H2O RETAILING CORPORATION

FINANCIAL REPORT 2017

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.

Currently, the Group consists of 52 subsidiaries and 4 affiliates that operate retail businesses, including its core department store operations, supermarket operations and shopping centre operations.

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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	901,221	98.4
Operating income	22,542	94.6
Ordinary income	21,725	94.2
Profit attributable to owners of parent	14,298	101.7

In the year ended 31st March 2017, the Group achieved a new record in profit attributable to owners of parent for the third consecutive year, but results for net sales, operating income and ordinary income fell below previous year levels. Those decreases are attributable to a downturn in consumer spending and other factors such as reconstruction work and store closures affecting the Department Store Business and the Supermarket Business, our main business segments.

With the aim of “improving business efficiency,” one of the key initiatives in our medium-term plan, we have been restructuring our Supermarket Business by revamping operations through initiatives that involve expanding fresh and processed food joint procurement and mutual supply operations. We have also been working toward our aim of “developing the integrated lifestyle industry in the Kansai area.” To that end, we launched our S-Point program in April 2016 and have been developing various forms of infrastructure to enable its swift implementation. Under the S-Point program, cardholders earn shared points not only when shopping, but also when using their card for activities such as riding the train, bus and other forms of public transportation and attending the theatre or baseball games.

In the Department Store Business, despite the carrying out of major remodeling of our urban locations since the previous fiscal year and stimulating demand among target customer demographic, net sales for the full year fell short of the results achieved in the previous fiscal year. The lower figure was attributable to factors that include the appreciation of the yen since the beginning of last year, diminishing corporate earnings in the first half of the fiscal year and a downturn in consumer spending due to a dip in inbound demand.

In the Supermarket Business, on the other hand, Izumiya is ahead of schedule with respect to its initial plans for strengthening its sales capabilities by remodeling its existing stores and temporarily closing stores to perform reconstruction. Meanwhile, Hankyu Oasis also engaged in efforts that included remodeling its existing stores and opening new stores. We managed to keep the decrease in net sales to a minimum as a result of various efforts that included enhancing our sales capabilities and revamping our cost structure.

As a result of these measures, the Group's consolidated sales were down 1.6% year on year to ¥901,221 million, operating income was down 5.4% year on year to ¥22,542 million and ordinary income was down 5.8% year on year to ¥21,725 million.

While losses on closings of stores amounting to ¥2,921 million were recorded due to closures that included Izumiya's general merchandise stores (GMS) and the Sakai Kitahanada Hankyu store, extraordinary income of ¥4,295 million was recorded for gains on sales of land and an increase in the amount recognised for deferred tax assets. As a result, profit attributable to owners of parent was up 1.7% year on year to ¥14,298 million.

The following is a breakdown of performance by business segment.

Beginning with the current fiscal year, we have changed to a structure with the four reportable segments, "Department Store Business," "Supermarket Business," "Shopping Centre Business" and "Other Businesses." Previously, the structure included the "Department Store Business," "Supermarket Business," "Izumiya Business" and "Other Businesses." For business segments other than the Department Store Business segment, which remains unchanged, this report does not state year on year figures with respect to fiscal results of the prior fiscal year given the impracticalities of preparing such data due to the nature of the change in the reportable segments.

Department Store Business

Results for Department Store Business

	Millions of yen	YOY %
Net sales	427,644	99.2
Segment income (operating income)	15,993	96.2

For Hankyu Hanshin Department Stores, Inc., the Hankyu Umeda Main Store has been making progress since last fiscal year in carrying out major renovations to its women's fashion operations. It remodelled its 5th and 6th floor womenswear operations in September 2016 and has been engaged in ongoing efforts to enhance its communications campaign targeting an expansive geographic area. These efforts culminated in a higher than forecasted increase in the number of highly fashion conscious shoppers visiting the store and greater buying activity. As a result, sales at the Hankyu Main Store, including Hankyu Men's Osaka, were up 1.0% year on year to ¥220,515 million.

At the Hanshin Umeda Main Store, well established food products and women's apparel items generated strong results, but the number of shoppers visiting the stores decreased as a consequence of the reconstruction work underway. Sales were ¥55,830 million, 94.8% of the sales of last fiscal year.

In regard to branch stores, sales have steadily increased both at Hakata Hankyu, which is now in a more attractive location due to the opening of a shopping complex nearby, and at Nishinomiya Hankyu, which is now more appealing as a result of proactive renovations. However, sales results ended up below those of the previous fiscal year in some suburban locations.

Supermarket Business

Results for Supermarket Business

	Millions of yen	YOY %
Net sales	409,454	—
Segment income (operating income)	3,977	—

On 1st July 2016, the former Izumiya Co., Ltd. was split into two entities, the newly established Izumiya Co., Ltd., which handles retailing business operations, and H2O Asset Management Co., Ltd., which handles Shopping Centre Business operations. The split was carried out in order to better distinguish store management from real estate management and development roles.

The newly established Izumiya Co., Ltd. made progress with store reorganizations, including reconstruction work involving the Abiko store (Osaka) and other locations, and worked to enhance existing stores by carrying out the remodeling of six stores, including the Hakubai-cho store (Kyoto) and the Tengachaya store (Osaka), with such efforts centred on upgrading its fresh product and prepared foods sales areas. Despite such efforts, Izumiya Co., Ltd. posted sales, calculated on the basis of its already existing stores, at 96.5% of previous levels in a scenario in which it struggled to generate sales of clothing and living essentials. Nevertheless, operating income remained in line with expectations as a result of carrying out various cost-cutting initiatives which largely involved revamping promotional plans and outsourcing contracts and other initiatives that involved closing unprofitable stores.

Hankyu Oasis Co., Ltd. (trade name changed from Hanshoku Co., Ltd. as of 1st June 2016) opened four new stores, including its Suita-Honami store (Osaka), and also made progress in terms of shifting to direct management of its prepared foods and bakery departments and remodeling stores. Consequently, although its operating income decreased, partially due to the effects of adding new stores, it achieved net sales results largely on par with those of the previous fiscal year at 99.5% of previous levels, calculated on the basis of its already existing stores.

In addition, we streamlined operations and increased productivity in the food product manufacturing industry by merging Hankyu Delica, Inc., which manufactures prepared foods, with Delica I Foods Co. Ltd.

Shopping Centre Business

Results for Shopping Centre Business

	Millions of yen	YOY %
Net sales	9,970	—
Segment income (operating income)	5,038	—

H2O Asset Management Co., Ltd., which handles Shopping Centre Business operations (trade name changed to H2O Asset Management Co., Ltd. upon split of the retail business from Izumiya Co., Ltd. as of 1st July 2016), has drawn up and implemented a restructuring plan that entails seismic retrofitting, remodeling and other improvements to Izumiya stores, carried out with the aim of increasing profitability of its real estate holdings.

At Hankyu Shopping Center Development Co., Ltd., which manages and operates shopping complexes, operating income decreased largely as a result of increasing costs of preparing for newly contracted properties and despite an increase in tenant revenue amid a lower vacancy rate at the shopping centres it manages.

Other Businesses

Results for Other Businesses

	Millions of yen	YOY %
Net sales	54,151	—
Segment income (operating income)	2,863	—

Oi Development Co., Ltd. generated higher net sales and income due to a high guest room occupancy rate of 93.8% maintained by the hotels department of Hankyu Oimachi Garden, despite demand for tourism in Tokyo having subsided, in conjunction with robust performance by the commercial spaces department.

In the specialty realty store format, we have been steadily expanding the scale of our operations through new store openings by entities that include F.G.J. Co., Ltd., which has been launching cosmetics specialty stores, and Hankyu B&C Planning Co., Ltd., which operates a ¥100 bread and pastry business. In addition, KAZOKUTEI CO., LTD. has been making progress with its store scrap-and-build initiative while concurrently working to attract more customers through efforts that include revamping store environments and modifying its menus.

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

	Department Store Business	Super -market Business	Shopping Centre Business	Other Businesses	Adjustments	Consolidated
Net sales	427,644	409,454	9,970	54,151	—	901,221
Operating income	15,993	3,977	5,038	2,863	(5,330)	22,542

Current fiscal year results calculated on the basis of reportable segment classifications of the prior fiscal year (Millions of yen)

	Department Stores Business	Super -market Business	Izumiya Business	Other Businesses	Adjustments	Consolidated
Net sales	427,644	124,069	300,184	49,322	—	901,221
YOY change (%)	99.2	104.9	94.2	103.6	—	98.4
Operating income	15,993	1,767	5,759	3,776	(4,753)	22,542
YOY change (%)	96.2	77.4	121.5	113.8	—	94.6

(2) Analysis of Financial Position

(i) Assets, liabilities and net assets

Total assets increased ¥43,501 million year on year to ¥640,543 million as of 31st March 2017. This was due in part to increases of ¥34,959 million in Cash and deposits caused by new loans payable and ¥10,249 million in Land.

Total liabilities increased by ¥31,765 million year on year to ¥376,219 million as of 31st March 2017. This was partially due to an increase in long-term loans payable (including current portions) of ¥27,222 million arising from new loans payable.

Total net assets grew ¥11,735 million year on year to ¥264,323 million. This was due mainly to a ¥9,670 million increase in retained earnings through profit attributable to owners of parent.

(ii) Cash Flows

As of the year ended 31st March 2017, cash and cash equivalents stood at ¥83,462 million, an increase of ¥34,969 million year on year.

Net cash provided by operating activities was ¥38,742 million, up ¥14,202 million year on year.

Net cash used in investing activities was ¥25,325 million (¥5,852 million in cash flows provided by investing activities for the last fiscal year) due in part to ¥5,827 million in proceeds from sales of property, plant and equipment, ¥27,324 million in purchases of property, plant and equipment and intangible assets and ¥5,178 million in purchase of investment securities.

Net cash provided by financing activities was ¥21,703 million (¥26,207 million in cash flows used in financing activities for the last fiscal year), due in part to ¥40,000 million in proceeds from new loans payable and ¥12,877 million in repayment 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 2017.

(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 specialty realty 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 10-year, long-term business plan, the “GP10 Plan,” so that we will be better prepared for the prospect of a shrinking retail market and other potential changes in the future business environment brought about by Japan’s decreasing birthrate, aging demographics and declining population. Accordingly, “Phase 1” of the medium-term plan, which began in fiscal 2015, contains the following key initiatives:

(i) In order to further improve business efficiency, we will enhance operations involving integrated manufacturing and sales in the Supermarket Business and engage in efforts to make more effective and active use of our real estate holdings.

(ii) To develop the integrated lifestyle industry in Japan’s Kansai area, we will engage in efforts that include enhancing the capacity of the Umeda stores to attract shoppers from an expansive geographic area, developing store networks, upgrading infrastructure including that involving payment settlements and points organically linked with our stores and promoting the creation of platforms that entail collaboration with other companies.

(iii) We aim to act as a corporate group that achieves sustainable growth despite operating in a severe business environment, forging ahead with large, long-term projects such as those involving reconstruction of the Hanshin Umeda Main Store and opening new Hankyu Department Store locations in China.

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.

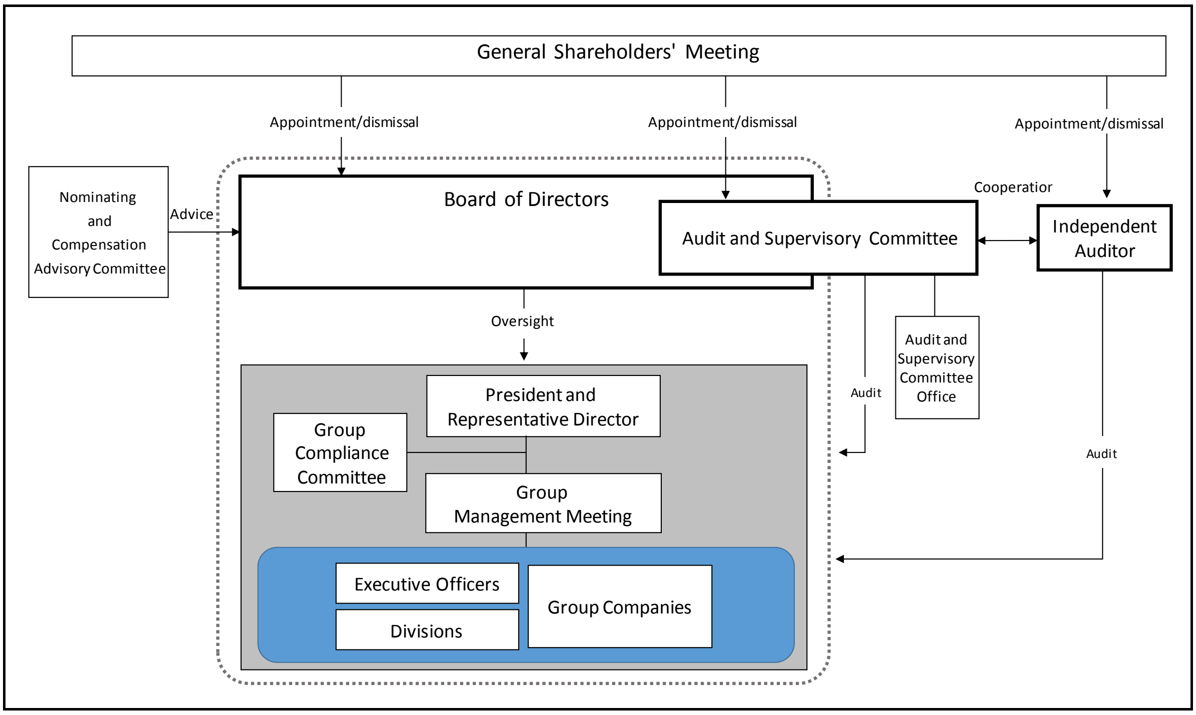
The Company's Board of Directors consists of 11 directors (four (4) directors are ASC members), including four (4) outside directors (three (3) outside directors are ASC members). Thus, more than one-third of directors on the Board of Directors will be outside directors.

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.

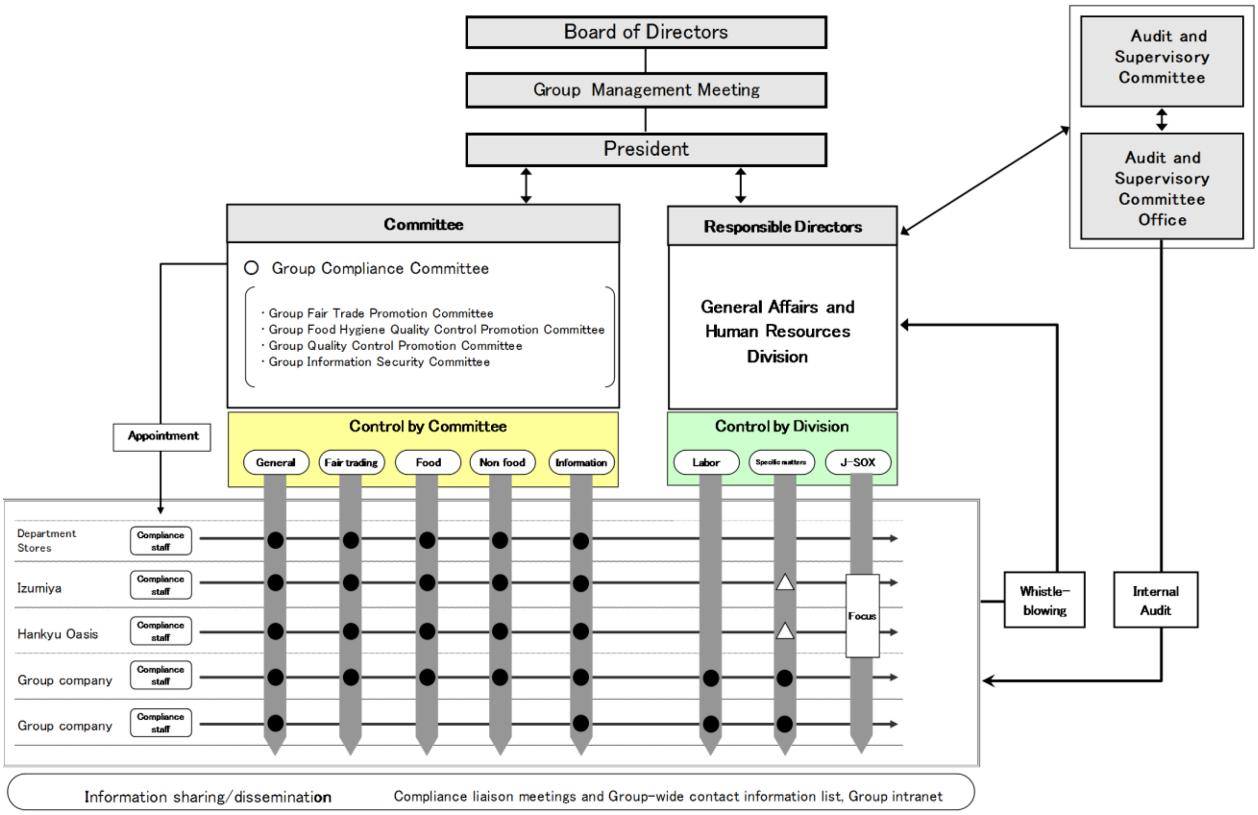
The ASC audits the directors, the Board of Directors and executive officers.

■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 legislation and regulations.

Eliminating antisocial forces

The H2O Retailing Group code of conduct explicitly prohibits any accession by the Group to unacceptable demands made by antisocial elements that threaten public order and safety. We are also strengthening our partnerships with specialist external 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 set up to be responsible for effective business decision-making for the Company and the Group. This body manages business performance on a monthly and quarterly basis and assesses 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. Such 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 directors, officers or employees unfairly on the grounds that they have provided the 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, 2017.

(1) 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," aiming to strengthen its supervisory functions. 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.

(2) As compliance and risk management initiatives, the Company has various committees in connection with fair trading, quality control and information security. Those committees have been drawing up and disseminating measures for addressing revisions in fields of law that include the Act against Unjustifiable Premiums and Misleading Representations and Act on the Protection of Personal Information.

In addition, with the matter of developing employee safety management systems set as the most important to be addressed during the fiscal year, the respective Group companies drafted measures geared to resolving challenges upon checking prevailing circumstances and pinpointing specific issues. The Group companies also held seminars on diversity and implemented systems for confirming the safety of employees should a disaster strike.

With respect to such initiatives, we also took steps to pool information across the entire Group by making use of content on the Group intranet and briefing sessions geared to those handing operations of the respective Group companies.

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 operation is regularly reported to the President and corporate auditors.

In order to ensure the reliability of financial reporting, we also carried out appraisals of the implementation and operational status of Group-wide controls as well as the business processes mainly of Hankyu Hanshin Department Stores, Inc. and Izumiya Co., Ltd. The scope of the appraisals encompassed company-wide controls of H2O Asset Management Co., Ltd. and Hankyu Food Process Co., Ltd., and involved upgrading and strengthening internal controls of both companies.

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 thirteen (13) dedicated staff members who support the duties of the corporate auditors as requested by the corporate auditors and designate each staff member as a corporate auditor of the Group companies.

Additionally, corporate auditors 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 corporate auditor attends important meetings such as Group Management meetings.

(4) In December 2016, the Company's subsidiary Izumiya Co., Ltd. implemented preventative measures in relation to an order requiring Izumiya to take corrective action regarding advertising imposed by Japan's Consumer Affairs Agency. Initiatives in that regard have included appropriately providing advice and verifying matters and ensuring that other Group companies comply with the Act against Unjustifiable Premiums and Misleading Representations and promptly report matters when a risk event occurs.

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 is 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, 13 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 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 Mr. Satoshi Kihira. Assisting them with the audit were 16 other certified public accountants and 10 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. 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. 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 Senior 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. 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, 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 and Outside Corporate Auditors During the Reporting Period

Classification	Name	Main Activities
Director	Makoto Yagi	Attended 7 of 8 Board of Directors' meetings held during the reporting period (excluding written resolutions), giving his opinions on measures and asking questions based on his extensive management experience.
Director who is an ASC member	Naoshi Ban	Attended all 8 Board of Directors' meetings held during the reporting period (excluding written resolutions) and all 5 ASC meetings held after his appointment as a Director who is an ASC member on 22nd June 2016, giving his opinions on measures and asking questions based on his extensive management experience.
Director who is an ASC member	Kenjiro Nakano	Attended all 6 Board of Directors' meetings (excluding written resolutions) and all 5 ASC meetings held after his appointment as a Director who is an ASC member on 22nd June 2016, giving his opinions on measures and asking questions based on his extensive management experience.
Director who is an ASC member	Mayumi Ishihara	Attended all 6 Board of Directors' meetings (excluding written resolutions) and all 5 ASC meetings held after her appointment as a Director who is an ASC member on 22nd June 2016, giving her opinions on measures and asking questions based primarily on her specialised knowledge as an attorney.

As a result of the change from a "Company with a Board of Corporate Auditors" to a "Company with an Audit and Supervisory Committee" (ASC), Director Naoshi Ban retired as a Director on June 22, 2016 due to the expiration of his term of office and was reappointed as a Director who is an ASC member.

4) Compensation for Directors and Corporate Auditors

Compensation Paid to Directors and Corporate Auditors

Classification	Total compensation (millions of yen)	Total compensation by type (millions of yen)			Number of directors and corporate auditors
		Basic compensation	Stock option based compensation	Bonus	
Directors (excluding ASC members) (excluding outside directors)	207	122	41	43	8
Directors (ASC members) (excluding outside directors)	19	19	—	—	1
Corporate auditors (excluding outside auditors)	5	5	—	—	1
Outside directors and outside corporate auditors	36	36	—	—	8

Notes:

1. The Company changed from a "Company with a Board of Corporate Auditors" to a "Company with an Audit and Supervisory Committee" (ASC) upon conclusion of the 97th Annual General Shareholders' Meeting held on 22nd June 2016.
2. The compensation paid to corporate auditors corresponds to the period prior to the change to a Company with an ASC, and the amount of compensation paid to directors who serve as ASC members corresponds to the period subsequent to the change to a Company with an ASC.
3. The number of directors and corporate auditors shown in the table above are aggregate totals. The actual total is 16 directors and corporate auditors receiving compensation (of which, 4 are outside directors and 3 are outside auditors), because 1 individual who had served as an outside director and 1 individual who had served as a corporate auditor were appointed to serve as directors who are also ASC members subsequent to having retired upon expiration of their respective terms of office.
4. Figures in the table above include 1 director and 3 outside auditors who retired upon conclusion of the 97th Annual General Shareholders' Meeting held on 22nd June 2016.

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 and statutory auditor 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 member 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: ¥76,844 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 2016

Stock	Number of shares	Balance sheet value (millions of yen)	Purpose of holding
Toho Co., Ltd.	13,664,280	40,459	To strengthen relationship with the Hankyu Hanshin Toho Group
Takashimaya Co., Ltd.	17,774,000	16,725	To strengthen relationship between both companies through business partnership
Mitsubishi Logistics Corporation	1,109,000	1,639	To strengthen business management relationship
Mitsubishi UFJ Financial Group, Inc.	3,012,740	1,571	For financial policy reasons
Kato Sangyo Co., Ltd.	363,300	1,011	To strengthen business management relationship
Umenohana Co., Ltd.	374,500	969	To strengthen relationship between both companies through business partnership
Asahi Group Holdings, Ltd.	217,360	762	To strengthen business management relationship
Wacoal Holdings Corp.	534,000	717	To strengthen business management relationship
Sumitomo Mitsui Financial Group, Inc.	120,528	411	For financial policy reasons
Joshin Denki Co., Ltd.	112,000	96	To strengthen business management relationship
Onward Holdings Co., Ltd.	119,563	91	To strengthen business management relationship
Sumitomo Mitsui Trust Holdings, Inc	253,701	83	For financial policy reasons
Toyo Seikan Group Holdings, Ltd.	33,000	69	To facilitate business activity
Tokyo Rakutenchi Co., Ltd.	55,000	26	To strengthen relationship with the Hankyu Hanshin Toho Group
Aplus Financial Co., Ltd.	119,451	12	To strengthen business management relationship
Tokyo Theatres Company, Incorporated	50,000	6	To facilitate business activity
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 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

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 2016		For the year ended 31st March 2017	
	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	66	—	54	—
Consolidated subsidiaries	138	—	154	—
Total	205	—	208	—

Other Significant Fees Paid

For the year ended 31st March 2016

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 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.

Details of Non-Audit Services

For the year ended 31st March 2016

None

For the year ended 31st March 2017

None

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

Years ended 31st March	Millions of yen 2013	2014	2015	2016	2017	Thousands of U.S. dollars (Note 1) 2017
For the year:						
Net sales	¥525,154	¥576,852	¥844,819	¥915,690	¥901,221	$8,046,616
Cost of sales	382,624	420,837	603,401	649,326	637,837	5,694,973
Gross profit	142,529	156,014	241,417	266,363	263,384	2,351,642
Selling, general and administrative expenses	131,859	138,700	220,059	242,538	240,841	2,150,366
Interest expenses	439	452	1,201	1,244	1,081	9,651
Profit before income taxes	11,293	6,824	17,582	24,374	20,005	178,616
Profit attributable to owners of parent	6,200	295	11,586	14,053	14,298	127,660
Comprehensive income	19,814	2,251	31,600	4,966	16,192	144,571
Per share information (in yen and U.S. dollars)						
Basic profit per share	63.87	3.05	98.06	113.93	115.84	1.03
Diluted profit per share	63.66	3.03	97.64	113.39	115.28	1.02
Cash dividends	12.50	12.50	25.00	35.00	40.00	0.35
At year-end:						
Inventories	¥16,079	¥16,508	¥37,025	¥35,507	¥35,292	$315,107
Property, plant and equipment (book value)	123,312	120,484	255,093	253,461	258,961	2,312,151
Total assets	359,323	377,716	631,877	597,041	640,543	5,719,133
Long-term debt	41,210	5,501	129,696	117,479	118,593	1,058,866
Shareholders' equity	164,957	162,817	213,134	223,013	232,786	2,078,446
Ratio analysis:						
Gross profit / Net sales (%)	27.14	27.05	28.58	29.09	29.23	
Profit before income taxes / Net sales (%)	2.15	1.18	2.08	2.66	2.22	
Profit attributable to owners of parent / Net sales (%)	1.18	0.05	1.37	1.53	1.59	
Profit attributable to owners of parent / Total assets (%)	1.79	0.08	2.30	2.29	2.31	
Profit attributable to owners of parent / Shareholders' equity (%)	3.80	0.18	6.16	6.44	6.27	
Shareholders' equity / Total assets (%)	45.91	43.11	33.73	37.35	36.34	
Long-term debt / Shareholders' equity (times)	0.25	0.03	0.61	0.53	0.51	
Net sales / Inventories (times)	32.66	34.94	22.82	25.79	25.54	
Net sales / Total assets (times)	1.46	1.53	1.34	1.53	1.41	

Note 1. U.S. dollar amounts represent translations of yen amounts at the rate of ¥112 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 2013.

Consolidated Balance Sheets

H2O RETAILING CORPORATION and Consolidated Subsidiaries

As of 31st March, 2016 and 2017	Millions of yen 2016	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2017
Assets			
Current assets			
Cash and deposits (Notes 9 and 11)	¥ 48,521	¥ 83,481	$ 745,366
Notes and accounts receivable - trade (Note 11)	46,785	43,588	389,178
Merchandise and finished goods	33,959	33,531	299,383
Work in process	186	174	1,553
Raw materials and supplies	1,361	1,587	14,169
Deferred tax assets (Note 16)	4,910	4,146	37,017
Accounts receivable - other (Note 11)	4,710	5,063	45,205
Other	5,949	7,172	64,035
Allowance for doubtful accounts (Note 11)	(814)	(428)	(3,821)
Total current assets	145,570	178,318	1,592,125
Non-current assets			
Property, plant and equipment (Note 5)			
Buildings and structures	323,276	314,401	2,807,151
Accumulated depreciation	(209,521)	(206,138)	(1,840,517)
Buildings and structures, net	113,755	108,262	966,625
Machinery, equipment and vehicles	8,967	7,912	70,642
Accumulated depreciation	(5,342)	(4,167)	(37,205)
Machinery, equipment and vehicles, net	3,625	3,745	33,437
Land	124,341	134,591	1,201,705
Construction in progress	834	2,012	17,964
Other	46,831	47,063	420,205
Accumulated depreciation	(35,927)	(36,714)	(327,803)
Other, net	10,904	10,348	92,392
Property, plant and equipment, net	253,461	258,961	2,312,151
Intangible assets			
Goodwill	5,997	5,217	46,580
Other	11,733	12,326	110,053
Total intangible assets	17,730	17,543	156,633
Investments and other assets			
Investment securities (Notes 5, 11 and 12)	97,513	103,031	919,919
Long-term loans receivable	3,993	3,868	34,535
Guarantee deposits (Notes 5 and 22)	71,191	69,060	616,607
Net defined benefit asset	-	683	6,098
Deferred tax assets (Note 16)	8,945	9,960	88,928
Other	1,868	2,067	18,455
Allowance for doubtful accounts	(3,232)	(2,952)	(26,357)
Total investments and other assets	180,279	185,720	1,658,214
Total non-current assets	451,471	462,225	4,127,008
Total assets	¥ 597,041	¥ 640,543	$ 5,719,133

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Liabilities			
Current liabilities			
Notes and accounts payable - trade (Notes 5 and 11)	¥ 62,235	¥ 59,394	$ 530,303
Current portion of bonds (Notes 11 and 24)	2,100	6,600	58,928
Commercial papers (Notes 24)	-	2,000	17,857
Current portion of long-term loans payable (Notes 5, 11 and 24)	10,077	29,585	264,151
Accounts payable - other (Note 11)	13,671	14,329	127,937
Lease obligations (Notes 10 and 24)	963	675	6,026
Income taxes payable (Note 11)	5,807	4,744	42,357
Deferred tax liabilities (Note 16)	0	4	35
Gift certificates	21,785	23,846	212,910
Provision for bonuses	5,048	4,885	43,616
Provision for directors' bonuses	148	177	1,580
Provision for loss on store closings	295	441	3,937
Provision for point card certificates	2,097	1,750	15,625
Asset retirement obligations (Note 18)	383	1,089	9,723
Other	32,610	39,676	354,250
Total current liabilities	157,225	189,202	1,689,303
Non-current liabilities			
Bonds payable (Notes 11 and 24)	16,600	10,000	89,285
Long-term loans payable (Notes 5, 11 and 24)	100,879	108,593	969,580
Deferred tax liabilities (Note 16)	20,622	21,521	192,151
Deferred tax liabilities for land revaluation (Note 5)	265	265	2,366
Provision for directors' retirement benefits	205	245	2,187
Provision for redemption of gift certificates	3,183	3,558	31,767
Net defined benefit liability (Note 14)	20,463	18,209	162,580
Long-term accounts payable - other	268	526	4,696
Lease obligations (Notes 10 and 24)	7,535	7,706	68,803
Long-term guarantee deposited	12,103	11,494	102,625
Asset retirement obligations (Note 18)	2,576	2,567	22,919
Other	2,524	2,328	20,785
Total non-current liabilities	187,228	187,017	1,669,794
Total liabilities	344,454	376,219	3,359,098
Net assets (Note 8)			
Shareholders' equity			
Capital stock:	17,796	17,796	158,892
Common stock, Authorised - 150,000,000 shares, Issued - 125,201,396 shares in 2016 and 2017			
Capital surplus	92,783	92,732	827,964
Retained earnings	115,820	125,490	1,120,446
Treasury shares - 1,819,577 shares in 2016 - 1,737,627 shares in 2017	(3,387)	(3,234)	(28,875)
Total shareholders' equity	223,013	232,786	2,078,446
Accumulated other comprehensive income (Note 7)			
Valuation difference on available-for-sale securities	30,333	31,227	278,812
Deferred gains or losses on hedges	185	21	187
Revaluation reserve for land (Note 5)	125	125	1,116
Foreign currency translation adjustment	182	(309)	(2,758)
Remeasurements of defined benefit plans	(2,285)	(629)	(5,616)
Total accumulated other comprehensive income	28,541	30,434	271,732
Subscription rights to shares	1,028	1,098	9,803
Non-controlling interests	3	3	26
Total net assets	252,587	264,323	2,360,026
Total liabilities and nets assets	¥ 597,041	¥ 640,543	$ 5,719,133

See accompanying notes.

Consolidated Statements of Income

H2O RETAILING CORPORATION and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended 31st March, 2016 and 2017	2016	2017	2017
Net sales	¥ 915,690	¥ 901,221	$ 8,046,616
Cost of sales (Note 6)	649,326	637,837	5,694,973
Gross profit	266,363	263,384	2,351,642
Selling, general and administrative expenses			
Salaries and allowances	79,002	78,092	697,250
Rent expenses	37,660	37,073	331,008
Other	125,875	125,675	1,122,098
Total selling, general and administrative expenses	242,538	240,841	2,150,366
Operating income	23,825	22,542	201,267
Non-operating income			
Interest income	102	91	812
Dividend income	1,177	949	8,473
Gain on debt settlement	792	1,187	10,598
Share of profit of entities accounted for using equity method	68	-	-
Other	1,028	790	7,053
Total non-operating income	3,169	3,018	26,946
Non-operating expenses			
Interest expenses	1,244	1,081	9,651
Provision for redemption of gift certificates	1,136	1,161	10,366
Share of loss of entities accounted for using equity method	-	34	303
Loss on valuation of forward exchange contracts	58	159	1,419
Other	1,493	1,399	12,491
Total non-operating expenses	3,933	3,835	34,241
Ordinary income	23,060	21,725	193,973
Extraordinary income (Note 6)			
Gain on sales of non-current assets	113	4,295	38,348
Reversal of provision for loss on store closings	629	265	2,366
Gain on sales of investment securities (Note 12)	8,508	-	-
Total extraordinary income	9,251	4,561	40,723
Extraordinary losses (Note 6)			
Loss on store closings	2,855	2,921	26,080
Impairment loss	3,836	2,300	20,535
Loss on retirement of non-current assets	1,153	1,059	9,455
Outplacement expenses	92	-	-
Total extraordinary losses	7,937	6,281	56,080
Profit before income taxes	24,374	20,005	178,616
Income taxes - current (Note 16)	9,140	6,326	56,482
Income taxes - deferred (Note 16)	1,180	(619)	(5,526)
Total income taxes	10,321	5,706	50,946
Profit for the year	14,053	14,298	127,660
Profit attributable to non-controlling interests	0	0	0
Profit attributable to owners of parent	¥ 14,053	¥ 14,298	$ 127,660

See accompanying notes.

Consolidated Statements of Comprehensive Income

H2O RETAILING CORPORATION and Consolidated Subsidiaries

		Millions of yen			Thousands of U.S. dollars (Note 1)
Years ended 31st March, 2016 and 2017		2016		2017	2017
Profit for the year	¥	14,053	¥	14,298	$ 127,660
Other comprehensive income (Note 7)					
Valuation difference on available-for-sale securities		(9,449)		893	7,973
Deferred gains or losses on hedges		(32)		53	473
Revaluation reserve for land		15		-	-
Foreign currency translation adjustment		21		45	401
Remeasurements of defined benefit plans, net of tax		629		1,655	14,776
Share of other comprehensive income of entities accounted for using equity method		(271)		(753)	(6,723)
Total other comprehensive income		(9,086)		1,893	16,901
Comprehensive income	¥	4,966	¥	16,192	$ 144,571
Comprehensive income attributable to:					
Owners of parent	¥	4,966	¥	16,192	$ 144,571
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 2016 and 2017	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at 1st April 2015	¥17,796	¥93,100	¥105,715	¥(3,478)	¥213,134
Cumulative effects of changes in accounting policies		(269)	(248)		(517)
Restated balance	17,796	92,831	105,467	(3,478)	212,616
Changes of items during period					
Dividends of surplus			(3,700)		(3,700)
Profit attributable to owners of parent			14,053		14,053
Purchase and disposal of treasury shares		(43)		91	48
Changes in ownership interests in subsidiaries that do not result in change in scope of consolidation		(4)			(4)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	(47)	10,352	91	10,397
Balance at 31st March 2016	¥17,796	¥92,783	¥115,820	¥(3,387)	¥223,013
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

	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 2015	¥39,783	¥649	¥109	¥0	¥(2,914)	¥37,627	¥892	¥3	¥251,659
Cumulative effects of changes in accounting policies									(517)
Restated balance	39,783	649	109	0	(2,914)	37,627	892	3	251,141
Changes of items during period									
Dividends of surplus									(3,700)
Profit attributable to owners of parent									14,053
Purchase and disposal of treasury shares									48
Changes in ownership interests in subsidiaries that do not result in change in scope of consolidation									(4)
Net changes of items other than shareholders' equity	(9,449)	(464)	15	181	629	(9,086)	136	0	(8,950)
Total changes of items during period	(9,449)	(464)	15	181	629	(9,086)	136	0	1,446
Balance at 31st March 2016	¥30,333	¥185	¥125	¥182	¥(2,285)	¥28,541	¥1,028	¥3	¥252,587
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

Years ended 31st March 2016 and 2017	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
	Thousands of U.S. Dollars (Note 1)				
	Shareholders' equity				
Balance at 1st April 2016	$158,892	$828,419	$1,034,107	$(30,241)	$1,991,187
Changes of items during period					
Dividends of surplus			(41,321)		(41,321)
Profit attributable to owners of parent			127,660		127,660
Purchase and disposal of treasury shares		(446)		1,366	910
Net changes of items other than shareholders' equity					
Total changes of items during period	—	(446)	86,339	1,366	87,250
Balance at 31st March 2017	$158,892	$827,964	$1,120,446	$(28,875)	$2,078,446

	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
	Thousands of U. S. Dollars (Note 1)								
	Accumulated other comprehensive income								
Balance at 1st April 2016	$270,830	$1,651	$1,116	$1,625	$(20,401)	$254,830	$9,178	$26	$2,255,241
Changes of items during period									
Dividends of surplus									(41,321)
Profit attributable to owners of parent									127,660
Purchase and disposal of treasury shares									910
Net changes of items other than shareholders' equity	7,973	(1,455)	-	(4,383)	14,776	16,901	616	0	17,526
Total changes of items during period	7,973	(1,455)	-	(4,383)	14,776	16,901	616	0	104,776
Balance at 31st March 2017	$278,812	$187	$1,116	$2,758	$(5,616)	$271,732	$9,803	$26	$2,360,026

See accompanying notes.

Consolidated Statements of Cash Flows

H2O RETAILING CORPORATION and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended 31st March 2016 and 2017	2016	2017	2017
Cash flows from operating activities			
Profit before income taxes	¥ 24,374	¥ 20,005	$ 178,616
Depreciation	16,230	15,857	141,580
Impairment loss	3,836	2,300	20,535
Loss on store closings	1,926	2,248	20,071
Amortisation of goodwill	612	612	5,464
Increase (decrease) in allowance for doubtful accounts	3,185	(667)	(5,955)
Increase (decrease) in provision for bonuses	(406)	(160)	(1,428)
Increase (decrease) in provision for directors' bonuses	1	29	258
Increase (decrease) in net defined benefit liability	(2,059)	(2,254)	(20,125)
Increase (decrease) in provision for directors' retirement benefits	28	40	357
Increase (decrease) in provision for redemption of gift certificates	508	374	3,339
Increase (decrease) in provision for loss on store closings	(3,685)	145	1,294
Increase (decrease) in provision for point card certificates	(177)	(345)	(3,080)
Interest and dividend income	(1,280)	(1,041)	(9,294)
Interest expenses	1,244	1,081	9,651
Share of (profit) loss of entities accounted for using equity method	(68)	34	303
Loss (gain) on sales of short-term and long-term investment securities	(8,508)	-	-
Loss (gain) on sales of non-current assets	(113)	(4,295)	(38,348)
Loss on retirement of non-current assets	932	497	4,437
Loss (gain) on valuation of forward exchange contracts	58	159	1,419
Decrease (increase) in notes and accounts receivable - trade	(7,763)	3,196	28,535
Decrease (increase) in inventories	(528)	199	1,776
Increase (decrease) in notes and accounts payable - trade	853	(3,033)	(27,080)
Increase (decrease) in accrued consumption taxes	(1,832)	1,944	17,357
Increase (decrease) in advances received	1,602	5,852	52,250
Other	4,048	4,338	38,732
Subtotal	33,020	47,118	420,696
Interest and dividend income received	1,214	965	8,616
Interest expenses paid	(1,239)	(1,073)	(9,580)
Income taxes paid	(8,455)	(8,266)	(73,803)
Cash flows from operating activities	24,539	38,742	345,910
Cash flows from investing activities			
Decrease (increase) in time deposits	18	10	89
Purchase of property, plant and equipment	(18,803)	(23,983)	(214,133)
Proceeds from sales of property, plant and equipment	1,271	5,827	52,026
Purchase of intangible assets	(2,249)	(3,340)	(29,821)
Proceeds from sales of intangible assets	1	0	0
Payments for asset retirement obligations	(536)	(586)	(5,232)
Purchase of investment securities	(1,013)	(5,178)	(46,232)
Proceeds from sales and redemption of short-term and long-term investment securities	24,373	158	1,410
Collection of short-term loans receivable	917	-	-
Payments of long-term loans receivable	(917)	-	-
Collection of long-term loans receivable	257	197	1,758
Payments for guarantee deposits	(864)	(570)	(5,089)
Proceeds from collection of guarantee deposits	3,117	2,142	19,125
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	279	-	-
Cash flows from investing activities	5,852	(25,325)	(226,116)
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	(6,500)	2,000	17,857
Proceeds from long-term loans payable	2,750	38,000	339,285
Repayments of long-term loans payable	(17,563)	(10,777)	(96,223)
Redemption of bonds	(100)	(2,100)	(18,750)
Proceeds from sales of treasury shares	0	0	0
Purchase of treasury shares	(13)	(4)	(35)
Cash dividends paid	(3,700)	(4,628)	(41,321)
Repayments of lease obligations	(1,077)	(787)	(7,026)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(4)	-	-
Cash flows from financing activities	(26,207)	21,703	193,776
Effect of exchange rate change on cash and cash equivalents	(26)	(150)	(1,339)
Net increase (decrease) in cash and cash equivalents	4,157	34,969	312,223
Cash and cash equivalents at beginning of year	44,334	48,492	432,964
Cash and cash equivalents at end of year (Note 9)	¥ 48,492	¥ 83,462	$ 745,196

See accompanying notes.

1. Basis of Presenting Consolidated Financial Statements

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

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

As permitted by the regulations under the Financial Instruments and Exchange Law 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 ¥112 to U.S. $1.00, using the prevailing exchange rate at 31st March 2017, 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 52 (55 in 2016) 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 2017, the companies included within the scope of consolidation are summarised below.

- H2O Foods Group Co., Ltd., due to new establishment
- H2O Smile Co. Ltd., due to new establishment
- Hankyu Food Process Co., Ltd., due to new establishment
- Izumiya Co., Ltd., as a result of an incorporation-type split

In the year ended 31st March 2017, the following companies were removed from the scope of consolidation. Profits and losses and cash flows for the period until the dissolution as a result of an absorption-type split or liquidation were included in the consolidated statements of income, consolidated statements of comprehensive income and consolidated statements of cash flows.

- Hanshin Midorikai, as a result of a merger with Hankyu Tomonokai, Co., Ltd. (changed its corporate name to Hankyu Hanshin Department Stores Tomonokai, Inc. as of 1st April 2016)
- Delica I Foods Co., Ltd., as a result of a merger with Hankyu Delica, Inc. (changed its corporate name to Hankyu delica i, Inc. as of 1st October 2016)
- HAYASHI CO., LTD., as a result of a merger with Kanso Co., Ltd.
- Hankyu Bohan Sekkei Co., Ltd., as a result of a merger with Hankyu Maintenance Service Co., Ltd.
- Sun Fresh Co., Ltd., due to liquidation
- NTE Co., Ltd., due to liquidation
- Hankyu Eyewear Co., Ltd., due to liquidation

The equity method was applied to 4 associates for the years ended 31st March 2016 and 2017. The principal associates were Ningbo Development Co., Ltd. and Hankyu Hanshin Point Co., Ltd.

In the years ended 31st March 2016 and 2017, 2 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.

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

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, the specific identification method for work in process and the weighted average method for raw materials and supplies.

Property, plant and equipment

Property, plant and equipment, excluding lease assets, are carried at cost. Depreciation is computed principally by the 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 2 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 2 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 2016 and 2017 was ¥30 million and ¥33 million ($294 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 mainly in expenses when incurred, and actuarial gains and losses are recognised in expenses in equal amounts within the average of the estimated remaining service years 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 of foreign exchange forward contracts 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

Hedging instruments: Interest rate swaps, currency swaps

Hedged items: Loans payable

(c) Policies on hedge

As for interest related derivatives, interest rate swaps are utilised to exchange floating rates to fixed rates. In addition, currency swaps are utilised 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 2016 and 2017, see Note 21.

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

3. Changes in Presentation

Consolidated statements of income

“Loss on valuation of forward exchange contracts” which was previously included in “Other” of “Non-operating expenses” in the previous fiscal year was reclassified as a separate line item effective from the fiscal year ended 31st March 2017 due to the increase in its 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 “Non-operating expenses” in the amount of ¥1,552 million was reclassified to “Loss on valuation of forward exchange contracts” in the amount of ¥58 million and “Other” in the amount of ¥1,493 million.

Consolidated statements of cash flows

“Loss (gain) on valuation of forward exchange contracts” and “Increase (decrease) in advances received” which were previously included in “Other” of “Cash flows from operating activities” in the previous fiscal year is reclassified as a separate line item effective from the fiscal year ended 31st March 2017 due to the increase in their materiality. The respective amounts for the previous year were 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 ¥5,710 million was reclassified to “Loss (gain) on valuation of forward exchange contracts” in the amount of ¥58 million, “Increase (decrease) in advances received” in the amount of ¥1,602 million and “Other” in the amount of ¥4,048 million.

4. Additional Information

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

The Company has applied “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016) from the fiscal year ended March 31, 2017.

5. Matters Related to Consolidated Balance Sheets

1. Due to 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*
	2016	**2017**	**2017**
Reduction entry amount:	¥ 623	¥ 405	$ 3,616
Buildings and structures	496	268	2,392
Machinery, equipment and vehicles	47	57	508
Land	44	44	392
Other	34	34	303

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

	Millions of yen		*Thousands of U.S. dollars*
	2016	**2017**	**2017**
Investment securities (stocks)	¥ 11,527	¥ 10,739	$ 95,883
[Investments in entities under common control]	[11,147]	[10,414]	[92,982]

3. Pledged assets

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

	Millions of yen		*Thousands of U.S. dollars*
	2016	**2017**	**2017**
Buildings and structures	¥ 6,844	¥ 5,851	$ 52,241
Land	18,049	16,990	151,696
Other	24	19	169
	¥ 24,919	¥ 22,861	$ 204,116
Current portion of long-term loans payable	¥ 282	¥ 235	$ 2,098
Long-term loans payable	22,549	22,313	199,223
	¥ 22,831	¥ 22,549	$ 201,330

Although buildings and structures of ¥117 million and land of ¥1,059 million were pledged as collateral for long-term loans payable as of 31st March 2016, the long-term loans payable were fully repaid on 25th March 2016 and the Companies were in the procedure for putting the above assets out of collateral as of the balance sheet date.

Deposits under the Installment Sales Act were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	**2017**	**2017**
Guarantee deposits	¥ 184	¥ 172	$ 1,535

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

	Millions of yen		Thousands of U.S. dollars
	2016	**2017**	**2017**
Guarantee deposits	¥ 10	¥ 10	$ 89

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 2016 and 2017.

Related information was as follows:

	Millions of yen		Thousands of U.S. dollars
Date of revaluations: 28th February 2002 and 31st March 2002	2016	**2017**	**2017**
Difference between book value of land after revaluation and market value of land	¥ (842)	¥ (842)	$ (7,517)

5. Commitment agreements

In order to obtain working funds efficiently, the Company and some consolidated subsidiaries had loan commitment agreements with 12 and 2 financial institutions in 2016 and 2017, respectively. The loan commitment facilities and unused balances as of 31st March 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	**2017**	**2017**
Total loan commitment facilities	¥ 21,420	¥ 20,000	$ 178,571
Outstanding balances	–	–	–
Unused balances	¥ 21,420	¥ 20,000	$ 178,571

Some consolidated subsidiaries provide financial services using card loans and credit cards. The overdraft commitment facilities and unused balances as of 31st March 2016 and 2017 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2016	**2017**	**2017**
Total overdraft commitment facilities	¥ 27,770	¥ 3,605	$ 32,187
Outstanding balances	1,500	357	3,187
Unused balances	¥ 26,270	¥ 3,247	$ 28,991

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. Matters Related to Consolidated Statements of Income

1. Reduction in 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 2016 and 2017 was as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2016	**2017**	**2017**
Cost of sales	¥ 381	¥ 529	$ 4,723

2. Gain on sales of non-current assets

Gain on sales of non-current assets consisted of gains on the sale of land and buildings of KAZOKUTEI CO., LTD. for the year ended 31st March 2016 and gains on the sale of land of H2O RETAILING CORPORATION for the year ended 31st March 2017.

3. Reversal of provision for loss on store closings

For the year ended 31st March 2016, the amount of reversal of provision for loss on store closings consisted of the difference between the amount estimated in 2015 and the actual amount incurred or the re-estimated amount in 2016. 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.

4. Gain on sales of investment securities

Gain on sales of investment securities for the year ended 31st March 2016 consisted mainly of the gain on the sale of stocks of Takashimaya Co., Ltd. by H2O RETAILING CORPORATION.

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 2016 as follows:

Company	Asset Group	Use	Type of Assets	Location	*Millions of yen*
Hankyu Hanshin Department Stores, Inc.	Takarazuka Hankyu and other	Store	Buildings and structures, machinery, equipment and vehicles and other	Takarazuka City, Hyogo and other	¥770
Izumiya Co., Ltd.	Higashi Neyagawa store and other	Store	Buildings and structures, machinery, equipment and vehicles, land and other	Neyagawa City, Osaka and other	¥3,369
Hanshoku Co., Ltd (currently Hankyu Oasis Co., Ltd.)	Kumata store and other	Store	Buildings and structures, machinery, equipment and vehicles and other	Higashi Sumiyoshi-ku, Osaka City and other	¥415
Hankyu Kitchen Yell Kansai, Inc. and other	Hankyu Kitchen Yell Kansai, Inc. and other	Merchandise warehouse and other	Buildings and structures, machinery, equipment and vehicles, land and other	Suita City, Osaka and other	¥1,207

The Company recognised impairment loss on some stores of Hankyu Hanshin Department Stores, Inc. resulting from increased competition.

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 stores closed.

For Hanshoku Co., Ltd., Hankyu Kitchen Yell Kansai, Inc. and other companies, impairment loss was recognised for certain stores and factories resulting from increased competition.

The recoverable amounts of assets were 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%. As a result, the Group recognised totaling ¥5,763 million of impairment loss. Of which, ¥1,926 million of the impairment loss in connection with the closing of the Izumiya Yachiyo store was included in loss on store closings.

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

Company	Asset Group	Use	Type of Assets	Location	*Millions of yen*	*Thousands of U.S. dollars*
Hankyu Hanshin Department Stores, Inc.	Hanshin Umeda Main Store and other	Store	Buildings and structures, machinery, equipment and vehicles and other	Osaka City, Osaka and other	¥1,869	$16,687
Izumiya Co., Ltd.	Izumifuchu store and other	Store	Buildings and structures, machinery, equipment and vehicles and other	Izumiotsu City, Osaka and other	¥1,683	$15,026
Hankyu Oasis Co., Ltd.	Saiin store and other	Store	Buildings and structures, machinery, equipment and vehicles and other	Kyoto City, Kyoto and other	¥500	$4,464
KAZOKUTEI CO., LTD. and other	Kazokutei Tsurumi store and other	Store and other	Buildings and structures, machinery, equipment and vehicles, goodwill and other	Osaka City, Osaka and other	¥495	$4,419

For Hankyu Hanshin Department Stores, Inc. impairment loss was recognised for Sakai-Kitahanada Hankyu store in the amount of ¥780 million ($6,964 thousand) for restoration costs resulting from the decision to discontinue operations and for Hanshin Umeda Main Store in the amount of ¥1,089 million ($9,723 thousand) 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 stores closed.

For Hankyu Oasis Co., Ltd., KAZOKUTEI CO., LTD. and other companies, impairment loss was recognised for certain stores and factories 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 totaling ¥4,549 million ($40,616 thousand) of impairment loss. Of which, ¥780 million ($6,964 thousand) and ¥1,468 million ($13,107 thousand) of the impairment loss in connection with the closing of the Sakai-Kitahanada Hankyu store of Hankyu Hanshin Department Stores, Inc. and the Izumifuchu store of Izumiya Co., Ltd., respectively, were included in loss on store closings.

6. Loss on store closings

Loss on store closings for the years ended 31st March 2016 and 2017 is summarised below:

	Millions of yen		*Thousands of U.S. dollars*
	2016	**2017**	**2017**
Sakai-Kitahanada Hankyu	¥ —	¥ (*) 804	$ 7,178
Izumiya Izumifuchu	—	(*) 482	4,303
Izumiya Suminodo	—	(*) 218	1,946
Izumiya Ushiku	—	(*) 199	1,776
Izumiya Abiko	—	(*) 150	1,339
Izumiya Kemigawahama	—	139	1,241
Izumiya Kitasukematsu	—	(*) 109	973
Izumiya Harborland	(*) 490	(*) 101	901
Izumiya Yachiyo	(*) 1,265	—	—
Izumiya Nishi-Kishiwada	(*) 713	—	—
Izumiya Tsudaka	108	—	—
Other	277	(*) 717	6,401
Total	¥ 2,855	¥ 2,921	$ 26,080

* The amount included an impairment loss of ¥1,926 million and ¥2,248 million ($20,071 thousand) in connection with store closings for the years ended 31st March 2016 and 2017, respectively.

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

	Millions of yen		*Thousands of U.S. dollars*
	2016	**2017**	**2017**
Buildings and structures	¥ 769	¥ 352	$ 3,142
Machinery, equipment and vehicles	15	21	187
Removal cost	152	547	4,883
Other	215	138	1,232
Total	¥ 1,153	¥ 1,059	$ 9,455

8. Outplacement expenses

Outplacement expenses are additional retirement bonuses and support fees for employees' new careers based on the special career planning support scheme for the year ended 31st March 2016.

7. 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 2016 and 2017 is summarised as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2016	**2017**	**2017**
Other comprehensive income			
Valuation difference on available-for-sale securities			
Amount arising for the year	¥ (6,774)	¥ 1,279	$ 11,419
Reclassification adjustments	(8,507)	(10)	(89)
Amount before the effect of deferred income tax	(15,281)	1,268	11,321
Effect of deferred income tax	5,832	(375)	(3,348)
Valuation difference on available-for-sale securities	(9,449)	893	7,973
Deferred gains or losses on hedges			
Amount arising for the year	(50)	81	723
Effect of deferred income tax	17	(28)	(250)
Deferred gains or losses on hedges	(32)	53	473
Revaluation reserve for land			
Amount arising for the year	—	—	—
Reclassification adjustments	—	—	—
Amount before the effect of deferred income tax	—	—	—
Effect of deferred income tax	15	—	—
Revaluation reserve for land	15	—	—
Foreign currency translation adjustment			
Amount arising for the year	21	45	401
Reclassification adjustments	—	—	—
Amount before the effect of deferred income tax	21	45	401
Effect of deferred income tax	—	—	—
Foreign currency translation adjustment	21	45	401
Remeasurements of defined benefit plans, net of tax			
Amount arising for the year	421	1,983	17,705
Reclassification adjustments	554	517	4,616
Amount before the effect of deferred income tax	975	2,501	22,330
Effect of deferred income tax	(345)	(845)	(7,544)
Remeasurements of defined benefit plans, net of tax	629	1,655	14,776
Share of other comprehensive income of entities accounted for using equity method			
Amount arising for the year	(271)	(753)	(6,723)
Total other comprehensive income	¥ (9,086)	¥ 1,893	$ 16,901

8. 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 2016 and 2017 were as follows:

Common stock outstanding	*Number of shares*	
	2016	**2017**
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*	
	2016	**2017**
Balance at beginning of year	1,870,521	1,819,577
Increase due to purchase of odd-lot shares	5,694	2,539
Decrease due to sales of odd-lot shares	(138)	(489)
Decrease due to exercise of stock options	(56,500)	(84,000)
Balance at end of year	1,819,577	1,737,627

2. Subscription rights to shares

	Millions of yen		*Thousands of U.S. dollars*
	2016	**2017**	**2017**
H2O Retailing Corporation:			
March 2009 stock options	¥ 25	¥ 20	$ 178
March 2010 stock options	60	45	401
March 2011 stock options	70	54	482
February 2012 stock options	98	69	616
March 2013 stock options	185	161	1,437
March 2014 stock options	158	141	1,258
March 2015 stock options	233	233	2,080
March 2016 stock options	197	197	1,758
March 2017 stock options (*1)	–	175	1,562
Total	¥ 1,028	¥ 1,098	$ 9,803

*1: For March 2017 stock options, the exercise period had not started as at 31st March 2017.

3. Dividends

Dividends paid in the year ended 31st March 2016

Resolution	Class of shares	*Millions of yen* Total dividends	*Yen* Dividend per share	Record date	Effective date
14th May 2015 Board of Directors' meeting	Common stock	¥1,541	¥12.50	31st March 2015	3rd June 2015
29th October 2015 Board of Directors' meeting	Common stock	¥2,158	¥17.50	30th September 2015	30th November 2015

Dividends with a record date in the year ended 31st March 2016 but an effective date in the year ended 31st March 2017

Resolution	Class of shares	Source	*Millions of yen* Total dividends	*Yen* Dividend per share	Record date	Effective date
12th May 2016 Board of Directors' meeting	Common stock	Retained earnings	¥2,159	¥17.50	31st March 2016	1st June 2016

Dividends paid in the year ended 31st March 2017

Resolution	Class of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividend per share (Yen)	Dividend per share (U.S. dollars)	Record date	Effective date
12th May 2016 Board of Directors' meeting	Common stock	¥2,159	$19,276	¥17.50	$0.15	31st March 2016	1st June 2016
26th October 2016 Board of Directors' meeting	Common stock	¥2,468	$22,035	¥20.00	$0.17	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 ending 31st March 2018

Resolution	Class of shares	Source	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividend per share (Yen)	Dividend per share (U.S. dollars)	Record date	Effective date
11th May 2017 Board of Directors' meeting	Common stock	Retained earnings	¥2,469	$22,044	¥20.00	$0.17	31st March 2017	31st May 2017

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.

9. 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 2016 and 2017 was as follows:

	Millions of yen				Thousands of U.S. dollars	
	2016		**2017**		**2017**	
Cash and deposits	¥	48,521	¥	83,481	$	745,366
Time deposits with maturities exceeding three months		(29)		(19)		(169)
Cash and cash equivalents	¥	48,492	¥	83,462	$	745,196

2. Major components of the assets and liabilities of the companies that were excluded from consolidation due to the sale of stocks

In the year ended 31st March 2016, Avanti Book Center Co., Ltd. was excluded from consolidation due to the sale of stocks. The following is a summary of assets and liabilities of Avanti Book Center Co., Ltd. and the proceeds from sales.

	Millions of yen	
	2016	
Current assets	¥	2,379
Non-current assets		222
Current liabilities		(2,242)
Non-current liabilities		(77)
Gain on sale of stocks		7
Amount of stock sales		289
Cash and cash equivalents held by the company sold		(9)
Diff: Proceeds from sales	¥	279

3. Significant noncash transactions were as follows:

The amounts of assets and liabilities in connection with finance lease transactions were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2016		**2017**		**2017**	
Assets and liabilities in connection with finance lease transactions	¥	2,894	¥	625	$	5,580
Asset retirement obligations		671		1,220		10,892

10. 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 2016 and 2017 was as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2016	**2017**	**2017**
Original lease obligations (including finance charges)	¥ 2,194	¥ 2,194	$ 19,589
Payments remaining:			
Payments due within one year	154	120	1,071
Payments due after one year	127	7	62
Total	¥ 282	¥ 127	$ 1,133

Rental expenses under such non-capitalised finance leases for the years ended 31st March 2016 and 2017 were ¥243 million and ¥154 million ($1,375 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*
	2016	**2017**	**2017**
Payments due within one year	¥ 12,308	¥ 11,986	$ 107,017
Payments due after one year	70,174	63,699	568,741
Total	¥ 82,482	¥ 75,685	$ 675,758

The Group as lessor

		Millions of yen			Thousands of U.S. dollars
		2016		**2017**	**2017**
Payments due within one year	¥	2,082	¥	1,976	$ 17,642
Payments due after one year		11,191		8,486	75,767
Total	¥	13,274	¥	10,463	$ 93,419

11. 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 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 9 years and 5 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 hedge and 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 in the same way.

Management of market risk (risk of fluctuation in interest rate 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 2016 and 2017 (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		
	2016		
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 48,521	¥ 48,521	¥ –
(2) Notes and accounts receivable - trade	46,785		
Allowance for doubtful accounts	(754)		
	46,031	46,031	–
(3) Accounts receivable - other	4,710		
Allowance for doubtful accounts	(7)		
	4,702	4,702	–
(4) Investment securities			
Available-for-sale securities	79,892	79,892	–
Total assets	¥ 179,148	¥ 179,148	¥ –
(1) Notes and accounts payable - trade	62,235	62,235	–
(2) Accounts payable - other	13,671	13,671	–
(3) Income taxes payable	5,807	5,807	–
(4) Bonds payable (*1)	18,700	18,950	(250)
(5) Long-term loans payable (*2)	110,957	111,592	(635)
Total liabilities	¥ 211,372	¥ 212,258	¥ (886)
Derivative transactions (*3)			
Hedge accounting is not applied	¥ (80)	¥ (80)	¥ –
Hedge accounting is applied	(188)	(188)	–
Total derivative transactions	¥ (268)	¥ (268)	¥ –

	Millions of yen			Thousands of U.S. dollars		
	2017			2017		
	Book value	Fair value	Difference	Book value	Fair value	Difference
(1) Cash and deposits	¥ 83,481	¥ 83,481	¥ –	$ 745,366	$ 745,366	$ –
(2) Notes and accounts receivable - trade	43,588			389,178		
Allowance for doubtful accounts	(358)			(3,196)		
	43,229	43,229	–	385,973	385,973	–
(3) Accounts receivable - other	5,063			45,205		
Allowance for doubtful accounts	(14)			(125)		
	5,049	5,049	–	45,080	45,080	–
(4) Investment securities						
Available-for-sale securities	86,221	86,221	–	769,830	769,830	–
Total assets	¥ 217,981	¥ 217,981	¥ –	$ 1,946,258	$ 1,946,258	$ –
(1) Notes and accounts payable - trade	¥ 59,394	¥ 59,394	¥ –	$ 530,303	$ 530,303	$ –
(2) Accounts payable - other	14,329	14,329	–	127,937	127,937	–
(3) Income taxes payable	4,744	4,744	–	42,357	42,357	–
(4) Bonds payable (*1)	16,600	16,828	(228)	148,214	150,250	(2,035)
(5) Long-term loans payable (*2)	138,179	138,507	(327)	1,233,741	1,236,669	(2,919)
Total liabilities	¥ 233,248	¥ 233,804	¥ (556)	$ 2,082,571	$ 2,087,535	$ (4,964)
Derivative transactions: (*3)						
Hedge accounting is not applied	¥ (218)	¥ (218)	¥ –	$ (1,946)	$ (1,946)	$ –
Hedge accounting is applied	(106)	(106)	–	(946)	(946)	–
Total derivative transactions	¥ (324)	¥ (324)	¥ –	$ (2,892)	$ (2,892)	$ –

*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, fair value approximates book value. Therefore, book value is deemed to be fair value.

(4) Investment securities

Fair value of these securities depends on their stock market price, while 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, fair value approximates book value. Therefore, book value is deemed to be fair value.

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

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 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).

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*
	2016	**2017**	**2017**
	Book value	Book value	Book value
Unlisted shares	¥ 17,620	¥ 16,810	$ 150,089
Guarantee deposits	71,191	69,060	616,607
Long-term guarantee deposited	12,103	11,494	102,625

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

2016	*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	¥ 48,521	¥ –	¥ –	¥ –
Notes and accounts receivable - trade	46,785	–	–	–
Notes and accounts receivable - other	4,710	–	–	–
Total	¥ 100,017	¥ –	¥ –	¥ –

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	¥ –	¥ –	¥ –

2017	*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	$ 745,366	$ –	$ –	$ –
Notes and accounts receivable - trade	389,178	–	–	–
Notes and accounts receivable - other	45,205	–	–	–
Total	$ 1,179,758	$ –	$ –	$ –

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

	Millions of yen					
2016	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
Bonds payable	¥ 2,100	¥ 6,600	¥ –	¥ –	¥ –	¥ 10,000
Long-term loans payable	10,077	28,845	43,031	201	17,700	11,100
Lease obligations	963	623	541	438	362	5,570
Total	¥ 13,141	¥ 36,069	¥ 43,573	¥ 639	¥ 18,062	¥ 26,670

	Millions of yen					
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
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

	Thousands of U.S. dollars					
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
Commercial papers	$ 17,857	$ –	$ –	$ –	$ –	$ –
Bonds payable	58,928	–	–	–	–	89,285
Long-term loans payable	264,151	379,383	1,794	144,642	162,500	281,250
Lease obligations	6,026	5,357	4,607	3,839	3,428	51,544
Total	$ 346,973	$ 384,750	$ 6,410	$ 148,482	$ 165,928	$ 422,080

12. 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 2016 and 2017.

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

	Millions of yen						*Thousands of U.S. dollars*		
	2016			**2017**			**2017**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥36,033	¥ 79,703	¥ 43,669	¥ 35,988	¥81,177	¥ 45,189	$ 321,321	$724,794	$ 403,473
Total	¥36,033	¥ 79,703	¥ 43,669	¥ 35,988	¥81,177	¥ 45,189	$ 321,321	$724,794	$ 403,473

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

	Millions of yen						*Thousands of U.S. dollars*		
	2016			**2017**			**2017**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 189	¥ 188	¥ (0)	¥ 5,271	¥ 5,043	¥ (228)	$ 47,062	$ 45,026	$ (2,035)
Total	¥ 189	¥ 188	¥ (0)	¥ 5,271	¥ 5,043	¥ (228)	$ 47,062	$ 45,026	$ (2,035)

Unlisted securities (¥6,093 million in 2016 and ¥6,070 million ($54,196 thousand) in 2017) 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 2016 and 2017:

	Millions of yen						*Thousands of U.S. dollars*		
	2016			**2017**			**2017**		
	Sales	Gains of sales	Losses on sales	Sales	Gains of sales	Losses on sales	Sales	Gains of sales	Losses on sales
Equity securities	¥ 21,577	¥ 8,508	¥ (0)	¥ 158	¥ 12	¥ (19)	$ 1,410	$ 107	$ (169)

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 2016 and 2017 was insignificant and its disclosure was omitted.

13. 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 2016 and 2017 are as below.

		Millions of yen			
		2016			
		Contract amount	Due after one year	Fair value	Gain (loss)
Non-market transaction	Foreign exchange forward contracts				
	Receive RMB / Pay EUR	¥ 728	¥ 728	¥ (1)	¥ (1)
	Receive RMB / Pay JPY	5,405	–	(57)	(57)
	Currency option contracts				
	Long Call: RMB	2,012	–	24	24
	Short Put: RMB	4,025	–	(46)	(46)
Total		¥ 12,171	¥ 728	¥ (80)	¥ (80)

Fair value is determined based on the forward exchange rates.

Currency option contracts above consist of zero cost options under which one option is purchased and simultaneously a matching option of the same value is sold. Thus, no option premium is paid or received.

		Millions of yen				Thousands of U.S. dollars			
		2017				**2017**			
		Contract amount	Due after one year	Fair value	Gain (loss)	Contract amount	Due after one year	Fair value	Gain (loss)
Non-market transaction	Foreign exchange forward contracts								
	Receive RMB / Pay EUR	¥ 691	¥ –	¥ (253)	¥ (253)	$ 6,169	$ –	$ (2,258)	$ (2,258)
	Receive RMB / Pay JPY	7,322	–	35	35	65,375	–	312	312
Total		¥ 8,013	¥ –	¥ (218)	¥ (218)	$ 71,544	$ –	$ (1,946)	$ (1,946)

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 2016

			Millions of yen		
			2016		
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 2017

			Millions of yen			*Thousands of U.S. dollars*		
			2017			**2017**		
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 of foreign exchange forward contract	Currency swaps Receive USD/ Pay JPY	Long-term loans	¥ 3,500	¥ 3,500	(Note)	$ 31,250	$ 31,250	(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 2016

			Millions of yen		
			2016		
Method of hedge accounting	Type of derivative transactions	Hedged items	Contract amount	Due after one year	Fair value
Deferral method	Interest rate swaps Pay fixed/ Receive floating	Long-term loans	¥ 12,240	¥ 11,360	¥ (188) (Note 1)
Exceptional method for interest rate swaps	Interest rate swaps Pay fixed/ Receive floating	Long-term loans	13,782	9,146	(Note2)
	Total		¥ 26,022	¥ 20,506	¥ ¥(188)

(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 2017

			Millions of yen			*Thousands of U.S. dollars*		
			2017			**2017**		
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
Deferral method	Interest rate swaps Pay fixed/ Receive floating	Long-term loans	¥ 11,360	¥ 10,480	¥(106) (Note 1)	$ 101,428	$ 93,571	$(946) (Note 1)
Exceptional method for interest rate swaps	Interest rate swaps Pay fixed/ Receive floating	Long-term loans	9,146	4,808	(Note2)	81,660	42,928	(Note2)
Total			¥ 20,506	¥ 15,288	¥(106)	$ 183,089	$ 136,500	$(946)

(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.

14. 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 and defined contribution pension plans. Other subsidiaries also have unfunded lump-sum payment plans, defined benefit pension plans or defined contribution pension plans. 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 plan (excluding plans under the simplified method)

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

	Millions of yen		*Thousands of U.S. dollars*
	2016	**2017**	**2017**
Projected benefit obligation - beginning balance	¥ 56,119	¥ 54,952	$ 490,642
Service cost	2,121	2,074	18,517
Interest cost	440	429	3,830
Changes in actuarial differences	(1,071)	(936)	(8,357)
Past service cost	—	(1,250)	(11,160)
Retirement benefits paid	(2,657)	(2,648)	(23,642)
Projected benefit obligation - ending balance	¥ 54,952	¥ 52,620	$ 469,821

(2) Changes in plan assets were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2016	**2017**	**2017**
Plan assets - beginning balance	¥ 35,003	¥ 36,336	$ 324,428
Expected return on plan assets	1,107	1,148	10,250
Changes in actuarial differences	(650)	(172)	(1,535)
Employers' contributions	2,853	1,543	13,776
Retirement benefits paid	(1,978)	(1,869)	(16,687)
Plan assets - ending balance	¥ 36,336	¥ 36,986	$ 330,232

(3) Ending balances of projected benefit obligation and plan assets and amounts included in the consolidated balance sheets as of 31st March 2016 and 2017 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2016	**2017**	**2017**
Projected benefit obligation under funded plan	¥ 42,434	¥ 40,086	$ 357,910
Plan assets	(36,336)	(36,986)	(330,232)
	6,098	3,099	27,669
Projected benefit obligation under non-funded plan	12,518	12,533	111,901
Net balance in the consolidated balance sheet	¥ 18,616	¥ 15,633	$ 139,580
Net defined benefit liability	¥ 18,616	¥ 16,316	$ 145,678
Net defined benefit asset	—	(683)	(6,098)
Net balance in the consolidated balance sheet	¥ 18,616	¥ 15,633	$ 139,580

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

	Millions of yen		*Thousands of U.S. dollars*
	2016	**2017**	**2017**
Service cost	¥ 2,121	¥ 2,074	$ 18,517
Interest cost	440	429	3,830
Expected return on plan assets	(1,107)	(1,148)	(10,250)
Amortisation of actuarial differences	554	517	4,616
Amortisation of past service cost	—	(32)	(285)
Other	29	57	508
Retirement benefit cost	¥ 2,038	¥ 1,898	$ 16,946

(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*
	2016	**2017**	**2017**
Past service cost	—	1,218	10,875
Actuarial differences	¥ 975	¥ 1,282	$ 11,446
Total	¥ 975	¥ 2,501	$ 22,330

(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*
	2016	**2017**	**2017**
Unrecognised past service cost	—	(1,218)	(10,875)
Unrecognised actuarial differences	¥ 3,245	¥ 1,962	$ 17,517
Total	¥ 3,245	¥ 744	$ 6,642

(7) Information on plan assets was as follows:

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

	2016	**2017**
General account of life insurance	41%	42%
Debt securities	18%	19%
Real estate investment funds	10%	11%
Cash and deposits	28%	24%
Equity securities	2%	2%
Other	1%	2%
Total	100%	100%

Total plan assets include 6% and 3% contribution to the retirement benefit trust in the retirement benefit plans for the year ended 31st March 2016 and 2017, respectively.

(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) Assumptions used for the calculation of actuarial differences (weighted-average rate) were as follows:

	2016	**2017**
Discount rate	0.78%	0.79%
Long-term expected rate of return	3.20%	3.20%
Estimated rate of salary increase	3.67%	1.10%

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

2. Defined benefit plan under the simplified method

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

	Millions of yen				*Thousands of U.S. dollars*	
	2016		**2017**		**2017**	
Projected benefit obligation - beginning balance	¥	1,867	¥	1,847	$	16,491
Defined benefit cost		319		240		2,142
Retirement benefits paid		(290)		(182)		(1,625)
Decrease due to sales of shares of subsidiaries resulting in change in scope of consolidation		(40)		—		—
Other		(9)		(13)		(116)
Projected benefit obligation - ending balance	¥	1,847	¥	1,892	$	16,892

(2) Ending balances of projected benefit obligation and plan assets and amounts included in the consolidated balance sheet as of 31st March 2016 and 2017 were as follows:

	Millions of yen				*Thousands of U.S. dollars*	
	2016		**2017**		**2017**	
Projected benefit obligation under funded plan	¥	—	¥	—	$	—
Plan assets		—		—		—
		—		—		—
Projected benefit obligation under non-funded plans		1,847		1,892		16,892
Net balance in the consolidated balance sheet		1,847		1,892		16,892
Net defined benefit liability		1,847		1,892		16,892
Net balance in the consolidated balance sheet	¥	1,847	¥	1,892	$	16,892

(3) Retirement benefit cost calculated by the simplified method was ¥319 million and ¥240 million ($2,142 thousand) for the years ended 31st March 2016 and 2017, respectively.

3. The amount required for contributions to the retirement benefit plans of the Company and its consolidated subsidiaries was ¥369 million and ¥372 million ($3,321 thousand) for the years ended 31st March 2016 and 2017, respectively.

15. Stock Options

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

	Millions of yen		*Thousands of U.S. dollars*
	2016	**2017**	**2017**
Selling, general and administrative expenses	197	175	1,562

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 officer 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

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 2017. 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 2017:	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
Before vested									
As of 31st March 2016	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	—	106,500
Forfeited	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	106,500
Outstanding	—	—	—	—	—	—	—	—	—
After vested									
As of 31st March 2016	25,500	53,000	71,500	89,500	96,000	101,000	109,000	110,000	—
Vested	—	—	—	—	—	—	—	—	106,500
Exercised	5,000	13,000	16,500	26,500	12,500	10,500	—	—	—
Forfeited	—	—	—	—	—	—	—	—	—
Outstanding	20,500	40,000	55,000	63,000	83,500	90,500	109,000	110,000	106,500

Price information

	Yen								
	Subscription rights to shares issued on								
In the year ended 31st March 2017:	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
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1
Average exercise price	¥1,376	¥1,441	¥1,502	¥1,621	¥1,373	¥1,367	¥—	¥—	¥—
Fair value at the grant date	¥986	¥1,136	¥984	¥1,100	¥1,932	¥1,566	¥2,141	¥1,798	¥1,645

	U.S. dollars								
	Subscription rights to shares issued on								
In the year ended 31st March 2017:	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
Exercise price	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Average exercise price	$12	$12	$13	$14	$12	$12	$–	$–	$–
Fair value at the grant date	$8	$10	$8	$9	$17	$13	$19	$16	$14

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 2017 as stock options was as follows:

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

Principal parameters and estimation method	March 2017 stock options
Expected volatility of the underlying stock (Note 1)	31.89%
Remaining expected life of the option (Note 2)	4 years
Expected dividends on the stock (Note 3)	¥37.5 per share
Risk-free interest rate during the expected option term (Note 4)	(0.155)%

Note 1. In the fiscal year ended 31st March 2017, the fair value of stock options was calculated on the basis of the Company's weekly share price movements over 4 years from March 2013 to March 2017.

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 2017, the amount of expected dividends was calculated based on the actual dividends paid as the final dividend for the year ended 31st March 2016 and the interim dividend for the year ended 31st March 2017.

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.

16. 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 2016 and 2017 were as follows:

		Millions of yen			*Thousands of U.S. dollars*
		2016		**2017**	**2017**
Deferred tax assets:					
Loss carryforwards	¥	7,814	¥	8,527	$ 76,133
Provision for redemption of gift certificates		1,033		1,145	10,223
Provision for bonuses		1,644		1,581	14,116
Net defined benefit liability		6,657		5,654	50,482
Depreciation		1,167		655	5,848
Impairment loss		9,598		10,134	90,482
Retirement benefit trust assets		1,107		720	6,428
Provision for loss on store closings		91		150	1,339
Asset retirement obligations		1,018		1,053	9,401
Shares in subsidiaries		1,996		1,550	13,839
Valuation on the consolidation		2,045		1,603	14,312
Provision for point card certificates		631		504	4,500
Allowance for doubtful accounts		1,796		1,153	10,294
Deferred loss on sales of shares of subsidiaries and associates based on Group Taxation Rule		—		10,294	91,910
Other		4,924		4,760	42,500
		41,528		49,491	441,883
Valuation allowance		(19,157)		(26,726)	(238,625)
Total deferred tax assets		22,370		22,765	203,258
Deferred tax liabilities:					
Reserve for advanced depreciation of non-current assets		(4,196)		(5,147)	(45,955)
Land revaluation of consolidated subsidiaries		(5,761)		(5,471)	(48,848)
Valuation gain on investment securities resulting from conversion of retirement benefit trust assets (equity securities)		(3,511)		(3,511)	(31,348)
Valuation difference on available-for-sale securities		(13,459)		(13,835)	(123,526)
Deferred gain on sales of shares of subsidiaries and associates based on Group Taxation Rule		(992)		(1,036)	(9,250)
Other		(1,214)		(1,181)	(10,544)
Total deferred tax liabilities		(29,136)		(30,184)	(269,500)
Net deferred tax assets (liabilities)	¥	(6,766)	¥	(7,419)	$ (66,241)

Net deferred tax assets as of 31st March 2016 and 2017 were included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	**2017**	**2017**
Current assets	¥ 4,910	¥ 4,146	$ 37,017
Non-current assets	8,945	9,960	88,928
Current liabilities	(0)	(4)	(35)
Non-current liabilities	(20,622)	(21,521)	(192,151)

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

	2016	**2017**
Aggregate statutory income tax rate	33.1%	30.9%
Increase (reduction) in taxes resulting from:		
Non-deductible expenses	1.2	0.7
Permanent differences (including dividends)	(2.9)	(0.5)
Tax on inhabitants per capita	1.9	2.1
Amortisation of goodwill	0.8	0.9
Impairment loss on goodwill	—	0.3
Changes in valuation allowances	1.6	37.8
Adjustment of gain on sales of shares of subsidiaries on consolidated basis	4.4	(19.0)
Adjustment of book value of shares of subsidiaries	—	(27.5)
Effects of tax rate change	0.4	—
Others	1.8	2.8
Effective income tax rate	42.3%	28.5%

17. Business Combination

Business combination executed for the year ended 31st March 2017 was insignificant and its disclosure was omitted.

18. 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 years ended 31st March 2016 and 2017, an estimated usage period of 2 to 39 years and 1 to 47 years, respectively, and a discount rate of 0.0% to 2.65% and 0.0% to 2.28%, respectively, were used to calculate the amount of asset retirement obligations.

3. Changes in the total amount of asset retirement obligations

For the fiscal year ended 31st March 2016, asset retirement obligations increased by ¥408 million since it became possible to estimate the restoration costs related to stores to be closed, such as the Nishi-Kishiwada store and other stores of Izumiya Co., Ltd. In addition, the acquisition of fixed assets for the opening of branch shops by Hanshoku Co., Ltd. also resulted in an ¥133 million increase in asset retirement obligations.

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

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 an ¥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.

Changes in the balances were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2016	**2017**	**2017**
Balance at beginning of year	¥ 2,937	¥ 2,960	$ 26,428
Increase due to estimate changes	450	1,006	8,982
Increase due to acquisition of property, plant and equipment	221	214	1,910
Adjustments with passage of time	50	49	437
Decrease due to fulfilment of asset retirement obligations	(671)	(576)	(5,142)
Other	(28)	3	26
Balance at end of year	¥ 2,960	¥ 3,657	$ 32,651

19. 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," "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 "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, membership management, home delivery, eating and drinking establishments, remodeling, temporary staffing, information processing and others.

2. Change in reportable segments

From the fiscal year ended 31st March 2017, the Companies changed their reportable segments from the previous four segments, namely "Department Store Business," Supermarket Business," "Izumiya Business" and "Other Businesses," to the new four segments, "Department Store Business," "Supermarket Business," "Shopping Centre Business" and "Other Businesses."

This change follows the reorganisation of the group companies implemented in the current fiscal year. The previous "Supermarket Business" and some companies in "Izumiya Business" were realigned as a new segment "Supermarket Business," and a further new segment "Shopping Centre Business" was established.

Major changes are as follows:

- In the segment "Supermarket Business," H2O Foods Group Co., Ltd., a holding company supervising the "Supermarket Business" segment was established on 1st April 2016. All companies in the previous "Supermarket Business" segment, Izumiya Co., Ltd., Qanat Co., Ltd., etc., included in the previous "Izumiya Business" segment, were transferred to the "Supermarket Business" segment.

  On 1st July 2016, Izumiya Co. Ltd. ("Old-Izumiya") established a new company ("New-Izumiya") by an incorporation-type company split succeeding the retail business which was transferred to the "Supermarket Business" segment. Old-Izumiya changed its corporate name to H2O Asset Management Co., Ltd., which was transferred to the "Shopping Centre Business" segment.

- Some companies in the previous "Other Businesses" segment, such as Hankyu Shopping Center Development Co., Ltd., and some companies in the previous "Izumiya Business" segment such as Kanso Co., Ltd. were transferred to the “Shopping Centre Business” segment.

From the second quarter of the fiscal year ended 31st March 2017, H2O Asset Management Co., Ltd. was transferred from the “Supermarket Business” segment. Sales and income/loss in the first quarter of the fiscal year ended 31st March 2017 of Old-Izumiya related to the shopping centre business were included in the “Supermarket Business” segment.

- Some companies in the previous “Izumiya Business” segment such as Izumiya Card Co., Ltd., were transferred to the “Other Businesses” segment.

For the previous fiscal year, it is not practicable to prepare the segment information by the new reportable segments because the amounts of net sales, income/loss, assets and other items related to the shopping centre business cannot be divided. Therefore, information on net sales and income/loss for the current fiscal year is disclosed by reportable segments before the change. Information on assets and a part of other items for the current fiscal year by previous reportable segments is not disclosed as it is not practicable to prepare.

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 2016	Department Store Business	Supermarket Business	Izumiya Business	Other Businesses	Adjustments	Total
	Millions of yen					
Net sales						
External customers	¥ 431,178	¥ 118,326	¥ 318,575	¥ 47,609	¥ –	¥ 915,690
Intersegment	463	5,293	325	23,042	(29,124)	–
Total net sales	¥ 431,641	¥ 123,619	¥ 318,900	¥ 70,652	¥ (29,124)	¥ 915,690
Segment income	¥ 16,625	¥ 2,282	¥ 4,741	¥ 3,317	¥ (3,142)	¥ 23,825
Segment assets	¥ 150,582	¥ 58,936	¥ 188,013	¥ 416,751	¥ (217,242)	¥ 597,041
Other items						
Depreciation	¥ 4,758	¥ 2,294	¥ 4,622	¥ 4,611	¥ (56)	¥ 16,230
Amortisation of goodwill	–	507	–	104	–	612
Investment in associated companies accounted for by the equity method	–	–	–	11,527	–	11,527
Impairment loss	770	415	3,914	661	–	5,763
Increase in property, plant and equipment and intangible assets	¥ 3,769	¥ 5,343	¥ 7,540	¥ 3,529	¥ (72)	¥ 20,110

Notes 1. Adjustments are as follows:

Adjustment of segment income was ¥(3,142) million for the year ended 31st March 2016 and comprised the elimination of intersegment transactions.

For the year ended 31st March 2016, adjustment of assets was ¥(217,242) million and included ¥(141,177) million offset elimination of investments and capital, ¥(74,144) million offset elimination of debts and credits and ¥(1,796) million adjustment for unrealised gains and losses on fixed assets.

Adjustment of depreciation amounting to ¥(56) million and adjustment of increase in property, plant and equipment and intangible assets amounting to ¥(72) million consisted of the elimination of intersegment transactions for the year ended 31st March 2016.

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

Millions of yen

As of and for the year ended 31st March 2017	Department Store Business	Supermarket Business	Shopping Centre Business	Other Businesses	Adjustments	Total
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

Thousands of U.S. dollars

As of and for the year ended 31st March 2017	Department Store Business	Supermarket Business	Shopping Centre Business	Other Businesses	Adjustments	Total
Net sales						
External customers	$ 3,818,250	$ 3,655,839	$ 89,017	$ 483,491	$ –	$ 8,046,616
Intersegment	4,723	48,267	152,544	216,187	(421,741)	–
Total net sales	$ 3,822,982	$ 3,704,107	$ 241,571	$ 699,687	$ (421,741)	$ 8,046,616
Segment income	$ 142,794	$ 35,508	$ 44,982	$ 25,562	$ (47,589)	$ 201,267
Segment assets	$ 1,432,160	$ 1,275,080	$ 1,293,589	$ 4,112,178	$ (2,393,883)	$ 5,719,133
Other items						
Depreciation	$ 40,723	$ 52,303	$ 18,267	$ 30,946	$ (678)	$ 141,580
Amortisation of goodwill	–	4,526	–	928	–	5,464
Investment in associated companies accounted for by the equity method	–	–	–	95,883	–	95,883
Impairment loss	16,687	19,875	125	3,910	–	40,616
Increase in property, plant and equipment and intangible assets	$ 30,107	$ 86,821	$ 59,383	$ 90,026	$ (15,812)	$ 250,535

Notes 1. Adjustments are as follows:

Adjustment of segment income was ¥(5,330) million ($(47,589) thousand) 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 ($(2,393,883) thousand) and included ¥(150,155) million ($(1,340,669) thousand) offset elimination of investments and capital, ¥(114,955) million ($(1,026,383) thousand) offset elimination of debts and credits and ¥(2,759) million ($(24,633) thousand) adjustment for unrealised gains and losses on fixed assets.

Adjustment of depreciation amounting to ¥(76) million ($(678) thousand) and adjustment of increase in property, plant and equipment and intangible assets amounting to ¥(1,771) million ($(15,812) thousand) 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.

Information on the amounts of net sales and income/loss for the fiscal year ended 31st March 2017 is presented by the previous reportable segments before the change as below.

On 1st October 2016, Hankyu Delica, Inc., which was previously in the “Supermarket Business” segment, merged with Delica I Foods Co., Ltd., which was previously in the “Izumiya Business” segment, and changed its corporate name to Hankyu delica i, Inc. The amounts of net sales and income/loss of Hankyu delica i, Inc. for the fiscal year ended 31st March 2017 were divided and presented in both “Supermarket Business” and “Izumiya Business” segments based on net sales by customer and actual production.

(Information by previous reportable segments)

As of and for the year ended 31st March 2017	Department Store Business	Supermarket Business	Izumiya Business	Other Businesses	Adjustments	Total
	Millions of yen					
Net sales						
External customers	¥ 427,644	¥ 124,069	¥ 300,184	¥ 49,322	¥ –	¥ 901,221
Intersegment	529	5,723	1,756	24,020	(32,029)	–
Total net sales	¥ 428,174	¥ 129,792	¥ 301,941	¥ 73,342	¥ (32,029)	¥ 901,221
Segment income	¥ 15,993	¥ 1,767	¥ 5,759	¥ 3,776	¥ (4,753)	¥ 22,542
Other items						
Depreciation	¥ 4,561	¥ 2,510	¥ 4,536	¥ 4,288	¥ (39)	¥ 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	500	1,881	297	–	4,549

As of and for the year ended 31st March 2017	Department Store Business	Supermarket Business	Izumiya Business	Other Businesses	Adjustments	Total
	Thousands of U.S. dollars					
Net sales						
External customers	$ 3,818,250	$ 1,107,758	$ 2,680,214	$ 440,375	$ –	$ 8,046,616
Intersegment	4,723	51,098	15,678	214,464	(285,973)	–
Total net sales	$ 3,822,982	$ 1,158,857	$ 2,695,901	$ 654,839	$ (285,973)	$ 8,046,616
Segment income	$ 142,794	$ 15,776	$ 51,419	$ 33,714	$ (42,437)	$ 201,267
Other items						
Depreciation	$ 40,723	$ 22,410	$ 40,500	$ 38,285	$ (348)	$ 141,580
Amortisation of goodwill	–	4,526	–	928	–	5,464
Investment in associated companies accounted for by the equity method	–	–	–	95,883	–	95,883
Impairment loss	16,687	4,464	16,794	2,651	–	40,616

Notes 1. Adjustments are as follows:

Adjustment of segment income was ¥(4,753) million ($(42,437) thousand) for the year ended 31st March 2017 and comprised the elimination of intersegment transactions.

Adjustment of depreciation amounting to ¥(39) million ($(348) thousand) 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.

(Related Information)

Amortisation of goodwill and unamortised balance by reportable segments

	Millions of yen					
As of and for the year ended 31st March 2016	Department Store Business	Supermarket Business	Izumiya Business	Other Businesses	Adjustments	Total
Goodwill						
Amortisation	¥ –	¥ 507	¥ –	¥ 104	¥ –	¥ 612
Impairment	¥ –	¥ –	¥ –	¥ –	¥ –	¥ –
Unamortised balance	¥ –	¥ 5,240	¥ –	¥ 756	¥ –	¥ 5,997

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

	Thousands of U.S. dollars					
As of and for the year ended 31st March 2017	Department Store Business	Supermarket Business	Shopping Centre Business	Other Businesses	Adjustments	Total
Goodwill						
Amortisation	$ –	$ 4,526	$ –	$ 928	$ –	$ 5,464
Impairment	$ –	$ –	$ –	$ 1,491	$ –	$ 1,491
Unamortised balance	$ –	$ 42,258	$ –	$ 4,312	$ –	$ 46,580

(Related Information by previous reportable segments)

Amortisation of goodwill and unamortised balance by previous reportable segments

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

	Thousands of U.S. dollars					
As of and for the year ended 31st March 2017	Department Store Business	Supermarket Business	Izumiya Business	Other Businesses	Adjustments	Total
Goodwill						
Amortisation	$ –	$ 4,526	$ –	$ 928	$ –	$ 5,464
Impairment	$ –	$ –	$ –	$ 1,491	$ –	$ 1,491
Unamortised balance	$ –	$ 42,258	$ –	$ 4,312	$ –	$ 46,580

20. Related Party Transactions

For the year ended 31st March 2016

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	Term-end balance
Subsidiaries of companies that have significant stakes in the reporting entity	Hankyu Corporation	Kita-ku, Osaka City	¥100 million	Railway operations, real estate rental and dealership operations, stage revues, retailing	–	Same person serving concurrently as director or corporate auditor for both parties, Rental of real estate	Rental expenses	¥8,819 million	Prepaid expenses	¥211 million
									Accounts payable - other	¥12 million
									Accrued expenses	¥31 million
							Fees for display of signs, etc.	¥8 million	Prepaid expenses	¥0 million
							Deposits of guarantee money	¥0 million	Guarantee deposits	¥21,818 million
							Return of guarantee money	¥8 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	11.99% shares of the Company directly held	Same person serving concurrently as director or corporate auditor for both parties, Rental of real estate	Rental expenses	¥3,528 million	Prepaid expenses	¥3 million
									Accrued expenses	¥32 million
							Fees for display of signs, etc.	¥7 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; term-end 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 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

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

Rental of real estate</td><td rowspan="3">Rental expenses</td><td rowspan="3">¥8,590 million ($76,696 thousand)</td><td>Prepaid expenses</td><td>¥210 million ($1,875 thousand)</td></tr>
<tr><td>Accounts payable - other</td><td>¥12 million ($107 thousand)</td></tr>
<tr><td>Accrued expenses</td><td>¥20 million ($178 thousand)</td></tr>
<tr><td>Fees for display of signs, etc.</td><td>¥8 million ($71 thousand)</td><td>Prepaid expenses</td><td>¥0 million ($0 thousand)</td></tr>
<tr><td>Deposits of guarantee money</td><td>¥11 million ($98 thousand)</td><td rowspan="2">Guarantee deposits</td><td rowspan="2">¥21,824 million ($194, 857 thousand)</td></tr>
<tr><td>Return of guarantee money</td><td>¥4 million ($35 thousand)</td></tr>
<tr><td rowspan="5">HANSHIN ELECTRIC RAILWAY CO., LTD.</td><td rowspan="5">Fukushima - ku, Osaka City</td><td rowspan="5">¥29,384 million</td><td rowspan="5">Railway operations, real estate rental and dealership operations, sports business, travel business</td><td rowspan="5">11.98% shares of the Company directly held</td><td rowspan="5">Same person serving concurrently as director or corporate auditor for both parties,

Rental of real estate</td><td rowspan="2">Rental expenses</td><td rowspan="2">¥3,500 million ($31,250 thousand)</td><td>Prepaid expenses</td><td>¥2 million ($17 thousand)</td></tr>
<tr><td>Accrued expenses</td><td>¥21 million ($187 thousand)</td></tr>
<tr><td>Fees for display of signs, etc.</td><td>¥6 million ($53 thousand)</td><td>Prepaid expenses</td><td>¥0 million ($0 thousand)</td></tr>
<tr><td>Deposits of guarantee money</td><td>–</td><td rowspan="2">Guarantee deposits</td><td rowspan="2">¥7,628 million ($68,107 thousand)</td></tr>
<tr><td>Return of guarantee money</td><td>–</td></tr>
</table>

Business terms and policies for determination of business terms

Notes 1. Transaction amounts are exclusive of consumption taxes; term-end 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.

21. Per Share Information

Reconciliation of the difference between basic and diluted profit per share (Earnings Per Share “EPS”) for the years ended 31st March 2016 and 2017.

	Millions of yen		*Thousands of U.S. dollars*
	2016	**2017**	**2017**
Basic profit per share calculation:			
Profit (numerator):			
Profit attributable to owners of parent	¥ 14,053	¥ 14,298	$ 127,660
Amounts not belonging to common stockholders	–	–	–
Profit attributable to owners of parent concerning common stock	14,053	14,298	127,660
Shares (denominator):			
Weighted average number of shares	123,347,854	123,427,319	
Basic EPS (yen and U.S. dollars)	¥ 113.93	¥ 115.84	$ 1.03
Diluted profit per share calculation:			
Profit (numerator):			
Profit attributable to owners of parent	¥ 14,053	¥ 14,298	$ 127,660
Amounts not belonging to common stockholders	–	–	–
Profit attributable to owners of parent concerning common stock	14,053	14,298	127,660
Effect of dilutive securities - convertible bonds	–	–	–
Adjusted profit	14,053	14,298	127,660
Shares (denominator):			
Weighted average number of shares	123,347,854	123,427,319	
Assumed exercise of stock purchase rights	583,072	606,307	
Adjusted weighted average number of shares	123,930,926	124,033,626	
Diluted EPS (yen and U.S. dollars)	¥ 113.39	¥ 115.28	$ 1.02

Net assets per share (Book value Per Share "BPS") calculation for the years ended 31st March 2016 and 2017 was as follows:

	Millions of yen				Thousands of U.S. dollars	
	2016		**2017**		**2017**	
Net assets per share calculation:						
Net assets	¥	252,587	¥	264,323	$	2,360,026
Deduction from net assets		1,032		1,102		9,839
(Subscription rights to shares)		(1,028)		(1,098)		(9,803)
(Non-controlling interests)		(3)		(3)		(26)
Net assets concerning common stock		251,554		263,220		2,350,178
Number of shares used for the calculation of net assets per share		123,381,819		123,463,769		
BPS (yen and U.S. dollars)		2,038.83		2,131.97		19.03

22. 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.

23. Subsequent Events

Not applicable

24. 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 2016 and 2017 consisted of the following.

	Millions of yen		*Thousands of U.S. dollars*
	2016	**2017**	**2017**
0.003% Commercial papers	¥ –	¥ 2,000	$ 17,857
Current portion of long-term loans payable (1.138% in 2016 and 0.478% in 2017)	¥ 10,077	¥ 29,585	$ 264,151
Lease obligations, current portion	963	675	6,026
Long-term loans payable (0.386% in 2016 and 0.322% in 2017), excluding current portion, due through 2026	100,879	108,593	969,580
Lease obligations, excluding current portion, due through 2036	7,535	7,706	68,803
0.706% H2O Retailing unsecured bonds, due 2024	10,000	10,000	89,285
0.90% H2O Asset Management unsecured bonds, due 2017	2,000	–	–
0.85% H2O Asset Management unsecured bonds, due 2018	1,300	1,300	11,607
0.86% H2O Asset Management unsecured bonds, due 2018	700	700	6,250
0.71% H2O Asset Management unsecured bonds, due 2017	4,700	4,600	41,071

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

Annual maturities of short-term loans and long-term debt including loans payable, long-term bonds payable and lease obligations as at 31st March 2017 were as follows:

	Millions of yen	*Thousands of U.S. dollars*
	2017	**2017**
2018	¥ 38,861	$ 346,973
2019	43,092	384,750
2020	718	6,410
2021	16,630	148,482
2022 and thereafter	65,858	588,017
	¥ 165,162	$ 1,474,660

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, 2016 and 2017, 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, 2016 and 2017, 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, 2017 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 30th, 2017
Osaka, Japan

Corporate Data

H_2O RETAILING CORPORATION and Consolidated Subsidiaries

Board of Directors (as of 21st June 2017)

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 2017)

Date of Establishment	March 1947
Stated Capital	¥17,796 million
Authorised Shares	150,000,000
Issued and Outstanding Shares	125,201,396
Shareholders	24,053
Employees	75 (H2O Retailing Corporation) 8,528 (Consolidated basis)

Principal Shareholders (as of 31st March 2017)

Shareholders	Number of shares (thousands of shares)	Ratio of shareholdings
Hanshin Electric Railway Co., Ltd.	14,749	11.78%
Hankyu Hanshin Holdings, Inc.	10,336	8.26%
Takashimaya Co., Ltd.	6,259	5.00%
Japan Trustee Service Bank, Ltd. (Trust account)	5,044	4.03%
The Master of Trust Bank of Japan, Ltd. (Trust account)	3,709	2.96%
Izumiya Kyowakai Assn.	2,641	2.11%
Japan Trustee Service Bank, Ltd. (Trust account9)	2,425	1.94%
CBNY-GOVERNMENT OF NORWAY	2,363	1.89%
Japan Trustee Service Bank, Ltd. (Trust account5)	1,855	1.48%
H2O Retailing Group Employees' Shareholding Association	1,686	1.35%

Principal Consolidated Subsidiaries

Subsidiary	**Primary business activities**
Department Store Business	
Hankyu Hanshin Department Stores, Inc.	Department Stores
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

Subsidiary	**Primary business activities**
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 Insurance, Inc.	Life and casualty insurance agency
Hankyu Hanshin Department Stores Tomonokai, Inc.	Membership organization 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

Subsidiary	Primary business activities
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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