H2O RETAILING CORPORATION

FINANCIAL REPORT 2018

Profile

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

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

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

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

Currently, the Group consists of 55 subsidiaries and 5 affiliates that operate retail businesses, including its core department store operations, supermarket operations and shopping centre operations.

Contents

General Business Conditions

1. Analysis of Business Performance and Financial Position

(1) Business performance for reporting period

Consolidated business results for the fiscal year

	Millions of yen	YOY %
Net sales	921,871	102.3
Operating income	22,765	101.0
Ordinary income	24,272	111.7
Profit attributable to owners of parent	14,636	102.4

In the year ended 31st March 2018, the Group's Department Store Business remained robust due mainly to the weakening yen and higher stock prices, continued solid domestic consumption, and further active inbound tourism consumption, in addition to a gradual expansionary trend in the economy. Moreover, solid performance of the Kobe and Takatsuki Business, which was succeeded by the Group in the second half of the year, also contributed. Consequently, net sales, operating income and ordinary income exceeded previous year levels, and the Group achieved new record profit attributable to owners of parent for the fourth consecutive year.

In the Department Store Business, both domestic and inbound tourism demand remained robust since "delivery of new value" through major remodelling of the Hankyu Umeda Main Store and Hakata Hankyu led to an increase in the capacity to attract shoppers. As a result, net sales, operating income and ordinary income of Hankyu Hanshin Department Stores, Inc. hit a record high.

In the Supermarket Business, on the other hand, while efforts of Izumiya Co., Ltd. such as the opening of stores whose reconstruction work was completed, which have been conducted ahead of the initial plans, and stores that were remodelled to foods speciality stores were gradually beginning to have an effect and while the opening of new stores and remodelling of existing stores showed a positive effect at Hankyu Oasis Co., Ltd., net sales and operating income fell below the results achieved in the previous fiscal year due to the significant impacts of closing of unprofitable stores and store closures for reconstruction work at both supermarkets.

In addition, extraordinary income was recorded in the amount of ¥5,243 million, including ¥2,010 million as gain on bargain purchase arising in connection with succession of businesses of Sogo Kobe and Seibu Takatsuki stores and ¥1,787 million as gain on sales of non-current assets of the Izumiya Kemigawahama store. Extraordinary losses of ¥6,296 million was also recorded, including ¥1,639 million as loss on store closings of Izumiya Co., Ltd.

The following is a breakdown of performance by business segment.

Beginning with the fiscal year ended 31st March 2018, we have changed to a structure with the five reportable segments, "Department Store Business," "Supermarket Business," "Shopping Centre Business," "Other Businesses" and newly added "Kobe and Takatsuki Business," because the businesses associated with Sogo Kobe and Seibu

Takatsuki stores were succeeded by the Group as of 1st October 2017.

Department Store Business

Results for Department Store Business

	Millions of yen	YOY %
Net sales	446,225	104.3
Segment income (operating income)	18,020	112.7

For Hankyu Hanshin Department Stores, Inc., heightened visibility of our selections and sales floors of high fashion, handbags and luxury brand goods through which the Hankyu Umeda Main Store has continued remodelling for highly fashion conscious shoppers contributed to attracting shoppers from an expansive geographic area. Heavy clothing including jackets and coats sold well during the fall and winter, and sales of high priced goods were also robust. With regard to the demand generated by tourists visiting Japan, sales of duty-free items reached a record high thanks to a recovery in the sales of general goods such as jewellery and watches and the sales of consumables, including cosmetics, which has enjoyed good sales for some time. As a result, sales at the Hankyu Main Store, including Hankyu Men's Osaka, grew by a robust 9.0% year on year to ¥240,300 million.

The Hanshin Umeda Main Store made efforts to improve the capacity to attract shoppers by strengthening promotional activities to attract new customers, while making progress in reconstruction work, which resulted in a further decrease in its selling space. Consequently, it achieved net sales of ¥55,522 million, largely on par with those of the previous fiscal year at 99.4% of previous levels.

In regard to branch stores, robust sales at Hakata Hankyu, which implemented the largest-scale remodelling since its opening, and those at Nishinomiya Hankyu, which enhanced its offerings related to lifestyle, covered lost sales of the Sakai Kitahanada Hankyu store that was closed. As a result, total net sales of branch stores were largely on par with those of the previous fiscal year.

Kobe and Takatsuki Business

Results for Kobe and Takatsuki Business

	Millions of yen	YOY %
Net sales	23,379	—
Segment income (operating income)	603	—

The Company succeeded the department store business of Sogo Kobe and Seibu Takatsuki stores as of 1st October 2017. In results of the above Kobe and Takatsuki Business, profit or loss of both stores in the period from 1st October 2017 to 31st March 2018 is included as results subject to the consolidation.

After 1st October 2017, Sogo Kobe and Seibu Takatsuki stores continued to be operated with the trade names, contents of services, etc., remaining unchanged while integrating the know-how of Hankyu Department Stores and Hanshin Department Stores. As a result, net sales and operating income exceeded expectations.

Supermarket Business

Results for Supermarket Business

	Millions of yen	YOY %
Net sales	386,552	94.4
Segment income (operating income)	1,104	27.8

Izumiya Co., Ltd. has been proceeding with a store reorganisation plan that entails reconstruction work related to seismic retrofitting, and making good progress in the reorganisation with the opening of Abiko store (Osaka), the first store that was renewed through reconstruction, in January 2018 and the opening of Yamadanishi store (Osaka) in February 2018. In addition, five stores, including Tada store (Hyogo) and Tamate store (Osaka), were remodelled into foods speciality stores, and sales at each store were robust.

Furthermore, Hankyu Oasis Co., Ltd. newly opened three stores, including its Himejima store (Osaka), and worked to expand the store network within the dominant area. Consequently, net sales were robust and up 2.3% year on year, calculated on the basis of its all stores.

However, in the Supermarket Business as a whole, net sales and operating income fell below the results achieved in the previous fiscal year, due to a decrease in the number of operating stores accompanied with store closings of Izumiya, an increase in expenses for the opening of new stores of Hankyu Oasis and the effect of the split of the former Izumiya Co., Ltd. into two entities, H2O Asset Management Co., Ltd., which is engaged in the management and development of real estate, and the newly established Izumiya Co., Ltd., which handles retailing business operations, on 1st July 2016.

Shopping Centre Business

Results for Shopping Centre Business

	Millions of yen	YOY %
Net sales	10,367	104.0
Segment income (operating income)	4,985	98.9

H2O Asset Management Co., Ltd., which handles Shopping Centre Business operations, has continued to carry out reconstruction work, remodelling and other improvements to Izumiya stores in line with the reorganisation plan since the previous fiscal year with the aim of increasing profitability of its real estate holdings. In addition, at Hankyu Maintenance Service Co., Ltd., which is engaged in the building maintenance, the facility management business remaining robust as a consequence of the remodelling construction for buildings and its efforts to improve the managerial efficiency through cost reductions. As a result, net sales and operating income exceeded the results achieved in the previous fiscal year.

Other Businesses

Results for Other Businesses

	Millions of yen	YOY %
Net sales	55,346	102.2
Segment income (operating income)	3,098	108.2

At Oi Development Co., Ltd, which runs "Ours Inn Hankyu" business hotel, the combined guest room occupancy rate at Single Hall and Twin Hall remained at a high level of 92.7%.

In the speciality store business, F.G.J. Co., Ltd., which has been launching cosmetics speciality stores, promoted expansion of the business scale by newly opening seven stores, including Fruit GATHERING Tennoji MIO store (Osaka).

In addition, Persona Co., Ltd. started "litta," the Group's proprietary prepaid e-money service, in April 2017 with the aim of boosting convenience of micropayment mainly at supermarkets and attracting more customers.

Financial results on a business segment and consolidated basis (Millions of yen)

	Department Store Business	Kobe and Takatsuki Business	Super -market Business	Shopping Centre Business	Other Businesses	Adjustments	Consolidated
Net sales	446,225	23,379	386,552	10,367	55,346	—	921,871
Operating income	18,020	603	1,104	4,985	3,098	(5,047)	22,765

(2) Analysis of Financial Position

(i) Assets, liabilities and net assets

Total assets increased ¥21,330 million year on year to ¥661,873 million as of 31st March 2018. This was due mainly to an increase of ¥14,958 million in land, an increase of ¥11,513 million in investment securities based in part on an increase in unrealised gain on shares held and an increase of ¥6,826 million in construction in progress resulting from reconstruction work for the Hanshin Umeda Main Store, etc., despite a decrease of ¥16,330 million in cash and deposits caused by the transfer of the Kobe and Takatsuki Business and other factors.

Total liabilities increased by ¥4,845 million year on year to ¥381,065 million as of 31st March 2018. This was due mainly to a ¥5,502 million increase in deferred tax liabilities on non-current liabilities arising from an increase in unrealised gain on shares held.

Total net assets grew ¥16,484 million year on year to ¥280,807 million. This was due mainly to a ¥9,567 million increase in retained earnings through profit attributable to owners of parent, etc. and a ¥6,435 million increase in valuation difference on available-for-sale securities arising from an increase in unrealised gain on shares held and other factors.

(ii) Cash Flows

As of the year ended 31st March 2018, cash and cash equivalents stood at ¥67,150 million, a decrease of ¥16,311 million year on year.

Net cash provided by operating activities was ¥32,739 million, down ¥6,002 million year on year.

Net cash used in investing activities was ¥35,492 million, up ¥10,167 million year on year, due in part to succession of Kobe and Takatsuki Business.

Net cash used by financing activities was ¥13,812 million (¥21,703 million in cash flows provided in financing activities for the previous fiscal year), due in part to repayment and redemption of interest bearing loans payable.

2. Management Policies and Management Issues to be Resolved

The future information contained in this material reflects judgments made by H2O Retailing Corporation at the end of fiscal year ended 31st March 2018.

(1) The Company's Basic Management Policy

The H2O Retailing Group will forge ahead with efforts geared to gaining a dominant position in Japan’s Kansai area by developing the integrated lifestyle industry, entailing involvement in everything from ordinary to extraordinary aspects of people’s lives, premised on the Basic Philosophy of the H2O Retailing Group calling for us “to remain indispensable to the local communities through our activities of providing a model of lifestyle to local residents.” At the same time, we will develop a variety of businesses in areas that include our department stores centred on both main stores of Hankyu and Hanshin (Umeda, Osaka), our supermarkets such as Izumiya and Hankyu Oasis, shopping complex operations and hotels, other speciality stores and restaurants. We will also develop infrastructure for settling payments with services such as our S-Point program and our “litta” prepaid e-money service.

In addition, we will take on further challenges geared to expanding into new fields of business and will draw up and execute plans that will enable us to enter overseas markets with our sights set on the next 10 years.

Our corporate name contains the symbol "H2O," which represents water, a substance that is essential to our global natural environment. Staying true to our name, we intend to maintain and hone our competitiveness to ensure that we remain a corporate group that is essential to society as we envision and execute our new growth strategy.

(2) Our Target Business Indicators

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

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

The H2O Retailing Group has drawn up a long-term business plan divided into 10-year stages, the "GP10 Plan," so that we will be better prepared for potential changes in the medium- to long-term social and consumption environments, including Japan's decreasing birthrate and aging demographics, rising worries about social security, and polarisation in the consumption structure, aiming to act as a corporate group that achieves sustainable growth by planning and implementing a business model that responds to various environmental changes.

Under the first 10-year long-term business plan, "GP10-I (Stage I)," which began in fiscal 2005, we strengthened the Department Store Business with a focus on the reconstruction of the Hankyu Umeda Main Store. Under the second 10-year long-term business plan, "GP10-II (Stage II)," which began in fiscal 2015 and will end in fiscal 2024, we have set "gaining a dominant position in Japan's Kansai trading area" as the theme. Moreover, in "Phase I" of Stage Ⅱ (fiscal 2015 to fiscal 2018), we have been working to "increase profits through improvement in business efficiency," "develop the integrated lifestyle industry in Japan’s Kansai area" and "forge ahead with long-term projects" as the key initiatives.

Specifically, we have been pursuing the reconstruction work of the Hanshin Umeda Main Store, one of the flagship stores in the Department Store Business, and steadily restructuring the Supermarket Business to improve efficiency by implementing the reorganisation, upgrading the infrastructure and other efforts, including the reconstruction and closing of stores and withdrawal from unprofitable businesses at Izumiya Co., Ltd.

In addition, we have been expanding networks by forming alliances with businesses outside the Group, as a new card-point strategy in Japan's Kansai area.

Corporate Governance System

Outline and Rationale of Corporate Governance System

1) 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. Upon approval of the Ordinary General Shareholders' Meeting held on 22nd June 2016, the Company has changed from a "Company with a Board of Corporate Auditors" to a "Company with an Audit and Supervisory Committee" (hereinafter, 'ASC'), aiming to maximise corporate value over the medium- to long-term. As a Company with an ASC, the Company shall have three (3) or more directors who are ASC members and the majority of which shall be outside directors. A director who is an ASC member (i) has voting rights at the Board of Directors' meeting, (ii) may be involved in discussions regarding the appointment, dismissal or resignation of directors who are not ASC members as well as other decision making processes on the execution of operations, and (iii) may state their opinions at a Shareholders' Meeting on the appointment, dismissal or remuneration of directors who are not ASC members. Thus, the Company expects to improve its supervisory function. Furthermore, in cases in which a majority of the directors of a Company with an ASC are outside directors or if provided in the Articles of Incorporation, the Board of Directors may delegate decision making on the execution of important operations to directors by resolution. This new governance system will enable the Company to make decisions and execute business operations more promptly and flexibly.

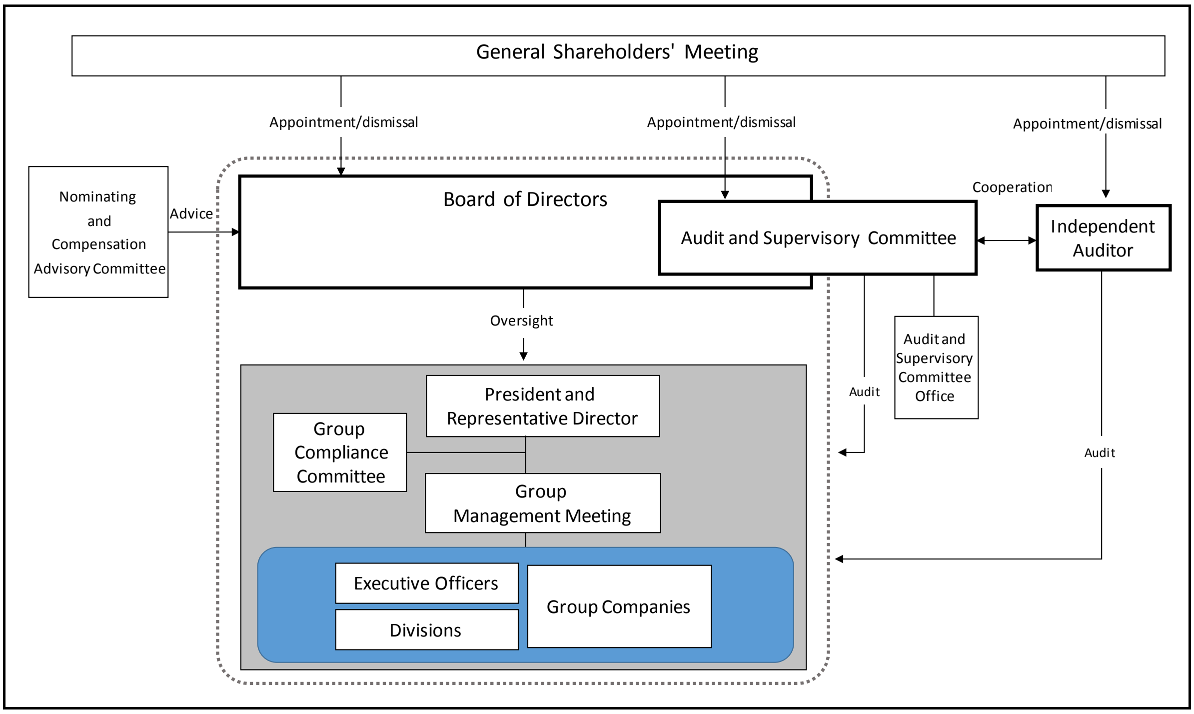
The Company's Board of Directors consists of 11 directors (four (4) directors are ASC members), including four (4) outside directors (three (3) outside directors are ASC members). Thus, more than one-third of directors on the Board of Directors will be outside directors.

To ensure the fairness and transparency of the process of appointing directors and deciding compensation for directors, the Company will continue to have a voluntary Nominating and Compensation Advisory Committee which comprises more than two outside directors (including ASC members) and the President. Regarding the agenda on appointing the candidates of directors or compensation for directors, Nominating and Compensation Advisory Committee considers the agenda and advises the Board of Directors before the Board of Directors makes a decision. As for the compensation for ASC members, decisions are made with prior consent by the ASC.

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 Group companies. Group companies, including H2O Retailing Corporation, have clearly defined business responsibilities established through the adoption of an executive officer system. The directors and the Board of Directors of each company have adopted this system for managing and overseeing their executive officers.

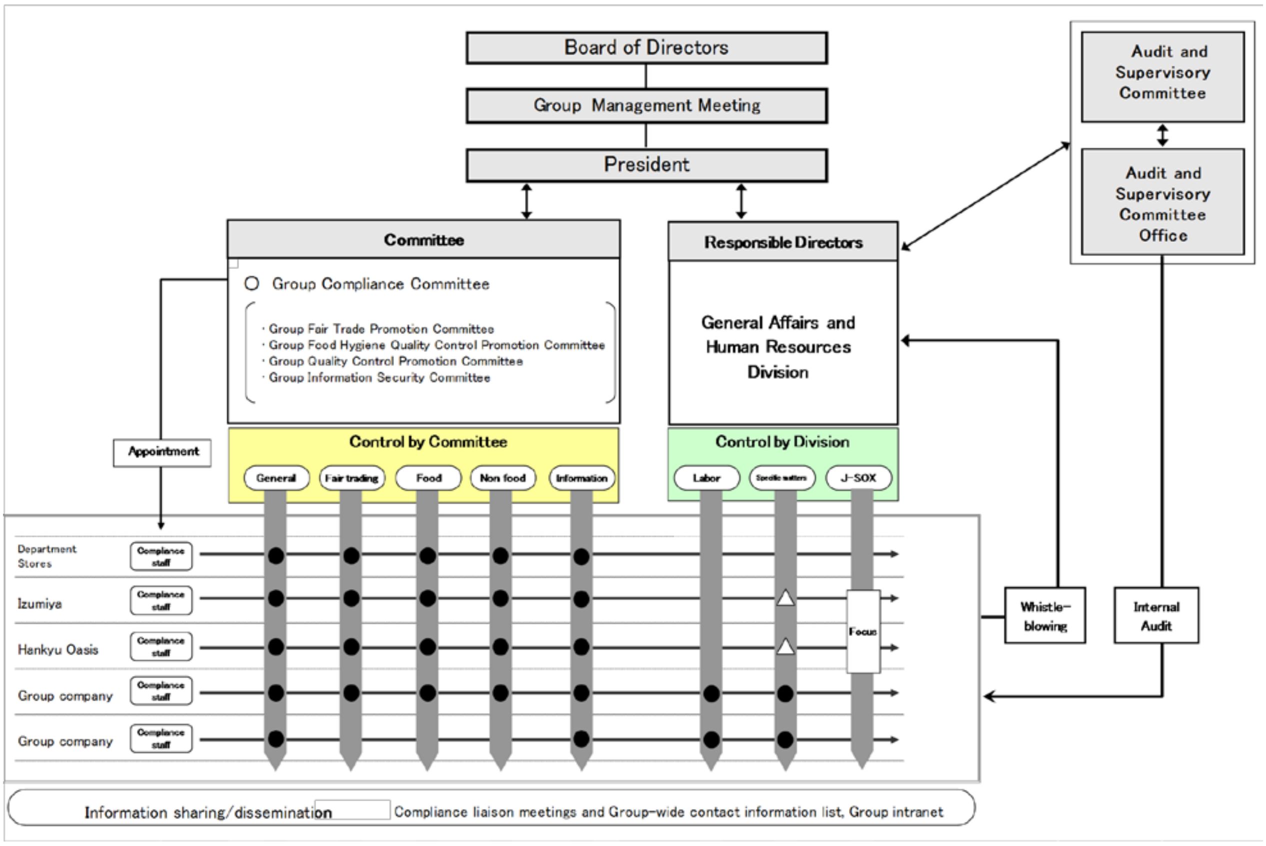
The ASC audits the directors, the Board of Directors and executive officers.

■Corporate Governance Framework



(1) Internal Control and Risk Management System

■Group Compliance and Risk Management System



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

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

Compliance

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

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

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

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

Ensuring the reliability of financial reporting

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

Eliminating antisocial forces

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

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

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

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

Risk management systems

We have compiled a framework of risk management procedures which establishes principles for the prevention of risk events, reporting when risk events occur and dealing with the consequences of risk event occurrence. Basic policies and regulations for risk management enable Group companies to take precautionary measures against risk and to minimise losses when risk events occur. The Group Compliance Committee collates risk related information and prepares countermeasures while Group companies voluntarily create their own systematic measures to deal with risk based on individual Group company characteristics. Concurrently, a system for pooling information regarding risk faced by all companies in the Group is in place.

D. Ensuring effective performance of duties by Directors

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

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

E. Ensuring sound conduct of business in the Group companies

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

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

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

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

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

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

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

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

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

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

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

The following summarises the status of operation for the year ended March 31, 2018.

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

During the fiscal year, the Company reviewed the number of the Board of Directors' meetings held and proposals to be taken up and the base amount in order to enhance the Board of Directors' supervisory function. In addition, the Company made efforts to understand the current circumstances and raise awareness by carrying out a survey of directors, officers and managerial staff of the entire Group on practices under "H2O Retailing Group Code of Conduct."

(2) As compliance and risk management initiatives, the Company has various committees in connection with fair trading, quality control and information security which promotes measures for each field and shares information.

During the fiscal year, the Company strived to fully develop appropriate personal information management systems in the respective Group companies again while identifying risks existing in the respective Group companies and making efforts to solve and mitigate priority challenges. In addition, the Company held workshops for newly appointed directors and officers of the Group companies on the responsibilities of directors and other topics and conducted briefing sessions on personnel and labour affairs, amendments to related laws and regulations and others.

The Companies have a whistle-blower hotline named “Compliance Hotline,” and the Company and some major subsidiaries have divisions in charge of the Hotline. The internal whistle-blowing system is in continuous operation, and the status of its operation is regularly reported to the President and the full-time ASC member.

In order to ensure the reliability of financial reporting, we upgraded internal controls in the Department Store Business (Sogo Kobe store and Seibu Takatsuki store) of H2O Asset Management Co., Ltd., and at the same time, we carried out assessments of the implementation and operation status of group-wide controls and the business processes of Hankyu Hanshin Department Stores, Inc. and Izumiya Co., Ltd. The scope of the assessments encompassed the company-wide controls of Persona Co., Ltd. and involved an assessment of its internal controls.

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

(3) With respect to the audit system, the Company continues to assign twelve (12) dedicated staff members who support the duties of the ASC as requested by the ASC and designate each staff member as a corporate auditor of the Group companies.

Additionally, ASC members periodically hold meetings with Representative Directors and staff members in the internal control divisions (Finance and Accounting Division, General Affairs and Human Resources Division and Internal Audit Division) while the full-time ASC member attends important meetings such as Group Management meetings.

(4) With respect to on-site inspections of the Company and its subsidiary, Hankyu Hanshin Department Stores, Inc., conducted by the Japan Fair Trade Commission on suspicion of violation of the Anti-Monopoly Act in relation to shipping charges for goods, the Company has fully cooperated with the investigation by the Japan Fair Trade Commission. In response to this investigation, the Company shares information at the Group Fair Trade Promotion Committee while performing checks of any activities with business alliance partners, etc., and drawing the respective Group companies' attention to the exchange of information on sales and marketing among industry peers.

2) Internal Audits, ASC’s Audits and Accounting Audits

The Company has four (4) ASC members, consisting of three (3) outside directors and one (1) director (full-time ASC member). The Company assigns professionals with corporate management experience and specialised knowledge of law and other subjects as outside directors. A professional from within the Company with substantial knowledge of finance and accounting who has served as an accounting manager in the Company for approximately 30 years has been assigned as the full-time ASC member. The full-time ASC member is assigned as an ASC member with the authority to be reported to and to investigate. In addition, 12 ASC staff members work in the ASC Office to augment the ASC’s audit work and internal audits.

The office in charge of financial reporting, as stipulated in the Financial Instruments and Exchange Act (J-SOX) (four (4) members), is established to secure the reliability of financial reporting. They work to strengthen the audit function by making proposals for improvements based on regular interviews and on-site audits and assessing internal controls in financial reporting and in business processes.

Following audit plans for the ASC’s audit, ASC members attend Board of Directors meetings and regular meetings with representative directors. Outside ASC members give their opinions and ask questions as necessary from the standpoint of attorneys and specialists with extensive business management experience. A full-time ASC member attends the monthly “Group Management meeting” and the “Group Compliance Committee meeting,” which are held as needed. The full-time ASC member expresses his opinions at these meetings as necessary and inspects final decision reports on key matters as well as the minutes of the meetings.

Regarding the auditing of subsidiaries, the full-time ASC member concurrently serves as a corporate auditor of Hankyu Hanshin Department Stores, Inc. and Izumiya Co., Ltd., the core subsidiaries, while the dedicated ASC staff members assume the position of dedicated auditors of other subsidiaries, leading to augmentation of the audit system. These corporate auditors work to perform more effective audits by closely monitoring the site through auditing visits, holding quarterly Group Board of Corporate Auditors' meetings and verifying the progress of audit plans.

With respect to internal audits, the Group has strengthened its auditing function by merging the internal auditing function to the ASC office in April 2017 and by having a full-time ASC member verify audit plans (particularly those for the business audit) at the beginning of a term, receive reports on the progress of implementation of audit plans and the results of findings as needed and exchange views.

The Company has designated KPMG AZSA LLC. as its independent auditing firm. The certified public accountants who executed the accounting audit were Mr. Motoharu Iyomasa, Mr. Naoki Sugita and Ms. Aki Yuge. Assisting them with the audit were 13 other certified public accountants and 15 other staff members. In drafting the accounting audit plan, ASC members and independent auditors exchange opinions about key audit matters. The full-time ASC member receives monthly audit result reports, and, at ASC meetings, close coordination is maintained through mutual verification of progress of the implementation of audit plans.

At the ASC, the full-time ASC member reports and explains to other ASC members on the details of audits. They also discuss business issues and reach a consensus on the ASC’s opinion.

3) Outside Directors

The number of directors from outside the Company is four (4), of whom three (3) are ASC members.

Relationship with outside directors

Mr. Makoto Yagi had actively given advice and opinions at the Board of Directors’ meetings based on his extensive management experience and his broad insights. The Company appointed Mr. Yagi again as an outside director, expecting that his skills would contribute to the supervision of the Company group. Furthermore, since he fulfils the requirements as prescribed in the below mentioned “Independence Criteria for Outside Directors,” the Company appointed Mr. Yagi as an independent director. Mr. Yagi has no special interests in the Company. Mr. Yagi is a Chairman and Representative Director of The Kansai Electric Power Company, Incorporated. There is no particular conflict of interest between The Kansai Electric Power Company, Incorporated and the Company.

Mr. Naoshi Ban had actively given advice and opinions at the Board of Directors’ meetings based on his extensive management experience and his broad insights. The Company appointed Mr. Ban again as an outside director and ASC member, expecting that his skills would contribute to the supervision and audit of the Company group. Furthermore, since he fulfils the requirements as prescribed in the below mentioned “Independence Criteria for Outside Directors,” the Company appointed Mr. Ban as an independent director. Mr. Ban has no special interests in the Company. Mr. Ban is a Special Corporate Advisor of Mitsubishi Logistics Corporation, which owns 0.57% of all issued shares of the Company. The Company owns 0.63% of all issued shares of Mitsubishi Logistics Corporation. There are no particular conflicts of interest that require disclosure between Mitsubishi Logistics Corporation and the Company.

Mr. Kenjiro Nakano has been appointed as an outside director and ASC member based on his extensive management experience, accomplishments at a financial institution and his broad insights, expecting that his skills would contribute to the supervision and audit of the Company group. Mr. Nakano is a former director of Sumitomo Mitsui Banking Corporation, which is one of the main banks of the Company. However, he has never served with the bank, even as an advisor, since his retirement more than five years ago. Thus, he fulfils the requirements as prescribed in the below mentioned “Independence Criteria for Outside Directors,” and the Company appointed Mr. Nakano as an independent director. Mr. Nakano has no special interests in the Company. Mr. Nakano is a Chairman and Director of Keihanshin Building Co., Ltd. There is no particular conflict of interest between Keihanshin Building Co., Ltd. and the Company.

Ms. Mayumi Ishihara has been appointed as an outside director and ASC member based on her professional knowledge and experience as an attorney-at-law, expecting that her skills would contribute to the supervision and audit of the Company group, although she has no experience in corporate management except as an outside director. Since she fulfils the requirements as prescribed in the below mentioned “Independence Criteria for Outside Directors,” the Company appointed Ms. Ishihara as an independent director. Ms. Ishihara has no special interests in the Company.

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

Independence Criteria for Outside Directors

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes:

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

Main Activities of Outside Directors During the Reporting Period

Classification	Name	Main Activities
Director	Makoto Yagi	Attended 8 of 10 Board of Directors' meetings held during the reporting period, giving his opinions on measures and asking questions based on his extensive management experience. In addition, he chaired the Nominating and Compensation Advisory Committee, a voluntary committee, offering appropriate advice at the committee's meetings and striving to improve the transparency and objectivity for personnel affairs and compensation of the management.
Director who is an ASC member	Naoshi Ban	Attended all 10 Board of Directors' meetings and all 10 ASC meetings held during the reporting period, giving his opinions on measures and asking questions based on his extensive management experience. In addition, he served on the Nominating and Compensation Advisory Committee, a voluntary committee, offering appropriate advice at the committee's meetings and striving to improve the transparency and objectivity for personnel affairs and compensation of the management.
Director who is an ASC member	Kenjiro Nakano	Attended 9 of 10 Board of Directors' meetings and 9 of 10 ASC meetings held during the reporting period, giving his opinions on measures and asking questions based on his extensive management experience.
Director who is an ASC member	Mayumi Ishihara	Attended 9 of 10 Board of Directors' meetings and all 10 ASC meetings held during the reporting period, giving her opinions on measures and asking questions based primarily on her specialised knowledge as an attorney.

4) Compensation for Directors

Compensation Paid to Directors

Classification	Total compensation (millions of yen)	Total compensation by type (millions of yen)			Number of directors
		Basic compensation	Stock option based compensation	Bonus	
Directors (excluding ASC members) (excluding outside directors)	187	111	34	41	7
Directors (ASC members) (excluding outside directors)	26	26	—	—	1
Outside directors	35	35	—	—	4

Notes: Figures in the table above include 1 director who retired upon conclusion of the 98th Annual General Shareholders' Meeting held on 21st June 2017.

Policy on Determining Compensation for Directors

For executive directors, we 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 basic monthly compensation which is linked to the position of director and not directly linked to the performance of the Group, 2) an annual bonus that reflects single-year performance and other factors and 3) stock options based compensation that is linked to stock price. However, the compensation for non-executive directors, including directors who are ASC members, is dependent on the role expected to be performed and consists only of monthly compensation.

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

In deliberating the individual amounts of compensation for directors, the Nominating and Compensation Advisory Committee considers the type of business, the level of compensation offered by comparable companies and the level of compensation of other officers in the Company.

Regarding compensation for executive directors, 50% is basic compensation and 50% is based on performance and stock price.

The outline of each component of compensation is as follows:
The maximum compensation based on a resolution of the 97th Ordinary General Shareholders' Meeting held on 22nd June 2016 is outlined below.

a. At the 97th Ordinary General Shareholders' Meeting held on 22nd June 2016, the total amount of basic compensation for directors excluding directors who are also ASC members was set at a maximum of ¥300 million per year (of which, a maximum of ¥50 million is for outside directors), and basic compensation for directors who are also ASC members was set at a maximum of ¥90 million per year.

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

c. At the 97th Ordinary General Shareholders' Meeting held on 22nd June 2016, it was resolved that stock options based compensation for directors excluding directors who are also ASC members and outside directors would be based on a different framework from the monthly compensation described above and was set at a maximum annual compensation of ¥120 million.

5) Outline of the Liability Limitation Agreements

As of 22nd June 2016, the Company entered into a liability agreement with each outside director in accordance with Article 427(1) of the Companies Act (“Act”) for the purpose of limiting liability as prescribed in Article 423(1) of the Act. Under the agreement, the maximum amount of liability shall be limited to the amount prescribed in the Act.

6) Exemption from Liability of Directors

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

7) Number of Directors as Provided in the Articles of Incorporation

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

8) Selection of Directors

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

9) Matters Regarding Dividends

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

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

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

11) Holding Status

Among Group companies, H2O Retailing Corporation is the largest company in terms of total balance sheet value of investment securities.

a. Number of investment securities and the total balance sheet value of those investment securities which are held for other than portfolio investment purposes

   Number of different stocks: 45

   Balance sheet value: ¥84,813 million

b. Description, number of shares, balance sheet value and purpose for holding investment securities which are held for other than portfolio investment purposes

For the year ended 31st March 2017

Stock	Number of shares	Balance sheet value (millions of yen)	Purpose of holding
Toho Co., Ltd.	13,664,280	40,323	To strengthen relationship with the Hankyu Hanshin Toho Group
Takashimaya Co., Ltd.	17,774,000	17,311	To strengthen relationship between both companies through business partnership
Kansai Super Market Ltd.	3,200,000	4,944	To strengthen relationship between both companies through business partnership
Mitsubishi UFJ Financial Group, Inc.	3,012,740	2,108	For financial policy reasons
Mitsubishi Logistics Corporation	1,109,000	1,701	To strengthen business management relationship
Kato Sangyo Co., Ltd.	363,300	1,037	To strengthen business management relationship
Umenohana Co., Ltd.	374,500	1,011	To strengthen relationship between both companies through business partnership
Asahi Group Holdings, Ltd.	217,360	914	To strengthen business management relationship
Wacoal Holdings Corp.	534,000	733	To strengthen business management relationship
Sumitomo Mitsui Financial Group, Inc.	120,528	487	For financial policy reasons
Joshin Denki Co., Ltd.	112,000	127	To strengthen business management relationship
Onward Holdings Co., Ltd.	130,088	99	To strengthen business management relationship
Sumitomo Mitsui Trust Holdings, Inc.	25,370	97	For financial policy reasons
Toyo Seikan Group Holdings, Ltd.	33,000	59	To facilitate business activity
Tokyo Rakutenchi Co., Ltd.	55,000	29	To strengthen relationship with the Hankyu Hanshin Toho Group
Isetan Mitsukoshi Holdings Ltd.	1,437	1	To facilitate business activity
FUKAGAWA-SEIJI CO., LTD.	10,000	0	To facilitate business activity

For the year ended 31st March 2018

Stock	Number of shares	Balance sheet value (millions of yen)	Purpose of holding
Toho Co., Ltd.	13,664,280	48,234	To strengthen relationship with the Hankyu Hanshin Toho Group
Takashimaya Co., Ltd.	17,774,000	18,147	To strengthen relationship between both companies through business partnership
Kansai Super Market Ltd.	3,200,000	3,612	To strengthen relationship between both companies through business partnership
Mitsubishi UFJ Financial Group, Inc.	3,012,740	2,099	For financial policy reasons
Kato Sangyo Co., Ltd.	363,300	1,353	To strengthen business management relationship
Mitsubishi Logistics Corporation	554,500	1,253	To strengthen business management relationship
Asahi Group Holdings, Ltd.	217,360	1,231	To strengthen business management relationship
Umenohana Co., Ltd.	374,500	1,082	To strengthen relationship between both companies through business partnership
Wacoal Holdings Corp.	267,000	822	To strengthen business management relationship
Sumitomo Mitsui Financial Group, Inc.	120,528	537	For financial policy reasons
Joshin Denki Co., Ltd.	56,000	217	To strengthen business management relationship
Onward Holdings Co., Ltd.	139,291	128	To strengthen business management relationship
Sumitomo Mitsui Trust Holdings, Inc.	25,370	109	For financial policy reasons
Toyo Seikan Group Holdings, Ltd.	33,000	52	To facilitate business activity
Tokyo Rakutenchi Co., Ltd.	5,500	28	To strengthen relationship with the Hankyu Hanshin Toho Group
Isetan Mitsukoshi Holdings Ltd.	1,437	1	To facilitate business activity

c. Investment securities which are held for portfolio investment purposes None

d. Investment securities whose purpose for holding has changed None

Fees Paid to Independent Auditors

Classification	For the year ended 31st March 2017		For the year ended 31st March 2018	
	Audit fees (millions of yen)	Fees for non-audit services (millions of yen)	Audit fees (millions of yen)	Fees for non-audit services (millions of yen)
The Company	54	—	65	6
Consolidated subsidiaries	154	—	144	—
Total	208	—	210	6

Other Significant Fees Paid

For the year ended 31st March 2017

Suzhou Izumiya Co., Ltd., a consolidated subsidiary of the Company, paid ¥2 million in fees to a member firm of KPMG to which certified public accountants acting as the Company’s independent auditors belong.

For the year ended 31st March 2018

Suzhou Izumiya Co., Ltd., H2O (China) Investment Co., Ltd. and Suzhou Izumiya Supermarkets Co., Ltd., consolidated subsidiaries of the Company, paid ¥3 million in fees to a member firm of KPMG to which certified public accountants acting as the Company’s independent auditors belong.

Details of Non-Audit Services

For the year ended 31st March 2017

None

For the year ended 31st March 2018

The details of non-audit services for which the Company paid fees to certified public accountants consisted of "financial due diligence services."

Policy to Determine Audit Fees

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

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

Five-Year Summary

	Millions of yen					Thousands of U.S. dollars (Note 1)
Years ended 31st March	2014	2015	2016	2017	2018	2018
For the year:						
Net sales	¥576,852	¥844,819	¥915,690	¥901,221	¥921,871	$8,696,896
Cost of sales	420,837	603,401	649,326	637,837	655,646	6,185,339
Gross profit	156,014	241,417	266,363	263,384	266,224	2,511,547
Selling, general and administrative expenses	138,700	220,059	242,538	240,841	243,459	2,296,783
Interest expenses	452	1,201	1,244	1,081	1,003	9,462
Profit before income taxes	6,824	17,582	24,374	20,005	23,219	219,047
Profit attributable to owners of parent	295	11,586	14,053	14,298	14,636	138,075
Comprehensive income	2,251	31,600	4,966	16,192	21,380	201,698
Per share information (in yen and U.S. dollars)						
Basic profit per share	3.05	98.06	113.93	115.84	118.54	1.11
Diluted profit per share	3.03	97.64	113.39	115.28	117.90	1.11
Cash dividends	12.50	25.00	35.00	40.00	40.00	0.37
At year-end:						
Inventories	¥16,508	¥37,025	¥35,507	¥35,292	¥35,295	$332,971
Property, plant and equipment (book value)	120,484	255,093	253,461	258,961	280,661	2,647,745
Total assets	377,716	631,877	597,041	640,543	661,873	6,244,084
Long-term debt	5,501	129,696	117,479	118,593	106,931	1,008,783
Shareholders' equity	162,817	213,134	223,013	232,786	242,390	2,286,698
Ratio analysis:						
Gross profit / Net sales (%)	27.05	28.58	29.09	29.23	28.88	
Profit before income taxes / Net sales (%)	1.18	2.08	2.66	2.22	2.52	
Profit attributable to owners of parent / Net sales (%)	0.05	1.37	1.53	1.59	1.59	
Profit attributable to owners of parent / Total assets (%)	0.08	2.30	2.29	2.31	2.25	
Profit attributable to owners of parent / Shareholders' equity (%)	0.18	6.16	6.44	6.27	6.16	
Shareholders' equity / Total assets (%)	43.11	33.73	37.35	36.34	36.62	
Long-term debt / Shareholders' equity (times)	0.03	0.61	0.53	0.51	0.44	
Net sales / Inventories (times)	34.94	22.82	25.79	25.54	26.12	
Net sales / Total assets (times)	1.53	1.34	1.53	1.41	1.39	

Note 1. U.S. dollar amounts represent translations of yen amounts at the rate of ¥106 to U.S.$1.00.

2. Amounts less than one million yen and one thousand dollars are rounded down.

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

4. As for "Profit attributable to owners of parent / Shareholders' equity," the Company uses the average of shareholders' equity at the beginning and end of the year.

5. On 1st September 2014, the Company executed a reverse stock split (two-to-one share).

Basic profit per share and diluted profit per share were calculated as if the reverse stock split had been executed at the beginning of the fiscal year ended 31st March 2014.

Consolidated Balance Sheets

H2O RETAILING CORPORATION and Consolidated Subsidiaries

As of 31st March, 2017 and 2018	Millions of yen 2017	Millions of yen 2018	Thousands of U.S. dollars (Note 1) 2018
Assets			
Current assets			
Cash and deposits (Notes 10 and 12)	¥ 83,481	¥ 67,150	$ 633,490
Notes and accounts receivable - trade (Note 12)	43,588	46,939	442,820
Merchandise and finished goods	33,531	32,798	309,415
Work in process	174	322	3,037
Raw materials and supplies	1,587	2,175	20,518
Deferred tax assets (Note 17)	4,146	6,210	58,584
Accounts receivable - other (Note 12)	5,063	5,984	56,452
Other (Note 6)	7,172	5,210	49,150
Allowance for doubtful accounts (Note 12)	(428)	(413)	(3,896)
Total current assets	178,318	166,377	1,569,594
Non-current assets			
Property, plant and equipment (Note 6)			
Buildings and structures	314,401	317,072	2,991,245
Accumulated depreciation	(206,138)	(208,379)	(1,965,839)
Buildings and structures, net	108,262	108,692	1,025,396
Machinery, equipment and vehicles	7,912	8,103	76,443
Accumulated depreciation	(4,167)	(4,445)	(41,933)
Machinery, equipment and vehicles, net	3,745	3,657	34,500
Land	134,591	149,550	1,410,849
Construction in progress	2,012	8,839	83,386
Other	47,063	46,131	435,198
Accumulated depreciation	(36,714)	(36,210)	(341,603)
Other, net	10,348	9,921	93,594
Property, plant and equipment, net	258,961	280,661	2,647,745
Intangible assets			
Goodwill	5,217	4,647	43,839
Other	12,326	13,223	124,745
Total intangible assets	17,543	17,870	168,584
Investments and other assets			
Investment securities (Notes 6, 12 and 13)	103,031	114,544	1,080,603
Long-term loans receivable	3,868	3,986	37,603
Guarantee deposits (Notes 6 and 23)	69,060	70,079	661,122
Net defined benefit asset	683	240	2,264
Deferred tax assets (Note 17)	9,960	8,729	82,349
Other (Note 6)	2,067	2,306	21,754
Allowance for doubtful accounts	(2,952)	(2,922)	(27,566)
Total investments and other assets	185,720	196,964	1,858,150
Total non-current assets	462,225	495,495	4,674,481
Total assets	¥ 640,543	¥ 661,873	$ 6,244,084

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Liabilities			
Current liabilities			
Notes and accounts payable - trade (Notes 6 and 12)	¥ 59,394	¥ 62,794	$ 592,396
Current portion of bonds (Notes 12 and 25)	6,600	-	-
Commercial papers (Note 25)	2,000	-	-
Current portion of long-term loans payable (Notes 6, 12 and 25)	29,585	42,561	401,518
Accounts payable - other (Note 12)	14,329	19,162	180,773
Lease obligations (Notes 11 and 25)	675	764	7,207
Income taxes payable (Note 12)	4,744	6,324	59,660
Deferred tax liabilities (Note 17)	4	0	0
Gift certificates	23,846	33,881	319,632
Provision for bonuses	4,885	5,095	48,066
Provision for directors' bonuses	177	160	1,509
Provision for loss on store closings	441	116	1,094
Provision for point card certificates	1,750	1,959	18,481
Asset retirement obligations (Note 19)	1,089	600	5,660
Other (Note 6)	39,676	28,147	265,537
Total current liabilities	189,202	201,569	1,901,594
Non-current liabilities			
Bonds payable (Notes 12 and 25)	10,000	10,000	94,339
Long-term loans payable (Notes 6, 12 and 25)	108,593	96,931	914,443
Deferred tax liabilities (Note 17)	21,521	27,023	254,933
Deferred tax liabilities for land revaluation (Note 6)	265	266	2,509
Provision for directors' retirement benefits	245	228	2,150
Provision for redemption of gift certificates	3,558	3,727	35,160
Net defined benefit liability (Note 15)	18,209	14,923	140,783
Long-term accounts payable - other	526	720	6,792
Lease obligations (Notes 11 and 25)	7,706	9,175	86,556
Long-term guarantee deposited	11,494	9,911	93,500
Asset retirement obligations (Note 19)	2,567	2,727	25,726
Other (Note 6)	2,328	3,861	36,424
Total non-current liabilities	187,017	179,496	1,693,358
Total liabilities	376,219	381,065	3,594,952
Net assets (Note 9)			
Shareholders' equity			
Capital stock:	17,796	17,796	167,886
Common stock, Authorised - 150,000,000 shares, Issued - 125,201,396 shares in 2017 and 2018			
Capital surplus	92,732	92,726	874,773
Retained earnings	125,490	135,057	1,274,122
Treasury shares	(3,234)	(3,190)	(30,094)
- 1,737,627 shares in 2017 - 1,713,817 shares in 2018			
Total shareholders' equity	232,786	242,390	2,286,698
Accumulated other comprehensive income (Note 8)			
Valuation difference on available-for-sale securities	31,227	37,662	355,301
Deferred gains or losses on hedges	21	59	556
Revaluation reserve for land (Note 6)	125	124	1,169
Foreign currency translation adjustment	(309)	(8)	(75)
Remeasurements of defined benefit plans	(629)	(658)	(6,207)
Total accumulated other comprehensive income	30,434	37,178	350,735
Subscription rights to shares	1,098	1,234	11,641
Non-controlling interests	3	3	28
Total net assets	264,323	280,807	2,649,122
Total liabilities and nets assets	¥ 640,543	¥ 661,873	$ 6,244,084

See accompanying notes.

Consolidated Statements of Income

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Years ended 31st March, 2017 and 2018	Millions of yen 2017	Millions of yen 2018	Thousands of U.S. dollars (Note 1) 2018
Net sales	¥ 901,221	¥ 921,871	$ 8,696,896
Cost of sales (Note 7)	637,837	655,646	6,185,339
Gross profit	263,384	266,224	2,511,547
Selling, general and administrative expenses			
Salaries and allowances	78,092	78,039	736,216
Rent expenses	37,073	38,210	360,471
Other	125,675	127,209	1,200,084
Total selling, general and administrative expenses	240,841	243,459	2,296,783
Operating income	22,542	22,765	214,764
Non-operating income			
Interest income	91	198	1,867
Dividend income	949	1,230	11,603
Gain on debt settlement	1,187	1,256	11,849
Share of profit of entities accounted for using equity method	-	195	1,839
Foreign exchange gains	-	485	4,575
Other	790	1,141	10,764
Total non-operating income	3,018	4,508	42,528
Non-operating expenses			
Interest expenses	1,081	1,003	9,462
Provision for redemption of gift certificates	1,161	913	8,613
Share of loss of entities accounted for using equity method	34	-	-
Loss on valuation of forward exchange contracts	159	-	-
Other	1,399	1,082	10,207
Total non-operating expenses	3,835	3,000	28,301
Ordinary income	21,725	24,272	228,981
Extraordinary income (Note 7)			
Gain on bargain purchase	-	2,010	18,962
Gain on sales of non-current assets	4,295	1,787	16,858
Gain on revision of retirement benefit plan	-	1,445	13,632
Reversal of provision for loss on store closings	265	-	-
Total extraordinary income	4,561	5,243	49,462
Extraordinary losses (Note 7)			
Impairment loss	2,300	3,479	32,820
Loss on store closings	2,921	1,639	15,462
Loss on retirement of non-current assets	1,059	1,177	11,103
Total extraordinary losses	6,281	6,296	59,396
Profit before income taxes	20,005	23,219	219,047
Income taxes - current (Note 17)	6,326	7,780	73,396
Income taxes - deferred (Note 17)	(619)	803	7,575
Total income taxes	5,706	8,583	80,971
Profit for the year	14,298	14,636	138,075
Profit attributable to non-controlling interests	0	0	0
Profit attributable to owners of parent	¥ 14,298	¥ 14,636	$ 138,075

See accompanying notes.

Consolidated Statements of Comprehensive Income

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Years ended 31st March, 2017 and 2018	Millions of yen 2017	Millions of yen 2018	Thousands of U.S. dollars (Note 1) 2018
Profit for the year	¥ 14,298	¥ 14,636	$ 138,075
Other comprehensive income (Note 8)			
Valuation difference on available-for-sale securities	893	6,435	60,707
Deferred gains or losses on hedges	53	37	349
Revaluation reserve for land	-	(1)	(9)
Foreign currency translation adjustment	45	(15)	(141)
Remeasurements of defined benefit plans, net of tax	1,655	(29)	(273)
Share of other comprehensive income of entities accounted for using equity method	(753)	316	2,981
Total other comprehensive income	1,893	6,743	63,613
Comprehensive income	¥ 16,192	¥ 21,380	$ 201,698
Comprehensive income attributable to:			
Owners of parent	¥ 16,192	¥ 21,380	$ 201,698
Non-controlling interests	0	0	0

See accompanying notes.

Consolidated Statements of Changes in Net Assets

H2O RETAILING CORPORATION and Consolidated Subsidiaries

	Millions of yen				
	Shareholders' equity				
Years ended 31st March 2017 and 2018	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at 1st April 2016	¥17,796	¥92,783	¥115,820	¥(3,387)	¥223,013
Changes of items during period					
Dividends of surplus			(4,628)		(4,628)
Profit attributable to owners of parent			14,298		14,298
Purchase and disposal of treasury shares		(50)		153	102
Net changes of items other than shareholders' equity					
Total changes of items during period	-	(50)	9,670	153	9,772
Balance at 31st March 2017	¥17,796	¥92,732	¥125,490	¥(3,234)	¥232,786
Balance at 1st April 2017	¥17,796	¥92,732	¥125,490	¥(3,234)	¥232,786
Cumulative effects of changes in accounting policies			(130)		(130)
Restated balance	17,796	92,732	125,360	(3,234)	232,655
Changes of items during period					
Dividends of surplus			(4,938)		(4,938)
Profit attributable to owners of parent			14,636		14,636
Purchase and disposal of treasury shares		(6)		43	37
Net changes of items other than shareholders' equity					
Total changes of items during period	-	(6)	9,697	43	9,734
Balance at 31st March 2018	¥17,796	¥92,726	¥135,057	¥(3,190)	¥242,390

	Millions of yen								
	Accumulated other comprehensive income								
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehen-sive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at 1st April 2016	¥30,333	¥185	¥125	¥182	¥(2,285)	¥28,541	¥1,028	¥3	¥252,587
Changes of items during period									
Dividends of surplus									(4,628)
Profit attributable to owners of parent									14,298
Purchase and disposal of treasury shares									102
Net changes of items other than shareholders' equity	893	(163)	-	(491)	1,655	1,893	69	0	1,963
Total changes of items during period	893	(163)	-	(491)	1,655	1,893	69	0	11,735
Balance at 31st March 2017	¥31,227	¥21	¥125	¥(309)	¥(629)	¥30,434	¥1,098	¥3	¥264,323
Balance at 1st April 2017	¥31,227	¥21	¥125	¥(309)	¥(629)	¥30,434	¥1,098	¥3	¥264,323
Cumulative effects of changes in accounting policies									(130)
Restated balance	31,227	21	125	(309)	(629)	30,434	1,098	3	264,192
Changes of items during period									
Dividends of surplus									(4,938)
Profit attributable to owners of parent									14,636
Purchase and disposal of treasury shares									37
Net changes of items other than shareholders' equity	6,435	37	(1)	300	(29)	6,743	136	0	6,880
Total changes of items during period	6,435	37	(1)	300	(29)	6,743	136	0	16,615
Balance at 31st March 2018	¥37,662	¥59	¥124	¥(8)	¥(658)	¥37,178	¥1,234	¥3	¥280,807

Year ended 31st March 2018	Thousands of U.S. dollars (Note 1) Shareholders' equity Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at 1st April 2017	$167,886	$874,830	$1,183,867	$(30,509)	$2,196,094
Cumulative effects of changes in accounting policies			(1,226)		(1,226)
Restated balance	167,886	874,830	1,182,641	(30,509)	2,194,858
Changes of items during period					
Dividends of surplus			(46,584)		(46,584)
Profit attributable to owners of parent			138,075		138,075
Purchase and disposal of treasury shares		(56)		405	349
Net changes of items other than shareholders' equity					
Total changes of items during period	-	(56)	91,481	405	91,830
Balance at 31st March 2018	$167,886	$874,773	$1,274,122	$(30,094)	$2,286,698

	Thousands of U. S. dollars (Note 1) Accumulated other comprehensive income Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehen-sive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at 1st April 2017	$294,594	$198	$1,179	$(2,915)	$(5,933)	$287,113	$10,358	$28	$2,493,613
Cumulative effects of changes in accounting policies									(1,226)
Restated balance	294,594	198	1,179	(2,915)	(5,933)	287,113	10,358	28	2,492,377
Changes of items during period									
Dividends of surplus									(46,584)
Profit attributable to owners of parent									138,075
Purchase and disposal of treasury shares									349
Net changes of items other than shareholders' equity	60,707	349	(9)	2,830	(273)	63,613	1,283	0	64,905
Total changes of items during period	60,707	349	(9)	2,830	(273)	63,613	1,283	0	156,745
Balance at 31st March 2018	$355,301	$556	$1,169	$(75)	$(6,207)	$350,735	$11,641	$28	$2,649,122

See accompanying notes.

Consolidated Statements of Cash Flows

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Years ended 31st March 2017 and 2018	Millions of yen 2017	Millions of yen 2018	Thousands of U.S. dollars (Note 1) 2018
Cash flows from operating activities			
Profit before income taxes	¥ 20,005	¥ 23,219	$ 219,047
Depreciation	15,857	16,223	153,047
Impairment loss	2,300	3,479	32,820
Loss on store closings	2,248	993	9,367
Amortisation of goodwill	612	570	5,377
Gain on bargain purchase	-	(2,010)	(18,962)
Gain on revision of retirement benefit plan	-	(1,445)	(13,632)
Increase (decrease) in allowance for doubtful accounts	(667)	(44)	(415)
Increase (decrease) in provision for bonuses	(160)	58	547
Increase (decrease) in provision for directors' bonuses	29	(17)	(160)
Increase (decrease) in net defined benefit liability	(2,254)	(1,840)	(17,358)
Increase (decrease) in provision for directors' retirement benefits	40	(17)	(160)
Increase (decrease) in provision for redemption of gift certificates	374	169	1,594
Increase (decrease) in provision for loss on store closings	145	(324)	(3,056)
Increase (decrease) in provision for point card certificates	(345)	208	1,962
Interest and dividend income	(1,041)	(1,428)	(13,471)
Interest expenses	1,081	1,003	9,462
Share of (profit) loss of entities accounted for using equity method	34	(195)	(1,839)
Loss (gain) on sales of non-current assets	(4,295)	(1,787)	(16,858)
Loss on retirement of non-current assets	497	600	5,660
Loss (gain) on valuation of forward exchange contracts	159	-	-
Decrease (increase) in notes and accounts receivable - trade	3,196	(2,248)	(21,207)
Decrease (increase) in inventories	199	1,796	16,943
Increase (decrease) in notes and accounts payable - trade	(3,033)	833	7,858
Increase (decrease) in accrued consumption taxes	1,944	(2,481)	(23,405)
Increase (decrease) in gift certificates	2,070	10,030	94,622
Increase (decrease) in advances received	5,852	(11,247)	(106,103)
Other	2,267	3,999	37,726
Subtotal	47,118	38,098	359,415
Interest and dividend income received	965	1,369	12,915
Interest expenses paid	(1,073)	(1,006)	(9,490)
Income taxes paid	(8,266)	(5,721)	(53,971)
Cash flows from operating activities	38,742	32,739	308,858
Cash flows from investing activities			
Decrease (increase) in time deposits	10	19	179
Purchase of property, plant and equipment	(23,983)	(19,197)	(181,103)
Proceeds from sales of property, plant and equipment	5,827	3,259	30,745
Purchase of intangible assets	(3,340)	(4,009)	(37,820)
Proceeds from sales of intangible assets	0	1,501	14,160
Payments for asset retirement obligations	(586)	(973)	(9,179)
Purchase of investment securities	(5,178)	(53)	(500)
Proceeds from sales and redemption of short-term and long-term investment securities	158	1	9
Payments for transfer of business (Note 10)	-	(14,536)	(137,132)
Payments of long-term loans receivable	-	(435)	(4,103)
Collection of long-term loans receivable	197	190	1,792
Payments for guarantee deposits	(570)	(2,756)	(26,000)
Proceeds from collection of guarantee deposits	2,142	1,499	14,141
Cash flows from investing activities	(25,325)	(35,492)	(334,830)
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	2,000	(2,000)	(18,867)
Proceeds from long-term loans payable	38,000	30,150	284,433
Repayments of long-term loans payable	(10,777)	(29,578)	(279,037)
Redemption of bonds	(2,100)	(6,600)	(62,264)
Proceeds from sales of treasury shares	0	0	0
Purchase of treasury shares	(4)	(6)	(56)
Cash dividends paid	(4,628)	(4,938)	(46,584)
Repayments of lease obligations	(787)	(839)	(7,915)
Cash flows from financing activities	21,703	(13,812)	(130,301)
Effect of exchange rate change on cash and cash equivalents	(150)	253	2,386
Net increase (decrease) in cash and cash equivalents	34,969	(16,311)	(153,877)
Cash and cash equivalents at beginning of year	48,492	83,462	787,377
Cash and cash equivalents at end of year (Note 10)	¥ 83,462	¥ 67,150	$ 633,490

See accompanying notes.

Notes to the Consolidated Financial Statements

H2O RETAILING CORPORATION and Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

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

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

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

The U.S. dollar amounts shown in the accompanying consolidated financial statements and notes thereto were translated from the presented Japanese yen amounts into U.S. dollar amounts at the rate of ¥106 to U.S. $1.00, using the prevailing exchange rate at 31st March 2018, and were then rounded down. As a result, the totals shown in the accompanying consolidated financial statements in U.S. dollars do not necessarily agree with the sums of the individual amounts. The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan. 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 associates

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

The consolidated financial statements include the accounts of the Company and its 55 (52 in 2017) majority owned subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation. The principal subsidiaries are Hankyu Hanshin Department Stores, Inc., Izumiya Co., Ltd. and Hankyu Oasis Co., Ltd.

In the year ended 31st March 2018, the companies included within the scope of consolidation are summarised below.

- Shinko Management, Inc., due to acquisition of shares
- H2O (China) Investment Co., Ltd., due to new establishment, a specified subsidiary
- Suzhou Izumiya Supermarkets Co., Ltd., due to new establishment

The equity method was applied to 5 (4 in 2017) associates for the year ended 31st March 2018. In the year ended 31st March 2018, KS Building KK was included in the scope of equity method associates as a result of business succession. The principal associates were Ningbo Development Co., Ltd. and Hankyu Hanshin Point Co., Ltd.

In the year ended 31st March 2018, 4 (2 in 2017) consolidated subsidiaries had a financial year ending on 31st December. With respect to the period from the subsidiary's year-end to 31st March, necessary adjustments were made for significant transactions to reflect them appropriately in the consolidated financial statements.

Securities

Investment securities consist principally of marketable and nonmarketable equity securities. The Companies categorise the securities as "available-for-sale." Available-for-sale securities with fair market values 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.

Inventories

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

Property, plant and equipment

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

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

Software

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

Allowance for doubtful accounts

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

Provision for bonuses

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

Provision for directors' bonuses

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

Provision for point card certificates

The Companies provide provision for point card certificates based on the estimated amount to be incurred for sales promotion expenses from the use of points given to customers.

Provision for loss on store closings

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

Provision for directors' retirement benefits

With regard to retirement benefits for directors of some consolidated subsidiaries, the liability for lump-sum payments is stated at the amount which would be required to be paid if they retired as of the balance sheet date. The amount of provision for executive officers' severance and retirement benefits as of 31st March 2017 and 2018 was ¥33 million and ¥25 million ($235 thousand), respectively.

Provision for redemption of gift certificates

The Companies record a liability for gift certificates upon the issuance of the certificates to its customers. If the gift certificates are not redeemed by customers within a certain time period, the Companies reverse the liability and recognise a gain. A provision is recorded by the Companies for the unredeemed gift certificates previously recognised as gain based on the estimated future redemption of those certificates.

Retirement benefits

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

Translation of foreign currencies

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

Hedge accounting

(a) Accounting method

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

(b) Hedging instruments and hedged items

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

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

(c) Policies on hedges

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

(d) Evaluation of hedge effectiveness

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

Goodwill

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

Cash flow statements

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

Consumption taxes

Consumption taxes are excluded from revenue and expense accounts, which are subject to such taxes. However, the non-deductible portion of consumption taxes is accounted for as expense in the same year the taxes are incurred.

Per share information

Computations of basic profit per share are based on the weighted average number of shares outstanding during each period. For diluted profit per share for the years ended 31st March 2017 and 2018, see Note 22.

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

3. Changes in Accounting Policies

In some equity method associates, income and provision related to the points given to customers were previously recorded in “Net sales” and “Selling, general and administrative expenses,” respectively. From the fiscal year ended 31st March 2018, the accounting treatment for the points given to customers changed and they are accounted for as deposits received from customers.

The reason of this change is to more adequately reflect the actual transactions as the result of reviewing the process for awarding and adjusting the points after the Companies’ point service was changed to the “S-Point” common point service operated by Hankyu Hanshin Holdings Group.

The beginning balance of net assets of the current fiscal year reflects the accumulated effects calculated based on the difference between the balances of unredeemed points and provision for point card certificates at the end of the previous fiscal year. No retroactive application was made as the effect on profit for the previous fiscal year and the accumulated effect on the beginning balance of net assets of the previous fiscal year are immaterial.

As a result of this change, the beginning balance of retained earnings of the current fiscal year decreased by ¥130 million ($1,226 thousand). The effects on ordinary income, profit before income taxes and per share information are immaterial.

4. Accounting Standards not yet Applied

“Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 29, 30th March 2018)
“Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, 30th March 2018)

(Overview)

This is a comprehensive accounting standard for revenue recognition. Revenue is recognised by applying the following five steps:

Step 1: Identify the contract with customers.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognise revenue when or as it satisfies performance obligations.

(Date of Application)

The Company will apply the accounting standard and the implementation guidance from the beginning of the year ending 31st March 2022.

(Effect of Application)

The Company is in the process of determining the effect of the application.

“Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, 16th February 2018)

“Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, 16th February 2018)

(Overview)

The treatment of future taxable temporary differences pertaining to stocks of subsidiaries in the non-consolidated financial statements has been revised, and the treatment of recoverability of deferred tax assets in companies that fall under Category 1 has been clarified.

(Date of Application)

The Company will apply the accounting standard and the implementation guidance from the beginning of the year ending 31st March 2019.

(Effect of Application)

The Company is in the process of determining the effect of the application.

5. Changes in Presentation

Consolidated statements of cash flows

“Increase (decrease) in gift certificates” which was previously included in “Other” of “Cash flows from operating activities” in the previous fiscal year was reclassified as a separate line item effective from the fiscal year ended 31st March 2018 due to the increase in their materiality. The respective amount for the previous year was reclassified to conform to the current year’s presentation.

As a result of this change, “Other” of “Cash flows from operating activities” in the amount of ¥4,338 million for the previous fiscal year was reclassified to “Increase (decrease) in gift certificates” in the amount of ¥2,070 million and “Other” in the amount of ¥2,267 million.

6. Matters Related to Consolidated Balance Sheets

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

	Millions of yen		*Thousands of U.S. dollars*
	2017	**2018**	**2018**
Reduction entry amount:	¥ 405	¥ 404	$ 3,811
Buildings and structures	268	267	2,518
Machinery, equipment and vehicles	57	57	537
Land	44	44	415
Other	34	34	320

2. Assets related to nonconsolidated subsidiaries and associates were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2017	**2018**	**2018**
Investment securities (stocks)	¥ 10,739	¥ 11,346	$ 107,037
[Investments in entities under common control]	[10,414]	[10,715]	[101,084]

3. Pledged assets

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

	Millions of yen		*Thousands of U.S. dollars*
	2017	**2018**	**2018**
Buildings and structures	¥ 5,851	¥ 5,063	$ 47,764
Land	16,990	16,990	160,283
Other	19	15	141
	¥ 22,861	¥ 22,069	$ 208,198
Current portion of long-term loans payable	¥ 235	¥ 20,211	$ 190,669
Long-term loans payable	22,313	2,101	19,820
	¥ 22,549	¥ 22,313	$ 210,500

Deposits under the Installment Sales Act were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2017	**2018**	**2018**
Guarantee deposits	¥ 172	¥ 192	$ 1,811

Deposits to secure accounts payable for the purchase of fruit and vegetables were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2017	**2018**	**2018**
Guarantee deposits	¥ 10	¥ 10	$ 94

Deposits under the Real Estate Brokerage Act were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2017	**2018**	**2018**
Guarantee deposits	¥ –	¥ 10	$ 94

4. Land revaluation

In accordance with the Act on Revaluation of Land and Act on Partial Amendment to the Act on Revaluation of Land, land used for business owned by the Company and some consolidated subsidiaries was revaluated. The unrealised gains and losses, net of deferred taxes, were excluded from the statement of income and reported as "Revaluation reserve for land" in net assets, and the relevant deferred taxes were shown as "Deferred tax liabilities for land revaluation" in liabilities at 31st March 2017 and 2018.

Related information was as follows:

	Millions of yen		*Thousands of U.S. dollars*
Date of revaluations: 28th February 2002 and 31st March 2002	2017	**2018**	**2018**
Difference between book value of land after revaluation and market value of land	¥ (842)	¥ (826)	$ (7,792)

5. Commitment agreements

In order to obtain working funds efficiently, the Company and some consolidated subsidiaries had loan commitment agreements with 2 financial institutions in 2017 and 2018. The loan commitment facilities and unused balances as of 31st March 2017 and 2018 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2017	**2018**	**2018**
Total loan commitment facilities	¥ 20,000	¥ 20,000	$ 188,679
Outstanding balances	–	–	–
Unused balances	¥ 20,000	¥ 20,000	$ 188,679

Some consolidated subsidiaries provide financial services using card loans and credit cards. The overdraft commitment facilities and unused balances as of 31st March 2017 and 2018 were as follows:

	Millions of yen				*Thousands of U.S. dollars*	
		2017		**2018**		**2018**
Total overdraft commitment facilities	¥	3,605	¥	3,918	$	36,962
Outstanding balances		357		399		3,764
Unused balances	¥	3,247	¥	3,518	$	33,188

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

6. Specified accounts pertaining to business combination

Specified accounts pertaining to business combination recorded for the fiscal year ended 31st March 2018 included expenses necessary for replacing customer credit cards (new issuance) and real estate acquisition tax in the amount of ¥1,500 million ($14,150 thousand) and ¥116 million ($1,094 thousand), respectively. In the consolidated balance sheets, they were recorded in "Other" under "Non-current liabilities" and "Other" under "Current liabilities" in the amount of ¥1,500 million ($14,150 thousand) and ¥116 million ($1,094 thousand), respectively.

7. Matters Related to Consolidated Statements of Income

1. Reduction in the book value of inventories

Reduction in book value of inventories held for ordinary sale due to a decline in profitability for the years ended 31st March 2017 and 2018 was as follows:

	Millions of yen				*Thousands of U.S. dollars*	
		2017		**2018**		**2018**
Cost of sales	¥	529	¥	490	$	4,622

2. Gain on bargain purchase

Gain on bargain purchase for the year ended 31st March 2018 consisted of the gain on bargain purchase due to a business transfer from Sogo & Seibu Co., Ltd.

3. Gain on sales of non-current assets

Gain on sales of non-current assets consisted mainly of gains on the sale of land of H2O RETAILING CORPORATION for the year ended 31st March 2017 and of gains on the sale of buildings and structures, as well as land of H2O Asset Management Co., Ltd. for the year ended 31st March 2018.

4. Gain on revision of retirement benefit plan

Gain on revision of retirement benefit plan for the year ended 31st March 2018 consisted of the gain due to a transition of a portion of the defined benefit pension plans and unfunded lump-sum payment plans to the defined contribution plans of Izumiya Co., Ltd. in April 2017.

5. Impairment loss

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

The Companies recorded impairment loss for the year ended 31st March 2017 as follows:

Company	Asset Group	Use	Location	Type of Assets	*Millions of yen*
Hankyu Hanshin Department Stores, Inc.	Hanshin Umeda Main Store and other	Store	Osaka City, Osaka and other	Buildings and structures	¥1,798
				Machinery, equipment and vehicles	1
				Other	70
Izumiya Co., Ltd.	Izumifuchu store and other	Store	Izumiotsu City, Osaka and other	Buildings and structures	¥1,547
				Machinery, equipment and vehicles	24
				Other	110
Hankyu Oasis Co., Ltd.	Saiin store and other	Store	Kyoto City, Kyoto and other	Buildings and structures	¥336
				Machinery, equipment and vehicles	71
				Other	92
KAZOKUTEI CO., LTD. and other	Kazokutei Tsurumi store and other	Store and other	Osaka City, Osaka and other	Buildings and structures	¥156
				Machinery, equipment and vehicles	8
				Goodwill	167
				Other	163

For Hankyu Hanshin Department Stores, Inc. impairment loss was recognised for Sakai-Kitahanada Hankyu store in the amount of ¥780 million for restoration costs resulting from the decision to discontinue operations and for Hanshin Umeda Main Store in the amount of ¥1,089 million resulting from an assessment of the recoverability of the carrying amounts of non-current assets by calculating the cash flows during the reconstruction work of the store.

For Izumiya Co., Ltd., impairment loss was recognised for asset groups in stores with continuous negative cash flows from operating activities and asset groups in closed stores.

For Hankyu Oasis Co., Ltd., KAZOKUTEI CO., LTD. and other companies, impairment loss was recognised for certain stores and facilities resulting from increased competition.

The recoverable amounts of assets were principally the present value of expected cash flows from on-going use and subsequent disposal of the assets based on a discount rate of 3.5%. For some asset groups, the recoverable amounts were the net saleable values based on real estate appraisals.

As a result, the Group recognised a total of ¥4,549 million of impairment loss, of which, ¥780 million and ¥1,468 million in connection with the closing of the Sakai-Kitahanada Hankyu store of Hankyu Hanshin Department Stores, Inc. and the Izumifuchu store and others of Izumiya Co., Ltd., respectively, were included in loss on store closings.

The Companies recorded impairment loss for the year ended 31st March 2018 as follows:

Company	Asset Group	Use	Location	Type of Assets	*Millions of yen*	*Thousands of U.S. dollars*
Izumiya Co., Ltd.	Hanazono store and other	Store	Nishinari-ku, Osaka City and other	Buildings and structures	¥1,318	$12,433
				Machinery, equipment and vehicles	21	198
				Other	217	2,047
Hankyu Oasis Co., Ltd.	Nishinokyo store and other	Store	Nakagyo-ku, Kyoto City and other	Buildings and structures	¥1,880	$17,735
				Machinery, equipment and vehicles	161	1,518
				Land	20	188
				Other	156	1,471
Qanat Co., Ltd. and other	Yao Mall store and other	Store and other	Yao City, Osaka and other	Buildings and structures	¥177	$1,669
				Machinery, equipment and vehicles	3	28
				Land	24	226
				Construction in progress	13	122
				Other	214	2,018

For Izumiya Co., Ltd., impairment loss was recognised for asset groups in stores with continuous negative cash flows from operating activities and asset groups in closed stores.

For Hankyu Oasis Co., Ltd., Qanat Co., Ltd. and other companies, impairment loss was recognised for certain stores and facilities resulting from increased competition.

The recoverable amounts of assets were principally the present value of expected cash flows from on-going use and subsequent disposal of the assets based on a discount rate of 4.0%. For some asset groups, the recoverable amounts were the net saleable values based on the expected sales amounts.

As a result, the Group recognised a total of ¥4,210 million ($39,716 thousand) of impairment loss, of which, ¥731 million ($6,896 thousand) in connection with the closing of the Hanazono store and others of Izumiya Co., Ltd. was included in loss on store closings.

6. Loss on store closings

Loss on store closings for the years ended 31st March 2017 and 2018 is summarised below:

	Millions of yen				*Thousands of U.S. dollars*
	2017		**2018**		**2018**
Izumiya Saikudani	¥	—	¥ (*2)	367	$ 3,462
Izumiya Hanazono		—	(*2)	240	2,264
Izumiya Suminodo	(*1)	218	(*2)	226	2,132
Izumiya Izumifuchu	(*1)	482	(*2)	187	1,764
Izumiya Abiko	(*1)	150	(*2)	116	1,094
Izumiya Shonai		—	(*2)	114	1,075
Izumiya Imafuku		—	(*2)	113	1,066
Izumiya Koya		—	(*2)	89	839
Izumiya Kitasukematsu	(*1)	109	(*2)	75	707
Izumiya Ushiku	(*1)	199	(*2)	52	490
Sakai-Kitahanada Hankyu	(*1)	804		—	—
Izumiya Kemigawahama		139		—	—
Izumiya Harborland	(*1)	101		—	—
Other	(*1)	717	(*2)	57	537
Total	¥	2,921	¥	1,639	$ 15,462

*1. The amounts included an impairment loss of ¥2,248 million in connection with store closings for the year ended 31st March 2017.

*2. The amounts included an impairment loss of ¥731 million ($6,896 thousand) and a loss on retirement of non-current assets of ¥153 million ($1,443 thousand) in connection with store closings for the year ended 31st March 2018.

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

	Millions of yen			*Thousands of U.S. dollars*
	2017		**2018**	**2018**
Buildings and structures	¥ 352	¥ (*)	425	$ 4,009
Machinery, equipment and vehicles	21		15	141
Removal cost	547	(*)	715	6,745
Other	138	(*)	174	1,641
Total	¥ 1,059	¥ (*)	1,331	$ 12,556

* The amounts included a loss on retirement of non-current assets for Izumiya Kitasukematsu of ¥153 million ($1,443 thousand) for the year ended 31st March 2018, which is presented in “Loss on store closings” under “Extraordinary losses.”

8. Reversal of provision for loss on store closings

For the year ended 31st March 2017, the amount of reversal of provision for loss on store closings consisted of the difference between the amount estimated in 2016 and the actual amount incurred in 2017.

8. Matters Related to Consolidated Statements of Comprehensive Income

The recycling and effect of deferred income taxes on other comprehensive income for the years ended 31st March 2017 and 2018 is summarised as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2017	**2018**	**2018**
Other comprehensive income			
Valuation difference on available-for-sale securities			
Amount arising for the year	¥ 1,279	¥ 9,282	$ 87,566
Reclassification adjustments	(10)	—	—
Amount before the effect of deferred income tax	1,268	9,282	87,566
Effect of deferred income tax	(375)	(2,846)	(26,849)
Valuation difference on available-for-sale securities	893	6,435	60,707
Deferred gains or losses on hedges			
Amount arising for the year	81	57	537
Effect of deferred income tax	(28)	(20)	(188)
Deferred gains or losses on hedges	53	37	349
Revaluation reserve for land			
Amount arising for the year	—	—	—
Reclassification adjustments	—	—	—
Amount before the effect of deferred income tax	—	—	—
Effect of deferred income tax	—	(1)	(9)
Revaluation reserve for land	—	(1)	(9)
Foreign currency translation adjustment			
Amount arising for the year	45	(15)	(141)
Reclassification adjustments	—	—	—
Amount before the effect of deferred income tax	45	(15)	(141)
Effect of deferred income tax	—	—	—
Foreign currency translation adjustment	45	(15)	(141)
Remeasurements of defined benefit plans, net of tax			
Amount arising for the year	1,983	377	3,556
Reclassification adjustments	517	(487)	(4,594)
Amount before the effect of deferred income tax	2,501	(110)	(1,037)
Effect of deferred income tax	(845)	81	764
Remeasurements of defined benefit plans, net of tax	1,655	(29)	(273)
Share of other comprehensive income of entities accounted for using equity method			
Amount arising for the year	(753)	316	2,981
Total other comprehensive income	¥ 1,893	¥ 6,743	$ 63,613

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

1. Changes in number of shares issued and outstanding during the years ended 31st March 2017 and 2018 were as follows:

Common stock outstanding

	Number of shares	
	2017	**2018**
Balance at beginning of year	125,201,396	125,201,396
Increase	–	–
Decrease	–	–
Balance at end of year	125,201,396	125,201,396

Treasury shares outstanding

	Number of shares	
	2017	**2018**
Balance at beginning of year	1,819,577	1,737,627
Increase due to purchase of odd-lot shares	2,539	3,292
Decrease due to sales of odd-lot shares	(489)	(102)
Decrease due to exercise of stock options	(84,000)	(27,000)
Balance at end of year	1,737,627	1,713,817

2. Subscription rights to shares

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
H2O Retailing Corporation:			
March 2009 stock options	¥ 20	¥ 20	$ 188
March 2010 stock options	45	43	405
March 2011 stock options	54	52	490
February 2012 stock options	69	63	594
March 2013 stock options	161	130	1,226
March 2014 stock options	141	138	1,301
March 2015 stock options	233	233	2,198
March 2016 stock options	197	197	1,858
March 2017 stock options	175	175	1,650
March 2018 stock options (*1)	–	179	1,688
Total	¥ 1,098	¥ 1,234	$ 11,641

*1: For March 2018 stock options, the exercise period had not started as at 31st March 2018.

3. Dividends

Dividends paid in the year ended 31st March 2017

Resolution	Class of shares	Total dividends (*Millions of yen*)	Dividend per share (*Yen*)	Record date	Effective date
12th May 2016 Board of Directors' meeting	Common stock	¥2,159	¥17.50	31st March 2016	1st June 2016
26th October 2016 Board of Directors' meeting	Common stock	¥2,468	¥20.00	30th September 2016	30th November 2016

Dividends with a record date in the year ended 31st March 2017 but an effective date in the year ended 31st March 2018

Resolution	Class of shares	Source	Total dividends (*Millions of yen*)	Dividend per share (*Yen*)	Record date	Effective date
11th May 2017 Board of Directors' meeting	Common stock	Retained earnings	¥2,469	¥20.00	31st March 2017	31st May 2017

Dividends paid in the year ended 31st March 2018

Resolution	Class of shares	Total dividends		Dividend per share		Record date	Effective date
		Millions of yen	*Thousands of U.S. dollars*	*Yen*	*U.S. dollars*		
11th May 2017 Board of Directors' meeting	Common stock	¥2,469	$23,292	¥20.00	$0.18	31st March 2017	31st May 2017
31st October 2017 Board of Directors' meeting	Common stock	¥2,469	$23,292	¥20.00	$0.18	30th September 2017	30th November 2017

Dividends with a record date in the year ended 31st March 2018 but an effective date in the year ending 31st March 2019

Resolution	Class of shares	Source	Total dividends		Dividend per share		Record date	Effective date
			Millions of yen	*Thousands of U.S. dollars*	*Yen*	*U.S. dollars*		
15th May 2018 Board of Directors' meeting	Common stock	Retained earnings	¥2,469	$23,292	¥20.00	$0.18	31st March 2018	1st June 2018

4. Net Assets

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

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

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

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

10. Cash Flows Information

1. The reconciliation of cash and deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of 31st March 2017 and 2018 was as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2017	**2018**	**2018**
Cash and deposits	¥ 83,481	¥ 67,150	$ 633,490
Time deposits with maturities exceeding three months	(19)	–	–
Cash and cash equivalents	¥ 83,462	¥ 67,150	$ 633,490

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

The following is a summary of assets and liabilities increased due to a business transfer from Sogo & Seibu Co., Ltd., the amount of business acquired and the payments for the business transfer:

	Millions of yen	*Thousands of U.S. dollars*
	2018	**2018**
Current assets	¥ 3,847	$ 36,292
Non-current assets	22,292	210,301
Current liabilities	(3,469)	(32,726)
Non-current liabilities	(5,534)	(52,207)
Gain on bargain purchase	(2,010)	(18,962)
Amount of business acquired	15,125	142,688
Cash and cash equivalents	(588)	(5,547)
Diff: Payments for transfer of business	¥ 14,536	$ 137,132

3. Significant noncash transactions were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2017	**2018**	**2018**
Assets and liabilities in connection with finance lease transactions	¥ 625	¥ 611	$ 5,764
Asset retirement obligations	1,220	786	7,415

11. Lease Transactions

Finance lease transactions

The Group as lessee

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

(1) Breakdown of lease investment assets

Property, plant and equipment

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

(2) Method of depreciation of leased assets

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

Finance lease transactions that do not 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, about non-capitalised finance leases at 31st March 2017 and 2018 was as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2017	**2018**	**2018**
Original lease obligations (including finance charges)	¥ 2,194	¥ 1,203	$ 11,349
Payments remaining:			
Payments due within one year	120	7	66
Payments due after one year	7	–	–
Total	¥ 127	¥ 7	$ 66

Rental expenses under such non-capitalised finance leases for the years ended 31st March 2017 and 2018 were ¥154 million and ¥120 million ($1,132 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*
	2017	**2018**	**2018**
Payments due within one year	¥ 11,986	¥ 12,292	$ 115,962
Payments due after one year	63,699	57,246	540,056
Total	¥ 75,685	¥ 69,539	$ 656,028

The Group as lessor

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Payments due within one year	¥ 1,976	¥ 2,330	$ 21,981
Payments due after one year	8,486	10,301	97,179
Total	¥ 10,463	¥ 12,632	$ 119,169

12. 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, commercial papers and the issuance of bonds. Temporary surplus funds are invested in highly secure financial assets. Derivative transactions are carried out within the confines of real demand according to internal control regulations, and no speculative transactions are performed.

(2) Financial instruments and their risks

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

Notes and accounts payable - trade, which are operating payables, are almost all subject to payment deadlines of one year or less. Commercial papers are used to procure necessary funds mainly for short-term operations. Long-term loans payable and bonds payable are mainly for capital investment. Repayment deadlines are at most 18 years and 11 months after the closing of accounts. Some are subject to interest rate risk because of floating interest rates. Moreover, notes and accounts payable - trade, and long-term loans payable and bonds payable are subject to the liquidity risk of the inability to make payment by the payment due date.

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

(3) Risk management system for financial instruments

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

At Hankyu Hanshin Department Stores, Inc., a consolidated subsidiary, the management of customer service units cooperates with the accounting office concerning notes and accounts receivable - trade arising from sales activities according to sales management guidelines and credit management guidelines and routinely monitors the status of key customers by managing due dates and balances for each. At the same time, 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 credit risk in the same way.

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

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

Management of price volatility risk

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

Management of liquidity risk

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

2. Matters related to fair value of financial instruments

The book values recorded in the consolidated balance sheets for the fiscal years ended 31st March 2017 and 2018 (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 chart (See “2. Financial instruments whose fair value is not readily determinable” shown below).

	Millions of yen					
	2017					
	Book value		Fair value		Difference	
(1) Cash and deposits	¥	83,481	¥	83,481	¥	–
(2) Notes and accounts receivable - trade		43,588				
Allowance for doubtful accounts		(358)				
		43,229		43,229		–
(3) Accounts receivable - other		5,063				
Allowance for doubtful accounts		(14)				
		5,049		5,049		–
(4) Investment securities						
Available-for-sale securities		86,221		86,221		–
Total assets	¥	217,981	¥	217,981	¥	–
(1) Notes and accounts payable - trade	¥	59,394	¥	59,394	¥	–
(2) Accounts payable - other		14,329		14,329		–
(3) Income taxes payable		4,744		4,744		–
(4) Bonds payable (*1)		16,600		16,828		(228)
(5) Long-term loans payable (*2)		138,179		138,507		(327)
Total liabilities	¥	233,248	¥	233,804	¥	(556)
Derivative transactions (*3)						
Hedge accounting is not applied	¥	(218)	¥	(218)	¥	–
Hedge accounting is applied		(106)		(106)		–
Total derivative transactions	¥	(324)	¥	(324)	¥	–

	Millions of yen			Thousands of U.S. dollars		
	2018			2018		
	Book value	Fair value	Difference	Book value	Fair value	Difference
(1) Cash and deposits	¥ 67,150	¥ 67,150	¥ –	$ 633,490	$ 633,490	$ –
(2) Notes and accounts receivable - trade	46,939			442,820		
Allowance for doubtful accounts	(355)			(3,349)		
	46,584	46,584	–	439,471	439,471	–
(3) Accounts receivable - other	5,984			56,452		
Allowance for doubtful accounts	(3)			(28)		
	5,980	5,980	–	56,415	56,415	–
(4) Investment securities						
Available-for-sale securities	95,510	95,510	–	901,037	901,037	–
Total assets	¥ 215,226	¥ 215,226	¥ –	$ 2,030,433	$ 2,030,433	$ –
(1) Notes and accounts payable - trade	¥ 62,794	¥ 62,794	¥ –	$ 592,396	$ 592,396	$ –
(2) Accounts payable - other	19,162	19,162	–	180,773	180,773	–
(3) Income taxes payable	6,324	6,324	–	59,660	59,660	–
(4) Bonds payable	10,000	10,207	(207)	94,339	96,292	(1,952)
(5) Long-term loans payable (*2)	139,493	139,184	309	1,315,971	1,313,056	2,915
Total liabilities	¥ 237,775	¥ 237,673	¥ 101	$ 2,243,160	$ 2,242,198	$ 952
Derivative transactions: (*3)						
Hedge accounting is applied	¥ (48)	¥ (48)	¥ –	$ (452)	$ (452)	$ –
Total derivative transactions	¥ (48)	¥ (48)	¥ –	$ (452)	$ (452)	$ –

*1. Figures shown include current portion of bonds.

*2. Figures shown include current portion of long-term loans payable.

*3. Receivables and payables arising from derivative transactions are shown in net. Net payable is shown in parentheses.

Note: 1. Matters related to the methods used to calculate fair value of financial instruments

Assets

(1) Cash and deposits, (2) Notes and accounts receivable - trade and (3) Accounts receivable - other

Because these items have short repayment periods, the fair value approximates book value. Therefore, the book value is deemed to be the fair value.

(4) Investment securities

The fair value of these securities depends on their stock market price, while the fair value of bonds depends on their stock market price or the price submitted by the correspondent financial institution.

Liabilities

(1) Notes and accounts payable - trade, (2) Accounts payable – other and (3) Income taxes payable

Because these items have short payment periods, the fair value approximates book value. Therefore, the book value is deemed to be the fair value.

(4) Bonds payable and (5) Long-term loans payable

The fair value of bonds payable and long-term loans payable is determined by discounting the current value at the assumed applicable interest rates should new bonds or loans be taken with the same total principal and interest. Bonds and long-term loans that are based on floating interest rates reflect market interest rates over the short term. In addition, because the Company's credit status has not changed substantially since taking on these loans and as the fair value approximates book value, the book value is deemed to be the fair value.

Derivative transactions

Fair value of derivative transactions is determined by quotes provided by counterparty financial institutions.

Interest rate swaps under the exceptional method are accounted for as an integral part of long-term loans payable, hedged items. Thus, their fair value is included in that of long-term loans payable (See (5) above).

Currency swaps under the designation method are accounted for as an integral part of long-term loans payable, hedged items. Thus, their fair value is included in that of long-term loans payable (See (5) above).

Foreign exchange forward contracts under the designation method are accounted for as an integral part of accounts payable - other, hedged items. Thus, their fair value is included in that of accounts payable - other.

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*
	2017	**2018**	**2018**
	Book value	Book value	Book value
Unlisted shares	¥ 16,810	¥ 19,033	$ 179,556
Guarantee deposits	69,060	70,079	661,122
Long-term guarantee deposited	11,494	9,911	93,500

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

2017	Millions of yen			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and deposits	¥ 83,481	¥ –	¥ –	¥ –
Notes and accounts receivable - trade	43,588	–	–	–
Notes and accounts receivable - other	5,063	–	–	–
Total	¥ 132,133	¥ –	¥ –	¥ –

2018	Millions of yen			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and deposits	¥ 67,150	¥ –	¥ –	¥ –
Notes and accounts receivable - trade	46,939	–	–	–
Notes and accounts receivable - other	5,984	–	–	–
Total	¥ 120,074	¥ –	¥ –	¥ –

2018	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 and deposits	$ 633,490	$ –	$ –	$ –
Notes and accounts receivable - trade	442,820	–	–	–
Notes and accounts receivable - other	56,452	–	–	–
Total	$ 1,132,773	$ –	$ –	$ –

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

2017	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
	Millions of yen					
Commercial papers	¥ 2,000	¥ –	¥ –	¥ –	¥ –	¥ –
Bonds payable	6,600	–	–	–	–	10,000
Long-term loans payable	29,585	42,491	201	16,200	18,200	31,500
Lease obligations	675	600	516	430	384	5,773
Total	¥ 38,861	¥ 43,092	¥ 718	¥ 16,630	¥ 18,584	¥ 47,273

2018	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
	Millions of yen					
Bonds payable	¥ –	¥ –	¥ –	¥ –	¥ –	¥ 10,000
Long-term loans payable	42,561	326	16,262	48,262	62	32,106
Lease obligations	764	704	630	600	565	6,673
Total	¥ 43,326	¥ 1,031	¥ 16,892	¥ 48,863	¥ 628	¥ 48,780

2018	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
	Thousands of U.S. dollars					
Bonds payable	$ –	$ –	$ –	$ –	$ –	$ 94,339
Long-term loans payable	401,518	3,075	153,415	455,301	584	302,886
Lease obligations	7,207	6,641	5,943	5,660	5,330	62,952
Total	$ 408,735	$ 9,726	$ 159,358	$ 460,971	$ 5,924	$ 460,188

13. Investment Securities

The following tables summarise acquisition cost and book value (fair value) of available-for-sale securities with available fair values as of 31st March 2017 and 2018.

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

	Millions of yen						*Thousands of U.S. dollars*		
	2017			**2018**			**2018**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥35,988	¥ 81,177	¥ 45,189	¥ 36,096	¥91,898	¥ 55,801	$ 340,528	$866,962	$ 526,424
Total	¥35,988	¥ 81,177	¥ 45,189	¥ 36,096	¥91,898	¥ 55,801	$ 340,528	$866,962	$ 526,424

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

	Millions of yen						*Thousands of U.S. dollars*		
	2017			**2018**			**2018**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 5,271	¥ 5,043	¥ (228)	¥ 5,171	¥ 3,612	¥(1,558)	$ 48,783	$ 34,075	$ (14,698)
Total	¥ 5,271	¥ 5,043	¥ (228)	¥ 5,171	¥ 3,612	¥(1,558)	$ 48,783	$ 34,075	$ (14,698)

Unlisted securities (¥6,070 million in 2017 and ¥7,687 million ($72,518 thousand) in 2018) are not included in the above tables since they do not have available fair values and it is extremely difficult to determine fair values.

The following table summarises sales of available-for-sale securities for the years ended 31st March 2017 and 2018:

	Millions of yen						*Thousands of U.S. dollars*		
	2017			**2018**			**2018**		
	Sales	Gains of sales	Losses on sales	Sales	Gains of sales	Losses on sales	Sales	Gains of sales	Losses on sales
Equity securities	¥ 158	¥ 12	¥ (19)	¥ 1	¥ 0	¥ –	$ 9	$ 0	$ –

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

The “acquisition cost” which appears in the tables above is the book value after impairment loss. Impairment loss for the years ended 31st March 2017 and 2018 was insignificant and its disclosure was omitted.

14. Derivative Transactions

1. Derivative transactions for which hedge accounting is not applied

Derivative transactions for which hedge accounting was not applied for the year ended 31st March 2017 are as below. There was no derivative transaction for which hedge accounting was not applied for the year ended 31st March 2018.

		Millions of yen			
		2017			
		Contract amount	Due after one year	Fair value	Gain (loss)
Non-market transaction	Foreign exchange forward contracts				
	Receive RMB / Pay EUR	¥ 691	¥ –	¥ (253)	¥ (253)
	Receive RMB / Pay JPY	7,322	–	35	35
Total		¥ 8,013	¥ –	¥ (218)	¥ (218)

Fair value is determined based on the forward exchange rates.

2. Derivatives for which hedge accounting is applied

(1) Currency related

For the year ended 31st March 2017

			Millions of yen		
			2017		
Method of hedge accounting	Type of derivative transactions	Hedged items	Contract amount	Due after one year	Fair value
Designation method of foreign exchange forward contract	Currency swaps Receive USD/ Pay JPY	Long-term loans	¥ 3,500	¥ 3,500	(Note)

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

For the year ended 31st March 2018

			Millions of yen			*Thousands of U.S. dollars*		
			2018			**2018**		
Method of hedge accounting	Type of derivative transactions	Hedged items	Contract amount	Due after one year	Fair value	Contract amount	Due after one year	Fair value
Designation method for foreign exchange forward contract	Currency swaps Receive USD/ Pay JPY	Long-term loans	¥ 3,500	¥ 3,500	(Note)	$ 33,018	$ 33,018	(Note)

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

(2) Interest related

For the year ended 31st March 2017

Method of hedge accounting	Type of derivative transactions	Hedged items	Millions of yen 2017 Contract amount	Due after one year	Fair value
Deferral method	Interest rate swaps Pay fixed/ Receive floating	Long-term loans	¥ 11,360	¥ 10,480	¥ (106) (Note 1)
Exceptional method for interest rate swaps	Interest rate swaps Pay fixed/ Receive floating	Long-term loans	9,146	4,808	(Note 2)
	Total		¥ 20,506	¥ 15,288	¥ (106)

(Note 1) Fair value is determined by quotes provided by counterparty financial institutions.

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

For the year ended 31st March 2018

Method of hedge accounting	Type of derivative transactions	Hedged items	Millions of yen 2018 Contract amount	Due after one year	Fair value	Thousands of U.S. dollars 2018 Contract amount	Due after one year	Fair value
Deferral method	Interest rate swaps Pay fixed/ Receive floating	Long-term loans	¥ 10,480	¥ –	¥(48) (Note 1)	$ 98,867	$ –	$(452) (Note 1)
Exceptional method for interest rate swaps	Interest rate swaps Pay fixed/ Receive floating	Long-term loans	4,808	3,501	(Note 2)	45,358	33,028	(Note 2)
Total			¥ 15,288	¥ 3,501	¥(48)	$ 144,226	$ 33,028	$(452)

(Note 1) Fair value is determined by quotes provided by counterparty financial institutions.

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

15. Employees' Severance and Retirement Benefits

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

Hankyu Hanshin Department Stores, Inc. has retirement benefits plans which consist of unfunded lump-sum payment plans, defined benefit pension plans and defined contribution pension plans. Izumiya Co., Ltd. has unfunded lump-sum payment plans, defined benefit pension plans and defined contribution pension plans. In April 2017, Izumiya Co., Ltd. transferred a portion of the defined benefit pension plans and unfunded lump-sum payment plans to defined contribution plans. Other subsidiaries also have unfunded lump-sum payment plans, defined benefit pension plans or defined contribution pension plans. Hankyu Hanshin Department Stores, Inc. and Izumiya Co., Ltd. each have a retirement benefit trust in their retirement benefit plans. Additional retirement benefits may be provided upon the retirement of employees, where those benefits are not considered to be retirement benefit obligations as calculated under actuarial methods in accordance with the accounting standard for retirement benefits. The employees of the Company are all seconded from Hankyu Hanshin Department Stores, Inc., Izumiya Co., Ltd., Hankyu Act For, Persona Co., Ltd. or Izumiya Card Co., Ltd. and are provided with the respective subsidiaries' retirement benefit plans. Some subsidiaries which have unfunded lump-sum payment plans, calculate net defined benefit liability and retirement benefit cost by the simplified method.

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

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

	Millions of yen		*Thousands of U.S. dollars*
	2017	**2018**	**2018**
Projected benefit obligation - beginning balance	¥ 54,952	¥ 52,620	$ 496,415
Service cost	2,074	1,829	17,254
Interest cost	429	388	3,660
Changes in actuarial differences	(936)	(335)	(3,160)
Past service cost	(1,250)	16	150
Retirement benefits paid	(2,648)	(2,742)	(25,867)
Decrease due to the transfer to defined contribution plans	–	(3,717)	(35,066)
Projected benefit obligation - ending balance	¥ 52,620	¥ 48,059	$ 453,386

(2) Changes in plan assets were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2017	**2018**	**2018**
Plan assets - beginning balance	¥ 36,336	¥ 36,986	$ 348,924
Expected return on plan assets	1,148	1,086	10,245
Changes in actuarial differences	(172)	42	396
Employers' contributions	1,543	1,888	17,811
Retirement benefits paid	(1,869)	(1,883)	(17,764)
Decrease due to the transfer to defined contribution plans	–	(2,789)	(26,311)
Plan assets - ending balance	¥ 36,986	¥ 35,331	$ 333,311

(3) Ending balances of projected benefit obligation and plan assets and amounts included in the consolidated balance sheets as of 31st March 2017 and 2018 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2017	**2018**	**2018**
Projected benefit obligation under funded plans	¥ 40,086	¥ 39,666	$ 374,207
Plan assets	(36,986)	(35,331)	(333,311)
	3,099	4,335	40,896
Projected benefit obligation under non-funded plans	12,533	8,393	79,179
Net balance in the consolidated balance sheet	¥ 15,633	¥ 12,728	$ 120,075
Net defined benefit liability	¥ 16,316	¥ 12,968	$ 122,339
Net defined benefit asset	(683)	(240)	(2,264)
Net balance in the consolidated balance sheet	¥ 15,633	¥ 12,728	$ 120,075

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

	Millions of yen		*Thousands of U.S. dollars*
	2017	**2018**	**2018**
Service cost	¥ 2,074	¥ 1,829	$ 17,254
Interest cost	429	388	3,660
Expected return on plan assets	(1,148)	(1,086)	(10,245)
Amortisation of actuarial differences	517	485	4,575
Amortisation of past service cost	(32)	(52)	(490)
Other	57	61	575
Retirement benefit cost	¥ 1,898	¥ 1,627	$ 15,349
Gain on transfer to defined contribution plans (Note)	¥ –	¥ (1,445)	$ (13,632)

Note: Gain on transfer to defined contribution plans was included in “Extraordinary income.”

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

	Millions of yen		*Thousands of U.S. dollars*
	2017	**2018**	**2018**
Past service cost	¥ 1,218	¥ (483)	$ (4,556)
Actuarial differences	1,282	372	3,509
Total	¥ 2,501	¥ (110)	$ (1,037)

Note: Past service cost and actuarial differences for the year ended 31st March 2018 included a reclassification in the amount of ¥(414) million ($(3,905) thousand) for past service cost and ¥(490) million ($(4,622) thousand) for actuarial differences due to the transfer of a portion of the defined benefit pension plans and unfunded lump-sum payment plans to defined contribution plans.

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

	Millions of yen		*Thousands of U.S. dollars*
	2017	**2018**	**2018**
Unrecognised past service cost	¥ (1,218)	¥ (734)	$ (6,924)
Unrecognised actuarial differences	1,962	1,589	14,990
Total	¥ 744	¥ 854	$ 8,056

(7) Information on plan assets was as follows:

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

	2017	**2018**
General account of life insurance	42%	44%
Debt securities	19%	33%
Real estate investment funds	11%	13%
Cash and deposits	24%	6%
Equity securities	2%	2%
Other	2%	2%
Total	100%	100%

Total plan assets include 3% contribution to the retirement benefit trust in the retirement benefit plans for the years ended 31st March 2017 and 2018.

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

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

	2017	**2018**
Discount rate	0.79%	0.80%
Long-term expected rate of return	3.20%	3.17%
Estimated rate of salary increase	1.10%	1.13%

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

2. Defined benefit plans under the simplified method

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

	Millions of yen		*Thousands of U.S. dollars*
	2017	**2018**	**2018**
Projected benefit obligation - beginning balance	¥ 1,847	¥ 1,892	$ 17,849
Defined benefit cost	240	287	2,707
Retirement benefits paid	(182)	(214)	(2,018)
Other	(13)	(11)	(103)
Projected benefit obligation - ending balance	¥ 1,892	¥ 1,954	$ 18,433

(2) Ending balances of projected benefit obligation and plan assets and amounts included in the consolidated balance sheet as of 31st March 2017 and 2018 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2017	**2018**	**2018**
Projected benefit obligation under funded plans	¥ —	¥ —	$ —
Plan assets	—	—	—
	—	—	—
Projected benefit obligation under non-funded plans	1,892	1,954	18,433
Net balance in the consolidated balance sheet	1,892	1,954	18,433
Net defined benefit liability	1,892	1,954	18,433
Net balance in the consolidated balance sheet	¥ 1,892	¥ 1,954	$ 18,433

(3) Retirement benefit cost calculated by the simplified method was ¥240 million and ¥287 million ($2,707 thousand) for the years ended 31st March 2017 and 2018, respectively.

3. The amount required for contributions to the defined contribution plans of the Company and its consolidated subsidiaries was ¥372 million and ¥623 million ($5,877 thousand) for the years ended 31st March 2017 and 2018, respectively.

4. With the transfer of a portion of the defined benefit pension plans to defined contribution plans, the plan assets to be transferred to the defined contribution plans amounted to ¥2,789 million ($26,311 thousand), the total amount of which was transferred in the fiscal year ended 31st March 2018. With the transfer of a portion of the unfunded lump-sum payment plans to defined contribution plans, the plan assets to be transferred to the defined contribution plans amounted to ¥387 million ($3,650 thousand) and are planned to be transferred over 8 years. The plan assets not yet transferred amounted ¥332 million ($3,132 thousand) as of 31st March 2018 and were recorded under "Long-term accounts payable - other."

16. Stock Options

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

	Millions of yen		*Thousands of U.S. dollars*
	2017	**2018**	**2018**
Selling, general and administrative expenses	175	179	1,688

2. Outline of stock options

	Subscription rights to shares issued on March 2009 as stock options
Title and number of grantees	5 directors, 1 executive officer of the Company and 4 directors, 8 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (a)	46,000 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, 1 executive officer of the Company and 4 directors, 16 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (a)	82,500 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, 7 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (a)	97,000 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, 1 executive officer of the Company and 9 directors, 8 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (a)	99,500 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, 9 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (a)	99,000 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

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

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

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

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

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

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

3. Scale and changes in stock options

The following table describes the scale and changes in stock options that existed during the fiscal year ended 31st March 2018. The number of stock options has been translated into number of shares and is adjusted for the reverse stock split (two-to-one share) executed on 1st September 2014.

	Subscription rights to shares issued on									
In the year ended 31st March 2018:	March 2009 stock options	March 2010 stock options	March 2011 stock options	February 2012 stock options	March 2013 stock options	March 2014 stock options	March 2015 stock options	March 2016 stock options	March 2017 stock options	March 2018 stock options
Before vested										
As of 31st March 2017	—	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	—	—	100,500
Forfeited	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	—	100,500
Outstanding	—	—	—	—	—	—	—	—	—	—
After vested										
As of 31st March 2017	20,500	40,000	55,000	63,000	83,500	90,500	109,000	110,000	106,500	—
Vested	—	—	—	—	—	—	—	—	—	100,500
Exercised	—	2,000	2,000	5,000	16,000	2,000	—	—	—	—
Forfeited	—	—	—	—	—	—	—	—	—	—
Outstanding	20,500	38,000	53,000	58,000	67,500	88,500	109,000	110,000	106,500	100,500

Price information

	Yen									
	Subscription rights to shares issued on									
In the year ended 31st March 2018:	March 2009 stock options	March 2010 stock options	March 2011 stock options	February 2012 stock options	March 2013 stock options	March 2014 stock options	March 2015 stock options	March 2016 stock options	March 2017 stock options	March 2018 stock options
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1
Average exercise price	¥—	¥1,812	¥1,812	¥2,005	¥2,284	¥2,346	¥—	¥—	¥—	¥—
Fair value at the grant date	¥986	¥1,136	¥984	¥1,100	¥1,932	¥1,566	¥2,141	¥1,798	¥1,645	¥1,791

	U.S. dollars									
	Subscription rights to shares issued on									
In the year ended 31st March 2018:	March 2009 stock options	March 2010 stock options	March 2011 stock options	February 2012 stock options	March 2013 stock options	March 2014 stock options	March 2015 stock options	March 2016 stock options	March 2017 stock options	March 2018 stock options
Exercise price	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Average exercise price	$—	$17	$17	$18	$21	$22	$–	$–	$–	$–
Fair value at the grant date	$9	$10	$9	$10	$18	$14	$20	$16	$15	$16

4. 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 each fiscal year of 31st March 2018 as stock options was as follows:

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

Principal parameters and estimation method

	March 2018 stock options
Expected volatility of the underlying stock (Note 1)	28.89%
Remaining expected life of the option (Note 2)	4 years
Expected dividends on the stock (Note 3)	¥40.0 per share
Risk-free interest rate during the expected option term (Note 4)	(0.125)%

Note 1. In the fiscal year ended 31st March 2018, the fair value of stock options was calculated on the basis of the Company's weekly share price movements over 4 years from March 2014 to March 2018.

Due to the reverse stock split (two-to-one share) executed on 1st September 2014, the weekly share price information from 25th August 2014 to 5th September 2014 was excluded.

2. This period has been calculated using 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. In the fiscal year ended 31st March 2018, the amount of expected dividends was calculated based on the actual dividends paid as the final dividend for the year ended 31st March 2017 and the interim dividend for the year ended 31st March 2018.

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

5. Method used to estimate the number of vested share subscription rights

All of the share subscription rights were vested when granted.

17. 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 2017 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Deferred tax assets:			
Loss carryforwards	¥ 8,527	¥ 10,004	$ 94,377
Provision for redemption of gift certificates	1,145	1,191	11,235
Provision for bonuses	1,581	1,635	15,424
Net defined benefit liability	5,654	4,706	44,396
Depreciation	655	695	6,556
Impairment loss	10,134	10,500	99,056
Retirement benefit trust assets	720	727	6,858
Provision for loss on store closings	150	40	377
Asset retirement obligations	1,053	1,250	11,792
Shares in subsidiaries	1,550	1,550	14,622
Valuation on the consolidation	1,603	1,538	14,509
Provision for point card certificates	504	609	5,745
Allowance for doubtful accounts	1,153	1,127	10,632
Deferred loss on sales of shares of subsidiaries and associates based on Group Taxation Rule	10,294	10,294	97,113
Specified accounts pertaining to business combination	—	596	5,622
Other	4,760	4,883	46,066
	49,491	51,354	484,471
Valuation allowance	(26,726)	(29,153)	(275,028)
Total deferred tax assets	22,765	22,200	209,433
Deferred tax liabilities:			
Reserve for advanced depreciation of non-current assets	(5,147)	(5,039)	(47,537)
Land revaluation of consolidated subsidiaries	(5,471)	(6,320)	(59,622)
Valuation gain on investment securities resulting from conversion of retirement benefit trust assets (equity securities)	(3,511)	(3,511)	(33,122)
Valuation difference on available-for-sale securities	(13,835)	(16,681)	(157,367)
Deferred gain on sales of shares of subsidiaries and associates based on Group Taxation Rule	(1,036)	(1,036)	(9,773)
Other	(1,181)	(1,692)	(15,962)
Total deferred tax liabilities	(30,184)	(34,283)	(323,424)
Net deferred tax assets (liabilities)	¥ (7,419)	¥ (12,083)	$ (113,990)

Net deferred tax assets as of 31st March 2017 and 2018 were included in the consolidated balance sheets as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2017	**2018**	**2018**
Current assets	¥ 4,146	¥ 6,210	$ 58,584
Non-current assets	9,960	8,729	82,349
Current liabilities	(4)	(0)	(0)
Non-current liabilities	(21,521)	(27,023)	(254,933)

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

	2017	**2018**
Aggregate statutory income tax rate	30.9%	30.9%
Increase (reduction) in taxes resulting from:		
Non-deductible expenses	0.7	0.6
Permanent differences (including dividends)	(0.5)	(0.5)
Tax on inhabitants per capita	2.1	1.9
Amortisation of goodwill	0.9	0.8
Impairment loss on goodwill	0.3	—
Changes in valuation allowances	37.8	10.5
Adjustment of gain on sales of shares of subsidiaries on consolidated basis	(19.0)	—
Adjustment of book value of shares of subsidiaries	(27.5)	—
Gain on bargain purchase	—	(2.8)
Others	2.8	(4.5)
Effective income tax rate	28.5%	37.0%

18. Business Combination

Business transfer from Sogo & Seibu Co., Ltd.

The Company, Seven & i Holdings Co., Ltd. (“7&i”) and Sogo & Seibu Co., Ltd. (“Sogo & Seibu”) have concluded a final agreement on 3rd August 2017 regarding the transfer of the businesses of Sogo & Seibu’s Sogo Kobe and Seibu Takatsuki stores (“Applicable businesses”) to the Companies. Applicable businesses were transferred to H2O Asset Management Co., Ltd. (“H2O Asset Management”), a subsidiary of the Company, effective on 1st October 2017.

(1) Overview of the business combination

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

Corporate name:	Sogo & Seibu Co., Ltd.
	Shinko Management, Inc. (“Shinko Management”)
Lines of Business:	Businesses of Sogo Kobe and Seibu Takatsuki stores

(b) Primary reason for business combination

Based on the Memorandum of Understanding on Capital and Business Alliance executed on 6th October 2016 between the Companies and 7&i, both parties came to a conclusion after discussions that enhancing the convenience and satisfaction of customers in the Kansai area by effectively utilising the Companies' store networks, products and services would lead to the maximisation of enterprise value. The Companies, therefore, succeeded the applicable businesses.

(c) Date of business combination

1st October 2017

(d) Legal form of business combination

Sogo Kobe and Seibu Takatsuki's department store businesses and assets were transferred through an absorption type of company split, with Sogo & Seibu as the splitting company and the Company's wholly owned subsidiary H2O Asset Management as the succeeding company.

For certain of Sogo Kobe's land holdings and buildings and Seibu Takatsuki's land holdings and buildings, all of the issued shares of 7&i's wholly owned subsidiary Shinko Management were transferred to H2O Asset Management in consideration of cash after conducting the absorption type company split with Sogo & Seibu as the splitting company and Shinko Management as the succeeding company.

(e) Corporate name after business combination

No change

(f) Percentage of voting rights acquired

100%

(g) Primary reason for deciding the acquiring company

H2O Asset Management, a subsidiary of the Company, became the acquiring company since it acquired the businesses in consideration of cash.

(2) Operating period of the acquired company included in the consolidated statements of income

From 1st October 2017 through 31st March 2018

(3) Acquisition cost and consideration of the acquired company

	Millions of yen	*Thousands of U.S. dollars*
Consideration for the acquisition: Cash	¥ 15,125	$ 142,688
Acquisition cost	15,125	142,688

(4) Detail and amount of major acquisition-related costs

	Millions of yen	*Thousands of U.S. dollars*
Financial, legal and facility due diligence fees and fees for advisory, etc.	¥ 85	$ 801

(5) Amount and cause of gain on bargain purchase

	Millions of yen	Thousands of U.S. dollars
(a) Amount of gain on bargain purchase:	¥ 2,010	$ 18,962

(b) Cause: As the fair value of the net assets at the date of the business combination exceeded the acquisition cost, the difference amount was recognised as gain on bargain purchase.

(6) Amount and breakdown of assets acquired and liabilities assumed at the date of business combination

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 3,847	$ 36,292
Non-current assets	22,292	210,301
Total assets	26,140	246,603
Current liabilities	3,469	32,726
Non-current liabilities	5,534	52,207
Total liabilities	9,004	84,943

(7) Impact of the business combination on the consolidated statement of income of the fiscal year ended 31st March 2018 assuming that the business combination had been completed at the beginning of the current fiscal year

	Millions of yen	Thousands of U.S. dollars
Net sales	¥ 21,816	$ 205,811
Operating loss	(226)	(2,132)
Ordinary loss	(355)	(3,349)
Loss before income taxes	(355)	(3,349)
Loss	(231)	(2,179)
Loss per share (yen and U.S. dollars)	(1.87)	(0.01)

(Calculation method for estimated amounts of impact)

The estimated amounts of impact were calculated by adding the financial results of Sogo Kobe and Seibu Takatsuki stores before the business combination from April to September 2017 to the Company’s consolidated financial results assuming the business combination had been completed at the beginning of the current fiscal year with necessary adjustments.
This footnote is out of audit scope.

19. Asset Retirement Obligations

Asset retirement obligations recorded on the consolidated balance sheets were as follows.

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 year ended 31st March 2017, an estimated usage period of 1 to 47 years and a discount rate of 0.0% to 2.28% were used to calculate the amount of asset retirement obligations. For the fiscal year ended 31st March 2018, an estimated usage period of 1 to 47 years and a discount rate of 0.0% to 2.65% were used to calculate the amount of asset retirement obligations.

3. Changes in the total amount of asset retirement obligations

For the fiscal year ended 31st March 2017, asset retirement obligations increased by ¥780 million since it became possible to estimate the restoration costs related to stores to be closed, such as the Sakai-Kitahanada Hankyu store of Hankyu Hanshin Department Stores, Inc. In addition, the acquisition of fixed assets for the opening of branch shops by Hankyu Oasis Co., Ltd. also resulted in a ¥91 million increase in asset retirement obligations.

Decrease due to fulfillment of asset retirement obligations is related mainly to Izumiya Co., Ltd. and Hankyu Oasis Co., Ltd.

For the fiscal year ended 31st March 2018, asset retirement obligations increased by ¥604 million ($5,698 thousand) since it became possible to estimate the costs for asbestos removal related to the stores of Izumiya Co., Ltd. to be rebuilt. In addition, the acquisition of fixed assets for the opening of branch shops by Hankyu Oasis Co., Ltd. also resulted in a ¥58 million ($547 thousand) increase in asset retirement obligations.

Decrease due to fulfillment of asset retirement obligations is related mainly to Hankyu Hanshin Department Stores, Inc. and Izumiya Co., Ltd.

Changes in the balances were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2017	**2018**	**2018**
Balance at beginning of year	¥ 2,960	¥ 3,657	$ 34,500
Increase due to estimate changes	1,006	686	6,471
Increase due to acquisition of property, plant and equipment	214	100	943
Adjustments with passage of time	49	48	452
Decrease due to fulfilment of asset retirement obligations	(576)	(1,171)	(11,047)
Other	3	7	66
Balance at end of year	¥ 3,657	¥ 3,327	$ 31,386

20. Segment Information

1. General information about reportable segments

The Companies' 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 store business, but also in the supermarket business, the shopping centre business and other businesses. Accordingly, "Department Store Business," "Kobe Takatsuki Business," "Supermarket Business," "Shopping Centre Business" and "Other Businesses" have been designated as reportable segments.

The "Department Store Business" segment is primarily engaged in the sale of clothing, accessories, home furnishings, foods and others. The "Kobe Takatsuki Business" segment is engaged in the department stores of Sogo Kobe and Seibu Takatsuki. The "Supermarket Business" segment is engaged in general merchandise stores, supermarkets and food production, etc. The "Shopping Centre Business" segment is engaged in rental management of commercial facilities and building maintenance. The "Other Businesses" segment is engaged in hotels, remodelling, home delivery, membership management, temporary staffing, eating and drinking establishments, information processing and others.

2. Change in reportable segments

From the fiscal year ended 31st March 2018, the Companies changed their reportable segments from the previous four segments, namely "Department Store Business," "Supermarket Business," "Shopping Centre Business" and "Other Businesses" to the five segments by adding the new segment "Kobe Takatsuki Business."

This change follows the business transfer from Sogo & Seibu Co., Ltd. effective on 1st October 2017. The business related to transferred Sogo Kobe and Seibu Takatsuki stores was added to the previous four segments as a new separate segment "Kobe Takatsuki Business."

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

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

4. Information on net sales by reportable segment, segment income, segment assets and other

As of and for the year ended 31st March 2017	Department Store Business	Supermarket Business	Shopping Centre Business	Other Businesses	Adjustments	Total
	Millions of yen					
Net sales						
External customers	¥ 427,644	¥ 409,454	¥ 9,970	¥ 54,151	¥ –	¥ 901,221
Intersegment	529	5,406	17,085	24,213	(47,235)	–
Total net sales	¥ 428,174	¥ 414,860	¥ 27,056	¥ 78,365	¥ (47,235)	¥ 901,221
Segment income	¥ 15,993	¥ 3,977	¥ 5,038	¥ 2,863	¥ (5,330)	¥ 22,542
Segment assets	¥ 160,402	¥ 142,809	¥ 144,882	¥ 460,564	¥ (268,115)	¥ 640,543
Other items						
Depreciation	¥ 4,561	¥ 5,858	¥ 2,046	¥ 3,466	¥ (76)	¥ 15,857
Amortisation of goodwill	–	507	–	104	–	612
Investment in associated companies accounted for by the equity method	–	–	–	10,739	–	10,739
Impairment loss	1,869	2,226	14	438	–	4,549
Increase in property, plant and equipment and intangible assets	¥ 3,372	¥ 9,724	¥ 6,651	¥ 10,083	¥ (1,771)	¥ 28,060

Notes 1. Adjustments are as follows:

Adjustment of segment income was ¥(5,330) million for the year ended 31st March 2017 and comprised the elimination of intersegment transactions.

For the year ended 31st March 2017, adjustment of assets was ¥(268,115) million and included ¥(150,155) million offset elimination of investments and capital, ¥(114,955) million offset elimination of debts and credits and ¥(2,759) million adjustment for unrealised gains and losses on fixed assets.

Adjustment of depreciation amounting to ¥(76) million and adjustment of increase in property, plant and equipment and intangible assets amounting to ¥(1,771) million consisted of the elimination of intersegment transactions for the year ended 31st March 2017.

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

As of and for the year ended 31st March 2018	Department Store Business	Kobe Takatsuki Business	Supermarket Business	Shopping Centre Business	Other Businesses	Adjustments	Total
	Millions of yen						
Net sales							
External customers	¥ 446,225	¥ 23,379	¥ 386,552	¥ 10,367	¥ 55,346	¥ –	¥ 921,871
Intersegment	533	–	5,013	17,761	24,645	(47,953)	–
Total net sales	¥ 446,759	¥ 23,379	¥ 391,565	¥ 28,128	¥ 79,991	¥ (47,953)	¥ 921,871
Segment income	¥ 18,020	¥ 603	¥ 1,104	¥ 4,985	¥ 3,098	¥ (5,047)	¥ 22,765
Segment assets	¥ 170,690	¥ 29,492	¥ 144,347	¥ 154,550	¥ 488,182	¥ (325,390)	¥ 661,873
Other items							
Depreciation	¥ 4,227	¥ 159	¥ 5,746	¥ 2,254	¥ 3,903	¥ (67)	¥ 16,223
Amortisation of goodwill	–	–	507	–	62	–	570
Investment in associated companies accounted for by the equity method	–	238	–	–	11,107	–	11,346
Impairment loss	–	–	3,877	25	307	–	4,210
Increase in property, plant and equipment and intangible assets	¥ 9,618	¥ 260	¥ 9,226	¥ 1,558	¥ 5,873	¥ (95)	¥ 26,443

As of and for the year ended 31st March 2018	Department Store Business	Kobe Takatsuki Business	Supermarket Business	Shopping Centre Business	Other Businesses	Adjustments	Total
	Thousands of U.S. dollars						
Net sales							
External customers	$ 4,209,669	$ 220,556	$ 3,646,716	$ 97,801	$ 522,132	$ –	$ 8,696,896
Intersegment	5,028	–	47,292	167,556	232,500	(452,386)	–
Total net sales	$ 4,214,707	$ 220,556	$ 3,694,009	$ 265,358	$ 754,632	$ (452,386)	$ 8,696,896
Segment income	$ 170,000	$ 5,688	$ 10,415	$ 47,028	$ 29,226	$ (47,613)	$ 214,764
Segment assets	$ 1,610,283	$ 278,226	$ 1,361,764	$ 1,458,018	$ 4,605,490	$ (3,069,716)	$ 6,244,084
Other items							
Depreciation	$ 39,877	$ 1,500	$ 54,207	$ 21,264	$ 36,820	$ (632)	$ 153,047
Amortisation of goodwill	–	–	4,783	–	584	–	5,377
Investment in associated companies accounted for by the equity method	–	2,245	–	–	104,783	–	107,037
Impairment loss	–	–	36,575	235	2,896	–	39,716
Increase in property, plant and equipment and intangible assets	$ 90,735	$ 2,452	$ 87,037	$ 14,698	$ 55,405	$ (896)	$ 249,462

Notes 1. Adjustments are as follows:

Adjustment of segment income was ¥(5,047) million ($(47,613) thousand) for the year ended 31st March 2018 and comprised the elimination of intersegment transactions.

For the year ended 31st March 2018, adjustment of assets was ¥(325,390) million ($(3,069,716) thousand) and included ¥(163,401) million ($(1,541,518) thousand) offset elimination of investments and capital, ¥(160,134) million ($(1,510,698) thousand) offset elimination of debts and credits and ¥(2,742) million ($(25,867) thousand) adjustment for unrealised gains and losses on fixed assets.

Adjustment of depreciation amounting to ¥(67) million ($(632) thousand) and adjustment of increase in property, plant and equipment and intangible assets amounting to ¥(95) million ($(896) thousand) consisted of the elimination of intersegment transactions for the year ended 31st March 2018.

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

(Related Information)

Amortisation of goodwill and unamortised balance by reportable segments

As of and for the year ended 31st March 2017	Department Store Business	Supermarket Business	Shopping Centre Business	Other Businesses	Adjustments	Total
	Millions of yen					
Goodwill						
Amortisation	¥ –	¥ 507	¥ –	¥ 104	¥ –	¥ 612
Impairment	¥ –	¥ –	¥ –	¥ 167	¥ –	¥ 167
Unamortised balance	¥ –	¥ 4,733	¥ –	¥ 483	¥ –	¥ 5,217

As of and for the year ended 31st March 2018	Department Store Business	Kobe Takatsuki Business	Supermarket Business	Shopping Centre Business	Other Businesses	Adjustments	Total
	Millions of yen						
Goodwill							
Amortisation	¥ –	¥ –	¥ 507	¥ –	¥ 62	¥ –	¥ 570
Impairment	¥ –	¥ –	¥ –	¥ –	¥ –	¥ –	¥ –
Unamortised balance	¥ –	¥ –	¥ 4,226	¥ –	¥ 420	¥ –	¥ 4,647

As of and for the year ended 31st March 2018	Department Store Business	Kobe Takatsuki Business	Supermarket Business	Shopping Centre Business	Other Businesses	Adjustments	Total
	Thousands of U.S. dollars						
Goodwill							
Amortisation	$ –	$ –	$ 4,783	$ –	$ 584	$ –	$ 5,377
Impairment	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Unamortised balance	$ –	$ –	$ 39,867	$ –	$ 3,962	$ –	$ 43,839

Gain on bargain purchase by reportable segments

Gain on bargain purchase in the amount of ¥2,010 million ($18,962 thousand) was recognised in the segment “Kobe Takatsuki Business” for the year ended 31st March 2018 due to the business transfer from Sogo & Seibu Co., Ltd. effective on 1st October 2017.

21. Related Party Transactions

For the year ended 31st March 2017

Transactions with related parties

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

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

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

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

Classification	Name of company or individual	Location	Capital or investment	Occupation or business lines	Ownership of voting rights (%)	Nature of relationship	Nature of transactions	Value of transactions	Accounting designation	Ending balance
Subsidiaries of companies that have significant stakes in the reporting entity	Hankyu Corporation	Kita-ku, Osaka City	¥100 million	Railway operations, real estate rental and dealership operations, stage revues, retailing	–	Same person serving concurrently as director or corporate auditor for both parties, Rental of real estate	Rental expenses	¥8,590 million	Prepaid expenses	¥210 million
									Accounts payable - other	¥12 million
									Accrued expenses	¥20 million
							Fees for display of signs, etc.	¥8 million	Prepaid expenses	¥0 million
							Deposits of guarantee money	¥11 million	Guarantee deposits	¥21,824 million
							Return of guarantee money	¥4 million		
	HANSHIN ELECTRIC RAILWAY CO., LTD.	Fukushima -ku, Osaka City	¥29,384 million	Railway operations, real estate rental and dealership operations, sports business, travel business	11.98% shares of the Company directly held	Same person serving concurrently as director or corporate auditor for both parties, Rental of real estate	Rental expenses	¥3,500 million	Prepaid expenses	¥2 million
									Accrued expenses	¥21 million
							Fees for display of signs, etc.	¥6 million	Prepaid expenses	¥0 million
							Deposits of guarantee money	–	Guarantee deposits	¥7,628 million
							Return of guarantee money	–		

Business terms and policies for determination of business terms

Notes 1. Transaction amounts are exclusive of consumption taxes; ending balances (exclusive of guarantee deposits) include consumption taxes.

2. Rent expenses for buildings are determined by current market rates.

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

For the year ended 31st March 2018

Transactions with related parties

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

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

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

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

Classification	Name of company or individual	Location	Capital or investment	Occupation or business lines	Ownership of voting rights (%)	Nature of relationship	Nature of transactions	Value of transactions	Accounting designation	Ending balance
Subsidiaries of companies that have significant stakes in the reporting entity	Hankyu Corporation	Kita-ku, Osaka City	¥100 million ($943 thousand)	Railway operations, real estate rental and dealership operations, stage revues, retailing	–	Same person serving concurrently as director or corporate auditor for both parties, Rental of real estate	Rental expenses	¥8,831 million ($83,311 thousand)	Prepaid expenses	¥218 million ($2,056 thousand)
									Accounts payable - other	¥12 million ($113 thousand)
									Accrued expenses	¥82 million ($773 thousand)
							Fees for display of signs, etc.	¥8 million ($75 thousand)	Prepaid expenses	¥0 million ($0 thousand)
							Deposits of guarantee money	¥59 million ($556 thousand)	Guarantee deposits	¥21,881 million ($206,424 thousand)
							Return of guarantee money	¥1 million ($9 thousand)		
	HANSHIN ELECTRIC RAILWAY CO., LTD.	Fukushima-ku, Osaka City	¥29,384 million ($277,207 thousand)	Railway operations, real estate rental and dealership operations, sports business, travel business	11.98% shares of the Company directly held	Same person serving concurrently as director or corporate auditor for both parties, Rental of real estate	Rental expenses	¥3,844 million ($36,264 thousand)	Prepaid expenses	¥65 million ($613 thousand)
									Accrued expenses	¥33 million ($311 thousand)
							Fees for display of signs, etc.	¥6 million ($56 thousand)	Prepaid expenses	¥0 million ($0 thousand)
							Deposits of guarantee money	¥90 million ($849 thousand)	Guarantee deposits	¥8,210 million ($77,452 thousand)
							Return of guarantee money	–		
							Increase due to business transfer	¥491 million ($4,632 thousand)		

Business terms and policies for determination of business terms

Notes 1. Transaction amounts are exclusive of consumption taxes; ending balances (exclusive of guarantee deposits) include consumption taxes.

2. Rent expenses for buildings are determined by current market rates.

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

22. Per Share Information

Reconciliation of the difference between basic and diluted profit per share (Earnings Per Share "EPS") for the years ended 31st March 2017 and 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Basic profit per share calculation:			
Profit (numerator):			
Profit attributable to owners of parent	¥ 14,298	¥ 14,636	$ 138,075
Amounts not belonging to common stockholders	–	–	–
Profit attributable to owners of parent concerning common stock	14,298	14,636	138,075
Shares (denominator):			
Weighted average number of shares	123,427,319	123,473,119	
Basic EPS (yen and U.S. dollars)	¥ 115.84	¥ 118.54	$ 1.11
Diluted profit per share calculation:			
Profit (numerator):			
Profit attributable to owners of parent	¥ 14,298	¥ 14,636	$ 138,075
Amounts not belonging to common stockholders	–	–	–
Profit attributable to owners of parent concerning common stock	14,298	14,636	138,075
Effect of dilutive securities - convertible bonds	–	–	–
Adjusted profit	14,298	14,636	138,075
Shares (denominator):			
Weighted average number of shares	123,427,319	123,473,119	
Assumed exercise of stock purchase rights	606,307	667,561	
Adjusted weighted average number of shares	124,033,626	124,140,680	
Diluted EPS (yen and U.S. dollars)	¥ 115.28	¥ 117.90	$ 1.11

Net assets per share (Book value Per Share "BPS") calculation for the years ended 31st March 2017 and 2018 was as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2017	**2018**	**2018**
Net assets per share calculation:			
Net assets	¥ 264,323	¥ 280,807	$ 2,649,122
Deduction from net assets	1,102	1,238	11,679
(Subscription rights to shares)	(1,098)	(1,234)	(11,641)
(Non-controlling interests)	(3)	(3)	(28)
Net assets concerning common stock	263,220	279,569	2,637,443
Number of shares used for the calculation of net assets per share	123,463,769	123,487,579	
BPS (yen and U.S. dollars)	2,131.97	2,263.95	21.35

23. Guarantee Deposits

In connection with its department store business, the Company has entered into long-term lease agreements for store sites and other premises. Under such agreements, lessors in Japan generally require the lessee to make substantial deposits in addition to monthly rental payments. A large portion of such deposits is 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.

24. Subsequent Events

Grant of subscription rights to shares as stock option based compensation

For directors (excluding directors who serve as ASC members and outside directors) and executive officers of the Company and those of Hankyu Department Stores, Inc., which is a subsidiary of the Company, the Company maintains a system of stock options based compensation linked to stock price that allows for higher incentives for improving medium- to long-term performance. At the Board of Directors' meeting held on 22nd June 2018, the Company resolved the grant of subscription rights to shares as follows in order to grant the stock option based compensation for the year ended 31st March 2018. The Company granted above mentioned directors and officers subscription rights to shares on 30th June 2018.

1. Grant date

   30th June 2018
2. Number of subscription rights to shares issued

   197 subscription rights to shares (the maximum number)
3. Type and number of shares subject to subscription rights to shares

   98,500 shares of common stock of the Company (the maximum number)

4. Exercise price

   ¥1 per share

5. Exercise period

   From 1st July 2018 to 30th June 2048

6. Title and number of grantees

   3 directors and 3 executive officers of the Company

   8 directors and 10 executive officers of Hankyu Hanshin Department Stores, Inc.

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

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

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

8. Calculation of payment price of subscription rights to shares

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

   For the grantees who are directors or executive officers of the Company ("Officers of the Company"), the payable amount for subscription rights to shares shall be offset by the remuneration of Officers of the Company. For the grantees who are directors or executive officers of Hankyu Hanshin Department Stores, Inc. ("Officers of the Subsidiary"), the payable amount of Hankyu Hanshin Department Stores, Inc. for the remuneration shall be assumed by the Company and the payable amount for subscription rights to shares shall be offset by the remuneration of the Officers of the Subsidiary.

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

Short-term loans and long-term debt, including finance lease obligations, at 31st March 2017 and 2018 consisted of the following.

	Millions of yen		*Thousands of U.S. dollars*
	2017	**2018**	**2018**
Commercial papers (0.003% in 2017)	¥ 2,000	¥ –	$ –
Current portion of long-term loans payable (0.478% in 2017 and 0.558% in 2018)	¥ 29,585	¥ 42,561	$ 401,518
Lease obligations, current portion	675	764	7,207
Long-term loans payable (0.322% in 2017 and 0.129% in 2018), excluding current portion, due through 2037	108,593	96,931	914,443
Lease obligations, excluding current portion, due through 2037	7,706	9,175	86,556
0.706% H2O Retailing unsecured bonds, due 2024	10,000	10,000	94,339
0.85% H2O Asset Management unsecured bonds, due 2018	1,300	–	–
0.86% H2O Asset Management unsecured bonds, due 2018	700	–	–
0.71% H2O Asset Management unsecured bonds, due 2017	4,600	–	–

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

Annual maturities of long-term debt including loans payable, long-term bonds payable and lease obligations as at 31st March 2018 were as follows:

	Millions of yen	*Thousands of U.S. dollars*
	2018	**2018**
2020	¥ 1,031	$ 9,726
2021	16,892	159,358
2022	48,863	460,971
2023	¥ 628	$ 5,924

Independent Auditor's Report

To the Board of Directors of H2O RETAILING CORPORATION:

We have audited the accompanying consolidated financial statements of H2O RETAILING CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2017 and 2018, and the consolidated statements of income, 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 H2O RETAILING CORPORATION and its consolidated subsidiaries as at March 31, 2017 and 2018, 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, 2018 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 31st, 2018
Osaka, Japan

Corporate Data

H_2O RETAILING CORPORATION and Consolidated Subsidiaries

Board of Directors (as of 22nd June 2018)

President and Representative Director	Atsushi Suzuki
Representative Director	Naoya Araki
Executive Vice President and Representative Director	Katsuhiro Hayashi
Outside Director	Makoto Yagi
Director	Kazuo Sumi
Director	Haruya Shijo
Director and Managing Executive Officer	Tadatsugu Mori
Director, Standing Audit and Supervisory Committee Member	Toshimitsu Konishi
Outside Director, Audit and Supervisory Committee Member	Naoshi Ban
Outside Director, Audit and Supervisory Committee Member	Kenjiro Nakano
Outside Director, Audit and Supervisory Committee Member	Mayumi Ishihara

Outline of the Company (as of 31st March 2018)

Date of Establishment	March 1947
Stated Capital	¥17,796 million
Authorised Shares	150,000,000
Issued and Outstanding Shares	125,201,396
Shareholders	25,630
Employees	84 (H2O Retailing Corporation) 8,868 (Consolidated basis)

Principal Shareholders (as of 31st March 2018)

Shareholders	Number of shares (thousands of shares)	Ratio of shareholdings
Hanshin Electric Railway Co., Ltd.	14,749	11.94%
Hankyu Hanshin Holdings, Inc.	10,336	8.37%
Takashimaya Co., Ltd.	6,259	5.07%
Japan Trustee Service Bank, Ltd. (Trust account)	3,782	3.06%
The Master of Trust Bank of Japan, Ltd. (Trust account)	3,691	2.99%
Izumiya Kyowakai Assn.	2,578	2.09%
GOVERNMENT OF NORWAY	2,164	1.75%
Japan Trustee Service Bank, Ltd. (Trust account 9)	1,858	1.50%
Japan Trustee Service Bank, Ltd. (Trust account 5)	1,782	1.44%
H2O Retailing Group Employees' Shareholding Association	1,648	1.34%

Principal Consolidated Subsidiaries

Subsidiary	**Primary business activities**
Department Store Business	
Hankyu Hanshin Department Stores, Inc.	Department Stores
Kobe Takatsuki Business	
H2O Asset Management Co., Ltd.	Management of department stores
Shinko Management, Inc.	Management of property
Supermarket Business	
Hankyu Oasis Co., Ltd.	Supermarkets
Izumiya Co., Ltd.	General merchandise stores, supermarkets and supercentres
Hankyu Foods, Inc.	Manufacture and sale of laver seaweed and dried foods
Hankyu Bakery Co., Ltd.	Manufacture and sale of bread
Hankyu delica i, Inc.	Manufacture and sale of prepared food
Hankyu Food process Co., Ltd.	Process and sales of fresh food
Qanat Co., Ltd.	Supermarkets
Sun Laurie Co., Ltd.	Restaurants

Shopping Centre Business	
H2O Asset Management Co., Ltd.	Management and development of property
Hankyu Maintenance Service Co., Ltd.	General building maintenance
Hankyu Shopping Center Development Co., Ltd.	Operational management of commercial facilities
Kanso Co., Ltd.	General building maintenance
Other Businesses	
Be-U Co., Ltd.	Sales of apparel, accessories, toys and sporting goods
CARNET CO., LTD.	Sales of ladies shoes and accessories
EveryD.com, Inc.	Supply of the system and the know-how of home-delivery service
F.G.J Co.,Ltd.	Sales of personal care products
H.D. Base Mode Ltd.	Product planning, production management and sales operation of women's apparel
H2O STYLE NET Co., Ltd.	Operational management of internet shopping site
H2O System Co., Ltd.	Data processing and systems development
Hankyu Act For	Contractor engaged in bookkeeping and payroll calculation
Hankyu B&C Planning	Sales of bread and management of cafe
Hankyu Department Stores Uniform	Sales of uniforms
Hankyu Design Systems Co., Ltd.	Commercial design, web design and production, photographing & printing
Hankyu Hanshin Department Stores Tomonokai, Inc.	Membership organisation for customer service
Hankyu Hello Dog Co., Ltd.	Sales of pet-accessories
Hankyu Home Styling Co., Ltd.	Sales of furniture and interior goods
Hankyu Job Yell Co., Ltd.	Manpower dispatching and fee-charging employment agency
Hankyu Kensou Co., Ltd.	Manufacture and sales of furniture and furnishings
Hankyu Kitchen Yell Kansai, Inc.	Membership-based home-delivery service providing groceries and commodities in Kansai Area
Hankyu Kitchen Yell Kyushu, Inc.	Membership-based home-delivery service providing groceries and commodities in Kyushu Area
Hankyu Lifestyle Institute	Research and planning related to life and culture
Hankyu Quality Support	Quality testing and consulting service

Hankyu Sennan Green Farm	Production of organic farm products
Hankyu Trading Services Co., Ltd.	Foreign trade business
Hankyu Wedding	Costume salon for bridal use
Heart Dining, Inc.	Management of cafe, restaurants and company cafeteria
KAETOKU SERVICE Co., Ltd.	Sales of electronic gift certificates
KAZOKUTEI CO., LTD.	Restaurants mainly serving "Soba/Udon"
Oi Development Co., Ltd.	Operational management of a hotel
Persona Co., Ltd.	Management of services for members of Persona card
Suzhou Izumiya Co., Ltd.	A department store in Suzhou, China
With System Corporation	Data processing and systems development

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