net investment purposes
None

d. Investment securities whose purpose for holding has changed
None

Five-Year Summary

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Years ended 31st March	Millions of yen 2009	2010	2011	2012	2013	Thousands of U.S. dollars (Note 1) 2013
For the year:						
Net sales	¥509,525	¥470,395	¥465,034	¥505,589	¥525,154	$5,586,745
Cost of sales	364,028	339,027	335,876	366,122	382,625	4,070,479
Gross profit	145,497	131,368	129,158	139,467	142,529	1,516,266
Selling, general and administrative expenses	132,080	123,344	118,603	129,509	131,859	1,402,755
Interest expense	98	337	393	415	440	4,681
Income before income taxes and minority interests	9,449	5,766	5,847	2,836	11,294	120,149
Net income	6,380	3,017	3,110	1,057	6,201	65,968
Comprehensive income	-	8,070	(5,632)	7,270	19,814	210,787
Per share data (in yen and dollars)						
Net income - basic	31.02	14.62	15.07	5.74	31.94	0.34
Net income - diluted	28.23	13.30	13.70	5.51	31.83	0.34
Cash dividends	12.50	12.50	12.50	12.50	12.50	0.13
At year-end:						
Inventories	¥16,916	¥15,319	¥15,597	¥15,459	¥16,079	$171,053
Property, plant and equipment (book value)	87,396	91,526	106,905	109,106	123,312	1,311,830
Total assets	323,044	344,700	344,188	335,230	359,324	3,822,596
Long-term debt	40,921	60,755	40,589	41,593	41,210	438,404
Shareholders' equity	150,297	150,720	151,237	161,194	164,957	1,754,862
Ratio analysis:						
Gross profit / Net sales (%)	28,56	27.93	27.77	27.58	27.14	
Income before income taxes / Net sales (%)	1.85	1.23	1.26	0.56	2.15	
Net income / Net sales (%)	1.25	0.64	0.67	0.21	1.18	
Net income /Total assets (%)	1.93	0.90	0.90	0.31	1.79	
Net income / Shareholders' equity (%)	4.02	1.93	2.06	0.68	3.80	
Shareholders' equity / Total assets (%)	47.62	46.22	43.94	48.08	45.91	
Long-term debt / Shareholders' equity (times)	0.27	0.38	0.27	0.26	0.25	
Net sales / Inventories (times)	30.12	30.71	29.81	32.71	32.66	
Net sales / Total assets (times)	1.58	1.36	1.35	1.51	1.46	

Note 1. U.S. dollar amounts represent translations of yen amounts at the rate of ¥94 to U.S.$1.00.
2. As for "Net income / Total assets," the Company uses the average of total assets at the beginning and end of the year.
3. As for "Net income / Shareholders' equity," the Company uses the average of shareholders' equity at the beginning and end of the the year.

Consolidated Balance Sheets

H2O RETAILING CORPORATION and Consolidated Subsidiaries

As of 31st March, 2011, 2012 and 2013	Millions of yen 2011	Millions of yen 2012	Millions of yen 2013	Thousands of U.S. dollars (Note 1) 2013
Assets				
Current assets:				
Cash on hand and in banks (Note 28 and 29)	¥42,150	¥17,823	¥15,136	$161,021
Notes and accounts receivable:				
Trade (Note 29)	18,995	19,979	22,960	244,255
Other (Note 29)	2,702	2,545	2,936	31,234
Allowance for doubtful receivables (Note 29)	(59)	(42)	(69)	(734)
	21,638	22,482	25,827	274,755
Inventories (Note 5)	15,597	15,459	16,079	171,053
Deferred tax assets (Note 12)	4,279	4,850	6,117	65,075
Prepaid expenses and other (Note 4 and 29)	2,668	2,693	2,260	24,043
Total current assets	86,332	63,307	65,419	695,947
Investments and long-term loans receivable:				
Investment securities (Note 4 and 29)	54,560	63,765	87,224	927,915
Investments in an unconsolidated subsidiary and affiliates	613	535	416	4,425
Long-term loans receivable	2,569	2,608	2,635	28,032
Long-term loans to employees	252	249	200	2,128
Total investments and long-term loans receivable	57,994	67,157	90,475	962,500
Property, plant and equipment:				
Land (Note 8 and 15)	33,948	35,324	35,730	380,106
Buildings and structures (Note 8)	140,770	141,697	155,382	1,653,000
Machinery and equipment	21,030	23,725	27,316	290,596
Construction in progress	115	3,708	1,356	14,426
	195,863	204,454	219,784	2,338,128
Accumulated depreciation	(88,958)	(95,348)	(96,472)	(1,026,298)
Total property, plant and equipment	106,905	109,106	123,312	1,311,830
Other noncurrent assets:				
Long-term leasehold deposits (Note 6, 8 and 29)	56,248	57,373	47,609	506,479
Goodwill	16,038	17,108	16,020	170,426
Intangibles	7,507	8,190	8,739	92,968
Deferred tax assets (Note 12)	10,624	9,575	6,737	71,670
Other assets	2,646	3,541	1,168	12,425
Allowance for doubtful receivables	(106)	(127)	(155)	(1,649)
Total other noncurrent assets	92,957	95,660	80,118	852,319
Total assets	¥344,188	¥335,230	¥359,324	$3,822,596

See accompanying notes.

Consolidated Balance Sheets

H2O RETAILING CORPORATION and Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2011	2012	2013	2013
Liabilities and Net Assets				
Liabilities				
Current liabilities:				
Current portion of bonds (Note 7 and 29)	¥20,000	¥36	¥35	$372
Current portion of long-term debt (Note 7, 8 and 29)	166	651	580	6,170
Short-term bank loans payable (Note 7 and 8)	—	40	6	64
Notes and accounts payable:				
Trade (Note 29)	32,517	32,444	35,960	382,553
Other (Note 29)	18,592	7,730	6,888	73,277
	51,109	40,174	42,848	455,830
Accrued expenses	3,356	3,407	3,294	35,043
Income taxes payable	2,033	1,453	3,490	37,128
Consumption tax payable	433	1,710	342	3,638
Advances received	32,628	32,195	32,490	345,638
Deferred tax liabilities (Note 12)	4	1	1	11
Provision for bonuses to employees	3,734	4,300	3,661	38,947
Provision for bonuses to directors and corporate auditors	89	76	99	1,053
Provision for loss on store rebuilding	1,564	—	—	—
Provision for loss on store closing	689	—	—	—
Asset retirement obligations (Note 30)	123	1,264	33	351
Provision for loss of reorganisation of personnel management system	—	546	371	3,947
Other current liabilities (Note 7 and 29)	2,463	3,038	3,450	36,702
Total current liabilities	118,391	88,891	90,700	964,894
Long-term Liabilities:				
Long-term debt (Note 7, 8 and 29)	40,589	41,593	41,210	438,404
Deferred tax liabilities (Note 12)	7,495	10,546	17,537	186,564
Deferred tax liabilities related to land revaluation (Note 15)	348	310	310	3,298
Provision for retirement benefits to employees (Note 9)	15,807	15,456	12,562	133,638
Provision for retirement benefits to directors and corporate auditors	108	150	161	1,713
Provision for redemption of gift certificates	1,771	1,743	1,874	19,936
Long-term payables accrued	1,804	1,463	2,477	26,351
Guarantee deposits	6,268	5,871	5,671	60,330
Asset retirement obligations (Note 30)	148	224	281	2,989
Other long-term liabilities (Note 7 and 29)	21	128	119	1,266
Total long-term liabilities	74,359	77,484	82,202	874,489
Total liabilities	192,750	166,375	172,902	1,839,383
Net assets (Note 13)				
Shareholders' equity:				
Common stock:				
Authorised - 300,000,000 shares,				
Issued - 206,740,777 shares in 2011, 2012 and 2013	17,797	17,797	17,797	189,330
Capital surplus	37,172	48,257	48,260	513,404
Retained earnings	96,575	95,259	99,032	1,053,532
Treasury stock - 450,757 shares in 2011				
- 12,571,631 shares in 2012				
- 12,583,415 shares in 2013	(307)	(119)	(132)	(1,404)
Total shareholders' equity	151,237	161,194	164,957	1,754,862
Accumulated other comprehensive income:				
Net unrealised holding gains on securities	380	6,619	19,976	212,511
Land revaluation, net of tax (Note 15)	43	81	81	862
Foreign currency translation adjustments	(514)	(564)	(269)	(2,862)
Total accumulated other comprehensive income	(91)	6,136	19,788	210,511
Subscription rights to shares	232	342	531	5,649
Minority interests	60	1,183	1,146	12,191
Total net assets	151,438	168,855	186,422	1,983,213
Total liabilities and net assets	¥344,188	¥335,230	¥359,324	$3,822,596

See accompanying notes.

Consolidated Statements of Income

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Years ended 31st March 2011, 2012 and 2013	Millions of yen 2011	Millions of yen 2012	Millions of yen 2013	Thousands of U.S. dollars (Note 1) 2013
Net sales	¥465,034	¥505,589	¥525,154	$5,586,745
Cost of sales (Note 24)	335,876	366,122	382,625	4,070,479
Gross profit	129,158	139,467	142,529	1,516,266
Selling, general and administrative expenses	118,603	129,509	131,859	1,402,755
Operating income	10,555	9,958	10,670	113,511
Other income (expenses):				
Interest and dividend income	921	911	898	9,553
Equity in gains (losses) of affiliated companies	(43)	(17)	7	74
Amortisation of negative goodwill	44	79	—	—
Gain on sales of property, plant and equipment (Note 26)	—	—	158	1,681
Gain on amortisation of prior service cost of pension plan	—	682	—	—
Gain on step acquisitions	—	261	—	—
Gain on sales of investment securities (Note 4)	137	77	1,002	10,659
Gain on reversal of asset retirement obligations (Note 18)	402	—	—	—
Compensation for transfer (Note 19)	240	—	—	—
Compensation income (Note 17)	—	—	6,000	63,830
Interest expense	(393)	(415)	(440)	(4,681)
Loss on store rebuilding (Note 20)	(376)	(292)	—	—
Loss on reorganisation of personnel management system	—	(5,282)	—	—
Loss on store closing (Note 21)	(2,085)	(1,766)	(1,642)	(17,468)
Loss on disposal of property, plant, equipment and intangibles (Note 23)	(466)	(662)	(1,647)	(17,521)
Impairment losses (Note 22)	(226)	(269)	(621)	(6,606)
Loss on liquidation of subsidiaries and affiliates	—	—	(525)	(5,585)
Loss on sales of property, plant and equipment (Note 27)	—	—	(34)	(362)
Expenses for opening new stores (Note 25)	(1,685)	—	(2,735)	(29,096)
Loss on valuation of investment securities (Note 4)	(147)	(223)	—	—
Loss on provision for redemption of gift certificates	(936)	(984)	(1,130)	(12,021)
Environmental expenses	(305)	—	—	—
Loss on adjustment for changes in accounting standard for asset retirement obligations	(174)	—	—	—
Other - net	384	778	1,333	14,181
	(4,708)	(7,122)	624	6,638
Income before income taxes and minority interests	5,847	2,836	11,294	120,149
Income taxes (Note 12):				
Current	1,884	1,402	3,790	40,319
Deferred	893	394	1,343	14,287
	2,777	1,796	5,133	54,606
Income before minority interests	3,070	1,040	6,161	65,543
Minority interests in net losses	(40)	(17)	(40)	(425)
Net income	¥3,110	¥1,057	¥6,201	$65,968

	Yen 2011	Yen 2012	Yen 2013	U.S. dollars (Note 1) 2013
Net income per share - basic (Note 32)	¥15.07	¥5.74	¥31.94	$0.34
Net income per share - diluted (Note 32)	¥13.70	¥5.51	¥31.83	$0.34
Cash dividends	¥12.50	¥12.50	¥12.50	$0.13

See accompanying notes.

Consolidated Statements of Comprehensive Income

H2O RETAILING CORPORATION and Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars (Note 1)
Years ended 31st March, 2011, 2012 and 2013	2011	2012	2013	2013
Income before minority interests	¥3,070	¥1,040	¥6,161	$65,543
Other comprehensive income (Note 14)				
Net unrealised holding gains on securities	(8,553)	6,242	13,359	142,117
Revaluation reserve for land	—	38	—	—
Foreign currency translation adjustments	(149)	(50)	294	3,127
Total other comprehensive income	(8,702)	6,230	13,653	145,244
Comprehensive income	(¥5,632)	¥7,270	¥19,814	$210,787
Comprehensive income attributed to:				
Owners of the parent	(5,592)	7,285	19,852	211,191
Minority interests	(40)	(15)	(38)	(404)

See accompanying notes.

Consolidated Statements of Changes in Net Assets

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Years ended 31st March 2011, 2012 and 2013	Thousands	Millions of yen									
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealised holding gains (losses) on securities	Land revaluation, net of tax (Note 15)	Foreign currency translation adjustments	Subscription rights to shares	Minority interests	Total
Balance at 1st April 2010	206,740	¥17,797	¥37,172	¥96,045	(¥294)	¥8,933	¥43	(¥366)	¥139	¥97	¥159,566
Cash dividends - ¥12.5 per share	–	–	–	(2,579)	–	–	–	–	–	–	(2,579)
Net income	–	–	–	3,110	–	–	–	–	–	–	3,110
Gain on disposition of treasury stock	–	–	–	(1)	(13)	–	–	–	–	–	(14)
Land revaluation, net of tax (Note 15)	–	–	–	(0)	–	–	0	–	–	–	–
Decrease in net unrealised holding gains on securities	–	–	–	–	–	(8,553)	–	–	–	–	(8,553)
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	–	(148)	–	–	(148)
Subscription rights to shares	–	–	–	–	–	–	–	–	93	–	93
Minority interests	–	–	–	–	–	–	–	–	–	(37)	(37)
Balance at 31st March 2011	206,740	¥17,797	¥37,172	¥96,575	(¥307)	¥380	¥43	(¥514)	¥232	¥60	¥151,438
Balance at 1st April 2011	206,740	¥17,797	¥37,172	¥96,575	(¥307)	¥380	¥43	(¥514)	¥232	¥60	¥151,438
Cash dividends - ¥12.5 per share	–	–	–	(2,373)	–	–	–	–	–	–	(2,373)
Net income	–	–	–	1,057	–	–	–	–	–	–	1,057
Gain on disposition of treasury stock	–	–	11,085	–	188	–	–	–	–	–	11,273
Land revaluation, net of tax (Note 15)	–	–	–	–	–	–	38	–	–	–	38
Increase in net unrealised holding gains on securities	–	–	–	–	–	6,239	–	–	–	–	6,239
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	–	(50)	–	–	(50)
Subscription rights to shares	–	–	–	–	–	–	–	–	110	–	110
Minority interests	–	–	–	–	–	–	–	–	–	1,123	1,123
Balance at 31st March 2012	206,740	¥17,797	¥48,257	¥95,259	(¥119)	¥6,619	¥81	(¥564)	¥342	¥1,183	¥168,855
Balance at 1st April 2012	206,740	¥17,797	¥48,257	¥95,259	(¥119)	¥6,619	¥81	(¥564)	¥342	¥1,183	¥168,855
Cash dividends - ¥12.5 per share	–	–	–	(2,428)	–	–	–	–	–	–	(2,428)
Net income	–	–	–	6,201	–	–	–	–	–	–	6,201
Gain on disposition of treasury stock	–	–	3	–	(13)	–	–	–	–	–	(10)
Land revaluation, net of tax (Note 15)	–	–	–	–	–	–	–	–	–	–	–
Increase in net unrealised holding gains on securities	–	–	–	–	–	13,357	–	–	–	–	13,357
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	–	295	–	–	295
Subscription rights to shares	–	–	–	–	–	–	–	–	189	–	189
Minority interests	–	–	–	–	–	–	–	–	–	(37)	(37)
Balance at 31st March 2013	206,740	¥17,797	¥48,260	¥99,032	(¥132)	¥19,976	¥81	(¥269)	¥531	¥1,146	¥186,422

	Thousands of U.S. dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealised holding gains (losses) on securities	Land revaluation, net of tax (Note 15)	Foreign currency translation adjustments	Subscription rights to shares	Minority interests	Total
Balance at 1st April 2012	$189,330	$513,372	$1,013,394	($1,266)	$70,415	$862	($6,000)	3,638	$12,585	$1,796,330
Cash dividends - $0.13 per share	–	–	(25,830)	–	–	–	–	–	–	(25,830)
Net income	–	–	65,968	–	–	–	–	–	–	65,968
Gain on disposition of treasury stock	–	32	–	(138)	–	–	–	–	–	(106)
Land revaluation, net of tax (Note 15)	–	–	–	–	–	–	–	–	–	–
Increase in net unrealised holding gains on securities	–	–	–	–	142,096	–	–	–	–	142,096
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	3,138	–	–	3,138
Subscription rights to shares	–	–	–	–	–	–	–	2,011	–	2,011
Minority interests	–	–	–	–	–	–	–	–	(394)	(394)
Balance at 31st March 2013	$189,330	$513,404	$1,053,532	($1,404)	$212,511	$862	($2,862)	$5,649	$12,191	$1,983,213

See accompanying notes.

Consolidated Statements of Cash Flows

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Years ended 31st March 2011, 2012 and 2013	Millions of yen 2011	2012	2013	Thousands of U.S. dollars (Note 1) 2013
Cash flows from operating activities:				
Income before income taxes and minority interests	¥5,847	¥2,836	¥11,294	$120,149
Depreciation and amortisationn	9,822	12,638	13,512	143,745
Loss on disposal of property, plant, equipment and intangibles	466	662	1,647	17,521
Impairment losses	226	269	621	6,606
Loss on liquidation of subsidiaries and affiliates	-	-	525	5,585
Loss on store closings	-	1,288	1,463	15,564
Increase (decrease) in allowance for doubtful receivables	(16)	(23)	54	575
Increase (decrease) in provision for bonuses to employees	(1,000)	391	(640)	(6,808)
Increase (decrease) in provision for bonuses to directors and corporate auditors	31	(13)	23	245
Increase (decrease) in provision for retirement benefits	234	(599)	(2,890)	(30,744)
Increase (decrease) in provision for loss on store rebuilding	376	(375)	-	-
Increase (decrease) in provision for loss on store closing	667	(708)	-	-
Increase (decrease) in provision for redemption of gift certificates	(34)	(28)	132	1,404
Increase (decrease) in provision for loss of reorganisation of personnel management system	-	546	(175)	(1,862)
Interest and dividend income	(921)	(911)	(899)	(9,564)
Interest expense	393	415	440	4,681
Net gain on sales of property, plant and equipment	-	-	(124)	(1,319)
Gain on step acquisitions	-	(261)	-	-
Gain on sales of investment securities	(137)	(77)	(1,002)	(10,660)
Loss on valuation of investment securities	147	223	-	-
Decrease (increase) in notes and accounts receivable	(1,399)	450	(2,810)	(29,894)
Decrease (increase) in inventories	(279)	475	(562)	(5,979)
Increase (decrease) in notes and accounts payable	3,546	(1,418)	3,394	36,106
Increase (decrease) in consumption tax payable	(118)	1,242	(1,368)	(14,553)
Other	(257)	561	3,188	33,915
	17,594	17,583	25,823	274,713
Interest and dividend income received	915	861	871	9,265
Interest expense paid	(424)	(361)	(439)	(4,670)
Income taxes paid	(1,119)	(1,906)	(1,722)	(18,319)
Net cash provided by operating activities	16,966	16,177	24,533	260,989
Cash flows from investing activities:				
Decrease (increase) in time deposits	500	10,187	(0)	(0)
Purchases of property, plant and equipment	(13,317)	(21,374)	(29,865)	(317,713)
Proceeds from sales of property, plant and equipment	6	20	1,107	11,777
Purchases of intangibles	(1,954)	(1,982)	(1,925)	(20,479)
Purchases of investment securities	(113)	(38)	(3,439)	(36,585)
Proceeds from sales of investment securities	1,639	88	1,978	21,043
Purchases of investments in subsidiaries	-	(20)	-	-
Payment for sales of investments in subsidiaries resulting in change in scope of consolidation	-	(32)	-	-
Purchase of investments in subsidiaries resulting in change in scope of consolidation	-	(4,638)	(39)	(415)
Payments for exercise of asset retirement obligations	(525)	(120)	(1,798)	(19,128)
Payments of long-term loans receivable	(1,460)	(10)	(16)	(170)
Proceeds from collection of long - term loans receivable	401	116	133	1,415
Payments for guarantee deposits	(4,258)	(390)	(844)	(8,979)
Proceeds from collection of guarantee deposits	1,846	1,419	10,638	113,170
Other	-	-	144	1,532
Net cash used in investing activities	(17,235)	(16,774)	(23,926)	(254,532)
Cash flows from financing activities:				
Net decrease in short-term bank loans payable	-	(232)	(40)	(426)
Proceeds from long-term debt	20,000	600	-	-
Repayments of long-term debt	(20,166)	(2,799)	(652)	(6,936)
Redemption of bonds	-	(20,018)	(36)	(383)
Dividends paid	(2,579)	(2,422)	(2,436)	(25,915)
Proceeds from issuance of stock to minority shareholders	4	-	-	-
Proceeds from sale of treasury stock	1	11,280	3	32
Additions to treasury stock	(18)	(6)	(13)	(138)
Other	(61)	(108)	(248)	(2,638)
Net cash used in financing activities	(2,819)	(13,705)	(3,422)	(36,404)
Foreign exchange differences of cash and cash equivalents	(152)	(54)	128	1,362
Net decrease in cash and cash equivalents	(3,240)	(14,356)	(2,687)	(28,585)
Cash and cash equivalents at beginning of year	35,366	32,126	17,770	189,042
Cash and cash equivalents at end of year (Note 28)	¥32,126	¥17,770	¥15,083	$160,457

See accompanying notes.

Notes to the Consolidated Financial Statements

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 Law 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 Law. 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.

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at 31st March 2013, which was ¥94 to U.S.$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

Consolidation and investments in affiliates

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 affiliates 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 43 (41 in 2012 and 36 in 2011) significant majority owned subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

In the year ended 31st March 2013, the following companies have been included within the scope of consolidation:

*Hankyu Trading Services Co., Ltd., due to new establishment
*Cotobuki, due to acquisition of shares by KAZOKUTEI CO., LTD., a consolidated subsidiary
*F.G.J. Co. Ltd., due to acquisition of shares

In the year ended 31st March 2013, the following companies have been removed from the scope of consolidation:

*Mameda, Inc., as a result of a merger with consolidated subsidiary Hankyu Delica, Inc.

In the year ended 31st March 2012, the following companies have been included within the scope of consolidation:

*Hankyu Department Store Uniform, due to new establishment
*EveryD.com, Inc., due to acquisition of additional shares
*Syuncoubou, Inc., due to acquisition of shares
*EDC Preparatory Company, Inc., due to new establishment
*KAZOKUTEI CO., LTD., due to acquisition of additional shares
*NAKANO FOODS CO., LTD., due to share acquisition by KAZOKUTEI CO., LTD.
*Hankyu B&C Planning, due to new establishment

In the year ended 31st March 2012, the following companies have been removed from the scope of consolidation:

*Ours Inn Hankyu, as a result of a merger with consolidated subsidiary Oi Development Co., Ltd.
*HD PLANNING WEST CORPORATION, due to the sale of shares held in this company

Any profit or loss generated by the company until the time it was liquidated has been included in the consolidated statements of income and consolidated statements of comprehensive income.

The trade name of EveryD.com, Inc. has been changed to Hankyu OrangeLife, Inc. and that of EDC Preparatory Company, Inc. has been changed to EveryD.com, Inc.

In the year ended 31st March 2011, KAETOKU SERVICE Co., Ltd., Hankyu Kitchen Yell Kansai, Inc. and Hankyu

Kitchen Yell Tokyo, Inc. have been included within the scope of consolidation due to their establishment. Hankyu Kitchen Yell, Inc. has been removed from the scope of consolidation due to its liquidation. However, any profit or loss generated by the company until the time it was liquidated has been included in the consolidated statements of income and consolidated statements of comprehensive income.

In the year ended 31st March 2013, one (three in 2012 and one in 2011) of the consolidated subsidiaries have a financial year ending on 31st December. In the year ended 31st March 2013, two consolidated subsidiaries changed their fiscal year to comform with that of the Parent company. With respect to the period from the subsidiary's year-end to 31st March, necessary adjustments have been made for significant transactions to reflect them appropriately in the consolidated financial statements.

The equity method has been applied to four (five in 2012 and seven in 2011) affiliates for the year ended 31st March 2013. T'ACT Co., Ltd. has been removed from the scope of the equity-method affiliates due to sales of shares.
In the year ended 31st March 2012, EveryD.com, Inc. has been removed from the scope of the equity-method affiliates since it has been included in the scope of consolidation due to acquisition of additional shares. Rakuyu Tatemono Kanri K.K. has also been removed from the scope of the equity-method affiliates due to a liquidation. However, any profit or loss generated during the period leading up to the share sell-off has been included in the consolidated statements of income and consolidated statements of comprehensive income. In addition, the trade name of EveryD.com, Inc. has been changed to Hankyu OrangeLife, Inc.

In the year ended 31st March 2011, Hankyu Hanshin Point Co., Ltd., a newly established company, and EveryD.com, Inc. have been included in the scope of the equity-method affiliates following the acquisition of shares in each of these companies. In addition, from the fiscal year ended 31st March 2011, High Security System Co., Ltd. has been removed from the scope of the equity-method affiliates due to the sale of its share holdings. However, any profit or loss generated during the period leading up to the share sell-off has been included in the consolidated statements of income and consolidated statements of comprehensive income.

Investments in nonconsolidated subsidiaries and non-equity-method affiliates are accounted for at cost because of the immaterial effect on the consolidated financial statements. Income from these nonconsolidated subsidiaries and non-equity-method affiliates is recognised only when the Companies receive dividends.

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.

Securities
Investment securities consist principally of marketable and nonmarketable equity securities. The Companies categorise the securities as "available-for-sale." Available-for-sale securities with fair market value 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 with no fair market value 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.

Allowance for doubtful receivables
The allowance for doubtful receivables 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 amount is individually estimated.

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, the specific identification method for work in progress and the weighted average method for 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 declining balance 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. Buildings acquired after 1st April 1998 (excluding peripheral facilities) are depreciated using the straight-line method. The estimated useful life of buildings and structures is 2 to 50 years (3 to 50 years in 2011).

The estimated useful life of machinery and equipment is 4 to 17 years, and the estimated useful life of other assets is 2 to 20 years (3 to 20 years in 2011).

Lease assets under lease contracts that are not deemed to 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.

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 5 to 20 years. However, if the amount is insignificant, it is charged as expense as incurred.

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

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

Provision for bonuses to directors and corporate auditors
The Company accrues bonuses for directors and corporate auditors based on estimated payments to be made after the end of the year.

Provision for retirement benefits
The Companies provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded contributory and non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors. Hankyu Hanshin Department Stores, Inc. has a retirement benefits plan which consists of unfunded lump-sum payment plans, contributory pension plans and non-contributory pension plans. Other subsidiaries also have unfunded lump-sum payment plans or non-contributory pension plans. The employees of the Company are all seconded from the consolidated subsidiaries and provided with the respective subsidiary’s post-employment benefit plans.

The Companies provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of plan assets. Prior service costs are mainly recognised in expenses when incurred, and actuarial gains and losses are recognised in expenses in equal amounts within the average of the estimated remaining service years (mainly over 13 years) commencing with the following period.

With regard to retirement benefits for directors and corporate auditors 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 Companies provide executive officers' severance and retirement benefits. The amount of liability as of 31st March 2011, 2012 and 2013 was ¥34 million, ¥33 million and ¥32 million ($340 thousand) respectively.

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, liabilities, revenues and expenses are translated at the rates prevailing at the subsidiary’s balance sheet date and shareholders' equity accounts are translated at historical rates. The resulting foreign currency translation adjustments are shown as a separate component of net assets.

Reclassifications
Certain reclassifications of the financial statements for the years ended 31st March 2011 and 2012 have been made to conform to the presentation for the year ended 31st March 2013.

Provision for loss on store rebuilding
The Companies made a provision to cover the estimated loss arising from the rebuilding of Oi Development Building. For the year ended 31st March 2011, the estimates of losses were based on historical precedents, the book value of the store's property at the time of demolition and the estimated cost of the demolition work and removal expense.

Provision for loss on store closing
To provide for losses incurred from the Hanshin / Mikage store's floor area reduction, the Company posted a reasonably estimated amount of loss expected from the store closing for the year ended 31st March 2011.

Provision for redemption of gift certificates
The Company records 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 Company reverses the liability and recognises a gain. A provision is recorded by the Company for the unredeemed gift certificates previously recognised as a gain based on the estimated future redemption of those certificates.

Per share information
Computations of basic net income per share are based on

the weighted average number of shares outstanding during each period. For diluted net income per share for the years ended 31st March 2011, 2012 and 2013, see Note 32.
Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

Consumption taxes
Consumption taxes are excluded from revenue and expense accounts which are subject to such taxes. However, nondeductible portions of consumption taxes are accounted for as expenses in the same year they are incurred.

(Additional Information)
Statements of comprehensive income
Effective from the fiscal year ended 31st March 2011, the Company adopted the "Accounting Standard for Presentation of Comprehensive Income" (Accounting Standards Board of Japan ("ASBJ ") Statement No. 25, issued on 30th June 2010). As a result of the adoption, the Company has presented the consolidated statement of comprehensive income in the consolidated financial statements for the fiscal year ended 31st March 2011.

Accounting changes and error corrections
Effective from the fiscal year ended 31st March 2012, the Company has adopted "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24, issued 4th December 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, issued 4th December 2009.)

3. Changes in Accounting Policies

The equity method
Effective from the fiscal year ended 31st March 2011, the Company has adopted "Accounting Standard for the Equity Method" (ASBJ Statement No. 16, issued 10th March 2008) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (Practical Issues Task Force ("PITF") No. 24, 10th March 2008.) This change had no material impact on Company profit or loss.

Asset retirement obligations
Effective from the fiscal year ended 31st March 2011, the Company and its consolidated domestic subsidiaries have adopted "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, issued 31st March 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, issued 31st March 2008). As a result, in the fiscal year ended 31st March 2011, operating income was ¥16 million less, ordinary income ¥16 million less, and income before income taxes ¥208 million less than the amounts that would have been reported without the change. Further, the change in the amount of asset retirement obligations due to the adoption of this accounting standard was ¥1,007 million at the beginning of the fiscal year, out of which ¥762 million was a portion of the balance of provision for loss on store closing at the end of the previous fiscal year assumed as asset retirement obligations.

Business combinations
Effective from the fiscal year ended 31st March 2011, the Company and its consolidated domestic subsidiaries have adopted "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, issued 26th December 2008), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, issued 26th December 2008), "Partial Amendments to Accounting Standard for Research and Development Costs" (ASBJ Statement No. 23, issued 26th December 2008), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, issued 26th December 2008), "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No. 16, issued 26th December 2008) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, issued 26th December 2008).

Accounting standards not yet applied
The "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, 17th May 2012)
The "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, 17th May 2012)

(1) Overview
Actuarial gains and losses and past service costs are recognized in net assets net of tax effects. Funded status is fully recognized as a liability or asset on the balance sheet. Actuarial gains and losses and past service costs incurred but not accounted for as expenses are included in other comprehensive income. Actuarial gains and losses and past service costs included in accumulated other comprehensive income and accounted for as expenses for the period are reclassified from accumulated other comprehensive income of the net assets net of tax effects.

(2) Date of adoption
The Company will adopt the accounting standard effective 31st March 2014, except for the calculation method for retirement benefit obligations and service costs which will be adopted effective 1st April 2014.

(3) Impact of the adoption of the accounting standard
The financial impact is currently in the process of evaluation but not determined yet.

4. Investment Securities

The following tables summarise acquisition costs and book values (fair values) of available-for-sale securities with available fair value as of 31st March 2011, 2012 and 2013.

Securities with book value exceeding acquisition cost:

	Millions of yen									Thousands of U.S. dollars		
	2011			2012			**2013**			**2013**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 20,770	¥ 27,851	¥ 7,081	¥ 21,542	¥ 32,745	¥ 11,203	**¥ 46,308**	**¥ 76,770**	**¥ 30,462**	**$ 492,638**	**$ 816,702**	**$ 324,064**
Government bonds	319	338	19	317	341	24	**314**	**343**	**29**	**3,340**	**3,649**	**309**
Other	491	508	17	505	523	18	**2,712**	**3,124**	**412**	**28,851**	**33,234**	**4,383**
Total	¥ 21,580	¥ 28,697	¥ 7,117	¥ 22,364	¥ 33,609	¥ 11,245	**¥ 49,334**	**¥ 80,237**	**¥ 30,903**	**$ 524,829**	**$ 853,585**	**$ 328,756**

Other securities:

	Millions of yen									Thousands of U.S. dollars		
	2011			2012			**2013**			**2013**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 25,667	¥ 19,194	(¥ 6,473)	¥ 24,771	¥ 23,680	(¥ 1,091)	**¥ 453**	**¥ 431**	**(¥ 22)**	**$ 4,819**	**$ 4,585**	**($ 234)**
Government bonds	-	-	-	-	-	-	**-**	**-**	**-**	**-**	**-**	**-**
Other	1,129	1,123	(6)	1,129	1,119	(10)	**976**	**973**	**(3)**	**10,383**	**10,351**	**(32)**
Total	¥ 26,796	¥ 20,317	(¥ 6,479)	¥ 25,900	¥ 24,799	(¥ 1,101)	**¥ 1,429**	**¥ 1,404**	**(¥ 25)**	**$ 15,202**	**$ 14,936**	**($ 266)**

The following table summarises sales of available-for-sale securities for the years ended 31st March 2011, 2012 and 2013:

	Millions of yen									Thousands of U.S. dollars		
	2011			2012			**2013**			**2013**		
	Sales	Gains on sales	Losses on sales	Sales	Gains on sales	Losses on sales	Sales	Gains on sales	Losses on sales	Sales	Gains on sales	Losses on sales
Equity securities	¥ 1,383	¥ 137	¥ 17	¥ 49	¥ 48	¥ -	**¥ 1,732**	**¥ 1,002**	**(¥ 2)**	**$ 18,426**	**$ 10,659**	**($ 21)**
Government bonds	-	-	-	10	-	-	**-**	**-**	**-**	**-**	**-**	**-**

The Company recognises 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.
The Company incurred impairment loss and recorded loss on valuation of investment securities of ¥147 million and ¥223 million for the years ended 31st March 2011 and 2012, respectively. The amount of impairment loss for the year ended 31st March 2013 was insignificant and its disclosure was omitted.

5. Inventories

Inventories at 31st March 2011, 2012 and 2013 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2011	2012	**2013**	**2013**
Merchandise goods and finished goods	¥ 14,830	¥ 14,369	¥ **14,864**	$ **158,128**
Work in progress	80	122	**270**	**2,872**
Raw materials and supplies	687	968	**945**	**10,053**
	¥ 15,597	¥ 15,459	¥ **16,079**	$ **171,053**

6. Long-term Leasehold Deposits

In connection with its department store business, the Company has entered into long-term lease agreements for store sites and 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 refundable, generally in 10 to 15 equal annual installments commencing in the eleventh year of the lease term, with the balance refundable only on termination of the lease. The deposits bear no interest or bear interest only at a nominal rate.

7. Short-term Bank Loans and Long-term Debt

Short-term bank loans and long-term debt, including finance lease obligations, at 31st March 2011, 2012 and 2013 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2011	2012	**2013**	**2013**
0.50% short-term bank loans	¥ -	¥ 40	¥ **6**	$ **64**
0.40% to 2.98% loans from banks and others, due through 2019	40,755	42,208	**41,790**	**444,574**
Finance lease obligations	1,121	1,288	**2,492**	**26,511**
0.94% unsecured bonds, due 2014	-	40	**20**	**213**
0.75% unsecured bonds, due 2014	-	31	**15**	**160**
Zero coupon convertible bonds, due 2011	20,000	-	**-**	**-**
	¥ 61,876	¥ 43,607	¥ **44,323**	$ **471,522**
Less amounts due within one year	(20,231)	(855)	**(930)**	**(9,894)**
	¥ 41,645	¥ 42,752	¥ **43,393**	$ **461,628**

The conversion price of the zero coupon convertible bonds issued by the Company on 16th August 2004 was ¥982. The convertible bonds are convertible into 20,366,598 shares of common stock as of 31st March 2011.

Annual maturities of short-term bank loans and long-term debt, including finance lease obligations, at 31st March 2013 were as follows:

Year ending 31st March.	Millions of yen	Thousands of U.S. dollars
2014	¥ 930	$ **9,894**
2015	35,596	**378,681**
2016	5,743	**61,096**
2017	336	**3,574**
2018 and thereafter	1,718	**18,277**
	¥ 44,323	$ **471,522**

In order to obtain working funds efficiently, the Companies have entered into loan commitment agreements with two financial institutions. The loan commitment facilities and unused balances as of 31st March 2011, 2012 and 2013 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2012	**2013**	**2013**
Total loan commitment facilities	¥ -	¥ 20,000	¥ **20,000**	$ **212,766**
Outstanding balances	-	-	**-**	**-**
Unused blanaces	¥ -	¥ 20,000	¥ **20,000**	$ **212,766**

8. Pledged Assets

The following assets were pledged as collateral for short-term bank loans of ¥40 million at 31st March 2012 and for the current portion of long-term debt of ¥166 million, ¥440 million and ¥397 million ($4,223 thousand) and long-term debt of ¥589 million, ¥1,140 million and ¥744 million ($7,915 thousand) at 31st March 2011, 2012 and 2013, respectively:

	Millions of yen			Thousands of U.S. dollars
	2011	2012	**2013**	**2013**
Long-term leasehold deposits	¥ -	¥ 133	¥ **-**	$ **-**
Buildings	1,787	2,023	**1,923**	**20,457**
Land	890	1,689	**1,656**	**17,617**
	¥ 2,677	¥ 3,845	¥ **3,579**	$ **38,074**

9. Employees' Severance and Retirement Benefits

The liability for severance and retirement benefits included in the liability section of the consolidated balance sheets as of 31st March 2011, 2012 and 2013 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2011	2012	**2013**	**2013**
Projected benefit obligation	¥ 36,539	¥ 33,925	¥ **38,047**	$ **404,755**
Unrecognised actuarial differences	(3,235)	(2,417)	**(7,186)**	**(76,447)**
Fair value of pension assets	(18,941)	(18,417)	**(18,299)**	**(194,670)**
Prepaid pension cost	1,444	2,365	**-**	**-**
Liability for severance and retirement benefits	¥ 15,807	¥ 15,456	¥ **12,562**	$ **133,638**

Included in the consolidated statements of income for the years ended 31st March 2011, 2012 and 2013 were severance and retirement benefit expenses that comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2011	2012	**2013**	**2013**
Service costs - benefits earned during the year	¥ 1,299	¥ 1,276	¥ **1,205**	$ **12,819**
Interest cost on projected benefit obligation	723	719	**651**	**6,926**
Expected return on plan assets	(645)	(642)	**(538)**	**(5,723)**
Amortisation of prior service cost	-	-	**-**	**-**
Amortisation of actuarial differences	293	331	**296**	**3,149**
Severance and retirement benefit expenses	1,670	1,684	**1,614**	**17,171**
Other	416	(256)	**387**	**4,117**
Total	¥ 2,086	¥ 1,428	¥ **2,001**	$ **21,288**

Retirement benefit expenses of the consolidated subsidiaries which have adopted the simplified method are included in service costs.

The discount rate and the rate of expected return on plan assets used by the Companies were as follows:

	2011	2012	**2013**
Discount rate	2.00%	2.00%	**0.83%**
Rate of expected return on plan assets	3.50%	3.50%	**3.00%**

The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. Past service costs are recognised mainly as expenses when incurred, and actuarial gains and losses are recognised in equal amounts mainly over 13 years.

10. Lease Transactions

Finance lease transactions
The Group as lessee
Finance leases that are not deemed to transfer ownership of the leased property to the lessee
(1) Breakdown of lease investment assets
Property, plant and equipment
Store facilities used in the supermarket business (buildings and structures)
(2) Method of depreciation of leased assets
Finance lease transactions that are not deemed to transfer ownership of the leased property to the lessee and that were concluded prior to 1st April 2008 are accounted for by the same method as that applied to ordinary operating leases.

Information, as lessee, for non - capitalised finance leases at 31st March 2011, 2012 and 2013 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2012	**2013**	**2013**
Original lease obligations (including finance charges) for machinery and equipment	¥ 428	¥ 400	¥ **116**	**$ 1,234**
Payments remaining:				
Payments due within one year	48	46	**9**	**96**
Payments due after one year	30	11	**5**	**53**
Total	¥ 78	¥ 57	¥ **14**	**$ 149**

Rental expenses under such non-capitalised finance leases for the years ended 31st March 2011, 2012 and 2013 were ¥107 million, ¥60 million and ¥52 million ($553 thousand), respectively.

Operating lease transactions
Future lease payments for non-cancellable operating leases.

The Group as lessee

	Millions of yen			Thousands of U.S. dollars
	2011	2012	**2013**	**2013**
Payments due within one year	¥ 9,110	¥ 8,725	¥ **8,162**	**$ 86,830**
Payments due after one year	62,475	58,984	**55,558**	**591,042**
Total	¥ 71,585	¥ 67,709	¥ **63,720**	**$ 677,872**

The Group as lessor

	Millions of yen			Thousands of U.S. dollars
	2011	2012	**2013**	**2013**
Payments due within one year	¥ 1,244	¥ 1,425	¥ **1,338**	**$ 14,234**
Payments due after one year	4,836	8,420	**8,972**	**95,447**
Total	¥ 6,080	¥ 9,845	¥ **10,310**	**$ 109,681**

11. Segment Information

Segment information for the years ended 31st March 2011, 2012 and 2013 required to be disclosed by the Financial Instruments and Exchange Law of Japan was as follows:

1. General information about reportable segments

The Company Group's reportable segments are components of the Group 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 Company Group is expanding its business activities primarily in the department stores business, but also in the supermarkets business, property management ("PM") business and others businesses. Accordingly, "Department stores," "Supermarkets," "PM" and "Other" have each been made reportable segments. The "Department stores" segment is primarily engaged in the sale of clothing, accessories, home furnishings, foods, and others. The "Supermarkets" segment is engaged in supermarket operation and food production. The "PM" segment is engaged in rental management of commercial facilities, hotels, eating and drinking establishments, remodeling and others. The "Other" segment is engaged in membership management, home delivery, temporary staffing, information processing and others.

2. Basis of measurement for reportable segment net sales, segment income or 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 the reportable segments is presented on an operating income basis. Intersegment sales and transfers are recognised based on current market prices.

3. Information about reportable segment net sales, segment income or loss, segment assets and other items

	Millions of yen					
As of and for the year ended 31st March 2011	Department stores	Supermarkets	PM	Other	Reconciliation	Total
Net sales						
External customers	¥ 350,383	¥ 90,912	¥ 13,489	¥ 10,250	¥ -	¥ 465,034
Intersegment	177	4,520	3,440	15,518	(23,655)	-
Total net sales	¥ 350,560	¥ 95,432	¥ 16,929	¥ 25,768	(¥ 23,655)	¥ 465,034
Segment income	¥ 8,228	¥ 1,737	¥ 625	¥ 1,771	(¥ 1,806)	¥ 10,555
Segment assets	¥ 151,850	¥ 41,390	¥ 34,937	¥ 253,298	(¥ 137,287)	¥ 344,188
Other items						
Depreciation and amortisation	¥ 5,067	¥ 1,858	¥ 478	¥ 2,419	¥ -	¥ 9,822
Investment expenditures for affiliated companies accounted for by the equity method	-	-	-	600	-	600
Impairment loss	374	200	13	-	-	587
Increase in property, plant and equipment and intangibles	¥ 11,929	¥ 1,629	¥ 9,740	¥ 3,382	¥ -	¥ 26,680

	Millions of yen					
As of and for the year ended 31st March 2012	Department stores	Supermarkets	PM	Other	Reconciliation	Total
Net sales						
External customers	¥ 375,304	¥ 91,628	¥ 13,048	¥ 25,609	¥ -	¥ 505,589
Intersegment	208	4,504	3,737	15,081	(23,530)	-
Total net sales	¥ 375,512	¥ 96,132	¥ 16,785	¥ 40,690	(¥ 23,530)	¥ 505,589
Segment income	¥ 5,761	¥ 1,798	¥ 1,741	¥ 1,555	(¥ 897)	¥ 9,958
Segment assets	¥ 140,251	¥ 40,731	¥ 29,330	¥ 250,352	(¥ 125,434)	¥ 335,230
Other items						
Depreciation and amortisation	¥ 6,808	¥ 1,782	¥ 980	¥ 3,068	¥ -	¥ 12,638
Investment expenditures for affiliated companies accounted for by the equity method	-	-	-	405	-	405
Impairment loss	1,288	267	-	2	-	1,557
Increase in property, plant and equipment and intangibles	¥ 6,623	¥ 1,608	¥ 237	¥ 2,561	¥ -	¥ 11,029

As of and for the year ended 31st March 2013	Millions of yen					
	Department stores	Supermarkets	PM	Other	Reconciliation	Total
Net sales						
External customers	¥ 383,318	¥ 93,328	¥ 13,770	¥ 34,738	¥ -	¥ 525,154
Intersegment	355	4,452	3,732	17,151	(25,690)	-
Total net sales	¥ 383,673	¥ 97,780	¥ 17,502	¥ 51,889	(¥ 25,690)	¥ 525,154
Segment income	¥ 7,842	¥ 1,811	¥ 1,594	¥ 619	(¥ 1,196)	¥ 10,670
Segment assets	¥ 145,015	¥ 42,618	¥ 31,991	¥ 276,988	(¥ 137,288)	¥ 359,324
Other items						
Depreciation and amortisation	¥ 7,145	¥ 1,853	¥ 922	¥ 3,652	(¥ 60)	¥ 13,512
Investment expenditures for affiliated companies accounted for by the equity method	-	-	-	391	-	391
Impairment loss	968	318	-	303	(24)	1,565
Increase in property, plant and equipment and intangibles	¥ 22,791	¥ 3,919	¥ 1,834	¥ 4,647	(¥ 107)	¥ 33,084

As of and for the year ended 31st March 2013	Thousands of U.S. dollars					
	Department stores	Supermarkets	PM	Other	Reconciliation	Total
Net sales						
External customers	$ 4,077,851	$ 992,851	$ 146,489	$ 369,554	$ -	$ 5,586,745
Intersegment	3,777	47,362	39,702	182,457	(273,298)	-
Total net sales	$ 4,081,628	$ 1,040,213	$ 186,191	$ 552,011	($ 273,298)	$ 5,586,745
Segment income	$ 83,426	$ 19,266	$ 16,957	$ 6,585	($ 12,723)	$ 113,511
Segment assets	$ 1,542,713	$ 453,383	$ 340,330	$2,946,681	($1,460,511)	$ 3,822,596
Other items						
Depreciation and amortisation	$ 76,011	$ 19,713	$ 9,808	$ 38,851	($ 638)	$ 143,745
Investment expenditures for affiliated companies accounted for by the equity method	-	-	-	4,160	-	4,160
Impairment loss	10,298	3,383	-	3,223	(255)	16,649
Increase in property, plant and equipment and intangibles	$ 242,457	$ 41,691	$ 19,511	$ 49,436	($ 1,138)	$ 351,957

Note 1. Adjustment of segment income was (¥1,806) million, (¥897) million and (¥1,196) (($12,723) thousand) for the years ended 31st March, 2011, 2012 and 2013, respectively, and comprised the elimination of intersegment transactions. Adjustment of assets was (¥137,287) million, (¥125,434) million and (¥137,288) million (($1,460,511) thousand) and included (¥102,907) million, (¥101,815) million and (¥101,815) million (($1,083,138) thousand) offset elimination of investments and capital, (¥32,467) million, (¥21,624) million and (¥33,507) million (($356,457) thousand) offset elimination of debts and credits and (¥1,778) million, (¥1,743) million and (¥1,803) million (($19,181) thousand) adjustment for unrealised gains and losses on fixed assets for the years ended 31st March, 2011, 2012 and 2013, respectively. For the year ended 31st March 2013, adjustment of depreciation and amortisation amounting to (¥60) million (($638) thousand), adjustment of impairment loss amounting to (¥24) million (($255) thousand) and adjustment of increase in property, plant and equipment and intangibles amounting to (¥107) million (($1,138) thousand) comprised of the elimination of intersegment transactions.

2. Segment income is reconciled to operating income in the consolidated statements of income.

(Additional Information)
Effective from the fiscal year ended 31st March 2011, the Company has adopted “Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Statement No. 17, issued 27th March 2009) and “Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Guidance No. 20, issued 21st March 2008).

(Related Information)
Amortisation of goodwill and unamortised balance by reportable segments

	Millions of yen					
As of and for the year ended 31st March 2011	Department stores	Supermarkets	PM	Other	Reconciliation	Total
Goodwill						
Amortisation	¥ 503	¥ 507	¥ -	¥ -	¥ -	¥ 1,010
Unamortised balance	¥ 8,305	¥ 7,776	¥ -	¥ -	¥ -	¥ 16,081
Negative goodwill						
Amortisation	¥ -	¥ -	¥ 43	¥ -	¥ -	¥ 43
Unamortised balance	¥ -	¥ -	¥ 43	¥ -	¥ -	¥ -

	Millions of yen					
As of and for the year ended 31st March 2012	Department stores	Supermarkets	PM	Other	Reconciliation	Total
Goodwill						
Amortisation	¥ 503	¥ 507	¥ -	¥ 140	¥ -	¥ 1,150
Unamortised balance	¥ 7,802	¥ 7,269	¥ -	¥ 2,037	¥ -	¥ 17,108
Negative goodwill						
Amortisation	¥ -	¥ -	¥ 43	¥ -	¥ -	¥ 43
Unamortised balance	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -

	Millions of yen					
As of and for the year ended 31st March 2013	Department stores	Supermarkets	PM	Other	Reconciliation	Total
Goodwill						
Amortisation	¥ 503	¥ 507	¥ -	¥ 211	¥ -	¥ 1,221
Unamortised balance	¥ 7,298	¥ 6,762	¥ -	¥ 1,960	¥ -	¥ 16,020
Negative goodwill						
Amortisation	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -
Unamortised balance	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -

	Thousands of U.S. dollars					
As of and for the year ended 31st March 2013	Department stores	Supermarkets	PM	Other	Reconciliation	Total
Goodwill						
Amortisation	$ 5,351	$ 5,393	$ -	$ 2,245	$ -	$ 12,989
Unamortised balance	$ 77,639	$ 71,936	$ -	$ 20,851	$ -	$ 170,426
Negative goodwill						
Amortisation	$ -	$ -	$ -	$ -	$ -	$ -
Unamortised balance	$ -	$ -	$ -	$ -	$ -	$ -

12. Income Taxes

Income taxes consist of corporation, inhabitants and enterprise taxes.

Significant components of the Companies' deferred tax assets and liabilities as of 31st March 2011, 2012 and 2013 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2012	**2013**	**2013**
Deferred tax assets:				
Loss carryforwards	¥ 3,311	¥ 3,662	**¥ 4,061**	**$ 43,202**
Provision for redemption of gift certificates	721	670	**716**	**7,617**
Bonuses to employees	1,405	1,542	**1,306**	**13,894**
Retirement benefits	6,282	5,562	**4,495**	**47,819**
Loss on disposal of property, plant and equipment	472	415	**-**	**-**
Depreciation	60	45	**24**	**255**
Impairment loss	1,772	1,377	**657**	**6,989**
Provision for loss on store rebuilding	657	-	**-**	**-**
Retirement benefit trust assets	496	448	**455**	**4,840**
Provision for loss on store closing	276	170	**-**	**-**
Asset retirement obligations	111	537	**115**	**1,223**
Loss on liquidation of subsidiaries and affiliates	-	-	**416**	**4,426**
Other	4,071	4,263	**4,696**	**49,958**
	19,634	18,691	**16,941**	**180,223**
Valuation allowance	(902)	(583)	**(1,164)**	**(12,383)**
Total deferred tax assets	18,732	18,108	**15,777**	**167,840**
Deferred tax liabilities:				
Deferred gains on real property	(3,826)	(3,334)	**(3,037)**	**(32,309)**
Land revaluation of consolidated subsidiaries	(1,920)	(1,804)	**(1,819)**	**(19,351)**
Valuation gain on investment securities resulting from conversion of retirement benefit trust assets (equity securities)	(4,591)	(4,086)	**(4,086)**	**(43,468)**
Unrealised holding gains on securities	(360)	(3,605)	**(10,984)**	**(116,851)**
Other	(631)	(1,401)	**(535)**	**(5,691)**
Total deferred tax liabilities	(11,328)	(14,230)	**(20,461)**	**(217,670)**
Net deferred tax assets	¥ 7,404	¥ 3,878	**(¥ 4,684)**	**($ 49,830)**

Net deferred tax assets as of 31st March 2011, 2012 and 2013 were included in the consolidated balance sheets as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2012	**2013**	**2013**
Current assets	¥ 4,279	¥ 4,850	**¥ 6,117**	**$ 65,075**
Other noncurrent assets	10,624	9,575	**6,737**	**71,670**
Current liabilities	(4)	(1)	**(1)**	**(11)**
Long-term liabilities	(7,495)	(10,546)	**(17,537)**	**(186,564)**
Net deferred tax assets	¥ ¥7,404	¥ 3,878	**(¥ 4,684)**	**($ 49,830)**

Reconciliation of the differences between the statutory tax rate and the effective income tax rate was as follows:

	2011	2012	2013
Aggregate statutory income tax rate	40.0%	40.0%	38.0%
Increase (reduction) in taxes resulting from:			
Non-deductible expenses	4.3	3.7	1.1
Tax on inhabitants per capita	2.7	6.4	2.0
Permanent differences (including dividends)	(2.7)	(4.4)	(1.1)
Net operating loss carryforwards	(5.0)	13.3	3.8
Amortisation of consolidated goodwill	6.6	15.1	4.1
Timing difference in connection with investments	-	-	(3.7)
Gain on step acquisitions	-	(3.7)	-
Changes in valuation allowances	2.6	(8.1)	(0.2)
Effects of tax rate change	-	4.3	-
Others	(1.0)	(3.3)	1.5
Effective income tax rate	47.5	63.3	45.5

Adjustments on deferred tax assets and liabilities arising from changes in the corporate income tax rates
In accordance with the “Act for Partial Amendment of the Income Tax Act, etc. for the Purpose of Creating a Taxation System Responding to Changes in Economic and Social Structures” (Act No. 114 of 2011) and the “Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction Following the Great East Japan Earthquake” (Act No. 117 of 2011) promulgated on 2nd December 2012, the new corporate income tax rates apply for the consolidated fiscal years on or after 1st April 2012. As a result, the statutory income tax rate used for calculating deferred tax assets and liabilities changed from 40.0% to 38.0% for assets and liabilities expected to be recovered or settled after the consolidated fiscal years starting from 1st April 2012 and to 35.6% for those on or after 1st April 2015.

As a result of this change, for the year ended 31st March 2012, deferred tax assets under current assets decreased by ¥268 million, deferred tax liabilities under long-term liabilities decreased by ¥51 million, deferred tax liabilities related to land revaluation decreased by ¥38 million and minority interests decreased by ¥0 million from amounts that would have been reported without the change. On the other hand, deferred tax assets under noncurrent assets increased by ¥533 million, land revaluation and net unrealised holding gains on securities under accumulated other comprehensive income increased by ¥38 million and ¥440 million, respectively, and deferred income taxes expense increased by ¥123 million.

13. Net Assets

The Japanese Corporate Law (the“ Law”) became effective on 1st May 2006, replacing the Japanese Commercial Code (the“ Code”). The Law is generally applicable to events and transactions occurring after 30th April 2006 and for fiscal years ending after that date.

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 Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend 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 Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock. Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders’ meeting or could be capitalised by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders’ meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded

25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, 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 Law.

At the Board of Directors' meeting held on 9th May 2013, the Company resolved cash dividends amounting to ¥1,214 million ($12,915 thousand). These appropriations have not been accrued in the consolidated financial statements as of 31st March 2013. The appropriations were recognised on 3rd June 2013.

Stock information
Changes in number of shares issued and outstanding during the years ended 31st March 2011, 2012 and 2013 were as follows:

	Number of shares		
Common stock outstanding	2011	2012	**2013**
Balance at beginning of year	206,740,777	206,740,777	**206,740,777**
Balance at end of year	206,740,777	206,740,777	**206,740,777**

	Number of shares		
Treasury stock outstanding	2011	2012	**2013**
Balance at beginning of year	425,885	450,757	**12,571,631**
Increase due to gratuitous transfer of shares from Hankyu Hanshin Department Stores Kyoeikai	-	32,860,596	**-**
Increase due to purchase of odd-lot shares	30,047	10,278	**16,576**
Decrease due to disposal of shares through public subscription	-	20,000,000	**-**
Decrease due to disposal of shares by means of third-party allotment	-	750,000	**-**
Decrease due to sales of odd-lot shares	1,175	-	**1,792**
Decrease due to exercise of stock options	4,000	-	**3,000**
Balance at end of year	450,757	12,571,631	**12,583,415**

14. Other Comprehensive Income

The recycling and effect of deferred income tax on other comprehensive income for the years ended 31st March 2012 and 2013 were summarised as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Other comprehensive income			
Net unrealised holding gains on securities realised for the year	¥ 9,337	¥ **21,738**	$ **231,255**
Recycling	155	**(1,000)**	**(10,638)**
Amount before the effect of deferred income tax	9,492	**20,738**	**220,617**
Effect of deferred income tax	(3,250)	**(7,379)**	**(78,500)**
Net unrealised holding gains on securities	6,242	**13,359**	**142,117**
Revaluation reserve for land			
Effect of deferred income tax	38	**-**	**-**
Foreign currency translation adjustments realised for the year	(50)	**119**	**1,266**
Amount before the effect of deferred income tax	-	**119**	**1,266**
Effect of deferred income tax	-	**175**	**1,861**
Foreign currency translation adjustments	(50)	**294**	**3,127**
Total other comprehensive income	¥ 6,230	¥ **13,653**	$ **145,244**

15. Land Revaluation

In accordance with the Law Concerning Revaluation of Land, land used for business owned by two consolidated subsidiaries was revaluated. The unrealised gains and losses, net of deferred taxes, were excluded from the statement of income and reported as "Land revaluation, net of tax" in net assets, and the relevant deferred taxes were shown as "Deferred tax liabilities related to land revaluation" in liabilities at 31st March 2011, 2012 and 2013. Related information was as follows:

	Millions of yen			Thousands of U.S. dollars
Date of revaluations: 28th February 2002 and 31st March 2002	2011	2012	**2013**	**2013**
Book value of land after revaluation	¥ 2,386	¥ 2,386	¥ **2,386**	$ **25,383**
Market value of land	1,619	1,564	**1,557**	**16,564**
Difference	¥ 767	¥ 822	¥ **829**	$ **8,819**

16. Stock Options

(1) Outline of stock options

	Subscription rights to shares issued on March 2009 as stock options
Title and number of grantees	5 directors and 1 executive officer of the Company and 4 directors and 8 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (a)	92,000 common shares
Date of issue	31st March 2009
Exercise conditions	No provisions
Intended service period	No provisions
Exercise period	From 1st April 2009 to 31st March 2039

	Subscription rights to shares issued on March 2010 as stock options
Title and number of grantees	6 directors and 1 executive officer of the Company and 4 directors and 16 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (a)	165,000 common shares
Date of issue	31st March 2010
Exercise conditions	No provisions
Intended service period	No provisions
Exercise period	From 1st April 2010 to 31st March 2040

	Subscription rights to shares issued on March 2011 as stock options
Title and number of grantees	6 directors of the Company and 10 directors and 7 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (a)	194,000 common shares
Date of issue	31st March 2011
Exercise conditions	No provisions
Intended service period	No provisions
Exercise period	From 1st April 2011 to 31st March 2041

	Subscription rights to shares issued on February 2012 as stock options
Title and number of grantees	6 directors and 1 executive officer of the Company and 9 directors and 8 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (a)	199,000 common shares
Date of issue	29th February 2012
Exercise conditions	No provisions
Intended service period	No provisions
Exercise period	From 1st March 2012 to 28th February 2042

	Subscription rights to shares issued on March 2013 as stock options
Title and number of grantees	6 directors of the Company and 8 directors and 9 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (a)	198,000 common shares
Date of issue	31st March 2013
Exercise conditions	No provisions
Intended service period	No provisions
Exercise period	From 1st April 2013 to 31st March 2043

(a) Number of shares means total shares to be issued upon exercise of subscription rights to shares.

(2) Scale and changes in stock options
The following table describes scale and changes in stock options that existed during the fiscal years ended 31st March 2011, 2012 and 2013. The number of stock options is translated into number of shares.

	Subscription rights to shares issued on				
	March 2009 as stock options	March 2010 as stock options	March 2011 as stock options	February 2012 as stock options	March 2013 as stock options
In the year ended 31st March 2011:					
Before vested					
As of 31st March 2010	-	-	-	-	-
Granted	-	-	194,000	-	-
Forfeited	-	-	-	-	-
Vested	-	-	194,000	-	-
Outstanding	-	-	-	-	-
After vested					
As of 31st March 2010	92,000	165,000	-	-	-
Vested	-	-	194,000	-	-
Exercised	-	4,000	-	-	-
Forfeited	-	-	-	-	-
Outstanding	92,000	161,000	194,000	-	-
In the year ended 31st March 2012:					
Before vested					
As of 31st March 2011	-	-	-	-	-
Granted	-	-	-	199,000	-
Forfeited	-	-	-	-	-
Vested	-	-	-	199,000	-
Outstanding	-	-	-	-	-
After vested					
As of 31st March 2011	92,000	161,000	194,000	-	-
Vested	-	-	-	199,000	-
Exercised	-	-	-	-	-
Forfeited	-	-	-	-	-
Outstanding	92,000	161,000	194,000	199,000	-
In the year ended 31st March 2013:					
Before vested					
As of 31st March 2012	-	-	-	-	-
Granted	-	-	-	-	198,000
Forfeited	-	-	-	-	-
Vested	-	-	-	-	198,000
Outstanding	-	-	-	-	-
After vested					
As of 31st March 2012	92,000	161,000	194,000	199,000	-
Vested	-	-	-	-	198,000
Exercised	3,000	-	-	-	-
Forfeited	-	-	-	-	-
Outstanding	89,000	161,000	194,000	199,000	198,000

Price information

	Subscription rights to shares issued on				
	March 2009 as stock options	March 2010 as stock options	March 2011 as stock options	February 2012 as stock options	March 2013 as stock options
In the year ended 31st March 2011:					
Exercise price	¥1	¥1	¥1	-	-
Average exercise price	-	¥520	-	-	-
Fair value at the grant date	¥493	¥568	¥492	-	-

In the year ended 31st March 2012:					
Exercise price	¥1	¥1	¥1	¥1	-
Average exercise price	-	-	-	-	-
Fair value at the grant date	¥493	¥568	¥492	¥550	-

In the year ended 31st March 2013:					
Exercise price	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)
Average exercise price	¥797 ($8)	-	-	-	-
Fair value at the grant date	¥493 ($5)	¥568 ($6)	¥492 ($5)	¥550 ($6)	¥966 ($10)

(3) Valuation method for estimating per share fair value of stock options
Valuation technique used for valuating fair value of subscription rights to shares issued on fiscal years ended 31st March 2011, 2012 and 2013 as stock options is as follows:
Valuation method used: Adjusted Black-Scholes option-pricing model

Principal parameters and estimation methods	March 2011 as stock options	February 2012 as stock options	March 2013 as stock options
Expected volatility of the underlying stock (Note 1)	34.60%	32.90%	28.76%
Remaining expected life of the option (Note 2)	6 years	5 years	4 years
Expected dividends on the stock (Note 3)	¥12.5 per share	¥12.5 per share	¥12.5 ($0.13) per share
Risk-free interest rate during the expected option term (Note 4)	0.63%	0.32%	0.081%

Note 1. In the fiscal year ended 31st March 2011, the fair value of stock options was calculated on the basis of the Company's weekly share price movements over the period from 1st October 2007 to 21st March 2011 (the period from 31st March 2005 to 21st March 2011 except the period from 31st March 2005 to 30th September 2007). This period corresponds to the estimated remaining life of the stock options. In the fiscal year ended 31st March 2012, the fair value of stock options was calculated on the basis of the Company's weekly share price movements over the period from 1st October 2007 to 20th February 2012. This period corresponds to the estimated remaining life of the stock options. In the fiscal year ended 31st March 2013, the fair value of stock options was calculated on the basis of the Company's weekly share price movements over 4 years from April 2009 to March 2013.

2. This period has been calculated utilising the average period of service for directors (or executive officers) of the Company and the average period from appointment as director (or executive officer) to the issuing date of the stock options.

3. For the years ended 31st March 2011 and March 2012, it is based on projections as of March 2010 and March 2011. For the year ended 31st March 2013, it is based on the actual dividends paid in the latest 4 years.

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

(4) Estimation method for number of vested share subscription rights
All of the share subscription rights were vested when granted.

17. Compensation Income

Compensation income has arisen in connection with shutting down Mosaic Ginza Hankyu.

18. Gain on Reversal of Asset Retirement Obligations

The gain on reversal of asset retirement obligations in the year ended 31st March 2011 was the difference between the estimated and actual expenses on the closing of Shijo Kawaramachi Hankyu.

19. Compensation for Transfer

Compensation for transfer in the year ended 31st March 2011 was for the Awaji Hankyu Family Store's property transferred due to land readjustment in the area surrounding Hankyu Awaji Station.

20. Loss on Store Rebuilding

Loss on store rebuilding in the year ended 31st March 2011 consisted of a loss of ¥376 million on Hankyu Oimachi Garden opening (Phase II) rebuilding.
Loss on store rebuilding in the year ended 31st March 2012 consisted of a loss of ¥292 million resulting from Hankyu Oimachi Garden opening (Phase II) rebuilding.

21. Loss on Store Closing

Loss on store closing in the year ended 31st March 2011 consisted of a loss of ¥1,066 million for the closing of Sannomiya Hanshin Food Hall, Hankyu Hanshin Department Stores, Inc. and a loss of ¥1,019 million for the Hanshin Mikage store floor area reduction, Hankyu Hanshin Department Stores, Inc. This amount includes provision for loss on store closing of ¥689 million.

Loss on store closing in the year ended 31st March 2012 consisted of a loss of ¥1,766 million for the closing of Kobe Hankyu, Hankyu Hanshin Department Stores, Inc. This amount includes impairment losses of ¥1,288 million.

Loss on store closing in the year ended 31st March 2013 consisted of a loss of ¥888 million ($9,447 thousand) for the closing of Hankyu Ings store, ¥160 million ($1,702thousand) for Tsuzuki Hankyu in connection with a large-scale renovation, ¥304 million ($3,234 thousand) for Mosaic Ginza Hankyu and ¥290 million ($3,085 thousand) for others. This amount includes impairment losses of ¥944 million ($10,043 thousand).

22. Impairment Losses

The Companies recorded impairment losses in the year ended 31st March 2011 as follows:

Company	Asset Group	Use	Type of Assets	Location	Millions of yen
Hankyu Hanshin Department Stores, Inc.	Hanshin Mikage, Sannomiya Hanshin Food Hall and other	Store	Buildings and structures, machinery and equipment	Nada-ku, Kobe City and other	¥374
Hanshoku Co., Ltd	Fushimi store and other	Store	Buildings and structures, machinery and equipment	Hushimi-ku, Kyoto City and other	¥200
Hankyu Shopping Center Development Co., Ltd. and other	Canmeet Kawasaki and other	Store	Buildings and structures, machinery and equipment	Kawasaki-ku, Kawasaki City and other	¥13

With a view toward improving financial soundness, the Company recognised impairment losses on Hankyu Hanshin Department Store’s Sannomiya Hanshin Food Hall closing, on Hanshin Mikage reduction in shop floor space, and on Hanshoku Co., Ltd. and Hankyu Shopping Center Development Co., Ltd. due to their harsh earnings environments resulting from increased competition. The recoverable amounts of the assets are the present values of expected cash flows from on-going utilisation and subsequent disposal of the assets based on a discount rate of 5%. As a result, ¥587 million was recorded as total impairment losses. Of this amount, the ¥330 million for Hanshin Mikage and ¥31 million for Sannomiya Hanshin Food Hall are shown inclusive of loss on store closing and loss on adjustment for changes in accounting standard for asset retirement obligations.

The Companies recorded impairment losses in the year ended 31st March 2012 as follows:

Company	Asset Group	Use	Type of Assets	Location	Millions of yen
Hankyu Hanshin Department Stores, Inc.	Kobe Hankyu	Store	Buildings and structures	Chuo-ku, Kobe City	¥1,288
Hanshoku Co., Ltd and other	Higashikagaya store and other	Store	Buildings and structures, machinery and equipment	Suminoe-ku, Osaka City and other	¥269

The Company recognised impairment losses on Hankyu Hanshin Department Store's Kobe Hankyu (closed on 11th March 2012) for the amount capitalised as restoration costs (asset retirement obligations) based on a reasonable estimate. The Company also recognised impairment losses on Hanshoku Co., Ltd. and other for its harsh earnings environments resulting from increased competition. The recoverable amounts of the assets are the present values of expected cash flows from on-going utilisation and subsequent disposal of the assets based on a discount rate of 5%. As a result, ¥1,557 million was recorded as total impairment losses. Of this amount, the impairment losses for Hankyu Hanshin Department Stores, Inc. are shown inclusive of loss on store closing.

The Companies recorded impairment losses in the year ended 31st March 2013 as follows:

Company	Asset Group	Use	Type of Assets	Location	Millions of yen	Thousands of U.S. dollars
Hankyu Hanshin Department Stores, Inc.	Hankyu Ings store and other	Store	Buildings and structures, machinery and equipment and other	Kita-ku, Osaka City and other	¥944	$10,043
Hanshoku Co., Ltd and other	Sumiyoshi store and other	Store	Buildings and structures, machinery and equipment and other	Sumiyoshi-ku, Osaka City and other	¥318	$3,383
KAZOKUTEI CO., LTD. and other	Tokutoku Tawaramoto store and other	Store	Buildings and structures and other	Shiki-gun, Nara Prefecture and other	¥303	$3,223

On September 2012, the Company decided to move the sales floors of sporting goods and baby & kids wears of Hankyu Ings store to Hankyu Umeda main store upon the grand opening on November 2012 and to close Hankyu Ings store. Thus, the Company recognised impairment losses on Hankyu Ings store on September 2012.

The Company also recognised impairment losses on some stores of Hanshoku Co., Ltd., KAZOKUTEI CO., LTD. and other for its harsh earnings environments resulting from increased competition. The recoverable amounts of the assets are the present values of expected cash flows from on-going utilisation and subsequent disposal of the assets based on a discount rate of 5%. As a result, ¥1,565 million ($16,649 thousand) was recorded as total impairment losses. Of this amount, the impairment losses for Hankyu Hanshin Department Stores, Inc. is shown inclusive of loss on store closing.

23. Loss on Disposal of Property, Plant, Equipment and Intangibles

Loss on disposal of property, plant, equipment and intangibles in the year ended 31st March 2011 consisted of losses of ¥372 million on disposal of buildings and structures, losses of ¥5 million on disposal of machinery and equipment, losses of ¥10 million on disposal of intangibles and losses of ¥79 million on disposal of other assets.

Loss on disposal of property, plant, equipment and intangibles in the year ended 31st March 2012 consisted of losses of ¥559 million on disposal of buildings and structures, losses of ¥7 million on disposal of machinery and equipment, losses of ¥1 million on disposal of intangibles and losses of ¥96 million on disposal of other assets.

Loss on disposal of property, plant, equipment and intangibles in the year ended 31st March 2013 consisted of losses of ¥1,421 million ($15,117 thousand) on disposal of buildings and structures, losses of ¥47 million ($500 thousand) on disposal of machinery and equipment and losses of ¥179 million ($1,904 thousand) on disposal of other assets.

24. Reduction in Book Value of Inventories

Reduction in book value of inventories held for ordinary sale due to a decline in profitability in the years ended 31st March 2011, 2012 and 2013 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2012	**2013**	**2013**
Cost of sales	¥ 181	¥ 135	¥ **205**	$ **2,181**

25. Expenses for opening new stores

Expenses for opening new stores in the year ended 31st March 2011 consisted of expenses of ¥1,140 million for opening of the Hakata Hankyu store and expenses of ¥545 million for the opening of Hankyu Oimachi Garden (Phase I).

Expenses for opening new stores in the year ended 31st March 2013 were incurred in conection with the grand opening of Hankyu Umeda Main Store.

26. Gain on sales of property, plant and equipment

Gain on sales of property, plant and equipment in the year ended 31st March 2013 consisted of gains on sales of land, buildings and structures and other held by H2O Retailing Corporation in Chayamachi, Osaka.

27. Loss on sales of property, plant and equipment

Loss on sales of property, plant and equipment in the year ended 31st March 2013 consisted of loss on sales of land, buildings and structures and other held by Kazokutei Co., Ltd.

28. Cash Flow Information

The reconciliation of cash on hand and in banks shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of 31st March 2011, 2012 and 2013 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2012	**2013**	**2013**
Cash on hand and in banks	¥ ¥42,150	¥ 17,823	¥ **15,136**	$ **161,021**
MMF including securities account	0	0	**0**	**0**
Total	42,150	17,823	**15,136**	**161,021**
Time deposits with maturities exceeding three months	(10,024)	(53)	**(53)**	**(564)**
Cash and cash equivalents	¥ ¥32,126	¥ 17,770	¥ **15,083**	$ **160,457**

Major components of the assets and liabilities of the Companies that have been included in consolidation due to acquisition of stocks
In the year ended 31st March 2012
The following assets and liabilities have been included in consolidation as a result of acquisition of stocks. The relationship between the acquisition price and the net disbursements for the acquisition is as follows:

	Millions of yen
KAZOKUTEI CO., LTD.	2012
Current assets	¥ 1,355
Noncurrent assets	6,505
Goodwill	692
Current liabilities	(1,663)
Noncurrent liabilities	(1,785)
Minority interests	(1,172)
Acquisition cost of the Company's stock	3,932
Cash and cash equivalents held by the Company	(363)
Diff: Disbursements to acquire the Company	¥ 3,569

	Millions of yen
EveryD.com, Inc. (presently Hankyu OrangeLife, Inc.)	2012
Current assets	¥ 1,215
Noncurrent assets	365
Goodwill	1,367
Current liabilities	(735)
Noncurrent liabilities	(208)
Minority interests	(134)
Acquisition cost of the Company's stock	1,870
Carrying value under the equity method	(188)
Gain on step acquisition	(261)
Cash and cash equivalents held by the Company	(537)
Diff: Disbursements to acquire the Company	¥ 884

Important noncash transactions are as follows:
In the year ended 31st March 2011, effective from fiscal 2010, the Company has adopted "Accounting Standard for Asset Retirement Obligations" and "Guidance on Accounting Standard for Asset Retirement Obligations." As a result, at the end of fiscal 2010, buildings and structures were ¥63 million more and asset retirement obligations ¥271 million more than the amounts that would have been reported without the change.

In the year ended 31st March 2012, asset retirement obligations of ¥1,252 million were recorded due to the store closing of Kobe Hankyu of Hankyu Hanshin Department Stores, Inc. In addition, the reversal of provision for loss on the store rebuilding following the launch of the Phase II construction of the Hankyu Oimachi Garden offset fixed assets. The amount of offset was ¥1,189 million.

In the year ended 31st March 2013, the disclosure is omitted due to its immateriality.

29. Financial Instruments

1. Matters related to financial instruments

(1) Policies for Financial Instruments

In accordance with its capital investment plan, the Group procures needed funds primarily through loans from banks and the issuance of bonds. Temporary surplus funds are invested in highly secure financial assets. Derivative transactions are carried out within 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 and operating receivables are subject to credit risk. Securities and investment securities are subject to market price volatility risk.

Notes and accounts payable, an operating payable, are almost all subject to payment deadlines of one year or less. Long-term loans and corporate bonds are for the purpose of procuring needed funds mainly for capital investment. Their repayment deadlines are at most seven years and two months after the closing of accounts. Some of them are subject to interest rate risk because of variable interest rates. Moreover, notes and accounts payable, operating payables and long-term loans are subject to the liquidity risk of the inability to make payment by the payment due date.

(3) Risk management system for financial instruments

① Management of credit risk (risk of customer default on contracts)

At Hankyu Hanshin Department Stores, Inc., a consolidated subsidiary, the management of each business unit cooperates with the accounting office concerning notes and accounts receivable, operating receivables, according to sales management guidelines and routinely monitors the status of key customers by managing due dates and balances for each customer. The 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 in the way described above.

② Management of interest rate risk

To limit the risk of fluctuation in interest rate payments for long-term debt and corporate bonds, the Company conducts interest rate swap transactions only with major and highly trusted financial institutions according to derivative management guidance.

③ Management of price volatility risk

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

④ Management of liquidity risk

The Company and Hankyu Hanshin Department Stores, Inc. manage liquidity risk for accounts payable and long-term debt 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 consolidated balance sheets for the fiscal years ended 31st March 2011, 2012 and 2013 (the consolidated closing date for the reporting term) and fair values and differences between them are set forth in the table below. Figures for which fair value was not readily determinable were not included in the following chart (See Table 2, "Financial instruments whose fair value is not readily determinable").

	Millions of yen		
	2011		
	Book value	Fair value	Difference
(1) Cash on hand and in banks	¥42,150	¥42,150	¥ -
(2) Notes and accounts receivable - trade	18,995		
Allowance for doubtful receivables	(55)		
	18,940	18,940	-
(3) Notes and accounts receivable - other	2,702		
Allowance for doubtful receivables	(2)		
	2,700	2,700	-
(4) Securities and investment securities			
Other securities	49,014	49,014	-
Total assets	112,804	112,804	-
(1) Notes and accounts payable - trade	32,517	32,517	-
(2) Long-term debt - corporate bonds*	20,000	19,950	(50)
(3) Current accounts payable (included in notes and accounts payable - other and income taxes payable)	18,933	18,933	-
(4) Long-term debt - long-term loans*	40,755	40,578	(177)
Total liabilities	¥112,205	¥111,978	(¥227)

	Millions of yen		
	2012		
	Book value	Fair value	Difference
(1) Cash on hand and in banks	¥17,823	¥17,823	¥ -
(2) Notes and accounts receivable - trade	19,979		
Allowance for doubtful receivables	(40)		
	19,939	19,939	-
(3) Notes and accounts receivable - other	2,545		
Allowance for doubtful receivables	(2)		
	2,543	2,543	-
(4) Securities and investment securities			
Other securities	58,408	58,408	-
Total assets	98,713	98,713	-
(1) Notes and accounts payable-trade	32,444	32,444	-
(2) Current accounts payable (included in notes and accounts payable - other and income taxes payable)	8,115	8,115	-
(3) Long-term debt - long term loans*	42,208	42,355	147
Total liabilities	¥82,767	¥82,914	¥147

	Millions of yen			Thousands of U.S. dollars		
	2013			2013		
	Book value	Fair value	Difference	Book value	Fair value	Difference
(1) Cash on hand and in banks	¥15,136	¥15,136	¥ -	$161,021	$161,021	$ -
(2) Notes and accounts receivable-trade	22,960			244,255		
Allowance for doubtful receivables	(63)			(670)		
	22,897	22,897	-	243,585	243,585	-
(3) Notes and accounts receivable - other	2,936			31,234		
Allowance for doubtful receivables	(2)			(21)		
	2,934	2,934	-	31,213	31,213	-
(4) Securities and investment securities						
Other securities	81,641	81,641	-	868,521	868,521	-
Total assets	122,608	122,608	-	1,304,340	1,304,340	-
(1) Notes and accounts payable - trade	35,960	35,960	-	382,553	382,553	-
(2) Current accounts payable (included in notes and accounts payable - other and income taxes payable)	7,286	7,286	-	77,511	77,511	-
(3) Long-term debt - long term loans*	41,790	41,927	137	444,574	446,032	1,458
Total liabilities	¥85,036	¥85,173	¥137	$904,638	$906,096	$1,458

* Figures shown include long-term debt with repayment due dates of one year or less.

Note 1. Matters related to the methods for calculating fair value of financial instruments

Assets

(1) Cash on hand and in banks, (2) Notes and accounts receivable - trade, and (3) Notes and accounts receivable - other
Because these items have short repayment periods, fair value approximates book value. Therefore, book value shall be the fair value.

(4) Securities and investment securities
Fair value of these securities depends on their stock market price. The fair value of bonds depends on their market price or the price submitted by the correspondent financial institution.

Liabilities

(1) Notes and accounts payable - trade and (2) Current accounts payable
Because these items have short payment periods, fair value approximates book value. Therefore, book value shall be the fair value.

(3) Long-term debt - long-term loans
Fair value of long-term loans is determined by discounting the current value at the assumed applicable interest rates for new loans taken with the same total principal and interest. Long-term loans that are based on variable 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 shall be the fair value.

2. Financial instruments whose fair value is not readily determinable
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.

	Millions of yen			Thousands of U.S. dollars
	2011	**2012**	**2013**	**2013**
	Book value	Book value	Book value	Book value
Unlisted shares	**¥6,159**	**¥6,099**	**¥5,999**	**$63,819**
Long-term leasehold deposits	**56,248**	**57,373**	**47,609**	**506,479**
Guarantee deposits	**6,268**	**5,871**	**5,671**	**60,330**

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

	Millions of yen			
2011	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	**¥42,150**	**¥-**	**¥-**	**¥-**
Notes and accounts receivable - trade	**18,995**	**-**	**-**	**-**
Notes and accounts receivable - other	**2,702**	**-**	**-**	**-**
Securities and investment securities				
Other securities with maturity (government bonds)	**-**	**-**	**300**	**-**
Other securities with maturity (corporate bonds)	**-**	**100**	**-**	**-**
Total	**¥63,847**	**¥100**	**¥300**	**¥-**

	Millions of yen			
2012	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	**¥17,823**	**¥-**	**¥-**	**¥-**
Notes and accounts receivable - trade	**19,979**	**-**	**-**	**-**
Notes and accounts receivable - other	**2,545**	**-**	**-**	**-**
Securities and investment securities				
Other securities with maturity (government bonds)	**-**	**-**	**300**	**-**
Other securities with maturity (corporate bonds)	**100**	**-**	**-**	**20**
Total	**¥40,447**	**¥-**	**¥300**	**¥20**

2013	Millions of yen Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years	Thousands of U.S. dollars Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	¥15,136	¥-	¥-	¥-	$161,021	$ -	$ -	$ -
Notes and accounts receivable - trade	22,960	-	-	-	244,255	-	-	-
Notes and accounts receivable - other	2,936	-	-	-	31,234	-	-	-
Securities and investment securities								
Other securities with maturity (government bonds)	-	-	300	-	-	-	3,191	-
Other securities with maturity (corporate bonds)	-	2,260	-	20	-	24,043	-	213
Total	¥41,032	¥2,260	¥300	¥20	$436,510	$24,043	$3,191	$213

4. Expected proceeds from redemption after the balance sheet date for corporate bonds, long-term loans and other interest bearing debts

2011	Millions of yen 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
Long-term debt - corporate bonds	¥20,000	¥ -	¥ -	¥ -	¥-	¥ -
Long-term debt - long-term loans	166	166	166	35,166	5,091	-
Lease obligations	65	65	63	61	61	805
Total	¥20,231	¥231	¥229	¥35,227	¥5,152	¥805

2012	Millions of yen 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
Long-term debt - corporate bonds	¥36	¥35	¥ -	¥ -	¥-	¥ -
Long-term debt - long-term loans	651	243	35,306	5,314	502	192
Lease obligations	129	122	110	91	79	757
Total	¥816	¥400	¥35,416	¥5,405	¥581	¥949

2013	Millions of yen 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
Long-term debt - corporate bonds	¥35	¥ -	¥ -	¥ -	¥-	¥ -
Long-term debt - long-term loans	580	35,316	5,496	124	35	239
Lease obligations	309	280	247	213	153	1,290
Total	¥924	¥35,596	¥5,743	¥337	¥188	¥1,529

2013	Thousands of U.S. dollars 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
Long-term debt - corporate bonds	$372	$ -	$ -	$ -	$ -	$ -
Long-term debt - long-term loans	6,170	375,702	58,468	1,319	372	2,543
Lease obligations	3,287	2,979	2,628	2,266	1,628	13,723
Total	$9,829	$378,681	$61,096	$3,585	$2,000	$16,266

30. Asset retirement obligations

Asset retirement obligations that are recorded on the consolidated balance sheets

1. Outline of the asset retirement obligations
The obligation to restore property to its original state pursuant to a real estate lease agreement for store property, etc.

2. Calculation method for asset retirement obligations
For the fiscal years ended 31st March 2012 and 2013, an estimated period of use of 2-30 years (3-20 years in 2011) and a discount rate of 0.2%-2.2% (1.3%-2.2% in 2011) were used to calculate the amount of the asset retirement obligation.

3. Changes in the total amount of the asset retirement obligations for the fiscal years ended 31st March 2011, 2012 and 2013
For the fiscal year ended 31st March 2012, it became possible for the Company to determine the restoration and abandonment costs of Kobe Hankyu of Hankyu Hanshin Department Stores, Inc. Thus, the amount of ¥1,288 was additionally provided as asset retirement obligations.

For the fiscal year ended 31st March 2013, it became possible for the Company to determine the restoration and abandonment costs of Hankyu Ings store, which was closed on 18th November 2012, of Hankyu Hanshin Department Stores, Inc. Thus, the amount of ¥384 million ($4,085 thousand) was additionally provided as asset retirement obligations.

Moreover, the amount of ¥150 million ($1,596 thousand) was provided as asset retirement obligations since it also became possible to determine the restoration and abandonment costs in connection with a large-scale renovation of Tsuzuki Hankyu. The decrease due to fulfillment of asset retirement obligations was due to Kobe Hankyu, for which the obligation was accounted for primarily the last fiscal year, and Hankyu Ings store and Tsuzuki Hankyu, for which the obligations were accounted for this fiscal year.

Changes in the balances are as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2012	2013	2013
Balance at beginning of year[1]	¥1,007	¥271	¥1,488	$15,830
Increase due to estimate changes	79	1,596	583	6,202
Increase due to acquisition of property, plant and equipment	43	9	66	702
Increase due to increase in the number of consolidated subsidiaries	-	66	-	-
Adjustments with passage of time	5	3	5	53
Decrease due to fulfilment of asset retirement obligations[2]	(863)	(457)	(1,828)	(19,447)
Balance at end of year	¥271	¥1,488	¥314	$3,340

Notes
1. This was the balance at the beginning of the fiscal year resulting from the Company's adoption from the fiscal year ended 31st March 2011 of “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No. 18, issued 31st March 2008) and “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21, issued 31st March 2008).

2. Because the expense for restoring Shijo Kawaramachi Hankyu, a store of Hankyu Hanshin Department Stores, Inc., to its original state had been fixed, the ¥402 million difference between the fixed amount and the estimated amount was transferred to gain on reversal of asset retirement obligations for the fiscal year ended 31st March 2011.

31. Related Party Transactions

In the year ended 31st March 2011

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

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	Term-end balance
Director or Corporate Auditor	Hideyuki Takai	-	-	Corporate Auditor for the Company, President of TOHO CO., LTD.	7.33% of shares held by the Company	Rental of real estate	Rental fees	¥2,010 million	Prepaid expenses	¥181 million
							Common service charges	¥271 million	-	-
							Fees for display of signs, etc.	¥10 million	Prepaid expenses	¥0 million
							Lease deposits	-	Long-term leasehold deposits	¥3,266 million
Companies in which the director, the corporate auditor or his immediate family own a majority of voting rights	Osaka Chuo Shokuryo	Ibaraki City, Osaka	¥10 million	Food wholesaling	-	Materials procurement	Purchases of foodstuffs for processing	¥18 million	Notes and accounts payable - trade	¥2 million

Business terms and policies for determination of business terms

Note 1. Transactions are conducted under third-party beneficiary contracts.

2. Transaction amounts are exclusive of consumption taxes; term-end balances (exclusive of guarantee money paid) include consumption taxes.

3. Rents for buildings are determined by current market rates.

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

5. Immediate family members of Director Shigeru Yasukawa of H_2O RETAILING CORPORATION and Hankyu Hanshin Department Stores, Inc., a subsidiary of the Company, held 100% of the voting rights in Osaka Chuo Shokuryo.

(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	Term-end 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 fees	¥4,330 million	Prepaid expenses	¥122 million
									Notes and accounts payable-other	¥11 million
									Accrued expenses	¥189 million
							Deposit of guarantee money	¥5 million	Long-term leasehold deposits	¥22,639 million
							Return of guarantee money	¥147 million		
	HANSHIN ELECTORIC RAILWAY CO., LTD.	Fukushima-ku, Osaka City	¥ 29,384 million	Railway operations, real estate rental and dealership operations, sports business, travel business	14.40% shares of the Company directly held	Same person serving concurrently as director or corporate auditor for both parties, Rental of real estate	Rental fees	¥5,024 million	Prepaid expenses	¥1 million
									Accrued expenses	¥558 million
							Fees for display of signs, etc.	¥18 million	-	-
							Deposits	-	Long-term leasehold deposits	¥2,560 million

Business terms and policies for determination of business terms

Note 1. Transaction amounts are exclusive of consumption taxes; term-end balances (exclusive of guarantee money deposited) include consumption taxes.

2. Rents for buildings are determined by current market rates.

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

In the year ended 31st March 2012

Transactions with related parties

(1) Transactions between 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

Classification	Name of company or individual	Location	Capital or invest-ment	Occupation or business lines	Ownership of voting rights (%)	Nature of relation-ship	Nature of transactions	Value of transac-tions	Accoun-ting designa-tion	Term-end balance
Major individual shareholders	Hankyu Hanshin Department Stores Kyoeikai (Chairman Mineo Imamura)	Kita-ku, Osaka City	-	Employee's welfare association of Hankyu Hanshin Department Stores, Inc.	16.03% shares of the Company directly held	None	Gratuitous transfer of treasury stock (32,860,596 stocks)	-	-	-

Note 1. On 30th June 2011, the Company obtained all of the Company's shares held by Hankyu Hanshin Department Stores Kyoeikai (Chairman Mineo Imamura) through gratuitous transfer. Thus, Hankyu Hanshin Department Stores Kyoeikai became no longer a related party of the Company. "Ownership of voting rights" reflects the ownership before the transfer of shares.

(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

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	Term-end balance
Director or Corporate Auditor	Hideyuki Takai	-	-	Corporate Auditor for the Company, President of TOHO CO., LTD.	7.37% of shares held by the Company	Rental of real estate	Rental fees	¥173 million	Prepaid expenses	¥181 million
							Common service charges	¥23 million	-	-
							Fees for display of signs, etc.	¥1 million	Prepaid expenses	¥1 million
							Lease deposits	-	Long-term leasehold deposits	¥3,266 million
Companies in which the director, the corporate auditor or his immediate family own a majority of voting rights	Osaka Chuo Shokuryo	Ibaraki City, Osaka	¥10 million	Food wholesaling	-	Materials procurement	Purchases of foodstuffs for processing	¥17 million	Notes and accounts payable - trade	¥1 million

Business terms and policies for determination of business terms

Note 1. Transactions are conducted under third-party beneficiary contracts.

2. Transaction amounts are exclusive of consumption taxes; term-end balances (exclusive of guarantee money paid) include consumption taxes.
3. Rents for buildings are determined by current market rates.
4. All other matters are determined according to general terms and conditions.
5. Hideyuki Takai retired as President of TOHO CO., LTD. and took office as an advisor on 26th May 2011. The amounts in "Value of transactions" reflect amounts of transactions during his administration as President and those in "Term-end balance" reflect balances as of the date of his retirement.
6. Immediate family members of Director Shigeru Yasukawa of H2O RETAILING CORPORATION and Hankyu Hanshin Department Stores, Inc., a subsidiary of the Company, held 100% of the voting rights in Osaka Chuo Shokuryo.

(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	Term-end 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 fees	¥4,381 million	Prepaid expenses	¥149 million
									Notes and accounts payable-other	¥14 million
									Accrued expenses	¥139 million
							Fees for display of signs, etc.	¥6 million	Prepaid expenses	¥0 million
							Deposits of guarantee money	¥29 million	Long-term leasehold deposits	¥22,699 million
							Return of guarantee money	¥167 million		
	HANSHIN ELECTORIC RAILWAY CO., LTD.	Fukushima-ku, Osaka City	¥29,384 million	Railway operations, real estate rental and dealership operations, sports business, travel business	15.30% shares of the Company directly held	Same person serving concurrently as director or corporate auditor for both parties, Rental of real estate	Rental fees	¥4,977 million	Prepaid expenses	¥2 million
									Accrued expenses	¥521 million
							Fees for display of signs, etc.	¥18 million	-	-
							Deposits	-	Long-term leasehold deposits	¥2,583 million

Business terms and policies for determination of business terms

Note 1. Transaction amounts are exclusive of consumption taxes; term-end balances (exclusive of guarantee money deposited) include consumption taxes.
2. Rents for buildings are determined by current market rates.
3. All other matters are determined according to general terms and conditions.

In the year ended 31st March 2013

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

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	Term-end balance
Companies in which the director, the corporate auditor or his immediate family own a majority of voting rights	Osaka Chuo Shokuryo	Ibaraki City, Osaka	¥10 million ($106 thousand)	Food wholesaling	-	Materials procurement	Purchases of foodstuffs for processing	¥12 million ($128 thousand)	Notes and accounts payable - trade	¥1 million ($11 thousand)

Business terms and policies for determination of business terms

Note 1. Transactions are conducted under third-party beneficiary contracts.

2. Transaction amounts are exclusive of consumption taxes; term-end balances (exclusive of guarantee money paid) include consumption taxes.

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

4. Immediate family members of Director Shigeru Yasukawa of H2O RETAILING CORPORATION and Hankyu Hanshin Department Stores, Inc., a subsidiary of the Company, held 100% of the voting rights in Osaka Chuo Shokuryo.

(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>Term-end balance</th></tr>
<tr><td rowspan="10">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 ($1,064 thousand)</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="3">Rental fees</td><td rowspan="3">¥5,762 million ($61,298 thousand)</td><td>Prepaid expenses</td><td>¥143 million ($1,521 thousand)</td></tr>
<tr><td>Notes and accounts payable-other</td><td>¥11 million ($117 thousand)</td></tr>
<tr><td>Accrued expenses</td><td>¥89 million ($947 thousand)</td></tr>
<tr><td>Fees for display of signs, etc.</td><td>¥7 million ($74 thousand)</td><td>Prepaid expenses</td><td>¥0 million ($0 thousand)</td></tr>
<tr><td>Deposits of guarantee money</td><td>¥513 million ($5,457 thousand)</td><td rowspan="2">Long-term leasehold deposits</td><td rowspan="2">¥21,538 million ($229,128 thousand)</td></tr>
<tr><td>Return of guarantee money</td><td>¥1,674 million ($17,809 thousand)</td></tr>
<tr><td rowspan="4">HANSHIN ELECTORIC RAILWAY CO., LTD.</td><td rowspan="4">Fukushima-ku, Osaka City</td><td rowspan="4">¥29,384 million ($312,596 thousand)</td><td rowspan="4">Railway operations, real estate rental and dealership operations, sports business, travel business</td><td rowspan="4">15.30% shares of the Company directly held</td><td rowspan="4">Same person serving concurrently as director or corporate auditor for both parties,

Rental of real estate</td><td rowspan="2">Rental fees</td><td rowspan="2">¥4,955 million ($52,713 thousand)</td><td>Prepaid expenses</td><td>¥2 million ($21 thousand)</td></tr>
<tr><td>Accrued expenses</td><td>¥480 million ($5,106 thousand)</td></tr>
<tr><td>Fees for display of signs, etc.</td><td>¥18 million ($191 thousand)</td><td>-</td><td>-</td></tr>
<tr><td>Deposits</td><td>-</td><td>Long-term leasehold deposits</td><td>¥2,583 million ($27,479 thousand)</td></tr>
</table>

Business terms and policies for determination of business terms

Note 1. Transaction amounts are exclusive of consumption taxes; term-end balances (exclusive of guarantee money deposited) include consumption taxes.

2. Rents for buildings are determined by current market rates.

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

32. Net Income Per Share

Reconciliation of the difference between basic and diluted net income per share ("EPS") for the years ended 31st March 2011, 2012 and 2013.

	Millions of yen			Thousands of U.S. dollars
	2011	2012	**2013**	**2013**
Basic net income per share calculation:				
Income (numerator):				
Net income	¥ 3,110	¥1,057	**¥6,201**	**$65,968**
Amounts not belonging to common stock	-	-	**-**	**-**
Net income available to common stockholders	3,110	1,057	**6,201**	**65,968**
Shares, thousands (denominator):				
Weighted average number of shares	206,305	184,142	**194,164**	
Basic EPS (yen and U.S. dollars)	¥ 15.07	¥ 5.74	**¥31.94**	**$0.34**
Diluted net income per share calculation:				
Income (numerator):				
Net income	¥3,110	¥1,057	**¥6,201**	**$65,968**
Amounts not belonging to common stock	-	-	**-**	**-**
Net income available to common stockholders	3,110	1,057	**6,201**	**65,968**
Effect of dilutive securities - convertible bonds	-	-	**-**	**-**
Adjusted net income	3,110	1,057	**6,201**	**65,968**
Shares, thousands (denominator):				
Weighted average number of shares	206,305	184,142	**194,164**	
Assumed conversion of convertible bonds	20,367	7,290	**-**	
Assumed exercise of stock purchase rights	255	464	**645**	
Adjusted weighted average number of shares	226,927	191,896	**194,810**	
Diluted EPS (yen and U.S. dollars)	¥ 13.70	¥5.51	**¥31.83**	**$0.34**

33. Business Combinations

In the year ended 31st March 2012

1. Business combination by acquisition
(1) Overview
(a) Corporate name and lines of business of the acquired company

Corporate name of the acquired company	EveryD.com, Inc. (The trade name has changed to Hankyu OrangeLife, Inc. effective 1st August 2011)
Lines of business	Home delivery business, online platform for delivery service business

(b) Primary reason for business combination of operations
The Group intends to expand home delivery business in the areas of Tokyo, Kansai and Fukuoka and to expand the scale of the business by nationally inviting potential new market entrants and providing them with the system of online platform for delivery service which has been established and developed by EveryD.com, Inc.

(c) Date of business combination	1st April 2011
(d) Legal form of business combination	Acquisition of shares in exchange for cash
(e) Corporate name after business combination	EveryD.com, Inc. Effective 1st August 2011, EveryD.com, Inc. changed its trade name to Hankyu OrangeLife, Inc.

(f) Percentage of voting rights acquired

Percentage of voting rights held before business combination	22.37%
Percentage of additional voting rights acquired on the date of business combination	70.34%
Percentage of voting rights after business combination	92.71%

(g) Primary reason for deciding the acguiring company

Acquiring the shares of EveryD.com, Inc. in exchange for cash, the Company became an acquiring company.

(2) Period of the acquired company's financial results included in the consolidated financial statements

From 1st April 2011 to 31st March 2012

(3) Acquisition cost of the acquired company and its breakdown

	Millions of yen
Fair value of common stock of EveryD.com, Inc. held before business combination	**¥448**
Fair value of common stock of EveryD.com, Inc. acquired on the date of business combination	**1,410**
Direct expenses incurred for the acquisition	**12**
Acquisition cost of the acquired company	**1,870**

(4) Difference between the acquisition cost of the acquired company and total acquisition cost of individual transactions leading to acquisition

Gain on step acquisitions ¥261 million

(5) Amount of goodwill recognised, reason for recognising goodwill and amortisation method and period

(a) Amount of goodwill recognised ¥1,367 million

(b) Reason for recognising goodwill

Goodwill arose in connection with the excess earning power of home delivery and online platform for delivery service businesses run by EveryD.com, Inc.

(c) Amortisation method and period

Home delivery service	Straight-line amortisation over 20 years
Online platform for delivery services	Straight-line amortisation over 10 years

(6) Amount of assets received and liabilities assumed on the date of business combination and breakdown thereof

	Millions of yen
Current assets	**¥1,215**
Noncurrent assets	**1,094**
Total assets	**2,309**
Current liabilities	**735**
Noncurrent liabilities	**209**
Total liabilities	**944**

2. Business combination by acquisition

(1) Overview

(a) Corporate name and lines of business of the acquired company

Corporate name of the acquired company	KAZOKUTEI CO., LTD.
Lines of business	Operation of restaurants mainly serving "Soba/Udon"

(b) Primary reason for business combination
The Group realised that providing customers with an additional selection of “dining out” in their “dietary life” would bring a beneficial effect and expand market share in the Kansai commercial area.

(c) Date of business combination	30th September 2011
(d) Legal form of business combination	Acquisition of shares by take over bid (TOB)
(e) Corporate name after business combination	KAZOKUTEI CO., LTD.

(f) Percentage of voting rights acquired

Percentage of voting rights held before business combination	0.05%
Percentage of additional voting rights acquired on the date of business combination	73.39%
Percentage of voting rights after business combination	73.44%

(g) Primary reason for deciding the acguiring company
Acquiring the shares of KAZOKUTEI CO., LTD. through TOB in exchange for cash, the Company became an acquiring company.

(2) Period of the acquired company’s financial results included in the consolidated financial statements
From 1st October 2011 to 31st March 2012

(3) Acquisition cost of the acquired company and its breakdown	Millions of yen
Fair value of common stock of KAZOKUTEI CO., LTD. held before business combination	**¥2**
Fair value of common stock of KAZOKUTEI CO., LTD. acquired on the date of business combination	**3,870**
Direct expenses incurred for the acquisition	**60**
Acquisition cost of the acquired company	**3,932**

(4) Amount of goodwill recognised, reason for recognising goodwill and amortisation method and period
(a) Amount of goodwill recognised ¥692 million
(b) Reason for recognising goodwill
Goodwill arose in connection with the excess earning power of the food service business run by KAZOKUTEI CO., LTD.
(c) Amortisation method and period
Goodwill Straight-line amortisation over 15 years

(5) Amount of assets received and liabilities assumed on the date of business combination and breakdown thereof

	Millions of yen
Current assets	**¥1,356**
Noncurrent assets	**5,203**
Total assets	**6,559**
Current liabilities	**1,663**
Noncurrent liabilities	**1,314**
Total liabilities	**2,977**

(6) Amount allocated to intangible assets other than goodwill, type of assets and amortisation method and period

		Millions of yen
(a) Amount allocated to intangible assets		**¥1,302**
(b) Type of assets		
Trademark rights		**1,302**
(c) Amortisation method and period		
Trademark rights	Straight-line amortisation over 20 years	

(7) Approximate impact on the consolidated statement of income for the year ended 31st March 2012, assuming that the business combination had been completed on the date of the commencement of the fiscal year

	Millions of yen
Net sales	**¥509,931**
Operating income	**10,109**
Income before income taxes	**3,016**
Net income	**1,112**

	yen
Net income per share	**¥6.04**

(Calculation method of approximate amounts)
The approximate amounts were calculated by adding the amounts of net sales and income and losses of KAZOKUTEI CO., LTD. for the 2011 fiscal year to consolidated results and adjusting for assumed amounts of eliminations for consolidation and goodwill amortisation expenses.

No siginificant items to report for the years ended 31st March 2011 and 2013.

34. Subsequent Events

No items to report.

Independent Auditors' Report

H_2O RETAILING CORPORATION and Consolidated Subsidiaries

To the Board of Directors of
H_2O RETAILING CORPORATION:

We have audited the accompanying consolidated financial statements of H_2O RETAILING CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2013, 2012 and 2011, and the consolidated income statements, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of H_2O RETAILING CORPORATION and its consolidated subsidiaries as at March 31, 2013, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC
August 8th, 2013
Osaka, Japan

KPMG AZSA LLC

Corporate Data

H_2O RETAILING CORPORATION and Consolidated Subsidiaries

Board of Directors and Corporate Auditors

Chairman, Representative Director and CEO
Shunichi Sugioka
President and Representative Director
Jun Wakabayashi
Representative Director
Naoya Araki
Directors
Yohsaku Fuji, Kazuo Sumi, Kazutoshi Senno, Keiji Uchiyama
Director, Managing Executive Officer
Tadatsugu Mori
Director, Executive Officer
Katsuhiro Hayashi
Standing Corporate Auditor
Toshimitsu Konishi
Corporate Auditors
Hideyuki Takai, Toshihisa Takamura, Masashi Muromachi

Outline of the Company

Date of Establishment:	March 1947
Stated Capital:	¥17,797 million
Authorised Shares:	300,000,000
Issued and Outstanding Shares:	206,740,777
Shareholders:	15,463
Employees:	47

Principal Shareholders :

HANSHIN ELECTRIC RAILWAY CO., LTD.
Takashimaya Company, Limited
Hankyu Hanshin Holdings, Inc.
Japan Trustee Services Bank, Ltd. (trust account)
The Master Trust Bank of Japan, Ltd. (trust account)
Japan Trustee Services Bank, Ltd. (trust account 9)
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
H_2O Retailing Group Employee's Shareholding Association
Northern Trust Co Avfc Re Northern Trust Guernsey Irish Clients
HD Community

Principal Consolidated Subsidiaries

Company name	Stated capital (millions of yen)	Direct (indirect) holding by the Company (%)	Principal business
Department Store Business			
Hankyu Hanshin Department Stores, Inc.	¥200	100.00	Department Store (15 stores)
Supermarket Business			
Hanshoku Co., Ltd.	100	100.00	Operational management of supermarkets
Hankyu Foods, Inc.	10	100.00 (100.00)	Manufacture and sale of laver seaweed and dried foods
Hankyu Delica, Inc.	10	100.00 (100.00)	Manufacture and sale of prepared food and sushi
Hankyu Bakery Co., Ltd.	10	100.00 (100.00)	Manufacture and sale of bread
Property Management (PM) Business			
Oi Development Co., Ltd	100	100.00	Operational management of a hotel
Hankyu Shopping Center Development Co., Ltd.	50	100.00	Operational management of commercial facilities
Hankyu Seisakusho Co., Ltd.	20	100.00 (100.00)	Manufacture and sales of furniture and furnishings
Heart Dining, Inc.	10	100.00 (100.00)	Management of cafe, restaurants and company cafeteria
Hankyu Eyewear Co., Ltd.	10	100.00 (100.00)	Sale of glasses
Related Business			
Hankyu Kitchen Yell Kansai, Inc.	10	100.00	Membership-based home-delivery service providing groceries and commodities in Kansai Area
Hankyu OrangeLife, Inc.	10	96.04	Membership-based home-delivery service providing groceries and commodities in Kyushu Area
EveryD.com, Inc.	10	100.00	Supply of the system and the know-how of home-delivery service
Syuncoubou, Inc.	10	100.00	Membership-based home-delivery service providing groceries (bread, delica etc.) in Kyushu Area
KAZOKUTEI CO., LTD.	1,465	73.44	Operation of restaurants mainly serving "Soba/Udon"
NAKANO FOODS CO., LTD.	146	100.00 (100.00)	Manufacture and sale of noodles and soup
Hankyu Tomonokai Co., Ltd.	50	100.00	Membership organization for customer service
Hanshin Midorikai	20	100.00	Membership organization for customer service
Hankyu Wedding	10	100.00	Costume salon for bridal use
Hankyu Home Styling Co., Ltd.	10	100.00	Sale of furniture and interior goods
Hankyu Department Stores Uniform	10	100.00	Sale of uniforms
Hankyu Hello Dog Co., Ltd.	10	100.00	Sale of pet-accessories
Hankyu Design Systems Co., Ltd.	10	100.00	Commercial design, web design and production, photographing & printing
Hankyu Job Yell Co., Ltd.	10	100.00	Manpower dispatching and fee-charging employment agency
Hankyu Career Q School	10	100.00	Training school for sales personnel and job training
Hankyu Hanshin Department Stores Insurance, Inc.	10	100.00	Life and casualty insurance agency
Hankyu Maintenance Service Co., Ltd.	10	100.00	General building maintenance (facilities, cleaning and security)
Hankyu Quality Support	10	100.00	Quality testing and consulting service
Persona Co., Ltd.	10	100.00	Management of services for members of Persona card
Hankyu Act For	10	100.00	Contractor engaged in bookkeeping and payroll calculation
With System Corporation	100	100.00	Data processing and systems development

H2O RETAILING CORPORATION
2-6-27, Shibata, Kita-ku, Osaka 530-0012
Telephone: +81 (0) 6 - 6365 - 8120
Facsimile: +81 (0) 6 - 6486 - 8320
URL: http://www.h2o-retailing.co.jp/