H2O RETAILING CORPORATION

FINANCIAL REPORT 2016

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 management integration with Izumiya, Co., Ltd.

Currently, the Group consists of 55 subsidiaries and 4 affiliates that operate retail businesses, including its core department store operations, supermarket operations and shopping centre operations.

Contents

General Business Conditions

1. Analysis of Business Performance and Financial Position

(1) Business performance for reporting period

Consolidated business results for the fiscal year

	Millions of yen	YOY %
Net sales	915,690	108.4
Operating income	23,825	111.5
Ordinary income	23,060	108.7
Profit attributable to owners of parent	14,053	121.3

In the year ended 31st March 2016, the Group's main business segments, namely Department Stores Business, Supermarkets Business and Izumiya Business, remained successful. The Group achieved new records in net sales, operating income, ordinary income and profit attributable to owners of parent.

In the current fiscal year, the Group has launched the long-term plan, "GP10 Plan Stage II." For the medium-term phase of the plan, "GP10 Plan Stage II, Phase 1," the Group is engaging in various endeavours to streamline operations and to become a “general lifestyle provider” in the Kansai area.

In the segment of Department Stores Business, sales remained strong due to (i) a major remodelling of the Group’s urban locations, enhancement of unique products selection and (ii) an expansive communications campaign which attracted inbound tourists as well as wealthy domestic buyers, mainly large customers. At the Hanshin Umeda Main Store, store-wide sales strategies involving monthly themes and popular special events resulted in performance above forecasts, in spite of a 40% reduction in store space due to reconstruction. In Supermarkets Business and Izumiya Business, sales volume expanded through the opening of new stores and the remodelling of existing stores. Further, the Group made use of economies of scale and reduced cost by sharing facilities in manufacturing, procurement and distribution, thereby strengthening earning capacity.

As a result of these measures, the Group's consolidated sales were up 8.4% year-on-year to ¥915,690 million, operating income was up 11.5% year-on-year to ¥23,825 million and ordinary income was up 8.7% year-on-year to ¥23,060 million.

While ¥7,937 million in extraordinary losses were recorded, including losses on closings of stores and impairment loss on non-current assets, extraordinary income of ¥9,251 million that included gain on sales of investment securities was recorded. As a result, profit attributable to owners of parent was up 21.3% year-on-year to ¥14,053 million.

The following is a breakdown of performances by business segment.

Department Stores Business

Results for Department Stores Business

	Millions of yen	YOY %
Net sales	431,178	102.4
Segment income (operating income)	16,625	105.7

For Hankyu Hanshin Department Stores, Inc., the Hankyu Umeda Main Store is redoubling efforts to make daily life information available for customers in event spaces on each floor of the department store, with "SHUKUSAI Plaza" on the 9th floor as the centrepiece. In addition, the Hankyu Umeda Main Store is engaged in a web- and SNS-based outreach programme across a wide region, actively expanding its trade area. In the fourth year since its grand opening, the Store underwent major renovations aimed at further increasing competitiveness on Hankyu Men's Osaka in September, the Main Store's handbags areas in November and womenswear and shoes areas on the 3rd and 4th floors in March. All of these have been well-received. As a result, sales at the Hankyu Umeda Main Store, including Hankyu Men's Osaka were up 10.4% year-on-year to ¥218,358 million.

At the Hanshin Umeda Main Store, there was a 40% reduction in store space due to full-scale reconstruction work, which began in February of last year. By strengthening distinctive promotional efforts, coordinated across the entire building and by reinforcing customer relationships, store management was able to minimise the effects of the reduction in space. Sales were ¥58,919 million, 82.3% of the sales amount of last fiscal year.

At other branch stores in urban locations, Hakata Hankyu and HANKYU MEN'S TOKYO continued to show strong sales growth from the last fiscal year. Suburban locations also showed steady growth. In particular, renovations at Senri Hankyu and Kawanishi Hankyu in March 2015 attracted local customers.

For reference: sales of the Group's department stores

Department store name	Millions of yen	YOY %
Hankyu Umeda Main Store	218,358	110.4%
Senri Hankyu	16,744	101.2%
Sakai Kitahanada Hankyu	8,856	94.7%
Kawanishi Hankyu	16,633	99.3%
Takarazuka Hankyu	7,840	99.8%
Nishinomiya Hankyu	25,178	101.4%
Sanda Hankyu	1,410	101.3%
Hakata Hankyu	43,850	103.7%
HANKYU MEN'S TOKYO	14,520	106.9%
Oi Hankyu Food Hall	4,723	100.7%
Tsuzuki Hankyu	5,021	98.6%

Department store name	Millions of yen	YOY %
Hanshin Umeda Main Store	58,919	82.3%
Amagasaki Hanshin	3,578	97.0%
Hanshin Nishinomiya	4,535	100.0%
Hanshin Mikage	559	102.7%

Note: Figures for the Hankyu Umeda Main Store include sales of Hankyu Men's Osaka.

Supermarkets Business

Results for Supermarkets Business

	Millions of yen	YOY %
Net sales	118,326	108.9
Segment income (operating income)	2,282	95.2

Hanshoku Co., Ltd. (“Hanshoku”) operates the Hankyu Oasis chain of food supermarkets. With the marketing slogan "A Marketplace Made for You by Everyone," Hanshoku opened five new stores, including the Minoh-Semba store (in Osaka) in November and the Kōyōen store (in Hyogo) in December and remodelled nine of its existing stores. Thus, Hanshoku enhanced operational capacity and increased net sales by expanding and developing "High Quality Food Stores," replete with "specialty" products, "a live-feel" and "informativeness" (58 out of 81 locations as of 31st March 2016), pillars of the growth strategy for Hanshoku.

In addition, its food processing subsidiaries made improvements in their infrastructural foundations with the objective of further expanding their scales of operation. For example, Hankyu Bakery Co., Ltd., which is scaling up its ¥100 bread and pastry business, expanded and relocated its factory to Takatsuki City. Hankyu Delica, Inc., which is developing its prepared food business, opened a second factory. With these improvements, further development of the vertical integration of production, wholesaling and retailing of the Group's foodservice business was possible.

Izumiya Business

Results for Izumiya Business

	Millions of yen	YOY %
Net sales	318,575	117.7
Segment income (operating income)	4,741	150.8

Izumiya Co., Ltd. implemented measures centred on foodservice to reinforce each store and pursued maximisation of profits. The company reduced production costs through joint purchases with Hanshoku, and through shared use of a prepared food factory. Izumiya Co., Ltd. opened the Hōenzaka store (Osaka) in May, the Senbon Nakadachiuri store (Kyoto) in October, and the LaLaport EXPOCITY store (Osaka) inside LaLaport EXPOCITY, one of the largest shopping complexes in Western Japan, in November.

Izumiya Co., Ltd. closed its Oyama store (Tochigi) in August and the Nishi-Kishiwada (Osaka) store in December due to continued negative earnings. As for existing stores, the company fully renovated the Shin-Omiya store (Nara), creating a new prototype grocery store. Further, Izumiya Co., Ltd. converted its stores management structure from a headquarter-based approach to a store-based approach. Improving customer satisfaction by developing a sales and promotional plan that reflects regional characteristics and customer needs, Izumiya Co., Ltd. aims to establish its management structure over stores that are highly attractive to customers.

For Izumiya Business, the consolidated financial results of the last fiscal year reflect results from 1st June 2014 to 31st March 2015, the ten-month period after the business combination, whereas results of the current fiscal year reflect twelve months of operations.

Other Businesses

Results for Other Businesses

	Millions of yen	YOY %
Net sales	47,609	107.2
Segment income (operating income)	3,317	140.9

KAZOKUTEI CO., LTD. strengthened sales capability by developing menus that accommodate customer characteristics and saw increases in both sales and profits. In addition, at Oi Development Co., Ltd., Hankyu Oimachi Garden was steady in both the hotels department and the commercial spaces department. Notably, the combined guest room occupancy rate at Ours Inn Hankyu Single Hall and Ours Inn Hankyu Twin Hall maintained a high level throughout the year, 96.6%. HANKYU B&C Planning Co., Ltd., which develops bread and pastry specialty stores, showed steady sales growth, opening 10 new stores for the current fiscal year and expanding to 42 locations as of the end of March 2016.

(2) Analysis of Financial Position

(i) Assets, liabilities and net assets

Total assets declined ¥34,835 million year-on-year to ¥597,041 million as of 31st March 2016. This was due in part to a reduction of ¥29,573 million in investment securities, caused by sales of partial shares owned by the Group.

Total liabilities decreased by ¥35,764 million year-on-year to ¥344,454 million as of 31st March 2016. This was partially due to the repayment of debts, including long-term loans, bonds payable (including current portions) and commercial papers, in the total amount of ¥24,163 million and a ¥6,053 million decrease in deferred tax liabilities, arising mainly from the sales of partial holding shares, a ¥4,912 million decrease in provision for loss on store closing and a ¥3,467 million decrease in accounts payable - other resulting from payments pertaining to capital investments.

Total net assets grew ¥928 million year-on-year to ¥252,587 million. This was due mainly to a ¥10,104 million increase in retained earnings through profit attributable to owners of parent and a ¥9,449 million decrease in valuation difference on available-for-sale securities caused by sales of partial holding shares.

(ii) Cash Flows

As of the year ended 31st March 2016, cash and cash equivalents stood at ¥48,492 million, an increase of ¥4,157 million year-on-year.

Net cash provided by operating activities was ¥24,539 million, down ¥929 million year-on-year.

Net cash provided by investing activities was ¥5,852 million (¥49,162 million in cash flows used in investing activities for the last fiscal year) due in part to ¥24,373 million in proceeds from sales of investment securities and ¥21,053 million in purchases of property, plant and equipment and intangible assets.

Net cash used in financing activities was ¥26,207 million (¥24,161 million provided for the last fiscal year), due in part to ¥25,240 million in repayment of interest bearing loans payable.

2. Management Policies

(1) The Company's Basic Management Policy

The Group's fundamental corporate philosophy is to remain indispensable to the local communities through our activities of providing a model of lifestyle to local residents. We are developing a variety of businesses around our core department store business, centred on the main stores of both the Hankyu and Hanshin department store chain. In this regard, these businesses also comprise the supermarket business, including the Izumiya and Hankyu Oasis store chains; the commercial facility management business; the hotel business; the specialty store business, which provides cosmetics, ladies' footwear and other products and services; and the restaurant business. Through the development of these businesses, we aim to become a general lifestyle provider that is engaged in every aspect of consumers' lives by meeting a full range of needs, from daily shopping to special purchases.

Another growth strategy is to enter overseas businesses. In addition to planning and executing this strategy, we will launch business initiatives with an eye on the next 10 years by venturing out into new business domains.

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 Group aims to be a “general lifestyle provider,” based on its medium- to long-term business strategy devised with a new stage for the entire Group in mind, countering the expected long-term decrease in population and the intensification of the competitiveness across industry sectors and business categories. As a first step, the Group will restructure the Supermarkets Business and Izumiya Business. Under a newly established intermediate holding company, the Group will re-examine and integrate overlapping functions and facilities, and reform product flow and workflow in order to create a robust foodservice business.

Simultaneously, the Group will cultivate a new business model that will raise the frequency of contact with the approximately 20 million consumers living in its primary area of Kansai by redeveloping the network of 200 stores and standardising the card-point system.

Furthermore, the Group is planning for further growth with an eye toward other Asian markets, with China as a main foothold.

The Group aims for continuous growth, even under severe environmental conditions, by meeting the requirements of its stakeholders.

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 an 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 of directors who are ASC members the majority of which shall be outside directors. A director who is an ASC member (i) has a voting right 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 operation more promptly and flexibly.

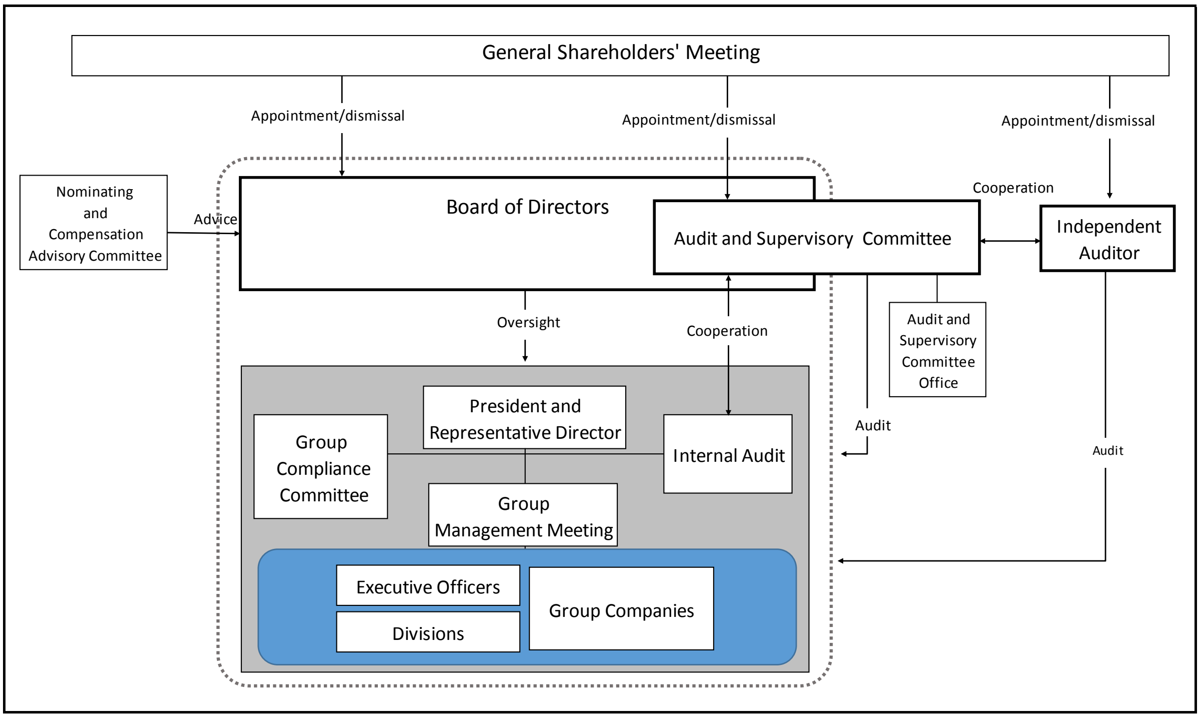
After the change to a Company with an ASC, the Company's Board of Directors will consist of 12 directors (of which, four (4) directors are ASC members), including four (4) outside directors (of which, three (3) outside directors are ASC members). Thus, one-third of directors in the Board of Directors will be outside directors.

The Company will continue to have a voluntary Nominating and Compensation Advisory Committee in which the majority of the members are outside directors. Furthermore, the Company will have a full-time ASC member.

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.

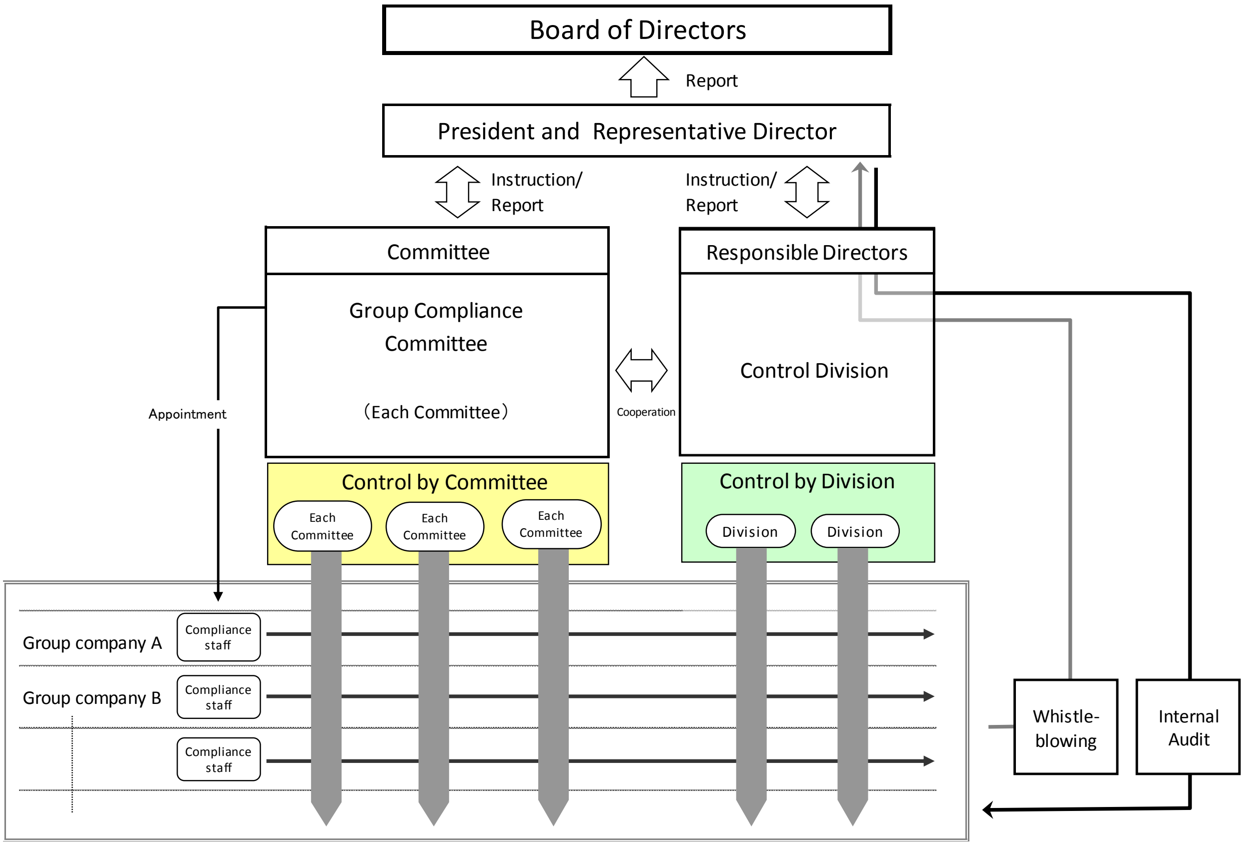
The ASC audits the directors, the Board of Directors and executive officers.

■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 audit 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 meeting, making revisions to targets as necessary.

Where authority and responsibility lies has also been clarified based on a set of 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 division (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 issues 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 will subsequently report to the Company's ASC.

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

All members of the Group will be 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 will be 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 will promptly bear such costs in accordance with applicable laws and regulations. The Company will establish an annual budget for such costs for ASC members.

The following summarises the status of operation for the year ended March 31, 2016.

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

In the fiscal year 2016, with the view to improving the internal control system of the whole group, some Group companies held their Board of Directors' meetings and agreed to establish internal control systems in order to encourage compliance and risk management in their respective companies, though this is not legally required.

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

During the fiscal year 2016, the Company held seminars led by lawyers for directors of each Group company for the improvement of basic knowledge and skills as directors, corporate auditors or executive officers. An information session regarding administrative procedures to implement the Social Security and Tax Number System was also held.

Furthermore, each Group company identified and prioritised existing business risks and attempted to eliminate or mitigate such risks during the current fiscal year. In addition, the Group introduced an intranet to share information throughout the Group.

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, the Company reviews the scope of evaluation of internal control at the beginning of each fiscal year. Including HANKYU BAKERY Co., LTD in the scope and enhancing control over Izumiya Co., Ltd., which was acquired in 2014, the Company revised and evaluated both group-level controls and process-level controls as well as their statuses of operations.

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 seven (7) dedicated staff members who support the duties of the corporate auditors as requested by the corporate auditors and designate each of staff member as a corporate auditor of Group companies.

Additionally, corporate auditors periodically hold meetings with Representative Directors and with 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.

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, seven (7) ASC staff members work in the ASC Office to augment the ASC’s audit work.

The internal audit division (four (4) members) and the office in charge of financial reporting as stipulated in the Financial Instruments and Exchange Act (J-SOX) (three (3) members) are responsible for internal audits. 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 inspected final decision reports on key matters as well as the minutes of the meetings. The full-time ASC member also hears directly from the internal control division (Finance and Accounting Division, General Affairs and Human Resources Division, System Planning Division, etc.) concerning the execution of the Company business affairs.

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 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. Tohei Nitta, Mr. Naoki Sugita and Mr. Satoshi Kihira. Assisting them with the audit were 14 other certified public accountants and 9 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 auditing. They also discuss business issues and reach a consensus on the ASC's opinion.

3) Outside Directors

Upon approval of the Ordinary General Shareholders' Meeting held on 22nd June 2016, the Company changed from a "Company with Board of Corporate Auditors" to a "Company with Audit and Supervisory Committee." After the change to a Company with an ASC, 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 establishes 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 (excepting 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	Naoshi Ban	Attended all 5 Board of Directors’ meetings held after his appointment on 24th June 2015 (excluding written resolutions), giving his opinions on measures and asking questions based on his extensive management experience.
Director	Makoto Yagi	Attended all 5 Board of Directors’ meetings held after his appointment on 24th June 2015 (excluding written resolutions), giving his opinions on measures and asking questions based on his extensive management experience.
Corporate Auditor	Hideyuki Takai	Attended all 6 Board of Directors’ meetings (excluding written resolutions) and all 8 Board of Corporate Auditors' meetings held during the reporting period, giving his opinions on measures and asking questions based on his extensive management experience.
Corporate Auditor	Toshihisa Takamura	Attended all 6 Board of Directors’ meetings (excluding written resolutions) and all 8 Board of Corporate Auditors ' meetings held during the reporting period, giving his opinions on measures and asking questions based primarily on his specialised knowledge as an attorney.
Corporate Auditor	Masashi Muromachi	Attended all 6 Board of Directors’ meetings (excluding written resolutions) and all 8 Board of Corporate Auditors ' meetings held during the reporting period, giving his opinions on measures and asking questions based on his extensive management experience.

Outside corporate auditors Mr. Hideyuki Takai, Mr. Toshihisa Takamura and Mr. Masashi Muromachi retired at the Ordinary General Shareholders' Meeting held on 22nd June 2016.

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 eligible for compensation
		Basic compensation	Stock option based compensation	Bonus	
Directors (excluding outside directors)	232	130	53	48	8
Corporate auditors (excluding outside auditors)	23	23	—	—	1
Outside directors and outside corporate auditors	37	37	—	—	6

Policy on Determining Compensation for Directors

The policy before a resolution of the 97th Ordinary General Shareholders' Meeting held on 22nd June 2016 is outlined below.

For 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 part-time directors including outside directors is dependent on the role expected to be performed. Moreover, compensation for corporate auditors is dependent on the role expected to be performed and consists only of monthly compensation determined through discussion among corporate auditors and taking into account compensation of directors.

The maximum compensation in accordance with the policy before a resolution of the 97th Ordinary General Shareholders' Meeting held on 22nd June 2016 is outlined below.

a. At the 69th Ordinary General Shareholders' Meeting held on 29th June 1988, basic compensation was set at a maximum of ¥26 million per month for all directors and at a maximum of ¥4 million per month for all corporate auditors.
b. Bonus amounts are decided at a Shareholders' Meeting each time they are paid.
c. At the 89th Ordinary General Shareholders' Meeting held on 24th June 2008, it was resolved that stock options based compensation for directors (excluding 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.

The policy after a resolution of the 97th Ordinary General Shareholders' Meeting held on 22nd June 2016 is outlined below.

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.

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 had entered into a liability limitation 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: 46
   Balance sheet value: ¥70,511 million

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

In the year ended 31st March 2015

Stock	Number of shares	Balance sheet value (millions of yen)	Purpose of holding
Toho Co., Ltd.	13,664,280	40,145	To strengthen relationship with the Hankyu Hanshin Toho Group
Takashimaya Co., Ltd.	33,084,000	39,072	To strengthen relationship between both companies through business partnership
Mitsubishi UFJ Financial Group, Inc.	3,012,740	2,240	For financial policy reasons
Mitsubishi Logistics Corporation	1,109,000	2,079	To strengthen business management relationship
Umenohana Co., Ltd.	374,500	975	To strengthen relationship between both companies through business partnership
Asahi Group Holdings, Ltd.	217,360	828	To strengthen business management relationship
Wacoal Holdings Corp.	534,000	721	To strengthen business management relationship
Sumitomo Mitsui Financial Group, Inc.	117,241	539	For financial policy reasons
Daiwa Securities Group Inc.	504,998	477	For financial policy reasons
Sumitomo Mitsui Trust Holdings, Inc	248,719	123	For financial policy reasons
Asahi Broadcasting Corporation	90,000	96	To facilitate business activity
Onward Holdings Co., Ltd.	109,940	92	To strengthen business management relationship
Obayashi Corporation	100,000	78	To facilitate business activity
Aplus Financial Co., Ltd.	537,519	72	To strengthen business management relationship
Toyo Seikan Group Holdings, Ltd.	33,000	58	To facilitate business activity
Tokio Marine Holdings, Inc.	12,600	57	For financial policy reasons
Tokyo Rakutenchi Co., Ltd.	55,000	27	To strengthen relationship with the Hankyu Hanshin Toho Group
Kobayashi Pharmaceutical Co., Ltd.	900	7	To strengthen business management relationship
Tokyo Theatres Company, Incorporated	50,000	6	To facilitate business activity
Isetan Mitsukoshi Holdings Ltd.	1,437	2	To facilitate business activity
The Royal Hotel, Ltd.	10,132	2	To facilitate business activity
FUKAGAWA-SEIJI CO., LTD.	10,000	1	To facilitate business activity

In 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

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 2015		For the year ended 31st March 2016	
	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	52	6	66	—
Consolidated subsidiaries	142	—	138	—
Total	195	6	205	—

Other Significant Fees Paid

In the year ended 31st March 2015

None

In 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.

Details of Non-Audit Services

In the year ended 31st March 2015

Non-audit services for which the Company paid fees to certified public accountants as the Company's independent auditors include the development of IT-based internal control and the preparation of comfort letters.

In the year ended 31st March 2016

None

Policy to Determine Audit Fees

Audit fees to independent auditors are determined based on the items to be audited, the contents and procedure of 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 Board of Corporate Auditors 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 Board also had an interview with independent auditors to evaluate their credentials, 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 Board of Corporate Auditors agreed the amounts of fees to the independent auditors.

Note: The above states the name of the Board before the 97th Ordinary General Shareholders' Meeting held on 22nd June 2016. Upon an approval of the Ordinary General Shareholders' Meeting held on 22nd June 2016, the Company changed from a "Company with a Board of Corporate Auditors" to a "Company with an Audit and Supervisory Committee," aiming to maximise corporate value over the medium- to long-term.

Five-Year Summary

Years ended 31st March	Millions of yen 2012	2013	2014	2015	2016	Thousands of U.S. dollars (Note 1) 2016
For the year:						
Net sales	¥505,588	¥525,154	¥576,852	¥844,819	¥915,690	$8,175,803
Cost of sales	366,121	382,624	420,837	603,401	649,326	5,797,553
Gross profit	139,466	142,529	156,014	241,417	266,363	2,378,241
Selling, general and administrative expenses	129,508	131,859	138,700	220,059	242,538	2,165,517
Interest expenses	415	439	452	1,201	1,244	11,107
Profit before income taxes	2,835	11,293	6,824	17,582	24,374	217,625
Profit attributable to owners of parent	1,057	6,200	295	11,586	14,053	125,473
Comprehensive income	7,269	19,814	2,251	31,600	4,966	44,339
Per share information (in yen and U.S. dollars)						
Basic profit per share	11.48	63.87	3.05	98.06	113.93	1.01
Diluted profit per share	11.02	63.66	3.03	97.64	113.39	1.01
Cash dividends	12.50	12.50	12.50	25.00	35.00	0.31
At year-end:						
Inventories	¥15,458	¥16,079	¥16,508	¥37,025	¥35,507	$317,026
Property, plant and equipment (book value)	109,106	123,312	120,484	255,093	253,461	2,263,044
Total assets	335,230	359,323	377,716	631,877	597,041	5,330,723
Long-term debt	41,592	41,210	5,501	129,696	117,479	1,048,919
Shareholders' equity	161,194	164,957	162,817	213,134	223,013	1,991,187
Ratio analysis:						
Gross profit / Net sales (%)	27.58	27.14	27.05	28.58	29.09	
Profit before income taxes / Net sales (%)	0.56	2.15	1.18	2.08	2.66	
Profit attributable to owners of parent / Net sales (%)	0.21	1.18	0.05	1.37	1.53	
Profit attributable to owners of parent / Total assets (%)	0.31	1.79	0.08	2.30	2.29	
Profit attributable to owners of parent / Shareholders' equity (%)	0.68	3.80	0.18	6.16	6.44	
Shareholders' equity / Total assets (%)	48.08	45.91	43.11	33.73	37.35	
Long-term debt / Shareholders' equity (times)	0.26	0.25	0.03	0.61	0.53	
Net sales / Inventories (times)	32.71	32.66	34.94	22.82	25.79	
Net sales / Total assets (times)	1.51	1.46	1.53	1.34	1.53	

Note 1. U.S. dollar amounts represent translations of yen amounts at the rate of ¥112 = U.S.$1.00.

2. Amounts less than one million yen or 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 was executed at the beginning of the fiscal year ended 31st March 2012.

Consolidated Balance Sheets

H2O RETAILING CORPORATION and Consolidated Subsidiaries

As of 31st March, 2015 and 2016	Millions of yen 2015	Millions of yen 2016	Thousands of U.S. dollars (Note 1) 2016
Assets			
Current assets			
Cash and deposits (Notes 9 and 11)	¥ 44,381	¥ 48,521	$ 433,223
Notes and accounts receivable - trade (Note 11)	39,158	46,785	417,723
Merchandise and finished goods	35,623	33,959	303,205
Work in process	139	186	1,660
Raw materials and supplies	1,263	1,361	12,151
Deferred tax assets (Note 16)	5,701	4,910	43,839
Accounts receivable - other (Note 11)	7,247	4,710	42,053
Other	6,818	5,949	53,116
Allowance for doubtful accounts (Note 11)	(427)	(814)	(7,267)
Total current assets	139,905	145,570	1,299,732
Non-current assets			
Property, plant and equipment (Note 5)			
Buildings and structures	325,844	323,276	2,886,392
Accumulated depreciation	(208,892)	(209,521)	(1,870,723)
Buildings and structures, net	116,951	113,755	1,015,669
Machinery, equipment and vehicles	8,494	8,967	80,062
Accumulated depreciation	(5,101)	(5,342)	(47,696)
Machinery, equipment and vehicles, net	3,392	3,625	32,366
Land	124,406	124,341	1,110,187
Construction in progress	503	834	7,446
Other	45,362	46,831	418,133
Accumulated depreciation	(35,523)	(35,927)	(320,776)
Other, net	9,839	10,904	97,357
Property, plant and equipment, net	255,093	253,461	2,263,044
Intangible assets			
Goodwill	7,127	5,997	53,544
Other	12,703	11,733	104,758
Total intangible assets	19,830	17,730	158,303
Investments and other assets			
Investment securities (Notes 5, 11 and 12)	127,086	97,513	870,651
Long-term loans receivable	3,268	3,993	35,651
Guarantee deposits (Notes 5 and 22)	74,486	71,191	635,633
Deferred tax assets (Note 16)	10,184	8,945	79,866
Other	2,456	1,868	16,678
Allowance for doubtful accounts	(434)	(3,232)	(28,857)
Total investments and other assets	217,047	180,279	1,609,633
Total non-current assets	491,971	451,471	4,030,991
Total assets	¥ 631,877	¥ 597,041	$ 5,330,723

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
Liabilities			
Current liabilities			
Notes and accounts payable - trade (Notes 5 and 11)	¥ 61,921	¥ 62,235	$ 555,669
Current portion of bonds (Notes 11 and 24)	100	2,100	18,750
Commercial papers (Notes 11 and 24)	6,500	-	-
Current portion of long-term loans payable (Notes 5, 11 and 24)	14,773	10,077	89,973
Accounts payable - other (Note 11)	17,139	13,671	122,062
Lease obligations (Notes 10 and 24)	929	963	8,598
Income taxes payable (Note 11)	5,126	5,807	51,848
Deferred tax liabilities (Note16)	0	0	0
Gift certificates	20,361	21,785	194,508
Provision for bonuses	5,465	5,048	45,071
Provision for directors' bonuses	147	148	1,321
Provision for loss on store closing	5,208	295	2,633
Provision for point card certificates	2,276	2,097	18,723
Asset retirement obligations (Note 18)	512	383	3,419
Other	33,363	32,610	291,160
Total current liabilities	173,826	157,225	1,403,794
Non-current liabilities			
Bonds payable (Notes 11 and 24)	18,700	16,600	148,214
Long-term loans payable (Notes 5, 11 and 24)	110,996	100,879	900,705
Deferred tax liabilities (Note 16)	26,676	20,622	184,125
Deferred tax liabilities for land revaluation (Note 5)	281	265	2,366
Provision for directors' retirement benefits	176	205	1,830
Provision for redemption of gift certificates	2,675	3,183	28,419
Net defined benefit liability (Note 14)	22,984	20,463	182,705
Long-term accounts payable - other	336	268	2,392
Lease obligations (Notes 10 and 24)	5,970	7,535	67,276
Long-term guarantee deposited	12,900	12,103	108,062
Asset retirement obligations (Note 18)	2,424	2,576	23,000
Other	2,269	2,524	22,535
Total non-current liabilities	206,391	187,228	1,671,678
Total liabilities	380,218	344,454	3,075,482
Net assets (Note 8)			
Shareholders' equity			
Capital stock:	17,796	17,796	158,892
Common stock, Authorised - 300,000,000 shares, Issued - 125,201,396 shares in 2015 and 2016			
Capital surplus	93,100	92,783	828,419
Retained earnings	105,715	115,820	1,034,107
Treasury shares - 1,870,521 shares in 2015 - 1,819,577 shares in 2016	(3,478)	(3,387)	(30,241)
Total shareholders' equity	213,134	223,013	1,991,187
Accumulated other comprehensive income (Note 7)			
Valuation difference on available-for-sale securities	39,783	30,333	270,830
Deferred gains or losses on hedges	649	185	1,651
Revaluation reserve for land (Note 5)	109	125	1,116
Foreign currency translation adjustment	0	182	1,625
Remeasurements of defined benefit plans	(2,914)	(2,285)	(20,401)
Total accumulated other comprehensive income	37,627	28,541	254,830
Subscription rights to shares	892	1,028	9,178
Non-controlling interests	3	3	26
Total net assets	251,659	252,587	2,255,241
Total liabilities and nets assets	¥ 631,877	¥ 597,041	$ 5,330,723

See accompanying notes.

Consolidated Statements of Income

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Years ended 31st March, 2015 and 2016	Millions of yen 2015	Millions of yen 2016	Thousands of U.S. dollars (Note 1) 2016
Net sales	¥ 844,819	¥ 915,690	$ 8,175,803
Cost of sales (Note 6)	603,401	649,326	5,797,553
Gross profit	241,417	266,363	2,378,241
Selling, general and administrative expenses			
Salaries and allowances	72,520	79,002	705,375
Rent expenses	36,152	37,660	336,250
Other	111,387	125,875	1,123,883
Total selling, general and administrative expenses	220,059	242,538	2,165,517
Operating income	21,358	23,825	212,723
Non-operating income			
Interest income	86	102	910
Dividend income	960	1,177	10,508
Gain on debt settlement	1,240	792	7,071
Share of profit of entities accounted for using equity method	54	68	607
Other	1,378	1,028	9,178
Total non-operating income	3,720	3,169	28,294
Non-operating expenses			
Interest expenses	1,201	1,244	11,107
Provision for redemption of gift certificates	1,377	1,136	10,142
Other	1,280	1,552	13,857
Total non-operating expenses	3,859	3,933	35,116
Ordinary income	21,219	23,060	205,892
Extraordinary income (Note 6)			
Gain on sales of investment securities (Note 12)	409	8,508	75,964
Reversal of provision for loss on store closing	-	629	5,616
Gain on sales of non-current assets	110	113	1,008
Gain on bargain purchase	10,030	-	-
Gain on sales of shares of subsidiaries and associates	295	-	-
Total extraordinary income	10,846	9,251	82,598
Extraordinary losses (Note 6)			
Impairment loss	2,333	3,836	34,250
Loss on closing of stores	7,872	2,855	25,491
Loss on retirement of non-current assets	456	1,153	10,294
Outplacement expenses	616	92	821
Loss on store rebuilding	3,204	-	-
Total extraordinary losses	14,483	7,937	70,866
Profit before income taxes	17,582	24,374	217,625
Income taxes - current (Note 16)	6,801	9,140	81,607
Income taxes - deferred (Note 16)	(780)	1,180	10,535
Total income taxes	6,021	10,321	92,151
Profit for the year	11,561	14,053	125,473
Profit (loss) attributable to non-controlling interests	(25)	0	0
Profit attributable to owners of parent	¥ 11,586	¥ 14,053	$ 125,473

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, 2015 and 2016	2015		2016		2016	
Profit for the year	¥	11,561	¥	14,053	$	125,473
Other comprehensive income (Note7)						
Valuation difference on available-for-sale securities		18,146		(9,449)		(84,366)
Deferred gains or losses on hedges		0		(32)		(285)
Revaluation reserve for land		28		15		133
Foreign currency translation adjustment		0		21		187
Remeasurements of defined benefit plans, net of tax		1,213		629		5,616
Share of other comprehensive income of entities accounted for using equity method		648		(271)		(2,419)
Total other comprehensive income		20,038		(9,086)		(81,125)
Comprehensive income	¥	31,600	¥	4,966	$	44,339
Comprehensive income attributable to:						
Owners of parent	¥	31,624	¥	4,966	$	44,339
Non-controlling interests		(24)		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 2015 and 2016	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders ' equity
Balance at 1st April 2014	¥17,796	¥48,273	¥96,901	¥(154)	¥162,817
Cumulative effects of changes in accounting policies			3		3
Restated balance	17,796	48,273	96,904	(154)	162,820
Changes of items during period					
Dividends of surplus			(2,773)		(2,773)
Profit attributable to owners of parent			11,586		11,586
Purchase and disposal of treasury shares		7		(3,493)	(3,486)
Increase by share exchanges		44,819		169	44,988
Change of scope of consolidation			(1)		(1)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	44,826	8,811	(3,324)	50,314
Balance at 31st March, 2015	¥17,796	¥93,100	¥105,715	¥(3,478)	¥213,134
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

	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 2014	¥21,636	—	¥81	—	¥(4,128)	¥17,589	¥676	¥1,194	¥182,277
Cumulative effects of changes in accounting policies									3
Restated balance	21,636	—	81	—	(4,128)	17,589	676	1,194	182,280
Changes of items during period									
Dividends of surplus									(2,773)
Profit attributable to owners of parent									11,586
Purchase and disposal of treasury shares									(3,486)
Increase by share exchanges									44,988
Change of scope of consolidation									(1)
Net changes of items other than shareholders' equity	18,146	649	28	0	1,213	20,038	216	(1,190)	19,064
Total changes of items during period	18,146	649	28	0	1,213	20,038	216	(1,190)	69,378
Balance at 31st March, 2015	¥39,783	¥649	¥109	¥0	¥(2,914)	¥37,627	¥892	¥3	¥251,659
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

Years ended 31st March 2015 and 2016	Thousands of U.S. Dollars (Note 1) Shareholders' equity Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at 1st April 2015	$158,892	$831,250	$943,883	$(31,053)	$1,902,982
Cumulative effects of changes in accounting policies		(2,401)	(2,214)		(4,616)
Restated balance	158,892	828,848	941,669	(31,053)	1,898,357
Changes of items during period					
Dividends of surplus			(33,035)		(33,035)
Profit attributable to owners of parent			125,473		125,473
Purchase and disposal of treasury shares		(383)		812	428
Changes in ownership interests in subsidiaries that do not result in change in scope of consolidation		(35)			(35)
Net changes of items other than shareholders' equity					
Total changes of items during period	―	(419)	92,428	812	92,830
Balance at 31st March, 2016	$158,892	$828,419	$1,034,107	$(30,241)	$1,991,187

	Thousands of U. S. Dollars (Note 1) Accumulated other comprehensive income: Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehen-sive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at 1st April 2015	$355,205	$5,794	$973	$0	$(26,017)	$335,955	$7,964	$26	$2,246,955
Cumulative effects of changes in accounting policies									(4,616)
Restated balance	355,205	5,794	973	0	(26,017)	335,955	7,964	26	2,242,330
Changes of items during period									
Dividends of surplus									(33,035)
Profit attributable to owners of parent									125,473
Purchase and disposal of treasury shares									428
Changes in ownership interests in subsidiaries that do not result in change in scope of consolidation									(35)
Net changes of items other than shareholders' equity	(84,366)	(4,142)	133	1,616	5,616	(81,125)	1,214	0	(79,910)
Total changes of items during period	(84,366)	(4,142)	133	1,616	5,616	(81,125)	1,214	0	12,910
Balance at 31st March, 2016	$270,830	$1,651	$1,116	$1,625	$(20,401)	$254,830	$9,178	$26	$2,255,241

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 2015 and 2016	2015	2016	2016
Cash flows from operating activities			
Profit before income taxes	¥ 17,582	¥ 24,374	$ 217,625
Depreciation	15,149	16,230	144,910
Impairment loss	2,333	3,836	34,250
Loss on store rebuilding	2,458	-	-
Loss on store closings	2,116	1,926	17,196
Amortisation of goodwill	686	612	5,464
Gain on bargain purchase	(10,030)	-	-
Increase (decrease) in allowance for doubtful accounts	(114)	3,185	28,437
Increase (decrease) in provision for bonuses	(1,483)	(406)	(3,625)
Increase (decrease) in provision for directors' bonuses	19	1	8
Increase (decrease) in net defined benefit liability	(1,619)	(2,059)	(18,383)
Increase (decrease) in provision for directors' retirement benefits	2	28	250
Increase (decrease) in provision for redemption of gift certificates	592	508	4,535
Increase (decrease) in provision for loss on store closing	5,168	(3,685)	(32,901)
Increase (decrease) in provision for point card certificates	28	(177)	(1,580)
Interest and dividend income	(1,046)	(1,280)	(11,428)
Interest expenses	1,201	1,244	11,107
Share of (profit) loss of entities accounted for using equity method	(54)	(68)	(607)
Loss (gain) on sales of shares of subsidiaries and associates	(295)	-	-
Loss (gain) on sales of non-current assets	(110)	(113)	(1,008)
Loss on retirement of non-current assets	456	932	8,321
Loss (gain) on sales of short-term and long-term investment securities	(409)	(8,508)	(75,964)
Decrease (increase) in notes and accounts receivable - trade	3,586	(7,763)	(69,312)
Decrease (increase) in inventories	(125)	(528)	(4,714)
Increase (decrease) in notes and accounts payable - trade	(9,115)	853	7,616
Increase (decrease) in accrued consumption taxes	888	(1,832)	(16,357)
Other	4,676	5,710	50,982
Subtotal	32,541	33,020	294,821
Interest and dividend income received	979	1,214	10,839
Interest expenses paid	(1,264)	(1,239)	(11,062)
Income taxes paid	(6,787)	(8,455)	(75,491)
Cash flows from operating activities	25,468	24,539	219,098
Cash flows from investing activities			
Decrease (increase) in time deposits	1	18	160
Purchase of property, plant and equipment	(32,931)	(18,803)	(167,883)
Proceeds from sales of property, plant and equipment	229	1,271	11,348
Purchase of intangible assets	(2,517)	(2,249)	(20,080)
Proceeds from sales of intangible assets	21	1	8
Payments for asset retirement obligations	(57)	(536)	(4,785)
Purchase of investment securities	(10,708)	(1,013)	(9,044)
Proceeds from sales and redemption of short-term and long-term investment securities	475	24,373	217,616
Collection of short-term loans receivable	-	917	8,187
Payments of long-term loans receivable	(379)	(917)	(8,187)
Collection of long-term loans receivable	170	257	2,294
Payments for guarantee deposits	(5,908)	(864)	(7,714)
Proceeds from collection of guarantee deposits	2,243	3,117	27,830
Purchase of shares of subsidiaries	(3)	-	-
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	215	279	2,491
Other	(13)	-	-
Cash flows from investing activities	(49,162)	5,852	52,250
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	84	(6,500)	(58,035)
Proceeds from long-term loans payable	71,550	2,750	24,553
Repayments of long-term loans payable	(49,927)	(17,563)	(156,812)
Proceeds from issuance of bonds	9,938	-	-
Redemption of bonds	(100)	(100)	(892)
Proceeds from sales of treasury shares	23	0	0
Purchase of treasury shares	(3,509)	(13)	(116)
Cash dividends paid	(2,773)	(3,700)	(33,035)
Dividends paid to non-controlling interests	(9)	-	-
Repayments of lease obligations	(1,115)	(1,077)	(9,616)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	(4)	(35)
Cash flows from financing activities	24,161	(26,207)	(233,991)
Effect of exchange rate change on cash and cash equivalents	101	(26)	(232)
Net increase (decrease) in cash and cash equivalents	569	4,157	37,116
Cash and cash equivalents at beginning of year	35,383	44,334	395,839
Increase in cash and cash equivalents resulting from share exchange	8,374	-	-
Increase in cash and cash equivalents from newly consolidated subsidiary	8	-	-
Cash and cash equivalents at end of year (Note 9)	¥ 44,334	¥ 48,492	$ 432,964

See accompanying notes.

Notes to the Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange 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 2016, and were then rounded down. As a result, the totals shown in the accompanying consolidated financial statements in U.S. dollars do not necessarily agree with the sums of the individual amounts. The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

Consolidation and investments in associates

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

The consolidated financial statements include the accounts of the Company and its 55 (59 in 2015) 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 Hanshoku Co., Ltd. Hanshoku Co., Ltd. changed its corporate name to Hankyu Oasis Co., Ltd. on 1st June 2016.

In the year ended 31st March 2016, the following companies were removed from the scope of consolidation. Profits and losses and cash flows for the period until the sale of shares held or liquidation were included in the consolidated statements of income, consolidated statements of comprehensive income and consolidated statements of cash flows.

- Avanti Book Center Co., Ltd., due to the sale of shares held
- Kisuki Retail Service Co., Ltd., due to liquidation
- Hankyu Career Q School., due to liquidation
- Syuncoubou, Inc., due to liquidation

In the year ended 31st March 2015, the companies included within the scope of consolidation are summarised below.

- Izumiya Co., Ltd. and its 15 consolidated subsidiaries in connection with the business combination with Izumiya Co., Ltd. through share exchange:

  Izumiya Co., Ltd., Suzhou Izumiya Co., Ltd., Qanat Co., Ltd., Sun Laurie Co., Ltd., Kanso Co., Ltd., Delica I Foods Co., Ltd., Avanti Book Center Co., Ltd., Izumiya Research Institute, Sun Fresh Co., Ltd., Sun Logi Service Co., Ltd., Kanso Sakai Co., Ltd., Izumiya Card Co., Ltd., Be-U Co., Ltd., HAYASHI CO., LTD., Kisuki Retail Service Co., Ltd. and Fountain Forest.
- H2O STYLE NET Co., Ltd., due to new establishment
- H.D. Base Mode Ltd., due to new establishment
- H2O System Co., Ltd., due to increased significance

In the year ended 31st March 2015, the following companies were removed from the scope of consolidation:

- NAKANO FOODS CO., LTD, due to the sale of shares held
- Cotobuki, due to the sale of shares held
- Sun Logi Service Co., Ltd., as a result of a merger with Izumiya Co., Ltd., a consolidated subsidiary

The equity method was applied to 4 associates for the year ended 31st March 2015 and 2016. In the year ended 31st March 2015, Ningbo Development Co., Ltd. was included in the scope of equity method associates. The principal associates are Ningbo Development Co., Ltd. and Hankyu Hanshin Point Co., Ltd.

In the year ended 31st March 2015 and 2016, 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.
In the fiscal year ended 31st March 2015, the consolidated financial statements of the Company included the financial results of Izumiya Co., Ltd. and its subsidiaries for the 10-month period from 1st June 2014, the date of the business combination, to 31st March 2015. Izumiya Co., Ltd. and its subsidiaries have changed their fiscal year-end from 28/29th February to 31st March.

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.

Lease assets under lease contracts that are not deemed to transfer ownership of the leased property to the lessee are depreciated using the straight-line method over the period of the lease with a residual value at zero. Finance lease transactions that are not deemed to transfer ownership of the leased property to the lessee and that were concluded prior to 1st April 2008 are accounted for by the same method as that applied to ordinary operating leases.

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 closing

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 2015 and 2016 was ¥24 million and ¥30 million ($267 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 consolidated 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 payment 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 5 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.

Reclassifications

Certain reclassifications of the financial statements for the years ended 31st March 2015 have been made to conform to the presentation for the year ended 31st March 2016.

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 2015 and 2016, 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 Accounting Policies

Business combinations

Effective the year ended 31st March 2016, the Company applied the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, 13th September 2013 (hereinafter "Statement No. 21")), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, 13th September 2013 (hereinafter "Statement No. 22")) and the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, 13th September 2013 (hereinafter "Statement No. 7")). Under these revised accounting standards, changes in the Company's ownership interest while retaining its controlling financial interest in subsidiaries are accounted for as capital surplus and acquisition related costs are charged to expenses as incurred. Regarding business combinations on or after the beginning of the current consolidated fiscal year, in cases in which acquisition costs are once provisionally allocated but revised afterwards in the following fiscal year, the final result of allocation is included in the consolidated financial statements for the consolidated fiscal year when the relevant business combination occurs. In addition, the Company changed the presentation of profit, and the term "non-controlling interests" is used instead of "minority interests." Certain reclassifications have been made in the 2015 financial statements to conform to the classifications used in 2016.

With regard to the application of these accounting standards, the Company made retroactive adjustments to the beginning balances of capital surplus and retained earnings for the year ended 31st March 2016 in accordance with transitional treatments as prescribed in Article 58-2 (3) of Statement No. 21, Article 44-5 (3) of Statement No. 22 and Article 57-4 (3) of Statement No. 7. As a result, as of the beginning of the year ended 31st March 2016, goodwill decreased by ¥517 million ($4,616 thousand), capital surplus decreased by ¥269 million ($2,401 thousand) and retained earnings decreased by ¥248 million ($2,214 thousand). On the other hand, operating income, ordinary income and profit before the income taxes increased by ¥37 million ($330 thousand).

Cash flows pertaining to changes in ownership interests in subsidiaries that do not result in change in scope of consolidation are shown under Cash flows from financing activities. Cash flows pertaining to expenses related to changes in ownership interests in subsidiaries that result in change in the scope of consolidation or expenses incurred from changes in ownership interests in subsidiaries that do not result in change in the scope of consolidation are shown under Cash flows from operating activities.

Due to the retroactive adjustments to the beginning balance of net assets, the balances of capital surplus decreased by ¥269 million ($2,401 thousand) and retained earnings decreased by ¥248 million ($2,214 thousand) as of the beginning of the year ended 31st March 2016.

The effect on per share information is stated in Note 21 "Per Share Information."

Retirement benefits

Effective the year ended 31st March 2015, the Company applied Article 35 of the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, 17th May 2012 (hereinafter, "Statement No. 26")) and Article 67 of the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, 26th March 2015 (hereinafter, "Guidance No. 25")). Accordingly, the Company revised the method used to calculate for retirement benefit liability and service cost and changed the method used to attribute estimated retirement benefits to periods from the straight-line attribution standard to the benefit formula standard.

In addition, one single weighted average discount rate has been newly adopted which reflects the expected period of the retirement benefit payment and the payment amount for each of the expected periods, whereas a discount rate was previously determined based on the average remaining years of service of employees.

The change in method used to calculate retirement benefit liability and service cost was recorded as an adjustment to retained earnings at the beginning of the current consolidated fiscal year in accordance with the transitional treatment provided in Article 37 of the Statement No. 26. As a result, net defined benefit liability decreased by ¥4 million, retained earnings increased by ¥3 million as of the beginning of the year ended 31st March 2015 and both operating income and profit before income taxes decreased by ¥10 million.

4. Accounting Standards not yet Applied

"Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, 28th March 2016, "Implementation Guidance")

(Overview)

The Implementation Guidance basically continues to apply the framework used in the "Audit Treatment for Judgement of Recoverability of Deferred Assets" (Auditing Committee Report No. 66), in which companies are grouped into five categories and assess recoverability of deferred tax assets based on such categories. However, certain changes were introduced with respect to the following issues:

(i) Treatment of entities that do not fulfil any of the criteria for (Category 1) to (Category 5).

(ii) Criteria for (Categories 2) and (Category 3).

(iii) Treatment of unscheduled deductible temporary differences for entities in (Category 2)

(iv) Treatment of the period in which taxable income before deducting temporary difference can be reasonably estimated for entities in (Category 3)

(v) Treatments of entities who satisfy (Category 4) criteria but can be categorised in (Category 2) or (Category 3).

(Date of application)

The Company will apply the implementation guidance effective from the beginning of the year ending 31st March 2017.

(Effect of application)

The Company is currently evaluating the effect of application.

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*	
	2015		**2016**		**2016**	
Reduction entry amount:	¥	599	¥	623	$	5,562
Buildings and structures		496		496		4,428
Machinery, equipment and vehicles		23		47		419
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*	
	2015		**2016**		**2016**	
Investment securities (stocks)	¥	11,730	¥	11,527	$	102,919
[Investments in entities under common control]		[11,329]		[11,147]		[99,526]

3. Pledged assets

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

	Millions of yen				*Thousands of U.S. dollars*	
	2015		**2016**		**2016**	
Buildings and structures	¥	13,432	¥	6,844	$	61,107
Land		30,853		18,049		161,151
Other		29		24		214
	¥	44,315	¥	24,919	$	222,491
Current portion of long-term loans payable	¥	524	¥	282	$	2,517
Long-term loans payable		22,871		22,549		201,330
	¥	23,395	¥	22,831	$	203,848

Although buildings and structures of ¥117 million ($1,044 thousand) and land of ¥1,059 million ($9,455 thousand) 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. Thus, they are not pledged as of now.

Deposits under the Installment Sales Act were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2015	**2016**	**2016**
Guarantee deposits	¥ 169	¥ 184	$ 1,642

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

	Millions of yen		*Thousands of U.S. dollars*
	2015	**2016**	**2016**
Guarantee deposits	¥ –	¥ 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 were 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 2015 and 2016.

Related information was as follows:

	Millions of yen		*Thousands of U.S. dollars*
Date of revaluations: 28th February 2002 and 31st March 2002	2015	**2016**	**2016**
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 have entered loan commitment agreements with 12 financial institutions in 2015 and 2016. The loan commitment facilities and unused balances as of 31st March 2015 and 2016 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2015	**2016**	**2016**
Total loan commitment facilities	¥ 21,420	¥ 21,420	$ 191,250
Outstanding balances	–	–	–
Unused balances	¥ 21,420	¥ 21,420	$ 191,250

Some consolidated subsidiaries provide financial services using card loans and credit cards. The overdraft commitment facilities and unused balances as of 31st March 2015 and 2016 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2015	**2016**	**2016**
Total overdraft commitment facilities	¥ 29,203	¥ 27,770	$ 247,946
Outstanding balances	1,721	1,500	13,392
Unused balances	¥ 27,482	¥ 26,270	$ 234,553

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 in the years ended 31st March 2015 and 2016 was as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2015	**2016**	**2016**
Cost of sales	¥ 350	¥ 381	$ 3,401

2. Gain on sales of investment securities

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

3. Reversal of provision for loss on store closing

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

4. Gain on sales of non-current assets

Gain on sales of non-current assets consisted of gains on sales of land, buildings and structures and other held by H2O Retailing Corporation in the year ended 31st March 2015 and gains of sale of land and buildings of KAZOKUTEI CO., LTD. in the year ended 31st March 2016.

5. Gain on bargain purchase

Gain on bargain purchase in the year ended 31st March 2015 consisted of a gain arising in connection with the share exchange with Izumiya Co., Ltd.

6. Gain on sales of shares of subsidiaries and associates

Gain on sales of shares of subsidiaries and associates in the year ended 31st March 2015 consisted of gains on sales of stocks of NAKANO FOODS CO., LTD. and Cotobuki.

7. 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 in the year ended 31st March 2015 as follows:

Company	Asset Group	Use	Type of Assets	Location	*Millions of yen*
Hankyu Hanshin Department Stores, Inc.	Hanshin Umeda main store and other	Store	Buildings and structures, machinery, equipment and vehicles and other	Kita-ku, Osaka City and other	¥3,070
Izumiya Co., Ltd.	Oyama store and other	Store	Buildings and structures, machinery, equipment and vehicles, land and other	Oyama City, Tochigi and other	¥2,149
Hanshoku Co., Ltd	Higashinakahama store and other	Store	Buildings and structures, machinery, equipment and vehicles and other	Joto-ku, Osaka City and other	¥407
Hankyu Kitchen Yell Kyushu, Inc. and other	Hankyu Kitchen Yell Kyushu, Inc. and other	Merchandise warehouse and other	Buildings and structures, machinery, equipment and vehicles, land and other, goodwill	Hakata-ku, Fukuoka City and other	¥1,281

The Company recognised impairment loss on fixed assets newly obtained for the rebuilding of Hanshin Umeda main store of Hankyu Hanshin Department Stores Inc. based on net realisable value calculated using future cash flow analysis during the rebuilding period. The Company also recognised impairment loss on some stores resulting from increased competition or for reduced sales floors.

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 Kyushu, Inc. and other companies, impairment loss was recognised for certain stores and factories resulting from increased competition.

The recoverable amounts of assets are the present value of expected cash flows from on-going use and subsequent disposal of the assets based on a discount rate of 4.5%. As a result, ¥6,907 million was recorded as total impairment loss. Of this amount, impairment loss of ¥2,458 million on the Hanshin Umeda main store of Hankyu Hanshin Department Stores, Inc. is shown inclusive of loss on store rebuilding. Similarly, impairment loss of ¥100 million in connection with stores reduced sales floors is shown inclusive of loss on store closing.

Impairment loss of ¥2,016 million in connection with Oyama and other of Izumiya Co., Ltd. were included in loss on store closing.

The Companies recorded impairment loss in the year ended 31st March 2016 as follows:

Company	Asset Group	Use	Type of Assets	Location	*Millions of yen*	*Thousands of U.S. dollars*
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	$6,875
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	$30,080
Hanshoku Co., Ltd	Kumata store and other	Store	Buildings and structures, machinery, equipment and vehicles and other	Higashi Sumiyoshi-ku, Osaka City and other	¥415	$3,705
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	$10,776

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 are 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 ($51,455 thousand) of impairment loss. Of which, ¥ 1,926 million ($17,196 thousand) of the impairment loss in connection with the closing of Izumiya Yachiyo store was included in loss on closing of stores.

8. Loss on closing of stores

Loss on the closing of stores in the years ended 31st March 2015 and 2016 is summarised below:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Izumiya Yachiyo	¥ –	¥ (*) 1,265	$ 11,294
Izumiya Nishi-Kishiwada	–	(*) 713	6,366
Izumiya Harborland	–	(*) 490	4,375
Izumiya Tsudaka	–	108	964
Izumiya Oyama	(*) 6,091	—	—
Izumiya Itabashi	(*) 1,357	—	—
Mosaic Dining, Shijo Kawaramachi	107	—	—
Other	(*) 315	277	2,473
Total	¥ 7,872	¥ 2,855	$ 25,491

* The amount included an impairment loss of ¥2,116 million and ¥1,926 million ($17,196 thousand) in connection with store closings in the years ended 31st March 2015 and 2016, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Buildings and structures	¥ 228	¥ 769	$ 6,866
Machinery, equipment and vehicles	8	15	133
Other	219	367	3,276
Total	¥ 456	¥ 1,153	$ 10,294

10. Outplacement expenses

Outplacement expenses are additional retirement bonuses and support fees for employees' new careers based on the special career planning support scheme.

11. Loss on store rebuilding

Loss on store rebuilding in the years ended 31st March 2015 consisted of impairment loss on fixed assets arising from Hanshin Umeda Main Store's rebuilding.

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 2015 and 2016 is summarised as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2015	**2016**	**2016**
Other comprehensive income			
Valuation difference on available-for-sale securities			
Amount arising for the year	¥ 26,033	¥ (6,774)	$ (60, 482)
Reclassification adjustments	(420)	(8,507)	(75,955)
Amount before the effect of deferred income tax	25,613	(15,281)	(136,437)
Effect of deferred income tax	(7,466)	5,832	52,071
Valuation difference on available-for-sale securities	18,146	(9,449)	(84,366)
Deferred gains or losses on hedges			
Amount arising for the year	1	(50)	(446)
Effect of deferred income tax	(0)	17	151
Deferred gains or losses on hedges	0	(32)	(285)
Revaluation reserve for land			
Amount arising for the year	—	—	—
Reclassification adjustments	—	—	—
Amount before the effect of deferred income tax	—	—	—
Effect of deferred income tax	28	15	133
Revaluation reserve for land	28	15	133
Foreign currency translation adjustment			
Amount arising for the year	0	21	187
Reclassification adjustments	—	—	—
Amount before the effect of deferred income tax	0	21	187
Effect of deferred income tax	—	—	—
Foreign currency translation adjustment	0	21	187
Remeasurements of defined benefit plans, net of tax			
Amount arising for the year	1,509	421	3,758
Reclassification adjustments	682	554	4,946
Amount before the effect of deferred income tax	2,191	975	8,705
Effect of deferred income tax	(978)	(345)	(3,080)
Remeasurements of defined benefit plans, net of tax	1,213	629	5,616
Share of other comprehensive income of entities accounted for using equity method			
Amount arising for the year	648	(271)	(2,419)
Total other comprehensive income	¥ 20,038	¥ (9,086)	$ (81,125)

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 2015 and 2016 were as follows:

Common stock outstanding

	Number of shares	
	2015	**2016**
Balance at beginning of year	206,740,777	125,201,396
Increase due to issuance of new share in connection with share exchange with Izumiya Co., Ltd. on 1st June 2014	43,662,016	–
Decrease due to reverse stock split (two-to-one share) on 1st September 2014 in accordance with the resolution of the ordinary shareholders' meeting held on 24th June 2014	(125,201,397)	–
Balance at end of year	125,201,396	125,201,396

Treasury share outstanding

	Number of shares	
	2015	**2016**
Balance at beginning of year	12,584,542	1,870,521
Increase due to acquisition through ToSTNeT-3 trading system	1,500,000	–
Increase due to purchase of odd-lot shares	55,242	5,694
Increase due to purchase of fractions of shares	1,879	–
Decrease due to share exchange with Izumiya Co., Ltd. and KAZOKUTEI CO., LTD.	(11,867,545)	–
Decrease due to reverse stock split (two-to-one share)	(380,063)	–
Decrease due to sales of odd-lot shares	(7,034)	(138)
Decrease due to exercise of stock options	(16,500)	(56,500)
Balance at end of year	1,870,521	1,819,577

2. Subscription rights to shares

	Millions of yen				Thousands of U.S. dollars	
	2015		**2016**		**2016**	
H2O Retailing Corporation:						
March 2009 stock options	¥	37	¥	25	$	223
March 2010 stock options		76		60		535
March 2011 stock options		88		70		625
March 2012 stock options		107		98		875
March 2013 stock options		191		185		1,651
March 2014 stock options		158		158		1,410
March 2015 stock options		233		233		2,080
March 2016 stock options (*1)		–		197		1,758
Total	¥	892	¥	1,028	$	9,178

*1: For March 2016 stock options, the exercise period had not started as at 31st March 2016.

3. Dividend

Dividend paid in the year ended 31st March 2015

Resolution	Class of shares	Millions of yen Total dividend	Yen Dividend per share	Record date	Effective date
9th May 2014 Board of Directors' meeting	Common stock	¥1,213	¥6.25	31st March 2014	3rd June 2014
28th October 2014 Board of Directors' meeting	Common stock	¥1,560	¥12.50 (*1)	30th September 2014	28th November 2014

*1: The Company executed the two-to-one reverse share split effective 1st September 2014. The amount of ¥1,560 million shows the dividend per share after the reverse share split. The amount of ¥1,213 million shows the dividend per share before the reverse share split.

Dividends with a record date in the year ended 31st March 2015 but an effective date in the year ended 31st March 2016

Resolution	Class of shares	Source	Millions of yen Total dividend	Yen Dividend per share	Record date	Effective date
14th May 2015 Board of Directors' meeting	Common stock	Retained earnings	¥1,541	¥12.50	31st March 2015	3rd June 2015

Dividend paid in the year ended 31st March 2016

Resolution	Class of shares	Total dividend (*Millions of yen*)	Total dividend (*Thousands of U.S. dollars*)	Dividend per share (*Yen*)	Dividend per share (*U.S. dollars*)	Record date	Effective date
14th May 2015 Board of Directors' meeting	Common stock	¥1,541	$13,758	¥12.50	$0.11	31st March 2015	3rd June 2015
29th October 2015 Board of Directors' meeting	Common stock	¥2,158	$19,267	¥17.50	$0.15	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 ending 31st March 2017

Resolution	Class of shares	Source	Total dividend (*Millions of yen*)	Total dividend (*Thousands of U.S. dollars*)	Dividend per share (*Yen*)	Dividend per share (*U.S. dollars*)	Record date	Effective date
12nd May 2016 Board of Directors' meeting	Common stock	Retained earnings	¥2,159	$19,276	¥17.50	$0.15	31st March 2016	1st June 2016

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 dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the 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 2015 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Cash and deposits	¥ 44,381	¥ 48,521	$ 433,223
Time deposits with maturities exceeding three months	(47)	(29)	(258)
Cash and cash equivalents	¥ 44,334	¥ 48,492	$ 432,964

2. Major components of the assets and liabilities of the companies that have been included in consolidation due to acquisition of stocks

In the year ended 31st March 2015, Izumiya Co., Ltd. and its consolidated subsidiaries became the Company's subsidiaries due to stock acquisition. The following is a summary of the assets and liabilities of Izumiya Co., Ltd. and its consolidated subsidiaries and the acquisition cost.

	Millions of yen
	2015
Current assets	¥ 49,370
Non-current assets	155,132
Current liabilities	(62,713)
Non-current liabilities	(88,293)
Gain on bargain purchase	(10,030)
Non-controlling interests	(3)
Diff: Acquisition cost	¥ 43,460

Current assets above include ¥8,374 million in cash and cash equivalents at the beginning of the consolidation. The amount is included in “Increase in cash and cash equivalents resulting from share exchange” in the consolidated statement of cash flows for the year ended 31st March 2015. Since the Company delivered its treasury shares for the share exchange, treasury shares decreased by ¥123 million and capital surplus increased by ¥43,289 million.

3. Major components of the assets and liabilities of the companies that have been excluded from consolidation due to the sale of stocks

In the year ended 31st March 2015, NAKANO FOODS, CO., LTD. and Cotobuki have been excluded from consolidation due to the sale of stocks. The following is a summary of the assets and liabilities of NAKANO FOODS, CO., LTD. and Cotobuki and the proceeds from the sales.

	Millions of yen	
	2015	
Current assets	¥	1,458
Non-current assets		2,164
Current liabilities		(1,616)
Non-current liabilities		(1,724)
Goodwill (unamortised balance)		54
Non-controlling interests		(64)
Gain on sale of stocks		295
Amount of stock sales		562
Stock sales expense		(3)
Cash and cash equivalents held by the companies sold		(343)
Diff: Proceeds from sales	¥	215

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		Thousands of U.S. dollars	
	2016		**2016**	
Current assets	¥	2,379	$	21,241
Non-current assets		222		1,982
Current liabilities		(2,242)		20,017
Non-current liabilities		(77)		(687)
Gain on sale of stocks		7		62
Amount of stock sales		289		2,580
Cash and cash equivalents held by the company sold		(9)		(80)
Diff: Proceeds from sales	¥	279	$	2,491

4. 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	
	2015		**2016**		**2016**	
Assets and liabilities in connection with finance lease transactions	¥	1,919	¥	2,894	$	25,839

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 used in the supermarket business (buildings and structures) and merchandise display shelves and computers in Izumiya business (other)

(2) Method of depreciation of leased assets

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

Finance lease transactions that are not deemed to transfer ownership of the leased property to the lessee and that were concluded prior to 1st April 2008 are accounted for by the same method as that applied to ordinary operating leases.

Information, as lessee, about non-capitalised finance leases at 31st March 2015 and 2016 was as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2015	**2016**	**2016**
Original lease obligations (including finance charges)	¥ 2,577	¥ 2,194	$ 19,589
Payments remaining:			
Payments due within one year	250	154	1,375
Payments due after one year	252	127	1,133
Total	¥ 503	¥ 282	$ 2,517

Rental expenses under such non-capitalised finance leases for the years ended 31st March 2015 and 2016 were ¥234 million and ¥243 million ($2,169 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*
	2015	**2016**	**2016**
Payments due within one year	¥ 12,895	¥ 12,308	$ 109,892
Payments due after one year	78,342	70,174	626,553
Total	¥ 91,237	¥ 82,482	$ 736,446

The Group as lessor

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Payments due within one year	¥ 2,105	¥ 2,082	$ 18,589
Payments due after one year	12,266	11,191	99,919
Total	¥ 14,371	¥ 13,274	$ 118,517

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 for the purpose of procuring necessary funds mainly for short-term operations. Long-term loans payable and bonds payable are mainly for capital investment. Repayment deadlines are at most 8 years and 8 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 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 2015 and 2016 (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

	2015		
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 44,381	¥ 44,381	¥ –
(2) Notes and accounts receivable - trade	39,158		
Allowance for doubtful accounts	(371)		
	38,787	38,787	–
(3) Accounts receivable - other	7,247		
Allowance for doubtful accounts	(6)		
	7,240	7,240	–
(4) Investment securities			
Available-for-sale securities	109,214	109,214	–
Total assets	¥ 199,625	¥ 199,625	¥ –
(1) Notes and accounts payable - trade	61,921	61,921	–
(2) Accounts payable - other	17,139	17,139	–
(3) Income taxes payable	5,126	5,126	–
(4) Commercial papers	6,500	6,500	–
(5) Bonds payable (*1)	18,800	18,854	(54)
(6) Long-term loans payable (*2)	125,770	126,281	(511)
Total liabilities	¥ 235,257	¥ 235,824	¥ (566)
Derivative transactions (*3)	¥ 0	¥ 0	¥ –

	Millions of yen			Thousands of U.S. dollars		
	2016			2016		
	Book value	Fair value	Difference	Book value	Fair value	Difference
(1) Cash and deposits	¥ 48,521	¥ 48,521	¥ –	$ 433,223	$ 433,223	$ –
(2) Notes and accounts receivable - trade	46,785			417,723		
Allowance for doubtful accounts	(754)			(6,732)		
	46,031	46,031	–	410,991	410,991	–
(3) Accounts receivable - other	4,710			42,053		
Allowance for doubtful accounts	(7)			(62)		
	4,702	4,702	–	41,982	41,982	–
(4) Investment securities						
Available-for-sale securities	79,892	79,892	–	713,321	713,321	–
Total assets	¥ 179,148	¥ 179,148	¥ –	$ 1,599,535	$ 1,599,535	$ –
(1) Notes and accounts payable - trade	¥ 62,235	¥ 62,235	¥ –	$ 555,669	$ 555,669	$ –
(2) Accounts payable - other	13,671	13,671	–	122,062	122,062	–
(3) Income taxes payable	5,807	5,807	–	51,848	51,848	–
(4) Commercial papers	–	–	–	–	–	–
(5) Bonds payable (*1)	18,700	18,950	(250)	166,964	169,196	(2,232)
(6) Long-term loans payable (*2)	110,957	111,592	(635)	990,687	996,357	(5,669)
Total liabilities	¥ 211,372	¥ 212,258	¥ (886)	$ 1,887,250	$ 1,895,160	$ (7,910)
Derivative transactions: (*3)						
Hedge accounting is not applied	¥ (80)	¥ (80)	¥ –	$ (714)	$ (714)	$ –
Hedge accounting is applied	(188)	(188)	–	(1,678)	(1,678)	–
Total derivative transactions	¥ (268)	¥ (268)	¥ –	$ (2,392)	$ (2,392)	$ –

*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, (3) Income taxes payable and (4) Commercial papers

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

(5) Bonds payable and (6) 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 (6) 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 (6) 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*
	2015	**2016**	**2016**
	Book value	Book value	Book value
Unlisted shares	¥ 17,871	¥ 17,620	$ 157,321
Guarantee deposits	74,486	71,191	635,633
Long-term guarantee deposited	12,900	12,103	108,062

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

	Millions of yen			
2015	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and deposits	¥ 44,381	¥ –	¥ –	¥ –
Notes and accounts receivable - trade	39,158	–	–	–
Notes and accounts receivable - other	7,247	–	–	–
Investment securities				
Available-for-sale securities with maturity (corporate bonds)	2,259	–	–	–
Total	¥ 93,047	¥ –	¥ –	¥ –

	Millions of yen			
2016	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	¥ –	¥ –	¥ –

	Thousands of U.S. dollars			
2016	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and deposits	$ 433,223	$ –	$ –	$ –
Notes and accounts receivable - trade	417,723	–	–	–
Notes and accounts receivable - other	42,053	–	–	–
Total	$ 893,008	$ –	$ –	$ –

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					
2015	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	¥ 6,500	¥ –	¥ –	¥ –	¥ –	¥ –
Bonds payable	100	2,100	6,600	–	–	10,000
Long-term loans payable	14,773	12,613	29,419	42,461	201	26,300
Lease obligations	929	653	574	467	392	3,882
Total	¥ 22,303	¥ 15,367	¥ 36,593	¥ 42,929	¥ 594	¥ 40,182

	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

	Thousands of U.S. dollars					
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	$ 18,750	$ 58,928	$ –	$ –	$ –	$ 89,285
Long-term loans payable	89,973	257,544	384,205	1,794	158,035	99,107
Lease obligations	8,598	5,562	4,830	3,910	3,232	49,732
Total	$ 117,330	$ 322,044	$ 389,044	$ 5,705	$ 161,267	$ 238,125

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 2015 and 2016.

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

	Millions of yen						*Thousands of U.S. dollars*		
	2015			**2016**			**2016**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥48,275	¥105,855	¥ 57,579	¥ 36,033	¥ 79,703	¥ 43,669	$ 321,723	$711,633	$ 389,901
Government bonds	–	–	–	–	–	–	–	–	–
Other	2,259	3,356	1,097	–	–	–	–	–	–
Total	¥50,535	¥109,212	¥ 58,676	¥ 36,033	¥ 79,703	¥ 43,669	$ 321,723	$711,633	$ 389,901

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

	Millions of yen						*Thousands of U.S. dollars*		
	2015			**2016**			**2016**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 3	¥ 2	¥ (0)	¥ 189	¥ 188	¥ (0)	$ 1,687	$ 1,678	$ (0)
Government bonds	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–	–
Total	¥ 3	¥ 2	¥ (0)	¥ 189	¥ 188	¥ (0)	$ 1,687	$ 1,678	$ (0)

Unlisted securities (¥6,140 million in 2015 and ¥6,093 ($54,401 thousand) in 2016) 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 2015 and 2016:

	Millions of yen						*Thousands of U.S. dollars*		
	2015			**2016**			**2016**		
	Sales	Gains of sales	Losses on sales	Sales	Gains of sales	Losses on sales	Sales	Gains of sales	Losses on sales
Equity securities	¥ 958	¥ 400	¥ –	¥ 21,577	¥ 8,508	¥ (0)	$192,651	$ 75,964	$ (0)
Other	20	8	–	–	–	–	–	–	–

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 2015 and 2016 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 is not applied for the year ended 31st March 2016 are as below.

There was no derivative transaction for which hedge accounting is not applied for the year ended 31st March 2015.

		Millions of yen				*Thousands of U.S. dollars*			
		2016				**2016**			
		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	¥ 728	¥ 728	¥ (1)	¥ (1)	$ 6,500	$ 6,500	$ (8)	$ (8)
	Receive RMB / Pay JPY	5,405	–	(57)	(57)	48,258	–	(508)	(508)
	Currency option contracts								
	Long Call: RMB	2,012	–	24	24	17,964	–	214	214
	Short Put: RMB	4,025	–	(46)	(46)	35,937	–	(410)	(410)
Total		¥ 12,171	¥ 728	¥ (80)	¥ (80)	$ 108,669	$ 6,500	$ (714)	$ (714)

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 was paid or received.

2. Derivatives for which hedge accounting is applied

(1) Currency related

For the year ended 31st March 2015

			Millions of yen		
			2015		
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 2016

			Millions of yen			*Thousands of U.S. dollars*		
			2016			**2016**		
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 2015

Method of hedge accounting	Type of derivative transactions	Hedged items	Millions of yen 2015 Contract amount	Due after one year	Fair value
Deferral method	Interest rate swaps Pay fixed/ Receive floating	Long-term loans	¥ 13,286	¥ 12,240	¥(139) (Note 1)
Exceptional method for interest rate swaps	Interest rate swaps Pay fixed/ Receive floating	Long-term loans	22,608	13,782	(Note 2)
Total			¥ 35,894	¥ 26,022	¥ (139)

(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 2016

			Millions of yen			*Thousands of U.S. dollars*		
			2016			**2016**		
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	¥ 12,240	¥ 11,360	¥(188) (Note 1)	$ 109,285	$ 101,428	$(1,678) (Note 1)
Exceptional method for interest rate swaps	Interest rate swaps Pay fixed/ Receive floating	Long-term loans	13,782	9,146	(Note2)	123,053	81,660	(Note2)
Total			¥ 26,022	¥ 20,506	¥(188)	$ 232,339	$ 183,089	$(1,678)

(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 two types of post-employment benefit plans, unfunded lump-sum payment plans and funded contributory and non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and 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, contributory pension plans and non-contributory pension plans. Izumiya Co., Ltd. and some of its consolidated subsidiaries has unfunded lump-sum payment plans and non-contributory pension plan. Other subsidiaries also have unfunded lump-sum payment plans or contributory pension plans. The employees of the Company are all seconded from Hankyu Hanshin Department Stores, Inc., Izumiya Co., Ltd. or Hankyu Act For and provided with the respective subsidiaries' post-employment benefit plans.

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*
	2015	**2016**	**2016**
Projected benefit obligation - beginning balance	¥ 36,098	¥ 56,119	$ 501,062
Cumulative effect from changes in accounting policies	(4)	—	–
Restated balance	36,094	56,119	501,062
Balance of a newly consolidated subsidiary at the time of share exchange (as of May 2014)	20,865	—	–
Service cost	1,984	2,121	18,937
Interest cost	420	440	3,928
Changes in actuarial differences	(216)	(1,071)	(9,562)
Retirement benefits paid	(2,719)	(2,657)	(23,723)
Other	(309)	—	–
Projected benefit obligation - ending balance	¥ 56,119	¥ 54,952	$ 490,642

(2) Changes in plan assets were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2015	**2016**	**2016**
Plan assets - beginning balance	¥ 18,855	¥ 35,003	$ 312,526
Balance of a newly consolidated subsidiary at the time of share exchange (as of May 2014)	13,040	—	–
Expected return on plan assets	921	1,107	9,883
Changes in actuarial differences	1,293	(650)	(5,803)
Employers' contributions	2,683	2,853	25,473
Retirement benefits paid	(1,791)	(1,978)	(17,660)
Plan assets - ending balance	¥ 35,003	¥ 36,336	$ 324,428

(3) Ending balances of projected benefit obligation and plan assets and amounts included in the consolidated balance sheets as of 31st March 2015 and 2016 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2015	**2016**	**2016**
Projected benefit obligation under funded plan	¥ 43,657	¥ 42,434	$ 378,875
Plan assets	(35,003)	(36,336)	(324,428)
	8,654	6,098	54,446
Projected benefit obligation under non-funded plan	12,461	12,518	111,767
Net balance in the consolidated balance sheet	¥ 21,116	¥ 18,616	$ 166,214
			0
Net defined benefit liability	¥ 21,116	¥ 18,616	$ 166,214
Net defined benefit asset	—	—	–
Net balance in the consolidated balance sheet	¥ 21,116	¥ 18,616	$ 166,214

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

	Millions of yen		*Thousands of U.S. dollars*
	2015	**2016**	**2016**
Service cost	¥ 1,984	¥ 2,121	$ 18,937
Interest cost	420	440	3,928
Expected return on plan assets	(921)	(1,107)	(9,883)
Amortisation of actuarial differences	682	554	4,946
Other	51	29	258
Retirement benefit cost	¥ 2,216	¥ 2,038	$ 18,196

(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*
	2015	**2016**	**2016**
Actuarial differences	¥ 2,191	¥ 975	$ 8,705
Total	¥ 2,191	¥ 975	$ 8,705

(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*	
	2015		**2016**		**2016**	
Unrecognised actuarial differences	¥	4,220	¥	3,245	$	28,973
Total	¥	4,220	¥	3,245	$	28,973

(7) Information on plan assets was as follows:

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

	2015	**2016**
General account of life insurance	39%	41%
Debt securities	25%	18%
Real estate investment funds	6%	6%
Cash and deposits	23%	28%
Other	7%	7%
Total	100%	100%

Total plan assets include 7% and 6% contribution to the retirement benefit trust in the retirement benefit plans for the year ended 31st March 2015 and 2016, 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:

	2015	**2016**
Discount rate	0.78%	0.78%
Long-term expected rate of return	3.21%	3.20%
Estimated rate of salary increase	3.98%	3.67%

(Note) Estimated rate of salary increase is an expected rate of the increase of the 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*
	2015	**2016**	**2016**
Projected benefit obligation - beginning balance	¥ 978	¥ 1,867	$ 16,669
Balance of a newly consolidated subsidiary at the time of share exchange (as of May 2014)	1,081	—	–
Defined benefit cost	231	319	2,848
Retirement benefits paid	(279)	(290)	(2,589)
Decrease due to sales of shares of subsidiaries resulting in change in scope of consolidation	(140)	(40)	(357)
Other	(4)	(9)	(80)
Projected benefit obligation - ending balance	¥ 1,867	¥ 1,847	$ 16,491

(2) Ending balances of projected benefit obligation and plan assets and amounts included in the consolidated balance sheet as of 31st March 2015 and 2016 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2015	**2016**	**2016**
Projected benefit obligation under funded plan	¥ —	¥ —	$ —
Plan assets	—	—	—
	—	—	—
Projected benefit obligation under non-funded plans	1,867	1,847	16,491
Net balance in the consolidated balance sheet	1,867	1,847	16,491
Net defined benefit liability	1,867	1,847	16,491
Net balance in the consolidated balance sheet	¥ 1,867	¥ 1,847	$ 16,491

(3) Retirement benefit cost calculated by the simplified method was ¥231 million and ¥319 million ($2,848 thousand) for the years ended 31st March 2015 and 2016, respectively.

3. The amount required for contributions to the retirement benefit plans of the Company and its consolidated subsidiaries was ¥369 million and ¥369 million ($3,294 thousand) for the years ended 31st March 2015 and 2016, 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*
	2015	**2016**	**2016**
Selling, general and administrative expenses	233	197	1,758

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

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 years ended 31st March 2016. 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 2016:	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
Before vested								
As of 31st March 2015	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	110,000
Forfeited	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	110,000
Outstanding	—	—	—	—	—	—	—	—
After vested								
As of 31st March 2015	38,000	67,000	90,000	98,000	99,000	101,000	109,000	—
Vested	—	—	—	—	—	—	—	110,000
Exercised	12,500	14,000	18,500	8,500	3,000	—	—	—
Forfeited	—	—	—	—	—	—	—	—
Outstanding	25,500	53,000	71,500	89,500	96,000	101,000	109,000	110,000

Price information

	Yen							
	Subscription rights to shares issued on							
In the year ended 31st March 2016:	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
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1
Average exercise price	¥2,326	¥2,321	¥2,085	¥2,174	¥1,920	¥—	¥—	¥—
Fair value at the grant date	¥986	¥1,136	¥984	¥1,100	¥1,932	¥1,566	¥2,141	¥1,798

	U.S. dollars							
	Subscription rights to shares issued on							
In the year ended 31st March 2016:	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
Exercise price	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Average exercise price	$20	$20	$18	$19	$17	$–	$–	$–
Fair value at the grant date	$8	$10	$8	$9	$17	$13	$19	$16

4. Valuation method for estimating per share fair value of stock options

Valuation technique used for valuating fair value of subscription rights to shares issued on each fiscal year of 31st March 2016 as stock options was as follows:

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

Principal parameters and estimation method	March 2016 stock options
Expected volatility of the underlying stock (Note 1)	31.95%
Remaining expected life of the option (Note 2)	5 years
Expected dividends on the stock (Note 3)	¥30.0 per share
Risk-free interest rate during the expected option term (Note 4)	(0.215)%

Note 1. In the fiscal year ended 31st March 2016, the fair value of stock options was calculated on the basis of the Company's weekly share price movements over 5 years from March 2011 to March 2016.

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 2016, the amount of expected dividends was calculated based on the actual dividends paid as the final dividend for the year ended 31st March 2015 and the interim dividend for the year ended 31st March 2016.

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 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 2015 and 2016 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2015	**2016**	**2016**
Deferred tax assets:			
Loss carryforwards	¥ 4,973	¥ 7,814	$ 69,767
Provision for redemption of gift certificates	996	1,033	9,223
Provision for bonuses	1,850	1,644	14,678
Net defined benefit liability	7,729	6,657	59,437
Depreciation	1,197	1,167	10,419
Impairment loss	11,659	9,598	85,696
Retirement benefit trust assets	1,139	1,107	9,883
Provision for loss on store closing	1,829	91	812
Asset retirement obligations	985	1,018	9,089
Shares in subsidiaries	2,409	1,996	17,821
Valuation on the consolidation	2,120	2,045	18,258
Provision for point card certificates	726	631	5,633
Allowance for doubtful accounts	252	1,796	16,035
Other	5,701	4,924	43,964
	43,573	41,528	370,785
Valuation allowance	(19,465)	(19,157)	(171,044)
Total deferred tax assets	24,108	22,370	199,732
Deferred tax liabilities:			
Reserve for advanced depreciation of non-current assets	(4,723)	(4,196)	(37,464)
Land revaluation of consolidated subsidiaries	(5,832)	(5,761)	(51,437)
Valuation gain on investment securities resulting from conversion of retirement benefit trust assets (equity securities)	(3,707)	(3,511)	(31,348)
Valuation difference on available-for-sale securities	(19,265)	(13,459)	(120,169)
Deferred gain on sales of shares of subsidiaries and associates based on Group Taxation Regime	—	(992)	(8,857)
Other	(1,370)	(1,214)	(10,839)
Total deferred tax liabilities	(34,899)	(29,136)	(260,142)
Net deferred tax assets (liabilities)	¥ (10,790)	¥ (6,766)	$ (60,410)

Net deferred tax assets as of 31st March 2015 and 2016 were included in the consolidated balance sheets as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2015	**2016**	**2016**
Current assets	¥ 5,701	¥ 4,910	$ 43,839
Non-current assets	10,184	8,945	79,866
Current liabilities	(0)	(0)	(0)
Non-current liabilities	(26,676)	(20,622)	(184,125)

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

	2015	**2016**
Aggregate statutory income tax rate	–	33.1%
Increase (reduction) in taxes resulting from:		
Non-deductible expenses	–	1.2
Tax on inhabitants per capita	–	1.9
Permanent differences (including dividends)	–	(2.9)
Adjustment of gain on sales of shares of subsidiaries on consolidated basis	–	4.4
Amortisation of consolidated goodwill	–	0.8
Changes in valuation allowances	–	1.6
Effects of tax rate change	–	0.4
Others	–	1.8
Effective income tax rate	–	42.3%

For the year ended 31st March 2015, the disclosure is omitted since the difference between the statutory tax rate and the effective tax rate after adoption of tax-effect accounting was less than 5% of the statutory tax rate.

Adjustments of deferred tax assets and liabilities arising from changes in the corporate income tax rates

On 29th March 2016, the Diet approved the "Act for Partial Revision of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act for Partial Revision of the Local Tax Act, etc." (Act No. 13 of 2016). Based on the revisions, the corporate tax rate and other relevant tax rates will be reduced from the fiscal year beginning on and after 1st April 2016. Accordingly, the Company has changed the effective statutory tax rate to calculate deferred tax assets and deferred tax liabilities for the next consolidated fiscal year from 32.3% to 30.9% for temporary differences expected to be eliminated in the fiscal year beginning on 1st April 2016 and 2017 and to 30.6% for those expected to be eliminated in and after the fiscal year beginning on 1st April 2018. As a result of this change, for the year ended 31st March 2016, net deferred tax assets, deferred income taxes and valuation difference on available-for-sale securities increased by ¥574 million ($5,125 thousand), ¥101 million ($901 thousand) and ¥746 million ($6,660 thousand) respectively, and remeasurements of defined benefit plans and deferred gains or losses on hedges decreased by ¥69 million ($616 thousand) and ¥1 million ($8 thousand), respectively. In addition, deferred tax liabilities for land revaluation decreased and revaluation reserve for land increased by ¥15 million ($133 thousand).

17. Business Combination

Business combination executed for the year ended 31st March 2016 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 2015 and 2016 an estimated period of use of 2 to 39 years and a discount rate of 0.0% to 2.65% were used to calculate the amount of asset retirement obligations.

3. Changes in the total amount of asset retirement obligations

For the fiscal year ended 31st March 2016, asset retirement obligations increased by ¥408 million ($3,642 thousand) 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 ($1,187 thousand) 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.

Changes in the balances were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2015	**2016**	**2016**
Balance at beginning of year	¥ 411	¥ 2,937	$ 26,223
Increase due to business combination	1,849	—	–
Increase due to estimate changes	585	450	4,017
Increase due to acquisition of property, plant and equipment	121	221	1,973
Adjustments with passage of time	37	50	446
Decrease due to fulfilment of asset retirement obligations	(68)	(671)	(5,991)
Other	—	(28)	(250)
Balance at end of year	¥ 2,937	¥ 2,960	$ 26,428

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 stores business, but also in the supermarkets business, Izumiya business and other businesses.
Accordingly, "Department stores," "Supermarkets," "Izumiya" and "Other" have each been made reportable segments.

The "Department stores" segment is primarily engaged in the sale of clothing, accessories, home furnishings, foods and others. The "Supermarkets" segment is engaged in supermarket operations and food production. The "Izumiya" segment is engaged in general merchandise store operations, food manufacturing, restaurant business and others. The "Other" segment is engaged in rental management of commercial facilities, hotels, eating and drinking establishments, remodeling, membership management, home delivery, temporary staffing, information processing and others.

2. Change in reportable segments

Reflecting the Group's business combination with Izumiya on 1st June 2014, "Izumiya" is shown as one of four segments. Izumiya Co., Ltd. and its subsidiaries have changed their fiscal year-end from 28/29th February to 31st March. For the fiscal year ended 31st March 2015, the consolidated financial statements of the Company included the financial results for the 10-month period from 1st June 2014 to 31st March 2015.

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 the reportable segment is presented on an operating income basis. Intersegment sales and transfers are recognised based on current market prices.

Change in accounting policy

As described in Note 3, "Changes in Accounting Policies," effective the year ended 31st March 2016, the Company applied revised accounting standards regarding business combinations. Under the revised standards, changes in the Company's ownership interest while retaining its controlling financial interest in subsidiaries are accounted for as capital surplus and acquisition related costs are charged to expenses as incurred. Regarding business combinations on or after the beginning of the current consolidated fiscal year, in case in which acquisition costs are once provisionally allocated but revised afterwards in the following fiscal year, the final result of allocation is included in the consolidated financial statements for the consolidated fiscal year when the relevant business combination occurs. As a result, as of the beginning of the current fiscal year, goodwill decreased by ¥517 million ($4,616 thousand), capital surplus decreased by ¥269 million ($2,401 thousand) and retained earnings decreased by ¥248 million ($2,214 thousand). On the other hand, segment income of other business segment increased by ¥37 million ($330 thousand).

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

As of and for the year ended 31st March 2015	Department stores	Supermarkets	Izumiya	Other	Reconciliation	Total
	Millions of yen					
Net sales						
External customers	¥ 421,008	¥ 108,674	¥ 270,731	¥ 44,405	¥ –	¥ 844,819
Intersegment	463	4,573	20	22,026	(27,083)	–
Total net sales	¥ 421,471	¥ 113,247	¥ 270,751	¥ 66,432	¥ (27,083)	¥ 844,819
Segment income	¥ 15,734	¥ 2,396	¥ 3,145	¥ 2,355	¥ (2,273)	¥ 21,358
Segment assets	¥ 150,138	¥ 56,294	¥ 199,858	¥ 417,109	¥ (191,524)	¥ 631,877
Other items						
Depreciation	¥ 4,704	¥ 2,224	¥ 3,844	¥ 4,414	¥ (37)	¥ 15,149
Amortisation of goodwill	–	507	–	179	–	686
Investment in associated companies accounted for by the equity method	–	–	–	11,730	–	11,730
Impairment loss	3,070	568	2,252	1,016	–	6,907
Increase in property, plant and equipment and intangible assets	¥ 6,237	¥ 7,494	¥ 2,915	¥ 22,302	¥ (35)	¥ 38,914

	Millions of yen					
As of and for the year ended 31st March 2016	Department stores	Supermarkets	Izumiya	Other	Reconciliation	Total
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

	Thousands of U.S. dollars					
As of and for the year ended 31st March 2016	Department stores	Supermarkets	Izumiya	Other	Reconciliation	Total
Net sales						
External customers	$ 3,849,803	$ 1,056,482	$ 2,844,419	$ 425,080	$ –	$ 8,175,803
Intersegment	4,133	47,258	2,901	205,732	(260,035)	–
Total net sales	$ 3,853,937	$ 1,103,741	$ 2,847,321	$ 630,821	$ (260,035)	$ 8,175,803
Segment income	$ 148,437	$ 20,375	$ 42,330	$ 29,616	$ (28,053)	$ 212,723
Segment assets	$ 1,344,482	$ 526,214	$ 1,678,687	$ 3,720,991	$ (1,939,660)	$ 5,330,723
Other items						
Depreciation	$ 42,482	$ 20,482	$ 41,267	$ 41,169	$ (500)	$ 144,910
Amortisation of goodwill	–	4,526	–	928	–	5,464
Investment in associated companies accounted for by the equity method	–	–	–	102,919	–	102,919
Impairment loss	6,875	3,705	34,946	5,901	–	51,455
Increase in property, plant and equipment and intangible assets	$ 33,651	$ 47,705	$ 67,321	$ 31,508	$ (642)	$ 179,553

Note 1. Adjustments are as follows:

Adjustment of segment income was ¥(2,273) million and ¥(3,142) million ($(28,053) thousand) for the years ended 31st March 2015 and 2016, respectively, and comprised the elimination of intersegment transactions.

For the years ended 31st March 2015 and 2016, respectively, adjustment of assets was ¥(191,524) million and ¥(217,242) million ($(1,939,660 thousand) and included ¥(138,123) million and ¥(141,177) million ($(1,260,508) thousand) offset elimination of investments and capital, ¥(51,785) million and ¥(74,144) million ($(662,000) thousand) offset elimination of debts and credits and ¥(1,773) million and ¥(1,796) million ($(16,035) thousand) adjustment for unrealised gains and losses on fixed assets.

Adjustment of depreciation amounting to ¥(37) million and ¥(56) million ($(500) thousand) and adjustment of increase in property, plant and equipment and intangible assets amounting to ¥(35) million and ¥(72) million ($(642) thousand) consisted of the elimination of intersegment transactions for the years ended 31st March 2015 and 2016, respectively.

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 2015	Department stores	Supermarkets	Izumiya	Other	Reconciliation	Total
Goodwill						
Amortisation	¥ –	¥ 507	¥ –	¥ 179	¥ –	¥ 686
Impairment	¥ –	¥ –	¥ –	¥ 561	¥ –	¥ 561
Unamortised balance	¥ –	¥ 5,747	¥ –	¥ 1,379	¥ –	¥ 7,127

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

As of and for the year ended 31st March 2016	Department stores	Supermarkets	Izumiya	Other	Reconciliation	Total
	Thousands of U.S. dollars					
Goodwill						
Amortisation	$ –	$ 4,526	$ –	$ 928	$ –	$ 5,464
Impairment	$ –	$ –	$ –	$ –	$ –	$ –
Unamortised balance	$ –	$ 46,785	$ –	$ 6,750	$ –	$ 53,544

Gain on bargain purchase was ¥10,030 million recognised on the management integration with Izumiya Co., Ltd. in the year ended 31st March 2015.

20. Related Party Transactions

For the year ended 31st March 2015

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="11">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">¥8,269 million</td><td>Prepaid expenses</td><td>¥204 million</td></tr>
<tr><td>Accounts payable - other</td><td>¥12 million</td></tr>
<tr><td>Accrued expenses</td><td>¥53 million</td></tr>
<tr><td>Fees for display of signs, etc.</td><td>¥8 million</td><td>Prepaid expenses</td><td>¥0 million</td></tr>
<tr><td>Deposits of guarantee money</td><td>¥10 million</td><td rowspan="2">Guarantee deposits</td><td rowspan="2">¥21,840 million</td></tr>
<tr><td>Return of guarantee money</td><td>¥210 million</td></tr>
<tr><td rowspan="5">HANSHIN ELECTORIC 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">12.00% 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">¥4,544 million</td><td>Prepaid expenses</td><td>¥3 million</td></tr>
<tr><td>Accrued expenses</td><td>¥141 million</td></tr>
<tr><td>Fees for display of signs, etc.</td><td>¥13 million</td><td>–</td><td>–</td></tr>
<tr><td>Deposits of guarantee money</td><td>¥5,033 million</td><td rowspan="2">Guarantee deposits</td><td rowspan="2">¥7,628 million</td></tr>
<tr><td>Return of guarantee money</td><td>¥5 million</td></tr>
</table>

Business terms and policies for determination of business terms

Note 1.Transaction amounts are exclusive of consumption taxes; term-end balances (exclusive of guarantee 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 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 ($78,741 thousand)	Prepaid expenses	¥211 million ($1,883 thousand)
									Accounts payable - other	¥12 million ($107 thousand)
									Accrued expenses	¥31 million ($276 thousand)
							Fees for display of signs, etc.	¥8 million ($71 thousand)	Prepaid expenses	¥0 million ($0 thousand)
							Deposits of guarantee money	¥0 million ($0 thousand)	Guarantee deposits	¥21,818 million ($194, 803 thousand)
							Return of guarantee money	¥8 million ($71 thousand)		
	HANSHIN ELECTORIC 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 ($31,500 thousand)	Prepaid expenses	¥3 million ($26 thousand)
									Accrued expenses	¥32 million ($285 thousand)
							Fees for display of signs, etc.	¥7million ($62 thousand)	–	–
							Deposits of guarantee money	–	Guarantee deposits	¥7,628 million ($68,107 thousand)
							Return of guarantee money	–		

Business terms and policies for determination of business terms

Note 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 2015 and 2016.

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Basic profit per share calculation:			
Profit (numerator):			
Profit attributable to owners of parent	¥ 11,586	¥ 14,053	$ 125,473
Amounts not belonging to common stockholders	–	–	–
Profit attributable to owners of parent concerning common stock	11,586	14,053	125,473
Shares (denominator):			
Weighted average number of shares	118,161,147	123,347,854	
Basic EPS (yen and U.S. dollars)	¥ 98.06	¥ 113.93	$ 1.01
Diluted profit per share calculation:			
Profit (numerator):			
Profit attributable to owners of parent	¥ 11,586	¥ 14,053	$ 125,473
Amounts not belonging to common stockholders	–	–	–
Profit attributable to owners of parent concerning common stock	11,586	14,053	125,473
Effect of dilutive securities - convertible bonds	–	–	–
Adjusted profit	11,586	14,053	125,473
Shares (denominator):			
Weighted average number of shares	118,161,147	123,347,854	
Assumed exercise of stock purchase rights	506,831	583,072	
Adjusted weighted average number of shares	118,667,978	123,930,926	
Diluted EPS (yen and U.S. dollars)	¥ 97.64	¥ 113.39	$ 1.01

As stated in Note 3, "Changes in Accounting Policies," for the year ended 31st March 2016, the Company applied the Accounting Standard for Business Combinations. As a result, EPS and diluted EPS increased by ¥0.30 ($0.00) for the year ended 31st March 2016.

Net assets per share (Book value Per Share "BPS") calculation for the years ended 31st March 2015 and 2016 was as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2015	**2016**	**2016**
Net assets per share calculation:			
Net assets	¥ 251,659	¥ 252,587	$ 2,255,241
Deduction from net assets	896	1,032	9,214
(Subscription rights to shares)	(892)	(1,028)	(9,178)
(Non-controlling interests)	(3)	(3)	(26)
Net assets concerning common stock	250,762	251,554	2,246,017
Number of shares used for the calculation of net assets per share	123,330,875	123,381,819	
BPS (yen and U.S. dollars)	2,033.25	2,038.83	18.20

As stated in Note 3, "Changes in Accounting Policies," for the year ended 31st March 2016, the Company applied the Accounting Standard for Business Combinations. As a result, BPS decreased by ¥4.20 ($0.03) for the year ended 31st March 2016.

On 1st September 2014, the Company executed a reverse stock split (two-to-one share). Basic EPS, diluted EPS and BPS for the year ended 31st March 2015 were calculated as if the reverse stock split was executed at the beginning of the fiscal year ended 31st March 2015.

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

At the Board of Directors meeting held on 28th January 2016, the Company decided to reorganise its group companies (the "reorganisation") aiming to build a solid foundation as follows:

1. Overview of reorganisation

The Group considers "profitability improvement by enhancing management efficiency" is one of its key measures. In this regard, Izumiya Co., Ltd. ("Old-Izumiya") and Hanshoku Co., Ltd. ("Hanshoku," the operator of Hankyu Oasis, which changed its name to Hankyu Oasis Co., Ltd. on 1st June 2016) have started various joint initiatives including joint procurement of fresh/processed food, mutual supply of delicatessen products and joint procurement of consumables to save store operating costs.

The Group will further promote such initiatives, establish the management system to integrally operate "supermarkets business" and clarify the roles of each company. Thus, aiming to improve the efficiency of business as a whole, the Group reorganised its group companies as follows:

(1) On 1st April 2016, H2O Food Group Co., Ltd. ("H2O Food Group"), a holding company to conduct strategic management of the supermarkets business, was newly established by transferring Hanshoku's shares.

The overview of the business combination is as follows:

(a) Corporate name and lines of business involved in the combination

Name of business: Hanshoku Co., Ltd. (a subsidiary of the Company)

Details of business: Management of supermarket business (Hankyu Oasis) and its subsidiaries

(b) Date of business combination

1st April 2016

(c) Legal form of business combination

Share transfer from Hanshoku (the subsidiary by share transfer) to H2O Food Group (the parent company by share transfer)

(d) Corporate name after business combination

H2O Food Group Co., Ltd.

(2) On 1st June 2016, the subsidiary management business of Hankyu Oasis Co., Ltd., which changed its name from Hanshoku, including its shares of its subsidiaries, was absorbed by the H2O Food group through absorption-type split.

An overview of the business combination is as follows:

(a) Name and lines of business involved in the combination

Name of business: Management of the subsidiaries of Hankyu Oasis Co., Ltd.

Details of business: Management and planning of food manufacturing subsidiaries and related business

(b) Date of business combination

1st June 2016

(c) Legal form of business combination

Absorption-type split from Hankyu Oasis (the split company) to H2O Food Group (the succeeding company)

(d) Corporate name after business combination

H2O Food Group Co., Ltd.

(3) On 1st July 2016, Old-Izumiya newly split a retail company which operates in the supermarket business ("New-Izumiya"), and New-Izumiya succeeded the retail business from Old-Izumiya. Old-Izumiya changed its corporate name to H2O Asset Management Co., Ltd. Through a transfer of subsidiaries' shares between the H2O Food Group and H2O Asset Management Co., Ltd., the Group reorganised its group companies which ran supermarkets businesses in such a way that each of them became a subsidiary of the H2O Food Group, a holding company. On 1st July 2016, H2O Food Group established a company which focuses on processing and selling fresh foods.

The overview of the business combination is as follows:

(a) Name and lines of business involved in the combination

Name of business: retail business of Old-Izumiya (H2O Asset Management Co., Ltd.)

Details of business: management of general merchandise stores and supermarkets

(b) Date of business combination

1st July 2016

(c) Legal form of business combination

Old-Izumiya carried out a corporate split to establish a new company (New-Izumiya).

(d) Corporate name after business combination

Izumiya, Co., Ltd. (New-Izumiya, a subsidiary of H2O Food Group, Co. Ltd.)

Thus, the H2O Food Group will enhance business efficiency by improving products and business flows, integrating redundant functions and facilities and closing unprofitable stores. Further, H2O Asset Management Co., Ltd., cooperating with the New-Izumiya, will not only organise and replace assets to optimise the balance sheet of the Group but also promote effective use of assets on a group-wide basis.

2. Overview of accounting treatment applied

Pursuant to the "Accounting Standard for Business Combinations" and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures," the Group accounted for the transaction as a business combination under common control.

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 2015 and 2016 consisted of the following.

	Millions of yen		*Thousands of U.S. dollars*
	2015	**2016**	**2016**
0.10% Commercial papers	¥ 6,500	¥ –	$ –
Current portion of long-term loans payable (1.156% in 2015 and 1.138% in 2016)	¥ 14,773	¥ 10,077	$ 89,973
Lease obligations, current portion	929	963	8,598
Long-term loans payable (0.478% in 2015 and 0.386% in 2016), excluding current portion, due through 2024	110,996	100,879	900,705
Lease obligations, excluding current portion, due through 2035	5,970	7,535	67,276
0.706% H2O Retailing unsecured bonds, due 2024	10,000	10,000	89,285
0.90% Izumiya unsecured bonds, due 2017	2,000	2,000	17,857
0.85% Izumiya unsecured bonds, due 2018	1,300	1,300	11,607
0.86% Izumiya unsecured bonds, due 2018	700	700	6,250
0.71% Izumiya unsecured bonds, due 2017	4,800	4,700	41,964

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

Annual maturities of long-term debt including loans payable, long-term bonds payable and lease obligations as at 31st March 2016 were as follows:

	Millions of yen	*Thousands of U.S. dollars*
	2016	**2016**
2017	¥ 13,141	$ 117,330
2018	36,069	322,044
2019	43,573	389,044
2020	639	5,705
2021 and thereafter	44,732	399,392
	¥ 138,156	$ 1,233,535

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, 2015 and 2016, 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, 2015 and 2016, 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, 2016 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

September 16th, 2016
Osaka, Japan

Corporate Data

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Board of Directors (as of 22nd June 2016)

President and Representative Director	Atsushi Suzuki
Representative Director	Naoya Araki
Representative Director and Senior Managing Executive Officer	Katsuhiro Hayashi
Director and Senior Corporate Advisor	Shunichi Sugioka
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 2016)

Date of Establishment:	March 1947
Stated Capital:	¥17,796 million
Authorised Shares:	150,000,000
Issued and Outstanding Shares:	125,201,396
Shareholders:	21,699
Employees:	64 (H2O Retailing Corporation) 8,456 (Consolidated basis)

Principal Shareholders: (as of 31st March 2016)

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 account9)	3,761	3.00%
The Master of Trust Bank of Japan,Ltd.(Trust account)	3,636	2.90%
Japan Trustee Service Bank,Ltd.(Trust account)	3,604	2.88%
Izumiya Kyowakai Assn.	2,505	2.00%
Pictet & Cie (Europe) S.A.	2,170	1.73%
H2O Retailing Group Employees' Shareholding Association	1,647	1.32%
JP Morgan Chase Bank 380684	1,522	1.22%

Principal Consolidated Subsidiaries

Department Store Business	
Hankyu Hanshin Department Stores, Inc.	Department Stores
Supermarket Business	
Hankyu Oasis Co., Ltd	Supermarkets
Hankyu Foods, Inc.	Manufacture and sale of laver seaweed and dried foods
Hankyu Delica, Inc.	Manufacture and sale of prepared food and sushi
Hankyu Bakery Co., Ltd.	Manufacture and sale of bread
Izumiya Business	
Izumiya Co., Ltd.	General merchandise stores, supermarkets and supercenters
Delica I Foods Co., Ltd.	Manufacture and sale of prepared food
Qanat Co., Ltd.	Supermarkets
Sun Laurie Co., Ltd.	Restaurants
Kanso Co., Ltd.	General building maintenance
Suzhou Izumiya Co., Ltd.	A department store in Suzhou, China
Izumiya Card Co., Ltd.	Insurance agency, credit-card business and travel agency
Izumiya Research Institute	Research institute for retailing and human resources development

Other Business	
Hankyu Shopping Center Development Co., Ltd.	Operational management of commercial facilities
Oi Development Co., Ltd	Operational management of a hotel
Hankyu Maintenance Service Co., Ltd.	General building maintenance
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
EveryD.com, Inc.	Supply of the system and the know-how of home-delivery service
Hankyu Lifestyle Institute	Research and planning related to life and culture
Hankyu Quality Support	Quality testing and consulting service
Hankyu Sennan Green Farm	Production of organic farm products
Hankyu Trading Services Co.Ltd.	Foreign trade business
Hankyu Wedding	Costume salon for bridal use

Heart Dining, Inc.	Management of cafe, restaurants and company cafeteria
KAZOKUTEI CO., LTD.	Restaurants mainly serving "Soba/Udon"
CARNET CO., LTD.	Sales of ladies shoes and accessories
Persona Co., Ltd.	Management of services for members of Persona card
With System Corporation	Data processing and systems development

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