H₂O RETAILING CORPORATION

FINANCIAL REPORT 2015

RETAILING

Profile

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

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

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

Currently, the Group consists of 60 subsidiaries and 4 affiliates that operate retail businesses, including its core department store operations, supermarket operations and shopping center operations.

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General Business Conditions

1. Analysis of Business Performance and Financial position

(1) Business performance for reporting period

Consolidated business results for the fiscal year

	Millions of yen	YOY %
Net sales	844,819	146.5
Operating income	21,358	123.4
Net income	11,586	3,919.5

Consolidated financial results for the fiscal year achieved new records for net sales, operating income and net income due to strong sales stemming from the Group's department store and supermarket businesses, and a business combination with Izumiya Co., Ltd. in June 2014.

The consumption tax increase had an impact on the first quarter (April–June) performance, but business recovered after the second quarter, particularly with our department store urban locations. In addition, the expansion of tax-free items in October 2014 increased sales to foreign tourists, and contributed greatly to the Group's consolidated sales, which were up 46.5% year-on-year to ¥844,819 million. Operating income was ¥21,358 million, up 23.4% year-on-year, owing to a review of the Group's entire cost structure in anticipation of the consumption tax increase. Net income was ¥11,586 million, up ¥11,290 million from the previous fiscal year, mainly as a result of ¥10,030 million of the gain on bargain purchase from our business combination with Izumiya Co., Ltd. and the loss on store closing under other income (expenses).

The following is a breakdown of performances by business segment.

Effective from the fiscal year ended 31st March 2015, "Izumiya" Business is shown as a separate reportable segment in order to reflect the Group's business combination with Izumiya Co., Ltd. on 1st June 2014. The Property Management ("PM") Business segment in previous reports has now become a part of the Other Businesses segment. Hence, the four segments, which were previously shown as, the Department Store Business, Supermarket Business, Property Management ("PM") and Other Businesses segments, have now become, the Department Store Business, Supermarket Business, Izumiya Business and Other Businesses in the current report. Comparative information for the fiscal year ended 31st March 2014 is based on this new classification of segments.

Department Stores Business

Results for Department Store Business

	Millions of yen	YOY %
Net sales	421,008	98.5
Segment income (operating income)	15,735	118.8

For Hankyu Hanshin Department Stores, Inc., its Hankyu Umeda Main Store, which entered its third year since its grand opening, has become widely recognised as a "theatrically themed department store," providing its customers with many exciting events. Moreover, promotional efforts not only in the Kansai area but also in other domestic areas including Chugoku and Shikoku and to a wide range of inbound customers, especially those flying into Japan from Asia, have steadily increased customer traffic and sales. As a result, sales at the Hankyu Umeda Main Store, including Hankyu Men's Osaka, were ¥197,840 million at the end of this fiscal year, up 2.9%.

Meanwhile, sales at the Hanshin Umeda Main Store were ¥71,591 million, down 13.1%, due to the consumption tax increase and to a 40% reduction in store space from full-scale reconstruction work, which began in February 2015 following the preparatory work that started in April 2014.

At our branch stores, our suburban locations required more time for recovery from the effects of the consumption tax increase. However, sales were strong at both of our urban locations, Hakata Hankyu and HANKYU MEN'S TOKYO. Hakata Hankyu recorded year-on-year sales increases for 31 consecutive months from August 2012 to February 2015, with the exception of March 2015, which declined after the last-minute rise in demand preceding the consumption tax increase. The sales growth at HANKYU MEN'S TOKYO was mainly due to its product mix with high fashion sensibility, which won customer approval, and to tax-free sales to our foreign customers, which doubled on a year-on-year basis.

For reference: sales of the Group's department stores

Department store name	Millions of yen	YOY %
Hankyu Umeda Main Store	197,840	102.9%
Senri Hankyu	16,551	95.2%
Sakai Kitahanada Hankyu	9,350	92.4%
Kawanishi Hankyu	16,759	95.5%
Takarazuka Hankyu	7,857	90.4%
Nishinomiya Hankyu	24,842	98.9%
Sanda Hankyu	1,392	100.0%
Hakata Hankyu	42,294	104.5%
HANKYU MEN'S TOKYO	13,589	107.5%
Oi Hankyu Food Hall	4,690	100.2%
Tsuzuki Hankyu	5,092	97.3%

Hanshin Umeda Main Store	71,591	86.9%
Amagasaki Hanshin	3,687	96.6%
Hanshin Nishinomiya	4,535	99.9%
Hanshin Mikage	545	96.6%

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

Supermarkets Business

Results for Supermarket Business

	Millions of yen	YOY %
Net sales	108,675	108.4
Segment income (operating income)	2,397	112.7

Net Sales were strong at our subsidiary, Hanshoku Co., Ltd., which operates the Group's Hankyu Oasis chain of food supermarkets. We have strengthened its sales capability by opening seven new stores—three stores in Hyogo prefecture, two stores in Osaka City and two stores in the City of Kyoto—and by remodelling three existing stores. Sales were strong especially in fresh and prepared foods. As of March 2015, we converted 48 of our 78 locations into “High Quality Food Stores," a new type of urban supermarket and the cornerstone of our growth strategy. Additionally, we are preparing our distribution centres for an upcoming expansion and are working to facilitate smooth store operations from order placement to inventory management.
In addition, our food processing subsidiary, Hankyu Bakery Co., Ltd. continued to expand the scale of its ¥100 bread/pastry business.

Izumiya Business

Results for Izumiya Business

	Millions of yen	YOY %
Net sales	270,731	–
Segment income (operating income)	3,145	–

With Izumiya Co., Ltd., we have strengthened our sales capability by opening three new stores and remodelling three of our existing stores. Although clothing and non-perishable items declined after the consumption tax increase, we worked to improve our profit margin by strengthening our product procurement capability and improving our store operations through direct management of our prepared food business and by making full use of our Food Processing Centre, which began its full-scale operations in February 2014.

Meanwhile, with our decision to close the Izumiya Oyama shop (Oyama City, Tochigi Prefecture) in January 2015, we estimated associated costs at ¥6,092 million and reported as loss on store closing. The table above shows financial results of Izumiya Co., Ltd. and its subsidiaries for the period from 1st June 2014 to 31st March 2015, which were included in the Company’s consolidated financial statements.

Other Businesses

Results for Other Businesses

	Millions of yen	YOY %
Net sales	44,405	90.0
Segment income (operating income)	2,355	55.8

Other Businesses as a whole reported a decrease in income and profits due in part to a stock transfer in June 2014 of NAKANO FOODS CO., LTD. and Cotobuki, former subsidiaries of KAZOKUTEI CO., LTD. However, we worked aggressively to expand our network of retail specialty stores such as CARNET CO., LTD., our specialty stores of women's shoes, F.G.J. Co., Ltd., our cosmetics select shops, and Hankyu B&C Planning, our 100 yen bread/pastry specialty stores. In addition, Oi Development Co., Ltd. continued to perform well. The combined guest room occupancy rate at the two business hotels, Ours Inn Hankyu Single Hall and Ours Inn Hankyu Twin Hall, which opened March 2014, steadily increased to 94.7%. As a result, both net sales and operating income of Oi Development Co., Ltd. exceeded those of the previous fiscal year.

(2) Analysis of Financial Position
(i) Assets, liabilities and net assets

Total assets grew ¥254,161 million year-on-year to ¥631,878 million as of 31st March 2015. This was partially due to an increase of ¥199,815 million from our business combination with Izumiya Co., Ltd. and an increase in the fair value of investment securities of ¥35,481 million by appreciation and our new investment in Ningbo Development Co., Ltd.

In addition, total liabilities increased by ¥184,779 million year-on-year to ¥380,218 million as of 31st March 2015. This was due in part to a ¥136,925 million increase in total liabilities from our business combination with Izumiya Co., Ltd., the issuance of ¥10,000 million in new corporate bonds and an increase in long-term debt (including the current portion of long-term debts), mostly from new borrowings, of ¥29,516 million.
Total net assets grew ¥69,382 million year-on-year to ¥251,660 million as of 31st March 2015. This was due mainly to growth in net income of ¥11,586 million, ¥35,323 million growth in legal capital surplus and ¥7,967 million growth in other capital surplus for H2O RETAILING CORPORATION, the wholly-owning parent company in a share exchange with Izumiya Co., Ltd., the wholly-owned subsidiary company in a share exchange. Additionally, net unrealised holding gains on securities grew ¥18,146 million

due to increase of unrealised gain on investment securities, contributing in growth to our total net assets.

(ii) Cash Flows

For the fiscal ended March 2015 Cash and cash equivalents at the end of year were ¥44,334 million, an increase of ¥8,951 million year-on-year. Net cash provided by operating activities was ¥25,469 million, down ¥7,947 million year-on-year, attributable mostly to an increase in amounts paid in corporate tax. Net cash used in investing activities was ¥49,163 million, down ¥39,535 million year-on-year, due in large part to purchases of property, plant and equipment. Net cash provided by financing activities was ¥24,161 million (¥3,559 million of outflow for the fiscal year ended 31st March 2014), due in large part to the issuance of corporate bonds and to new borrowings. Additionally, there was a increase in cash and cash equivalents of ¥8,374 million, due to our business combination with Izumiya Co., Ltd.

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, centered 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 a mature market. To continue to enhance its enterprise value within such a market, the Group is working to improve its profitability and growth potential and focussing its corporate activities on operating income and operating income margin by business segment. We are also aiming to improve return on equity (ROE) by realising increased operating income.

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

In Japan, the declining birthrate, aging population and polarisation of consumption along with increased competition across industry sectors and business categories presents a challenging business climate. Nevertheless, the Group aims to become a general lifestyle provider covering all aspects of our customer's daily lives. Based on our business strategies for the medium and long term, we will continue optimising the allocation of our management resources, reengineering infrastructure and enhancing operational efficiency and will provide irresistible offerings in the Kansai area.

In the Department Store Business, we will rebuild and refurbish our existing stores, adapting to the time and markets and thereby strengthening our earning capacity.

In the Supermarket Business, to respond to changing social conditions such as the urban revival phenomenon, we will move forward with the opening of new stores in the city's urban centre. At the same time, by sharing infrastructure, including food processing plants and distribution networks with our Izumiya business and by working together on the procurement of products, we will lower costs and improve our profitability ratio, thereby strengthening the earning capacities of both businesses.

Going forward, we will aggressively expand our business in diverse ways and will strive to attain growth, not only in Japan but overseas with a focus on Asia.

The Group will continue to work towards creating a strong business group with sustained growth potential far into the future. Even in challenging business environments, we will strive to be a group that can meet the needs of our stakeholders and that is flexible in responding to changes in social conditions.

Corporate Governance System

1) Corporate Governance System
Outline and Rationale of Corporate Governance System

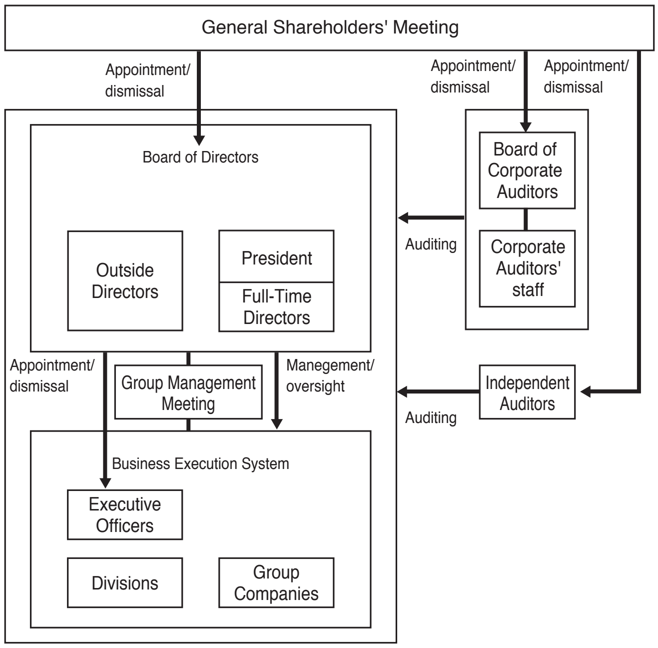
In the H2O Retailing Group, H2O Retailing Corporation (the Company), a holding company, is responsible for the business planning, management and oversight of the entire Group. It seeks through proper and legal means to raise the corporate value of Group companies by building a corporate governance system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

(Board of Directors)
The Board of Directors consists of 12 members, with 2 highly independent directors with corporate management experience appointed from outside the Company.

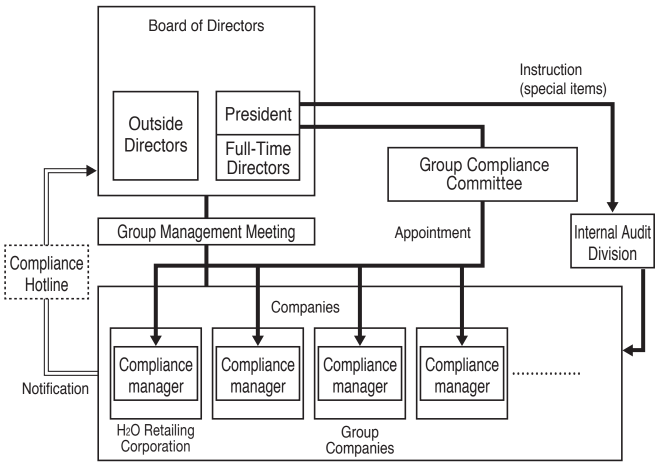
(Board of Corporate Auditors)
The Board of Corporate Auditors consists of 4 members, with 3 highly independent corporate auditors, including specialists with corporate management and legal experience, appointed from outside the Company.

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

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



2) Internal Control and Risk Management System



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

Compliance
The H2O Retailing Group has a code of conduct stipulating basic principles so that executives and employees will act 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 Groupwide compliance. In addition, we appoint outside directors and auditors with the necessary knowledge and experience to help the Group ensure full compliance.

In addition to establishing a Group Compliance Committee

to take the lead in the creation of a system for ensuring compliance throughout the Group, we have appointed the presidents of Group companies (and executives in charge of general affairs for H2O Retailing Corporation, Hankyu Hanshin Department Stores, Inc., Izumiya Co., Ltd. and Hanshoku Co., Ltd.) as compliance officers for each company. They carry out compliance policy and pool information jointly.
In addition, we have set up a whistle-blowing system and established rules for disciplinary action in the case of legal and regulatory violations or instances of fraud committed by Group executives or employees.

Ensuring the reliability of financial reporting
At each company in the Group, we have set up internal control systems to ensure the reliability of financial reporting. At the Company, we carry out appraisals of the implementation and operational status of internal controls related to financial reporting on a Groupwide 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 organizations such as the police and lawyers and have created systems for insulating ourselves from all contact with antisocial elements.

B. Storage and management of information 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 minimize 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. At the same time, we have in place a system for pooling information regarding risk faced by all companies in the Group.

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

E. Ensuring sound conduct of business in the Group (Company, parent company and subsidiaries)
Based on our Group company management protocol, the Group Management Meeting must give prior approval for business planning, marketing policies and other important operational matters at Group companies. Important matters for the Group are taken up or reported at Board of Directors meetings. The Company's internal auditing, compliance and risk management systems apply to all companies in the Group.

F. Audit assistants and their independence from directors in cases in which corporate auditors seek help in performing auditing duties
At a corporate auditor’s request, audit assistants are selected to help the auditors carry out their duties and do not report to directors.

G. Reporting to corporate auditors by directors and employees, other reporting to corporate auditors and ensuring effective audits by corporate auditors
Meetings are held between corporate auditors and representative directors and corporate auditors and staff. Regular meetings of the Group Corporate Auditors Committee are held, corporate auditors attend important meetings of the Group Management Meeting and other important meetings and approval documents and minutes from Group Management Meeting and other committee meetings are circulated to all concerned parties.

When requested by Corporate Auditors, the Group’s Directors and employees shall promptly report to them 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 the Group companies, the Group’s Directors and employees shall report to a Corporate Auditor of the respective company of the Group. Then, the Corporate Auditor will report to the Company’s Corporate Auditors.

The status of the Group's internal audits, compliance, risk management and internal whistle-blower system will be regularly reported to the Company's Corporate Auditors. As a policy, the Company prohibits persons who make reports being subjected to disadvantageous treatment as a result of their reporting. Furthermore, the Company will ensure that all Directors and employees of the Group are informed of the policy.

H. System to ensure that audits by the Company's Corporate Auditors are executed effectively

Based on the request of the Corporate Auditors, dedicated staff members will be designated as Corporate Auditors of each company of the Group. When the Board of Corporate Auditors requests to hire outside experts such as lawyers or certified public accountants as their advisors and when Corporate Auditors request relevant expenses to fulfill 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 Corporate Auditors.

(Reference) Summary of current status

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

For the year ended March 31, 2015, at the time of business integration with Izumiya Co., Ltd. on June 1, 2014, the Company set up a meeting body to share the Group's management policies with Directors of each Group company and reviewed the policies and procedures regarding the reporting and approval of significant matters that arose at each Group company.

2.As compliance and risk management initiatives, the Company newly established various committees in connection with fair trading, quality control and information security, promoted measures for each field and shared information. During the first half of the fiscal year, the Company held a seminar for new Directors of each Group company for the improvement of basic knowledge and skills as a director. In addition, during the second half of the fiscal year, the Company held a seminar for the President or Director of each Group company who are designated as responsible persons for compliance and risk management matters in order to share information regarding the amendment of relevant laws and regulations and keep them informed of the Company's policies.

With respect to the internal whistle-blower system, called "Compliance Hotline," the Company established whistle-blower hotlines at the Company and major subsidiaries. After continuous monitoring, the status of operations is regularly reported to the Chairman and Representative Director, 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. Taking the business combination with Izumiya Co., Ltd. as an opportunity, the Company included Izumiya Co., Ltd. and others in the scope, established the control and operation process of the Group as a whole and evaluated the status of operations.

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

3.With respect to the audit system, the Company continues to assign seven dedicated staff members who support the duties of the Corporate Auditors as requested by the Corporate Auditors, and designate each staff member as a Corporate Auditor of each Group company.
Additionally, Corporate Auditors periodically hold meetings with Representative Directors and with staff members at Accounting, General Affairs and Internal Audit, while Standing Corporate Auditor attends important meetings such as Group Management Meetings.

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

The Company has 4 corporate auditors, consisting of 3 outside corporate auditors and 1 full-time auditor. The Company assigns professionals with corporate management experience and specialised knowledge of law or other subjects as outside corporate auditors. A professional from within the Company with substantial knowledge of finance and accounting and who has served as an accounting manager in the Company is assigned as the full-time corporate auditor. In addition, a staff of 7 works in the Corporate Auditors' Office to augment the corporate auditors' audit.

In the consolidated reporting period, the internal audit division (4 members) and the officer in charge of financial reporting as stipulated in the Financial Instruments and Exchange Act (J-SOX) (3 members) were responsible for internal audits. They worked to strengthen the audit function by making proposals for improvements based on regular interviews and on-site audits and assessing the internal control systems for financial reporting and work processes.

In the consolidated reporting period, following audit plans for the corporate auditors' audit, the corporate auditors attended regular meetings with directors and the president. Outside corporate auditors gave their opinion and asked questions as necessary from the standpoint of specialists with extensive business management experience or attorneys. All full-time corporate auditors attended the monthly Group Management Meeting, the weekly 830 Meetings and the Group Compliance Committee, which is held as needed. The full-time corporate auditors expressed their opinions at these meetings as necessary and inspected final decision reports on key matters as well as the minutes of the meeting. They were also directly briefed on the execution of Company business affairs by the internal control division (Finance Office, General Affairs Office, System Planning Office, etc.).

Regarding the auditing of subsidiaries, full-time corporate auditors assume the position of corporate auditors of Hankyu Hanshin Department Stores, Inc. and Izumiya Co., Ltd., core companies, while corporate auditors' staffs assume the position of dedicated auditors of other subsidiaries, leading to the augmentation of the audit system. Full-time corporate auditors and corporate auditors' staffs 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 corporate auditor verify each audit plan (particularly for the business audit) at the beginning of a term, receive regularly reports on audit plan progress and the results of findings and exchange views.

The Company has designated KPMG AZSA LLC. as its accounting auditing firm. The certified public accountants who executed the accounting audit were Mr. Tohei Nitta, Mr. Naoki Sugita and Mr. Satoshi Kihira. Assisting them with the audit were 15 other certified public accountants and 21 other staff. In drafting the accounting audit plan, the auditors exchanged opinions about important accounting audit matters. The full-time corporate auditor received monthly audit result reports, and, at the Board of Corporate Auditors, close coordination was maintained through mutual verification of audit plan progress.

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

4) Outside Directors and Outside Corporate Auditors
The Company has 2 outside directors and 3 outside corporate auditors.

Relationship with outside directors and outside corporate auditors
Mr. Naoshi Ban has been appointed as an outside director based on his management supervisory and investigative skills, his extensive management experience and his broad insight. Furthermore, since the Company has determined that he has no conflict of interest with shareholders and has no cause for it as defined by the stock exchange, Mr. Naoshi Ban has been appointed as an independent director. Mr. Ban also 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. Makoto Yagi has been appointed as an outside director based on his management supervisory and investigative skills, his extensive management experience and his broad insight. Furthermore, since the Company has determined that he has no conflict of interest with shareholders and has no cause for it as defined by the stock exchange, Mr. Makoto Yagi has been appointed as an independent director. Mr. Yagi also has no special interests in the Company. Mr. Yagi is a President and Representative Director of The Kansai Electric Power Company, Inc. There are no particular conflicts of interest that require disclosure between The Kansai Electric Power Company, Inc. and the Company.

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

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

Mr. Masashi Muromachi has been appointed as an outside corporate auditor for his management supervisory and investigative skills, his extensive management experience and his broad insight. Furthermore, since the Company has determined that he has no conflict of interest with shareholders and has no cause for it as defined by the stock exchange, Mr. Masashi Muromachi has been appointed as an independent corporate auditor. Mr. Muromachi also has no special interests in the Company. Mr. Muromachi is now a Director, Chairman of the Board, Representative Executive Officer, President and Chief Executive Officer of Toshiba Corporation, but there are no particular conflicts of interest between Toshiba Corporation and the Company that require disclosure.

The Company establishes Independence Criteria for outside directors and corporate auditors as follows:

Independence Criteria for Outside Directors/Corporate Auditors

To maintain their independence from the Company, Outside Directors and Outside Corporate Auditors 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 relevant authority, a manager or other 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 Company other than as compensation for being a Director and/or Corporate auditor.

(4)A person belonging to the audit firm engaged to conduct a statutory audit of 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 Officer or Standing 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 last 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 last 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 last fiscal year end.

3.“Certain amount” means (a) ¥10 million a year of compensation (except director’s remuneration) received from the Group in the last 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 last 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 last 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	Yohsaku Fuji	Attended all 6 Board of Directors' meeting (excluding written resolutions) held during the reporting period, giving his opinion on measures and asking questions based on his extensive management experience.
Corporate Auditor	Hideyuki Takai	Attended all 6 Board of Directors' meetings (excluding written resolutions) and all 8 Board of Corporate Auditors' meeting held during the reporting period, giving his opinion on measures and asking questions based on his extensive management experience.

Corporate Auditor	Toshihisa Takamura	Attended all 6 Board of Directors' meeting (excluding written resolutions) and all 8 Board of Corporate Auditors' meetings held during the reporting period, giving his opinion on measures and asking questions based primarily on his specialised knowledge as an attorney.
Corporate Auditor	Masashi Muromachi	Attended all 6 Board of Directors' meeting (excluding written resolutions) and all 8 Board of Corporate Auditors' meetings held during the reporting period, giving his opinion on measures and asking questions based on his extensive management experience.

Outside director Mr. Yohsaku Fuji left the Company at the annual general shareholders' meeting held on 24th June 2015.

5) Compensation for Directors and Corporate Auditors

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

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

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

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

Classification	Total compensation (millions of yen)	Total compensation by type (millions of yen)			Number of directors receiving
		Basic compensation	Stock option-based compensation	Bonus	
Directors (excluding outside directors)	284	156	77	51	9
Corporate auditors (excluding outside corporate auditors)	25	25	-	-	1
Outside directors and outside corporate auditors	29	29	-	-	4

6) Shareholdings

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

Number of different stocks: 51
Balance sheet value: ¥93,573 million

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

For the year ended 31st March 2013

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

For the year ended 31st March 2014

Stock	Number of shares	Balance sheet value (millions of yen)	Purpose of holding
Takashimaya Co., Ltd.	33,084,000	32,025	To strengthen relationship between both companies through business partnership
Toho Co., Ltd.	13,664,280	28,271	To strengthen relationship with the Hankyu Hanshin Toho Group
Mitsubishi UFJ Financial Group, Inc.	3,012,740	1,708	For financial policy reasons
Mitsubishi Logistics Corporation	1,109,000	1,593	To strengthen business management relationship
Umenohana Co., Ltd.	374,500	785	To strengthen relationship between both companies through business partnership
Asahi Group Holdings, Ltd.	217,360	628	To strengthen business management relationship
Wacoal Holdings Corp.	534,000	562	To strengthen business management relationship
Sumitomo Mitsui Financial Group, Inc.	117,241	517	For financial policy reasons
Daiwa Securities Group Inc.	504,998	453	For financial policy reasons
Mizuho Financial Group, Inc.	2,137,000	436	For financial policy reasons
T & D Holdings, Inc.	308,800	379	For financial policy reasons
Sumitomo Mitsui Trust Holdings, Inc	248,719	116	For financial policy reasons
Onward Holdings Co., Ltd.	99,777.22	71	To strengthen business management relationship
Aplus Financial Co., Ltd.	537,519	65	To strengthen business management relationship
Obayashi Corporation	100,000	58	To facilitate business activity
Asahi Broadcasting Corporation	90,000	56	To facilitate business activity
Toyo Seikan Group Holdings, Ltd.	33,000	55	To facilitate business activity
Tokio Marine Holdings, Inc.	12,600	39	For financial policy reasons
Tokyo Rakutenchi Co., Ltd.	55,000	27	To strengthen relationship with the Hankyu Hanshin Toho Group
Tokyo Theatres Company, Incorporated	50,000	7	To facilitate business activity
Kobayashi Pharmaceutical Co., Ltd.	900	5	To strengthen business management relationship
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

Corporate Governance System

For 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	40,146	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	2,241	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	829	To strengthen business management relationship
Wacoal Holdings Corp.	534,000	722	To strengthen business management relationship
Sumitomo Mitsui Financial Group, Inc.	117,241	539	For financial policy reasons
Daiwa Securities Group Inc.	504,998	478	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	73	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	8	To strengthen business management relationship
Tokyo Theatres Company, Incorporated	50,000	7	To facilitate business activity
Isetan Mitsukoshi Holdings Ltd.	1,437	3	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

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

d. Investment securities whose purpose for holding has changed
None

Five-Year Summary

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Years ended 31st March	Millions of yen					Thousands of U.S. dollars (Note 1)
	2011	2012	2013	2014	2015	2015
For the year:						
Net sales	¥465,034	¥505,589	¥525,154	¥576,852	¥844,819	$7,040,158
Cost of sales	335,876	366,122	382,625	420,838	603,402	5,028,350
Gross profit	129,158	139,467	142,529	156,014	241,417	2,011,808
Selling, general and administrative expenses	118,603	129,509	131,859	138,700	220,059	1,833,825
Interest expense	393	415	440	453	1,201	10,008
Income before income taxes and minority interests	5,847	2,836	11,294	6,825	17,582	146,517
Net income	3,110	1,057	6,201	296	11,586	96,550
Comprehensive income	(5,632)	7,270	19,814	2,252	31,600	263,333
Per share data (in yen and U.S.dollars)						
Net income - basic	15.07	5.74	63.87	3.05	98.06	0.82
Net income - diluted	13.70	5.51	63.66	3.03	97.64	0.81
Cash dividends	12.50	12.50	12.50	12.50	25.00	0.21
At year-end:						
Inventories	¥15,597	¥15,459	¥16,079	¥16,508	¥37,026	$308,550
Property, plant and equipment (book value)	106,905	109,106	123,312	120,485	255,093	2,125,775
Total assets	344,188	335,230	359,324	377,717	631,878	5,265,650
Long-term debt	40,589	41,593	41,210	5,501	110,997	924,975
Shareholders' equity	151,237	161,194	164,957	162,817	213,135	1,776,125
Ratio analysis:						
Gross profit / Net sales (%)	27.77	27.58	27.14	27.05	28.58	
Income before income taxes / Net sales (%)	1.26	0.56	2.15	1.18	2.08	
Net income / Net sales (%)	0.67	0.21	1.18	0.05	1.37	
Net income / Total assets (%)	0.90	0.31	1.79	0.08	2.30	
Net income / Shareholders' equity (%)	2.06	0.68	3.80	0.18	6.16	
Shareholders' equity / Total assets (%)	43.94	48.08	45.91	43.11	33.73	
Long-term debt / Shareholders' equity (times)	0.27	0.26	0.25	0.03	0.52	
Net sales / Inventories (times)	29.81	32.71	32.66	34.94	22.82	
Net sales / Total assets (times)	1.35	1.51	1.46	1.53	1.34	

Note 1. U.S. dollar amounts represent translations of yen amounts at the rate of ¥120 = U.S.$1.00.
2. As for "Net income / Total assets," the Company uses the average of total assets at the beginning and end of the year.
3. As for "Net income / Shareholders' equity," the Company uses the average of shareholders' equity at the beginning and end of the year.
4. On 1st September 2014, the Company executed a reverse stock split (two-to-one share).
Net income per share and diluted net income per share were calculated as if reverse stock split was executed at the beginning of the fiscal year ended 31st March 2013.

Consolidated Balance Sheets

H2O RETAILING CORPORATION and Consolidated Subsidiaries

As of 31st March, 2013, 2014 and 2015	Millions of yen 2013	Millions of yen 2014	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2015
Assets				
Current assets:				
Cash on hand and in banks (Notes 29 and 30)	¥15,136	¥35,402	¥44,381	$369,842
Notes and accounts receivable:				
Trade (Note 30)	22,960	30,987	39,159	326,325
Other (Note 30)	2,936	2,747	7,247	60,392
Allowance for doubtful receivables (Note 30)	(69)	(83)	(428)	(3,567)
	25,827	33,651	45,978	383,150
Inventories (Note 5)	16,079	16,508	37,026	308,550
Deferred tax assets (Note 12)	6,117	3,936	5,701	47,508
Prepaid expenses and other	2,260	2,530	6,820	56,833
Total current assets	65,419	92,027	139,906	1,165,883
Investments and long-term loans receivable:				
Investment securities (Notes 4 and 30)	87,224	88,601	115,356	961,300
Investments in unconsolidated subsidiaries and affiliates	416	349	11,731	97,758
Long-term loans receivable	2,635	2,730	3,268	27,233
Long-term loans to employees	200	125	59	492
Total investments and long-term loans receivable	90,475	91,805	130,414	1,086,783
Property, plant and equipment				
Land (Notes 8 and 15)	35,730	37,460	124,407	1,036,725
Buildings and structures (Note 8)	155,382	160,064	325,844	2,715,367
Machinery and equipment (Note 8)	27,316	27,714	53,857	448,808
Construction in progress	1,356	141	503	4,192
	219,784	225,379	504,611	4,205,092
Accumulated depreciation	(96,472)	(104,894)	(249,518)	(2,079,317)
Total property, plant and equipment	123,312	120,485	255,093	2,125,775
Other noncurrent assets:				
Long-term leasehold deposits (Note 6)	47,609	47,217	74,486	620,717
Goodwill	16,020	7,942	7,127	59,392
Intangibles	8,739	7,155	12,704	105,867
Deferred tax assets (Note 12)	6,737	9,863	10,185	84,875
Other assets	1,168	1,488	2,397	19,975
Allowance for doubtful receivables	(155)	(265)	(434)	(3,617)
Total other noncurrent assets	80,118	73,400	106,465	887,209
Total assets	¥359,324	¥377,717	¥631,878	$5,265,650

See accompanying notes.

Consolidated Balance Sheets

H2O RETAILING CORPORATION and Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2013	2014	2015	2015
Liabilities and Net Assets				
Liabilities				
Current liabilities:				
Current portion of bonds (Notes 7 and 30)	¥35	¥-	¥100	$833
Current portion of long-term debt (Notes 7, 8 and 30)	580	35,484	14,774	123,117
Commercial papers (Notes 7 and 30)	–	–	6,500	54,167
Short-term bank loans payable (Notes 7 and 8)	6	6	–	–
Notes and accounts payable:				
Trade (Note 30)	35,960	44,214	61,922	516,017
Other (Notes 7 and 30)	6,888	7,964	17,438	145,316
	42,848	52,178	79,360	661,333
Accrued expenses	3,294	3,666	5,599	46,658
Income taxes payable (Note 30)	3,490	5,459	5,757	47,975
Consumption tax payable	342	2,400	4,119	34,325
Advances received	32,490	33,688	36,803	306,692
Deferred tax liabilities (Note 12)	1	2	1	8
Provision for bonuses to employees	3,661	5,251	5,466	45,550
Provision for bonuses to directors and corporate auditors	99	128	147	1,225
Provision for loss on store closing	–	–	5,208	43,400
Asset retirement obligations (Note 32)	33	6	513	4,275
Provision for point card certificates	1,166	1,272	2,277	18,975
Other current liabilities	2,655	2,064	7,202	60,017
Total current liabilities	90,700	141,604	173,826	1,448,550
Long-term Liabilities:				
Bonds (Notes 7 and 30)	–	–	18,700	155,833
Long-term debt (Notes 7, 8 and 30)	41,210	5,501	110,997	924,975
Deferred tax liabilities (Note 12)	17,537	18,339	26,676	222,300
Deferred tax liabilities related to land revaluation (Note 15)	310	310	281	2,342
Provision for retirement benefits to employees (Note 9)	12,562	–	–	–
Net defined benefit liability (Note 9)	–	18,222	22,984	191,533
Provision for retirement benefits to directors and corporate auditors	161	177	177	1,475
Provision for redemption of gift certificates	1,874	2,083	2,675	22,292
Long-term payable accrued (Note 7)	2,477	2,937	6,307	52,558
Guarantee deposits	5,671	5,834	12,901	107,508
Asset retirement obligations (Note 32)	281	406	2,425	20,208
Other long-term liabilities (Note 30)	119	26	2,269	18,909
Total long-term liabilities	82,202	53,835	206,392	1,719,933
Total liabilities	172,902	195,439	380,218	3,168,483
Net assets (Note 13)				
Shareholders' equity:				
Common stock:				
Authorised - 300,000,000 shares,				
Issued - 206,740,777 shares in 2013 and 2014	17,797	17,797	17,797	148,308
- 125,201,396 shares in 2015				
Capital surplus	48,260	48,274	93,101	775,842
Retained earnings	99,032	96,901	105,716	880,967
Treasury stock - 12,583,415 shares in 2013				
- 12,584,542 shares in 2014				
- 1,870,521 shares in 2015	(132)	(155)	(3,479)	(28,992)
Total shareholders' equity	164,957	162,817	213,135	1,776,125
Accumulated other comprehensive income:				
Net unrealised holding gains on securities	19,976	21,637	39,783	331,525
Deferred gains or losses on hedges	–	–	649	5,409
Land revaluation, net of tax (Note 15)	81	81	110	917
Foreign currency translation adjustments	(269)	–	1	8
Remeasurements of defined benefit plans	–	(4,128)	(2,915)	(24,292)
Total accumulated other comprehensive income	19,788	17,590	37,628	313,567
Subscription rights to shares	531	677	893	7,442
Minority interests	1,146	1,194	4	33
Total net assets	186,422	182,278	251,660	2,097,167
Total liabilities and net assets	¥359,324	¥377,717	¥631,878	$5,265,650

See accompanying notes.

Consolidated Statements of Income

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Years ended 31st March 2013, 2014 and 2015	Millions of yen			Thousands of U.S. dollars (Note 1)
	2013	2014	2015	2015
Net sales	¥525,154	¥576,852	¥844,819	$7,040,158
Cost of sales (Note 26)	382,725	419,902	603,402	5,028,350
Gross profit	142,429	156,950	241,417	2,011,808
Selling, general and administrative expenses	131,759	139,636	220,059	1,833,825
Operating income	10,670	17,314	21,358	177,983
Other income (expenses):				
Interest and dividend income	898	1,046	1,047	8,725
Equity in gains (losses) of affiliated companies	7	104	54	450
Gain on sales of property, plant and equipment (Note 28)	158	–	111	925
Gain on sales of investment securities (Note 4)	1,002	–	409	3,408
Gain on sales of subsidiaries and affiliates stocks (Note 22)	–	–	296	2,467
Compensation income (Note 17)	6,000	–	–	–
Gain on liquidation of subsidiaries and associates (Note 18)	–	126	–	–
Gain on bargain purchase (Note 21)	–	–	10,030	83,583
Foreign exchange gains	–	–	36	300
Interest expense	(440)	(453)	(1,201)	(10,008)
Loss on store rebuilding (Note 19)	–	(9,412)	(3,205)	(26,708)
Loss on store closing (Note 20)	(1,642)	(152)	(7,872)	(65,600)
Loss on disposal of property, plant, equipment and intangibles (Note 25)	(1,681)	(432)	(457)	(3,808)
Impairment loss (Note 24)	(621)	(1,295)	(2,334)	(19,450)
Loss on liquidation of subsidiaries and affiliates	(525)	–	–	–
Expenses for opening new stores (Note 27)	(2,735)	(171)	–	–
Loss on provision for redemption of gift certificates	(1,130)	(1,037)	(1,378)	(11,483)
Outplacement expenses (Note 23)	–	–	(616)	(5,133)
Other - net	1,333	1,187	1,304	10,866
	624	(10,489)	(3,776)	(31,466)
Income before income taxes and minority interests	11,294	6,825	17,582	146,517
Income taxes (Note 12):				
Current	3,790	5,434	6,802	56,683
Deferred	1,343	1,069	(781)	(6,508)
	5,133	6,503	6,021	50,175
Income before minority interests	6,161	322	11,561	96,342
Minority interests in net income (loss)	(40)	26	(25)	(208)
Net income	¥6,201	¥296	¥11,586	$96,550
	Yen			U.S. dollars (Note 1)
Net income per share - basic (Note 34)	¥63.87	¥3.05	¥98.06	$0.82
Net income per share - diluted (Note 34)	¥63.66	¥3.03	¥97.64	$0.81
Cash dividends	¥12.50	¥12.50	¥25.00	$0.21

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, 2013, 2014 and 2015	2013	2014	2015	2015
Income before minority interests	¥6,161	¥322	¥11,561	$96,342
Other comprehensive income (Note 14)				
Net unrealised holding gains on securities	13,359	1,661	18,146	151,217
Deferred gains or losses on hedges	–	–	1	8
Land revaluation, net of tax (Note 15)	–	–	29	242
Foreign currency translation adjustments	294	269	1	8
Remeasurements of defined benefit plans	–	–	1,213	10,108
Share of other comprehensive income of entities accounted for using equity method	–	–	649	5,408
Total other comprehensive income	13,653	1,930	20,039	166,991
Comprehensive income	¥19,814	¥2,252	¥31,600	$263,333
Comprehensive income attributed to:				
Owners of the parent	19,852	2,226	31,625	263,541
Minority interests	(38)	26	(25)	(208)

See accompanying notes.

Consolidated Statements of Changes in Net Assets

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Years ended 31st March 2013, 2014 and 2015	Thousands	Millions of yen											
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealised holding gains on securities	Deferred gains or losses on hedges	Land revaluation, net of tax (Note 15)	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Subscription rights to shares	Minority interests	Total
Balance at 1st April 2012	206,740	¥17,797	¥48,257	¥95,259	¥(119)	¥6,619	¥ —	¥81	¥(564)	¥ —	¥342	¥1,183	¥168,855
Cash dividends - ¥12.5 per share	—	—	—	(2,428)	—	—	—	—	—	—	—	—	(2,428)
Net income	—	—	—	6,201	—	—	—	—	—	—	—	—	6,201
Gain on purchase and disposition of treasury stock	—	—	3	—	(13)	—	—	—	—	—	—	—	(10)
Net changes of items other than shareholders' equity	—	—	—	—	—	13,357	—	—	295	—	189	(37)	13,804
Balance at 31st March, 2013	206,740	¥17,797	¥48,260	¥99,032	¥(132)	¥19,976	¥ —	¥81	¥(269)	¥ —	¥531	¥1,146	¥186,422
Balance at 1st April, 2013	206,740	¥17,797	¥48,260	¥99,032	¥(132)	¥19,976	¥ —	¥81	¥(269)	¥ —	¥531	¥1,146	¥186,422
Cash dividends- ¥12.5 per share	—	—	—	(2,427)	—	—	—	—	—	—	—	—	(2,427)
Net income	—	—	—	296	—	—	—	—	—	—	—	—	296
Gain on purchase and disposition of treasury stock	—	—	14	—	(23)	—	—	—	—	—	—	—	(9)
Net changes of items other than shareholders' equity	—	—	—	—	—	1,661	—	—	269	(4,128)	146	48	(2,004)
Balance at 31st March, 2014	206,740	¥17,797	¥48,274	¥96,901	¥(155)	¥21,637	¥ —	¥81	¥ —	¥(4,128)	¥677	¥1,194	¥182,278
Balance at 1st April, 2014	206,740	¥17,797	¥48,274	¥96,901	¥(155)	¥21,637	¥ —	¥81	¥ —	¥(4,128)	¥677	¥1,194	¥182,278
Cumulative effects of changes in accounting policies (Note 3)	—	—	—	3	—	—	—	—	—	—	—	—	3
Restated balance	—	17,797	48,274	96,904	(155)	21,637	—	81	—	(4,128)	677	1,194	182,281
Cash dividends - ¥25.0 per share	—	—	—	(2,773)	—	—	—	—	—	—	—	—	(2,773)
Net income	—	—	—	11,586	—	—	—	—	—	—	—	—	11,586
Gain on purchase and disposition of treasury stock	—	—	7	—	(3,493)	—	—	—	—	—	—	—	(3,486)
Increase by share exchanges	—	—	44,820	—	169	—	—	—	—	—	—	—	44,989
Change of scope of consolidation	—	—	—	(1)	—	—	—	—	—	—	—	—	(1)
Net changes of items other than shareholders' equity	—	—	—	—	—	18,146	649	29	1	1,213	216	(1,190)	19,064
Balance at 31st March, 2015	125,201	¥17,797	¥93,101	¥105,716	¥(3,479)	¥39,783	¥649	¥110	¥1	¥(2,915)	¥893	¥4	¥251,660

	Thousands of U.S. dollars (Note 1)											
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealised holding gains on securities	Deferred gains or losses on hedges	Land revaluation, net of tax (Note 15)	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Subscription rights to shares	Minority interests	Total
Balance at 1st April, 2014	$148,308	$402,283	$807,509	$(1,292)	$180,308	$ —	$675	$ —	$(34,400)	$5,642	$9,950	$1,518,983
Cumulative effects of changes in accounting policies (Note 3)	—	—	25	—	—	—	—	—	—	—	—	25
Restated balance	148,308	402,283	807,534	(1,292)	180,308	—	675	—	(34,400)	5,642	9,950	1,519,008
Cash dividends - $0.21 per share	—	—	(23,108)	—	—	—	—	—	—	—	—	(23,108)
Net income	—	—	96,550	—	—	—	—	—	—	—	—	96,550
Gain on purchase and disposition of treasury stock	—	59	—	(29,108)	—	—	—	—	—	—	—	(29,049)
Increase by share exchanges	—	373,500	—	1,408	—	—	—	—	—	—	—	374,908
Change of scope of consolidation	—	—	(9)	—	—	—	—	—	—	—	—	(9)
Net changes of items other than shareholders' equity	—	—	—	—	151,217	5,409	242	8	10,108	1,800	(9,917)	158,867
Balance at 31st March, 2015	$148,308	$775,842	$880,967	$(28,992)	$331,525	$5,409	$917	$8	$(24,292)	$7,442	$33	$2,097,167

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

Consolidated Statements of Cash Flows

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Years ended 31st March 2013, 2014 and 2015	Millions of yen			Thousands of U.S. dollars (Note 1)
	2013	2014	2015	2015
Cash flows from operating activities:				
Income before income taxes and minority interests	¥11,294	¥6,825	¥17,582	$146,517
Depreciation and amortisation	13,512	13,598	15,150	126,250
Loss on disposal of property, plant and equipment, and intangibles	1,681	432	457	3,808
Impairment loss	621	1,295	2,334	19,450
Loss on store rebuilding	—	9,329	2,458	20,483
Gain on liquidation of subsidiaries and associates	—	(126)	—	—
Loss on liquidation of subsidiaries and affiliates	525	—	—	—
Loss on store closings	1,463	151	2,116	17,633
Increase (decrease) in allowance for doubtful receivables	54	124	(115)	(958)
Increase (decrease) in provision for bonuses to employees	(640)	1,589	(1,483)	(12,358)
Increase (decrease) in provision for bonuses to directors and corporate auditors	23	28	20	167
Increase (decrease) in provision for retirement benefits	(2,890)	(12,547)	2	17
Increase (decrease) in net defined benefit liability	—	11,810	(1,620)	(13,500)
Increase (decrease) in provision for loss on store closing	—	—	5,169	43,075
Increase (decrease) in provision for redemption of gift certificates	132	209	592	4,933
Interest and dividend income	(899)	(1,046)	(1,047)	(8,725)
Interest expense	440	453	1,201	10,008
Net gain on sales of property, plant and equipment	(158)	—	(111)	(925)
Gain on sales of investment securities	(1,002)	0	(409)	(3,408)
Gain on sales of subsidiaries and affiliates stocks	—	—	(296)	(2,467)
Gain on bargain purchase	—	—	(10,030)	(83,583)
Decrease (increase) in notes and accounts receivable	(2,810)	(8,044)	3,586	29,883
Decrease (increase) in inventories	(562)	(429)	(126)	(1,050)
Increase (decrease) in notes and accounts payable	3,394	8,250	(9,116)	(75,967)
Increase (decrease) in consumption tax payable	(1,368)	2,058	889	7,408
Other	3,013	2,881	5,339	44,492
Subtotal	25,823	36,840	32,542	271,183
Interest and dividend income received	871	1,016	979	8,158
Interest expense paid	(439)	(498)	(1,264)	(10,533)
Income taxes paid	(1,722)	(3,942)	(6,788)	(56,567)
Net cash provided by operating activities	24,533	33,416	25,469	212,241
Cash flows from investing activities:				
Decrease (increase) in time deposits	—	34	2	17
Purchases of property, plant and equipment	(29,865)	(9,891)	(32,932)	(274,433)
Proceeds from sales of property, plant and equipment	1,107	103	229	1,908
Purchases of intangibles	(1,925)	(1,511)	(2,518)	(20,983)
Proceeds from sales of intangibles	—	—	22	183
Purchases of investment securities	(3,439)	(511)	(10,709)	(89,242)
Proceeds from sales of investment securities	1,978	1,819	476	3,967
Purchases of investments in subsidiaries	—	(51)	(3)	(25)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	—	—	215	1,792
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(39)	—	—	—
Payments for exercise of asset retirement obligations	(1,798)	(79)	(57)	(475)
Payments of long-term loans receivable	(16)	(215)	(380)	(3,167)
Proceeds from collection of long-term loans receivable	133	144	171	1,425
Payments for guarantee deposits	(844)	(446)	(5,908)	(49,233)
Proceeds from collection of guarantee deposits	10,638	868	2,243	18,692
Other	144	108	(14)	(117)
Net cash used in investing activities	(23,926)	(9,628)	(49,163)	(409,691)
Cash flows from financing activities:				
Net increase (decrease) in short-term bank loans payable	(40)	—	85	708
Repayments of finance lease obligations	(162)	(298)	(1,117)	(9,308)
Proceeds from long-term debt	—	—	71,550	596,250
Repayments of long-term debt	(652)	(812)	(49,927)	(416,058)
Proceeds from issuance of bonds	—	—	9,939	82,825
Redemption of bonds	(36)	(35)	(100)	(833)
Dividends paid	(2,436)	(2,446)	(2,783)	(23,192)
Proceeds from share issuance to minority shareholders	—	54	—	—
Proceeds from sale of treasury stock	3	1	23	192
Additions to treasury stock	(13)	(23)	(3,509)	(29,242)
Other	(86)	0	—	—
Net cash provided by (used in) financing activities	(3,422)	(3,559)	24,161	201,342
Effect of exchange rate change on cash and cash equivalents	128	66	102	850
Net increase (decrease) in cash and cash equivalents	(2,687)	20,295	569	4,742
Cash and cash equivalents at beginning of year	17,770	15,083	35,383	294,858
Increase in cash and cash equivalents from change of scope of consolidation	—	—	8	67
Increase in cash and cash equivalents resulting from share exchange	—	—	8,374	69,783
Increase in cash and cash equivalents resulting from merger with consolidated and unconsolidated subsidiaries	—	5	—	—
Cash and cash equivalents at end of year (Note 29)	¥15,083	¥35,383	¥44,334	$369,450

See accompanying notes.

1. Basis of Presenting Consolidated Financial Statements

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

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

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at 31st March 2015, which was ¥120 to U.S.$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

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

The consolidated financial statements include the accounts of the Company and its 59 (43 in 2014 and 2013) majority owned subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

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

* The following 16 companies in connection with the business combination with Izumiya Co., Ltd. through share exchange:

The change in scope of consolidation will have significant impact on the consolidated financial statements of the following fiscal year. The impact will mainly be an increase in net sales in the consolidated statements of income.

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

In the year ended 31st March 2014, the following companies were included within the scope of consolidation:

* NTE Co. Ltd., due to new establishment
* CARNET CO., LTD., due to new establishment
* Mistral Inc., due to new investment

In the year ended 31st March 2014, the following companies were removed from the scope of consolidation:

* Hankyu Department Stores Europe B.V., due to liquidation
* NT Liquidation Co., Ltd., due to liquidation
* Hankyu Kitchen Yell Tokyo, Inc., due to liquidation

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

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

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

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

In the year ended 31st March 2015, 2 consolidated subsidiaries (1 in 2014 and 2013) had a financial year ending on 31st December. In the year ended 31st March 2013, 2 consolidated subsidiaries changed their fiscal period in conformity with the Parent company. 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.

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, the date of the business combination, to 31st March 2015.

The equity method was applied to 4 affiliates (3 in 2014 and 4 in 2013) for the year ended 31st March 2015. In the year ended 31st March 2015, Ningbo Development Co., Ltd. was included in the scope of the equity-method affiliates. In the year ended 31st March 2014, Cinemosaic Co., Ltd. was removed from the scope of the equity-method affiliates due to its liquidation. In the year ended 31st March 2013, T'ACT Co., Ltd. was removed from the scope of the equity-method affiliates due to sales of shares.

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

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

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

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

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

Property, plant and equipment
Property, plant and equipment, excluding lease assets, are carried at cost. Depreciation is computed principally by the 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 and equipment is 4 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.

Goodwill
The difference between the cost of investments in consolidated subsidiaries and the equity in their net assets at the date of acquisition is generally amortised over 5 to 20 years. However, if the amount is insignificant, it is charged as expense as incurred.

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

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

Provision for bonuses to directors and corporate auditors
The Companies accrue bonuses for directors and corporate auditors 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 store closing based on the estimated amount to be incurred in the future.

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

Provision for retirement benefits for directors and corporate auditors
With regard to retirement benefits for directors and corporate auditors of some consolidated subsidiaries, the liability for lump-sum payments is stated at the amount which would be required to be paid if they retired as of the balance sheet date. The Companies provide executive officers' severance and retirement benefits. The amount of liability as of 31st March 2013, 2014 and 2015 was ¥32 million, ¥27 million and ¥24 million ($200 thousand), respectively.

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 adjustments are 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 special accounting treatment for interest rate swaps in cases where the specific requirements for this treatment are fulfilled.

(b) Hedging instruments and hedged items
Hedging instruments: Interest rate swap, currency swap
Hedged items: Loans payable

(c) Policies on hedge
As for interest related derivatives, interest rate swaps are utilized to exchange floating rates to fixed rates. In addition, currency swaps are utilized to avoid losses from foreign exchange market fluctuation. As a policy, the Company does not enter derivatives for speculative purpose or with 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 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.

Reclassifications
Certain reclassifications of the financial statements for the years ended 31st March 2013 and 2014 have been made to conform to the presentation for the year ended 31st March 2015.

Per share information
Computations of basic net income per share are based on the weighted average number of shares outstanding during each period. For diluted net income per share for the years ended 31st March 2013, 2014 and 2015, see Note 34.

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

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

3. Changes in accounting policies

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 were 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 ($33 thousand), retained earnings increased by ¥3 million ($25 thousand) as of the beginning of the current consolidated fiscal year, and both operating income and income before income taxes and minority interests decreased by ¥10 million ($83 thousand). The effect on per share information is stated in Note 34 "Net Income Per Share."

Effective from the year ended 31st March 2014, the Company has applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, issued 17th May 2012, hereinafter the “Accounting Standard”) and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, issued 17th May 2012, hereinafter the “Guidance”), except for the provisions set forth in Paragraph 35 of the Accounting Standards and Paragraph 67 of the Guidance. Under the new policy, the excess amount of retirement benefit obligation over plan assets is recognised as net defined benefit liability. The unrecognised actuarial gain and loss are also recognised as defined benefit liability. The Company transitionally applied this Accounting Standard as determined in Paragraph 37 and included the effect of changes in the remeasurements of defined benefit plans under the accumulated other comprehensive income as of 31st March 2014. As a result, the net defined benefit liability amounted to ¥18,222 million, deferred tax assets were ¥2,283 million more and accumulated other comprehensive income ¥4,128 million less than the amounts that would have been reported without the change.

Change in accounting policy which is difficult to distinguish from a change in an accounting estimate
The Company and its subsidiaries previously applied the declining balance method to calculate depreciation of property, plant and equipment; however, the straight-line method has been adopted by Hankyu Hanshin Department Stores, Inc. and Hanshoku Co., Ltd. effective from the fiscal year ended 31st March 2014.

While a series of significant capital investment deals have been completed upon the grand-opening of Hankyu Umeda Flagship Store under the "Department Stores Business" segment, new store openings are expected under the "Supermarket Business" segment. The management of the Company examined and reviewed the depreciation method for property, plant and equipment held by its consolidated subsidiaries based on economic conditions, including its sales assumption. The management expected that the effects of the investments would appear stable and concluded that the straight line method of depreciation should be applied to show the economic condition of its consolidated subsidiaries in a more accurate manner. Thus, operating income and income before income taxes and minority interests each were ¥493 million more than the amounts that would have been reported with the previous method.

Accounting standards not yet applied

The “Revised Accounting Standard for Business Combinations” (ASBJ Statement No. 21, 13th September 2013)

The “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, 13th September 2013)

The "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, 13th September 2013)

The "Revised Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2, 13th September 2013)

The "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, 13th September 2013)

The "Revised Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4, 13th September 2013)

(1) Overview
These accounting standards and guidance introduce revisions to accounting for: (i) changes in a company's ownership interests in a subsidiary while retaining a controlling financial interest in that subsidiary upon acquisition of additional shares, (ii) acquisition related costs, (iii) presentation of net income and change from minority interest to non-controlling interest and (iv) provisional accounting treatment.

(2) Date of adoption
The Company has adopted the accounting standards effective 1st April 2015. The provisional accounting treatment will be applied for any business combination executed on or after 1st April 2015.

(3) Impact of adoption of the accounting standards
The financial impact is not yet determined.

4. 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 2013, 2014 and 2015.

Securities with book value exceeding acquisition cost:

	Millions of yen									Thousands of U.S. dollars		
	2013			2014			**2015**			**2015**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 46,308	¥ 76,770	¥ 30,462	¥ 46,693	¥ 79,680	¥ 32,987	**¥ 48,276**	**¥105,855**	**¥ 57,579**	**$ 402,300**	**$ 882,125**	**$ 479,825**
Government bonds	314	343	29	–	–	–	–	–	–	–	–	–
Other	2,712	3,124	412	2,274	2,804	530	**2,259**	**3,357**	**1,098**	**18,825**	**27,975**	**9,150**
Total	¥ 49,334	¥ 80,237	¥ 30,903	¥ 48,967	¥ 82,484	¥ 33,517	**¥ 50,535**	**¥109,212**	**¥ 58,677**	**$ 421,125**	**$ 910,100**	**$ 488,975**

Other securities:

	Millions of yen									Thousands of U.S. dollars		
	2013			2014			**2015**			**2015**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 453	¥ 431	¥ (22)	¥ 78	¥ 71	¥ (7)	**¥ 3**	**¥ 3**	**¥ (0)**	**$ 25**	**$ 25**	**$ (0)**
Government bonds	–	–	–	–	–	–	–	–	–	–	–	–
Other	976	973	(3)	–	–	–	–	–	–	–	–	–
Total	¥ 1,429	¥ 1,404	¥ (25)	¥ 78	¥ 71	¥ (7)	**¥ 3**	**¥ 3**	**¥ (0)**	**$ 25**	**$ 25**	**$ (0)**

Unlisted securities (¥5,582 million in 2013, ¥6,045 million in 2014 and ¥6,141 ($51,175 thousand) in 2015) are not included in the above tables since they do not have available fair values and it is extremely difficult to have fair values.

The following table summarises sales of available-for-sale securities for the years ended 31st March 2013, 2014 and 2015:

	Millions of yen									Thousands of U.S. dollars		
	2013			2014			**2015**			**2015**		
	Sales	Gains on sales	Losses on sales	Sales	Gains on sales	Losses on sales	Sales	Gains on sales	Losses on sales	Sales	Gains on sales	Losses on sales
Equity securities	¥ 1,732	¥ 1,002	¥ (2)	¥ 26	¥ 1	¥ (12)	**¥ 959**	**¥ 400**	**¥ –**	**$ 7,992**	**$ 3,333**	**$ –**
Government bonds and other	–	–	–	1,793	79	(14)	**20**	**9**	–	**167**	**75**	–

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

The "acquisition cost" which appears in the tables above is the book value after impairment loss. Impairment loss for the years ended 31st March 2013, 2014 and 2015 was insignificant and its disclosure was omitted.

5. Inventories

Inventories at 31st March 2013, 2014 and 2015 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2013	2014	**2015**	**2015**
Merchandise goods and finished goods	¥ 14,864	¥ 15,270	¥ **35,624**	$ **296,867**
Work in progress	270	177	**139**	**1,158**
Raw materials and supplies	945	1,061	**1,263**	**10,525**
	¥ 16,079	¥ 16,508	¥ **37,026**	$ **308,550**

6. Long-term Leasehold Deposits

In connection with its department store business, the Company has entered into long-term lease agreements for store sites and 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.

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

Short-term bank loans and long-term debt, including finance lease obligations, at 31st March 2013, 2014 and 2015 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2013	2014	**2015**	**2015**
0.50% short-term bank loans	¥ 6	¥ 6	¥ –	$ –
0.10% commercial papers	–	–	**6,500**	**54,167**
0.015% to 2.98% loans from banks and others, due through 2024	41,790	40,985	**125,771**	**1,048,092**
Finance lease obligations	2,492	2,949	**6,900**	**57,500**
0.94% unsecured bonds, due 2014	20	–	–	–
0.75% unsecured bonds, due 2014	15	–	–	–
0.706% H2O Retaining unsecured bonds, due 2024	–	–	**10,000**	**83,333**
0.90% Izumiya unsecured bonds, due 2017	–	–	**2,000**	**16,667**
0.85% Izumiya unsecured bonds, due 2018	–	–	**1,300**	**10,833**
0.86% Izumiya unsecured bonds, due 2018	–	–	**700**	**5,833**
0.71% Izumiya unsecured bonds, due 2017	–	–	**4,800**	**40,000**
	¥ 44,323	¥ 43,940	¥ **157,971**	$ **1,316,425**
Less amounts due within one year	(930)	(35,778)	**(22,303)**	**(185,858)**
	¥ 43,393	¥ 8,162	¥ **135,668**	$ **1,130,567**

Annual maturities of short-term bank loans and long-term debt including finance lease obligations at 31st March 2015 were as follows:

Year ending 31st March.	Millions of yen	Thousands of U.S. dollars
2016	¥ 22,303	$ **185,858**
2017	15,367	**128,058**
2018	36,594	**304,950**
2019	42,929	**357,742**
2020 and thereafter	40,778	**339,817**
	¥ 157,971	$ **1,316,425**

In order to obtain working funds efficiently, the Companies have entered loan commitment agreements with 12 financial institutions in 2015 (2 in 2014 and 2013). The loan commitment facilities and unused balances as of 31st March 2013, 2014 and 2015 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2013	2014	**2015**	**2015**
Total loan commitment facilities	¥ 20,000	¥ 20,000	¥ **21,420**	$ **178,500**
Outstanding balances	–	–	–	–
Unused blanaces	¥ 20,000	¥ 20,000	¥ **21,420**	$ **178,500**

Some consolidated subsidiaries provide financial services using card loans and credit cards. The overdraft commitment facilities and unused balances as of 31st March 31 2013, 2014 and 2015 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2013	2014	**2015**	**2015**
Total loan commitment facilities	¥ –	¥ –	¥ **29,203**	$ **243,358**
Outstanding balances	–	–	**1,721**	**14,341**
Unused blanaces	¥ –	¥ –	¥ **27,482**	$ **229,017**

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

8. Pledged Assets

The following assets were pledged as collateral for the current portion of long-term debt of ¥397 million, ¥360 million and ¥524 million ($4,367 thousand) and long-term debt of ¥744 million, ¥384 million and ¥22,871 million ($190,592 thousand) at 31st March 2013, 2014 and 2015, respectively:

	Millions of yen			Thousands of U.S. dollars
	2013	2014	**2015**	**2015**
Buildings	¥ 1,923	¥ 1,848	¥ **13,433**	$ **111,942**
Land	1,656	1,656	**30,853**	**257,108**
Other	–	–	**30**	**250**
	¥ 3,579	¥ 3,504	¥ **44,316**	$ **369,300**

9. 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 consists 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. or Izumiya Co., Ltd. and provided with the respective subsidiary's post-employment benefit plans.

For the year ended 31st March 2013

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

		Millions of yen
		2013
Projected benefit obligation	¥	38,047
Unrecognised actuarial differences		(7,186)
Fair value of pension assets		(18,299)
Prepaid pension cost		–
Liability for severance and retirement benefits	¥	12,562

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

		Millions of yen
		2013
Service costs - benefits earned during the year	¥	1,205
Interest cost on projected benefit obligation		651
Expected return on plan assets		(538)
Amortisation of actuarial differences		296
Severance and retirement benefit expenses		1,614
Other		387
Total	¥	2,001

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

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

	2013
Discount rate	0.83%
Rate of expected return on plan assets	3.00%

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

For the years ended 31st March 2014 and 2015

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
		2014		**2015**		**2015**
Projected benefit obligation - beginning balance	¥	37,132	**¥**	**36,099**	**$**	**300,825**
Cumulative effect from changes in accounting policies		–		**(4)**		**(33)**
Restated balance		37,132		**36,095**		**300,792**
Balance of a newly consolidated subsidiary at the time of share exchange (as of May 2014)		–		**20,865**		**173,875**
Service cost		1,203		**1,984**		**16,533**
Interest cost		312		**420**		**3,500**
Changes in actuarial differences		(451)		**(216)**		**(1,800)**
Retirement benefits paid		(2,407)		**(2,719)**		**(22,658)**
Other		310		**(310)**		**(2,584)**
Projected benefit obligation - ending balance	¥	36,099	**¥**	**56,119**	**$**	**467,658**

(2) Changes in plan assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Plan assets - beginning balance	¥ 18,299	¥ **18,856**	$ **157,133**
Balance of a newly consolidated subsidiary at the time of share exchange (as of May 2014)	–	**13,040**	**108,667**
Expected return on plan assets	533	**922**	**7,683**
Changes in actuarial differences	(361)	**1,293**	**10,775**
Employer contributions	1,949	**2,683**	**22,358**
Retirement benefits paid	(1,564)	**(1,791)**	**(14,924)**
Plan assets - ending balance	¥ 18,856	¥ **35,003**	$ **291,692**

(3) Ending balances of projected benefit obligation and plan assets and amounts included in the consolidated balance sheets as of 31st March 2014 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Projected benefit obligation under funded plan	¥ 23,525	¥ **43,657**	$ **363,808**
Plan assets	(18,856)	**(35,003)**	**(291,691)**
	4,669	**8,654**	**72,117**
Projected benefit obligation under non-funded plan	12,574	**12,462**	**103,850**
Net balance in the consolidated balance sheet	¥ 17,243	¥ **21,116**	$ **175,967**
Net defined benefit liability	17,243	**21,116**	**175,967**
Net defined benefit asset	–	–	–
Net balance in the consolidated balance sheet	¥ 17,243	¥ **21,116**	$ **175,967**

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

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Service cost	¥ 1,203	¥ **1,984**	$ **16,533**
Interest cost	312	**420**	**3,500**
Expected return on plan assets	(533)	**(922)**	**(7,683)**
Amortisation of actuarial differences	685	**682**	**5,683**
Other	41	**52**	**434**
Retirement benefit cost	¥ 1,708	¥ **2,216**	$ **18,467**

(5) Recycling of remeasurements before the effect of deferred income tax are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Actuarial differences	¥ –	¥ **2,191**	$ **18,258**
Total	¥ –	¥ **2,191**	$ **18,258**

(6) Remeasurements of defined benefit plans before the effect of deferred income tax are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Unrecognised actuarial differences	¥ 6,412	¥ **4,221**	$ **35,175**
Total	¥ 6,412	¥ **4,221**	$ **35,175**

(7) Information on plan assets is as follows:

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

	2014	**2015**
General account of life insurance	39%	**39%**
Debt securities	36%	**25%**
Real estate investment funds	11%	**6%**
Cash and deposits	8%	**23%**
Other	6%	**7%**
Total	100%	**100%**

Total plan assets include a 7% contribution to the retirement benefit trust in the retirement benefit plans for the year ended 31st March 2014 and 2015.

(ii) Long-term expected rate of return on plan assets is determined based on the current and future allocation of plan assets as well as 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:

	2014	**2015**
Discount rate	0.84%	**0.78%**
Long-term expected rate of return	3.00%	**3.21%**
Estimated rate of salary increase	2.07%	**3.98%**

Estimated rate of salary increase is the rate of the increase of the retirement benefits points in retirement benefits points system.

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
	2014	**2015**	**2015**
Projected benefit obligation - beginning balance	¥ 915	**¥ 979**	**$ 8,158**
Balance of a newly consolidated subsidiary at the time of share exchange (as of May 2014)	–	**1,082**	**9,017**
Defined benefit cost	149	**232**	**1,933**
Retirement benefits paid	(83)	**(279)**	**(2,325)**
Decrease due to change in scope of consolidation in connection with sale of subsidiaries' share	–	**(141)**	**(1,175)**
Other	(2)	**(5)**	**(41)**
Projected benefit obligation - ending balance	¥ 979	**¥ 1,868**	**$ 15,567**

(2) Ending balances of projected benefit obligation and plan assets and amounts included in the consolidated balance sheet as of 31st March 2014 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Projected benefit obligation under funded plan	¥ –	**¥ –**	**$ –**
Plan assets	–	**–**	**–**
	–	**–**	**–**
Projected benefit obligation under non-funded plan	979	**1,868**	**15,567**
Net balance in the consolidated balance sheet	979	**1,868**	**15,567**
Net defined benefit liability	979	**1,868**	**15,567**
Projected benefit obligation - ending balance	¥ 979	**¥ 1,868**	**$ 15,567**

(3) Retirement benefit cost calculated under the simplified method was ¥149 million and ¥232 million ($1,933 thousand) for the years ended 31st March 2014 and 2015, respectively.

3. The amount required for contributions to the retired benefit plan of the Company and its consolidated subsidiaries was ¥381 million and ¥369 million ($3,075 thousand) for the years ended 31st March 2014 and 2015, respectively.

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

Information, as lessee, for non-capitalised finance leases at 31st March 2013, 2014 and 2015 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2013	2014	**2015**	**2015**
Original lease obligations (including finance charges) for machinery and equipment	¥ 116	¥ 24	¥ **2,577**	$ **21,475**
Payments remaining:				
Payments due within one year	9	3	**251**	**2,092**
Payments due after one year	5	2	**252**	**2,100**
Total	¥ 14	¥ 5	¥ **503**	$ **4,192**

Rental expenses under such non-capitalised finance leases for the years ended 31st March 2013, 2014 and 2015 were ¥52 million, ¥9 million and ¥234 million ($1,950 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
	2013	2014	**2015**	**2015**
Payments due within one year	¥ 8,162	¥ 8,501	¥ **12,895**	$ **107,458**
Payments due after one year	55,558	54,438	**78,342**	**652,850**
Total	¥ 63,720	¥ 62,939	¥ **91,237**	$ **760,308**

The Group as lessor

	Millions of yen			Thousands of U.S. dollars
	2013	2014	**2015**	**2015**
Payments due within one year	¥ 1,338	¥ 1,971	¥ **2,105**	$ **17,542**
Payments due after one year	8,972	13,635	**12,267**	**102,225**
Total	¥ 10,310	¥ 15,606	¥ **14,372**	$ **119,767**

11. Segment Information

Segment information for the years ended 31st March 2013, 2014 and 2015 required to be disclosed by the Financial Instruments and Exchange Law of Japan was as follows:

1. General information about reportable segments
The Company Group's reportable segments are components of the Group whose operating results are regularly reviewed by the Board of Directors when making resource allocation and performance assessment decisions and for which discrete financial information is available.The Company Group is expanding its business activities primarily in the department stores business, but also in the supermarkets business, 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, remodelling, membership management, home delivery, temporary staffing, information processing and others.

2. Change in reportable segments
Previously, the Company's reportable segments consisted of four segments: “Department stores,” “Supermarkets,” “PM” and “Other.” Effective from the fiscal year ended 31st March 2015, the Company Group's reportable segments were changed to the following four segments: “Department stores,” “Supermarkets,” “Izumiya” and “Other.” This change was made in order to reflect the Group's business combination with Izumiya on 1st June 2014. “Izumiya” is now shown as one of four segments, and “PM” is included in “Other.”

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. Segment information for the fiscal years ended 31st March 2013 and 2014 was revised based on the previous classification of segments.

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
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 retirement benefit liability and service cost, and changed the method used to attribute estimated retirement benefits to periods of service 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 periods of the retirement benefit payment and the payment amount for each of the expected periods, whereas a discount rate was previously determined based on average remaining years of service of employees.

The effects of the change of the method used to calculate retirement benefit liability and service cost were recorded as an adjustment to retained earnings at the beginning of the consolidated fiscal year in accordance with the transitional treatment provided in Article 37 of Statement No. 26.
As a result, segment income of “Department stores” decreased by ¥7 million ($58 thousand) and that of “Supermarkets” decreased by ¥3 million ($25 thousand) for the fiscal year ended 31st March 2015.

As of and for the year ended 31st March 2013	Millions of yen				
	Department stores	Supermarkets	Other	Reconciliation	Total
Net sales					
External customers	¥ 383,318	¥ 93,328	¥ 48,508	¥ –	¥ 525,154
Intersegment	355	4,452	20,496	(25,303)	–
Total net sales	¥ 383,673	¥ 97,780	¥ 69,004	¥ (25,303)	¥ 525,154
Segment income	¥ 7,842	¥ 1,811	¥ 2,019	¥ (1,002)	¥ 10,670
Segment assets	¥ 145,015	¥ 42,618	¥ 285,855	¥ (114,164)	¥ 359,324
Other items					
Depreciation and amortisation	¥ 7,145	¥ 1,853	¥ 4,573	¥ (59)	¥ 13,512
Investment expenditures for affiliated companies accounted for by the equity method	–	–	391	–	391
Impairment loss	968	318	303	(24)	1,565
Increase in property, plant and equipment and intangibles	¥ 22,791	¥ 3,919	¥ 6,481	¥ (107)	¥ 33,084

As of and for the year ended 31st March 2014	Millions of yen				
	Department stores	Supermarkets	Other	Reconciliation	Total
Net sales					
External customers	¥ 427,266	¥ 100,224	¥ 49,362	¥ –	¥ 576,852
Intersegment	466	4,609	22,241	(27,316)	–
Total net sales	¥ 427,732	¥ 104,833	¥ 71,603	¥ (27,316)	¥ 576,852
Segment income	¥ 13,247	¥ 2,127	¥ 4,220	¥ (2,280)	¥ 17,314
Segment assets	¥ 149,466	¥ 49,592	¥ 306,649	¥ (127,990)	¥ 377,717
Other items					
Depreciation and amortisation	¥ 7,148	¥ 1,964	¥ 4,525	¥ (39)	¥ 13,598
Investment expenditures for affiliated companies accounted for by the equity method	–	–	340	–	340
Impairment loss	9,991	366	368	–	10,725
Increase in property, plant and equipment and intangibles	¥ 1,457	¥ 5,282	¥ 6,824	¥ (31)	¥ 13,532

As of and for the year ended 31st March 2015	Millions of yen					
	Department stores	Supermarkets	Izumiya	Other	Reconciliation	Total
Net sales						
External customers	¥ 421,008	¥ 108,675	¥ 270,731	¥ 44,405	¥ -	¥ 844,819
Intersegment	463	4,573	20	22,027	(27,083)	-
Total net sales	¥ 421,471	¥ 113,248	¥ 270,751	¥ 66,432	¥ (27,083)	¥ 844,819
Segment income	¥ 15,735	¥ 2,397	¥ 3,145	¥ 2,355	¥ (2,274)	¥ 21,358
Segment assets	¥ 150,139	¥ 56,295	¥ 199,859	¥ 417,110	¥ (191,525)	¥ 631,878
Other items						
Depreciation and amortisation	¥ 4,704	¥ 2,224	¥ 3,844	¥ 4,414	¥ (36)	¥ 15,150
Investment expenditures for affiliated companies accounted for by the equity method	–	–	–	11,731	–	11,731
Impairment loss	3,070	568	2,252	1,018	–	6,908
Increase in property, plant and equipment and intangibles	¥ 6,237	¥ 7,495	¥ 2,915	¥ 22,303	¥ (36)	¥ 38,914

As of and for the year ended 31st March 2015	Thousands of U.S. dollars Department stores	Supermarkets	Izumiya	Other	Reconciliation	Total
Net sales						
External customers	$ 3,508,400	$ 905,625	$ 2,256,092	$ 370,041	$ –	$ 7,040,158
Intersegment	3,858	38,108	167	183,558	(225,691)	–
Total net sales	$ 3,512,258	$ 943,733	$ 2,256,259	$ 553,599	$ (225,691)	$ 7,040,158
Segment income	$ 131,125	$ 19,975	$ 26,208	$ 19,625	$ (18,950)	$ 177,983
Segment assets	$ 1,251,158	$ 469,125	$ 1,665,492	$ 3,475,917	$ (1,596,042)	$ 5,265,650
Other items						
Depreciation and amortisation	$ 39,200	$ 18,533	$ 32,033	$ 36,783	$ (299)	$ 126,250
Investment expenditures for affiliated companies accounted for by the equity method	–	–	–	97,758	–	97,758
Impairment loss	25,583	4,733	18,767	8,484	–	57,567
Increase in property, plant and equipment and intangibles	$ 51,975	$ 62,458	$ 24,292	$ 185,858	$ (300)	$ 324,283

Note 1. Adjustments are as follows:

Adjustment of segment income was ¥(1,002) million, ¥(2,280) million and ¥(2,274) million ($(18,950) thousand) for the years ended 31st March 2013, 2014 and 2015, respectively, and comprised the elimination of intersegment transactions.

For the years ended 31st 2013, 2014 and 2015, respectively, adjustment of assets was ¥(114,164) million, ¥(127,990) million and ¥(191,525) million ($(1,596,042) thousand) and included ¥(91,528) million, ¥(95,472) million and ¥(138,123) million ($(1,151,025) thousand) offset elimination of investments and capital, ¥(20,709) million, ¥(30,655) million and ¥(51,786) million ($(431,550) thousand) offset elimination of debts and credits and ¥(1,776) million, ¥(1,789) million and ¥(1,774) million ($(14,783) thousand) adjustment for unrealised gains and losses on fixed assets.

Adjustment of depreciation and amortisation amounting to ¥(59) million, ¥(39) million and ¥(36)million ($(299) thousand) and adjustment of increase in property, plant and equipment and intangibles amounting to ¥(107) million, ¥(31) million and ¥(36) million ($(300) thousand) consisted of the elimination of intersegment transactions for the year ended 31st March 2013, 2014 and 2015, respectively. For the year ended 31st March 2013, adjustment of impairment loss in the amount of ¥(24) million was included in the elimination of intersegment transactions.

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

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

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

As of and for the year ended 31st March 2014	Millions of yen Department stores	Supermarkets	Other	Reconciliation	Total
Goodwill					
Amortisation	¥ 503	¥ 507	¥ 236	¥ –	¥ 1,246
Impairment	¥ 6,795	¥ –	¥ 75	¥ –	¥ 6,870
Unamortised balance	¥ –	¥ 6,255	¥ 1,687	¥ –	¥ 7,942

As of and for the year ended 31st March 2015	Millions of yen Department stores	Supermarkets	Izumiya	Other	Reconciliation	Total
Goodwill						
Amortisation	¥ –	¥ 507	¥ –	¥ 179	¥ –	¥ 686
Impairment	¥ –	¥ –	¥ –	¥ 561	¥ –	¥ 561
Unamortised balance	¥ –	¥ 5,748	¥ –	¥ 1,379	¥ –	¥ 7,127

As of and for the year ended 31st March 2015	Thousands of U.S. dollars					
	Department stores	Supermarkets	**Izumiya**	**Other**	**Reconciliation**	**Total**
Goodwill						
Amortisation	$ –	$ **4,225**	$ –	$ **1,492**	$ –	$ **5,717**
Impairment	$ –	$ –	$ –	$ **4,675**	$ –	$ **4,675**
Unamortised balance	$ –	$ **47,900**	$ –	$ **11,492**	$ –	$ **59,392**

Gain on bargain purchase was ¥10,030 million ($83,583 thousand) recognised on the management integration with Izumiya Co., Ltd. in the year ended 31st March 2015.

12. Income Taxes

Income taxes consist of corporation, inhabitants and enterprise taxes.

Significant components of the Companies' deferred tax assets and liabilities as of 31st March 2013, 2014 and 2015 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2013	2014	**2015**	**2015**
Deferred tax assets:				
Loss carryforwards	¥ 4,061	¥ 2,285	¥ **4,974**	$ **41,450**
Provision for redemption of gift certificates	716	755	**997**	**8,308**
Bonuses to employees	1,306	1,793	**1,850**	**15,417**
Retirement benefits	4,495	–	–	–
Net defined benefit liability	–	6,326	**7,730**	**64,417**
Depreciation	24	655	**1,198**	**9,983**
Impairment loss	657	1,787	**11,660**	**97,167**
Retirement benefit trust assets	455	461	**1,139**	**9,492**
Provision for loss on store closing	–	–	**1,829**	**15,242**
Asset retirement obligations	115	149	**985**	**8,208**
Shares in subsidiaries	–	–	**2,410**	**20,083**
Valuation on the consolidation	–	–	**2,120**	**17,667**
Provision for point card certificates	425	441	**727**	**6,058**
Investment in subsidiaries and affiliates	416	146	–	–
Other	4,271	3,845	**5,955**	**49,624**
	16,941	18,643	**43,574**	**363,116**
Valuation allowance	(1,164)	(1,737)	**(19,465)**	**(162,208)**
Total deferred tax assets	15,777	16,906	**24,109**	**200,908**
Deferred tax liabilities:				
Deferred gains on real property	(3,037)	(3,022)	**(4,724)**	**(39,367)**
Land revaluation of consolidated subsidiaries	(1,819)	(1,820)	**(5,832)**	**(48,600)**
Valuation gain on investment securities resulting from conversion of retirement benefit trust assets (equity securities)	(4,086)	(4,086)	**(3,707)**	**(30,892)**
Unrealised holding gains on securities	(10,984)	(11,909)	**(19,266)**	**(160,550)**
Other	(535)	(611)	**(1,371)**	**(11,424)**
Total deferred tax liabilities	(20,461)	(21,448)	**(34,900)**	**(290,833)**
Net deferred tax assets (liabilities)	¥ (4,684)	¥ (4,542)	¥ **(10,791)**	$ **(89,925)**

Net deferred tax assets as of 31st March 2013, 2014 and 2015 were included in the consolidated balance sheets as follows:

	Millions of yen			Thousands of U.S. dollars
	2013	2014	**2015**	**2015**
Current assets	¥ 6,117	¥ 3,936	¥ **5,701**	$ **47,508**
Other noncurrent assets	6,737	9,863	**10,185**	**84,875**
Current liabilities	(1)	(2)	**(1)**	**(8)**
Long-term liabilities	(17,537)	(18,339)	**(26,676)**	**(222,300)**
Net deferred tax assets	¥ (4,684)	¥ (4,542)	¥ **(10,791)**	$ **(89,925)**

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

	2013	2014	**2015**
Aggregate statutory income tax rate	38.0%	38.0%	-
Increase (reduction) in taxes resulting from:			
Non-deductible expenses	1.1	2.0	-
Tax on inhabitants per capita	2.0	3.2	-
Permanent differences (including dividends)	(1.1)	(2.2)	-
Net operating loss carryforwards	3.8	2.6	-
Impairment of goodwill	-	38.3	-
Amortisation of consolidated goodwill	4.1	6.9	-
Timing difference in connection with investments	(3.7)	(2.1)	-
Gain on step acquisitions	-	-	-
Changes in valuation allowances	(0.2)	(0.6)	-
Effects of tax rate change	-	-	-
Change in tax rate due to special measures for reconstruction	0.2	7.1	-
Others	1.3	2.1	-
Effective income tax rate	45.5%	95.3%	-

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

The “Act for Partial Revision of the Income Tax Act, etc.” (Act No. 9 of 2015) and the “Act for Partial Revision of the Local Tax Act, etc.” (Act No. 2 of 2015) were promulgated on 31st March 2015, according to which the corporate tax rate and other relevant tax rates will be reduced from the fiscal year beginning on and after 1st April 2015. Accordingly, the Company has changed the effective statutory tax rate to calculate deferred tax assets and deferred tax liabilities for the current consolidated fiscal year from 35.6% to 33.1% for temporary differences expected to be eliminated in the fiscal year beginning on 1st April 2015 and to 32.3% for those expected to be eliminated in and after the fiscal year beginning on 1st April 2016.

As a result of this change, net deferred tax assets, deferred income tax and valuation difference on available-for-sale securities increased by ¥1,405 million ($11,708 thousand), ¥351 million ($2,925 thousand) and ¥1,938 million ($16,150 thousand) respectively, and remeasurements of defined benefit plans and deferred hedge gains decreased ¥179 million ($1,492 thousand) and ¥2 million ($17 thousand), respectively. In addition, deferred tax liabilities for land revaluation decreased and revaluation reserve for land increased by ¥29 million ($242 thousand).

13. Net Assets

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

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

Under the Law, in cases 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 Law, 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 Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with the Law.

At the Board of Directors’ meeting held on 14th May 2015, the Company resolved cash dividends amounting to ¥1,542 million ($12,850 thousand). These appropriations have not been accrued in the consolidated financial statements as of 31st March 2015. The appropriations were recognised on 3rd June 2015.

Stock information

Changes in number of shares issued and outstanding during the years ended 31st March 2013, 2014 and 2015 were as follows:

Common stock outstanding	Number of shares		
	2013	2014	**2015**
Balance at beginning of year	206,740,777	206,740,777	**206,740,777**
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	206,740,777	206,740,777	**125,201,396**

Treasury stock outstanding	Number of shares		
	2013	2014	**2015**
Balance at beginning of year	12,571,631	12,583,415	**12,584,542**
Increase due to acquisition through ToSTNeT-3 trading system	–	–	**1,500,000**
Increase due to purchase of odd-lot shares	16,576	25,883	**55,242**
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	(1,792)	(756)	**(7,034)**
Decrease due to exercise of stock options	(3,000)	(24,000)	**(16,500)**
Balance at end of year	12,583,415	12,584,542	**1,870,521**

14. Other Comprehensive Income

The recycling and effect of deferred income tax on other comprehensive income for the years ended 31st March 2013, 2014 and 2015 is summarised as follows:

	Millions of yen			Thousands of U.S. dollars
	2013	2014	**2015**	**2015**
Other comprehensive income				
Net unrealised holding gains on securities				
Amount arising for the year	¥ 21,738	¥ 2,639	¥ **26,033**	**$ 216,942**
Recycling	(1,000)	(54)	**(420)**	**(3,500)**
Amount before the effect of deferred income tax	20,738	2,585	**25,613**	**213,442**
Effect of deferred income tax	(7,379)	(924)	**(7,467)**	**(62,225)**
Net unrealised holding gains on securities	13,359	1,661	**18,146**	**151,217**
Deferred gains or losses on hedges				
Amount arising for the year			**1**	**8**
Effect of deferred income tax	–	–	**(0)**	**(0)**
Deferred gains or losses on hedges	–	–	**1**	**8**
Remeasurements of defined benefit plans				
Amount arising for the year	–	–	**1,509**	**12,575**
Recycling	–	–	**682**	**5,683**
Amount before the effect of deferred income tax	–	–	**2,191**	**18,258**
Effect of deferred income tax	–	–	**(978)**	**(8,150)**
Remeasurements of defined benefit plans	–	–	**1,213**	**10,108**
Land revaluation, net of tax				
Amount arising for the year	–	–	–	–
Effect of deferred income tax	–	–	**29**	**242**
Land revaluation, net of tax	–	–	**29**	**242**
Foreign currency translation adjustments				
Amount arising for the year	119	119	**1**	**8**
Recycling	–	326	–	–
Amount before the effect of deferred income tax	119	445	**1**	**8**
Effect of deferred income tax	175	(176)	–	–
Foreign currency translation adjustments	294	269	**1**	**8**
Share of other comprehensive income of entities accounted for using equity method				
Amount arising for the year	–	–	**649**	**5,408**
Total other comprehensive income	¥ 13,653	¥ 1,930	¥ **20,039**	$ **166,991**

15. Land Revaluation

In accordance with the Law Concerning Revaluation of Land, land used for business owned by the Companies was revaluated. The unrealised gains and losses, net of deferred taxes, were excluded from the statement of income and reported as “Land revaluation, net of tax” in net assets, and the relevant deferred taxes were shown as “Deferred tax liabilities related to land revaluation” in liabilities at 31st March 2013, 2014 and 2015.

Related information was as follows:

	Millions of yen			Thousands of U.S. dollars
Date of revaluations: 28th February 2002 and 31st March 2002	2013	2014	**2015**	**2015**
Book value of land after revaluation	¥ 2,386	¥ 2,386	¥ **2,386**	**$ 19,883**
Market value of land	1,557	1,550	**1,543**	**12,858**
Difference	¥ 829	¥ 836	¥ **843**	**$ 7,025**

16. Stock Options

(1) Outline of stock options

	Subscription rights to shares issued on March 2009 as stock options
Title and number of grantees	5 directors, 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

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.

(2) 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 2013, 2014 and 2015. 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						
	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
In the year ended 31st March 2013:							
Before vested							
As of 31st March 2012	–	–	–	–	–	–	–
Granted	–	–	–	–	99,000	–	–
Forfeited	–	–	–	–	–	–	–
Vested	–	–	–	–	99,000	–	–
Outstanding	–	–	–	–	–	–	–
After vested							
As of 31st March 2012	46,000	80,500	97,000	99,500	–	–	–
Vested	–	–	–	–	99,000	–	–
Exercised	1,500	–	–	–	–	–	–
Forfeited	–	–	–	–	–	–	–
Outstanding	44,500	80,500	97,000	99,500	99,000	–	–
In the year ended 31st March 2014:							
Before vested							
As of 31st March 2013	–	–	–	–	–	–	–
Granted	–	–	–	–	–	101,000	–
Forfeited	–	–	–	–	–	–	–
Vested	–	–	–	–	–	101,000	–
Outstanding	–	–	–	–	–	–	–
After vested							
As of 31st March 2013	44,500	80,500	97,000	99,500	99,000	–	–
Vested	–	–	–	–	–	101,000	–
Exercised	3,000	8,500	500	–	–	–	–
Forfeited	–	–	–	–	–	–	–
Outstanding	41,500	72,000	96,500	99,500	99,000	101,000	–

	Subscription rights to shares issued on						
	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
In the year ended 31st March 2015:							
Before vested							
As of 31st March 2014	–	–	–	–	–	–	–
Granted	–	–	–	–	–	–	109,000
Forfeited	–	–	–	–	–	–	–
Vested	–	–	–	–	–	–	109,000
Outstanding	–	–	–	–	–	–	–
After vested							
As of 31st March 2014	41,500	72,000	96,500	99,500	99,000	101,000	–
Vested	–	–	–	–	–	–	109,000
Exercised	3,500	5,000	6,500	1,500	–	–	–
Forfeited	–	–	–	–	–	–	–
Outstanding	38,000	67,000	90,000	98,000	99,000	101,000	109,000

Price information

	Subscription rights to shares issued on						
	March 2009 stock options	March 2010 stock options	March 2011 stock options	March 2012 stock options	February 2013 stock options	March 2014 stock options	March 2015 stock options
In the year ended 31st March 2013:							
Exercise price	¥1	¥1	¥1	¥1	¥1	–	–
Average exercise price	¥797	–	–	–	–	–	–
Fair value at the grant date	¥493	¥568	¥492	¥550	¥966	–	–
In the year ended 31st March 2014:							
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	–
Average exercise price	¥735	¥821	¥790	–	–	–	–
Fair value at the grant date	¥493	¥568	¥492	¥550	¥966	¥783	–
In the year ended 31st March 2015:							
Exercise price	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)
Average exercise price	¥1,941 ($16.18)	¥2,163 ($18.03)	¥2,118 ($17.65)	¥2,290 ($19.08)	–	–	–
Fair value at the grant date	¥986 ($8.22)	¥1,136 ($9.47)	¥984 ($8.20)	¥1,100 ($9.17)	¥1,932 ($16.10)	¥1,566 ($13.05)	¥2,141 ($17.84)

(3) Valuation method for estimating per share fair value of stock options
Valuation technique used for valuating fair value of subscription rights to shares issued on each fiscal year of 31st March 2013, 2014 and 2015 as stock options is as follows:

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

Principal parameters and estimation method	March 2013 stock options	March 2014 stock options	March 2015 stock options
Expected volatility of the underlying stock (Note 1)	28.76%	31.63%	29.49%
Remaining expected life of the option (Note 2)	4 years	3 years and 2 months	5 years
Expected dividends on the stock (Note 3)	¥12.5 per share	¥12.5 per share	¥25.0 ($0.21) per share
Risk-free interest rate during the expected option term (Note 4)	0.081%	0.108%	0.120%

Note 1. In the fiscal year ended 31st March 2013, the fair value of stock options was calculated on the basis of the Company's weekly share price movement over 4 years from April 2009 to March 2013.
In the fiscal year ended 31st March 2014, the fair value of stock options was calculated on the basis of the Company's weekly share price movements over 3 years and 2 months from February 2011 to March 2014.
In the fiscal year ended 31st March 2015, the fair value of stock options was calculated on the basis of the Company's weekly share price movements over 5 years from April 2010 to March 2015.
Due to the reverse stock split (two-to-one share) executed on 1st September 2014, we eliminated the weekly share price information from 25th August 2014 to 5th September 2014.
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. For the years ended 31st March 2013 and 2014, expected dividends are based on the actual dividends paid in the latest 4 years or 3 years, respectively. In the fiscal year ended 31st March 2015, the amount of expected dividends was calculated based on the annual dividends for the most recent three years after adjusting for the effect of the reverse stock split (two-to-one share) executed on 1st September 2014.
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.

(4) Method used to estimate number of vested share subscription rights
All of the share subscription rights were vested when granted.

17. Compensation income

In the year ended 31st March 2013, compensation income arose in connection with shutting down Mosaic Ginza Hankyu.

18. Gain on liquidation of subsidiaries and associates

The gain on liquidation of subsidiaries and associates in the year ended 31st March 2014 arose from the liquidation of Hankyu Department Stores Europe B.V. and others.

19. Loss on store rebuilding

Loss on store rebuilding in the years ended 31st March 2014 and 2015 consisted of impairment loss on fixed assets arising from Hanshin Umeda Main Store's rebuilding.

20. Loss on store closing

Loss on store closing in the year ended 31st March 2013 consisted of a loss of ¥888 million for the closing of Hankyu Ings store, ¥160 million for Tsuzuki Hankyu in connection with a large-scale renovation, ¥304 million for Mosaic Ginza Hankyu and ¥290 million for others. This amount included impairment loss of ¥944 million.

Loss on store closing in the year ended 31st March 2014 consisted of a loss of ¥117 million due to reduction of the sales floor area of the Takarazuka Hankyu store and ¥35 million for others. This amount included impairment loss of ¥101 million.

Loss on store closing in the year ended 31st March 2015 consisted of a loss of ¥6,092 million ($50,767 thousand) for the closing of Izumiya Oyama store, a loss of ¥1,357 million ($11,308 thousand) for the closing of Izumiya Itabashi store, a loss of ¥108 million ($900 thousand) for the closing of Mosaic Dining-Shijo Kawaramachi and other loss of ¥315 million ($2,625 thousand). These losses on store closing included impairment loss of ¥2,116 million ($17,633 thousand).

21. 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.

22. Gain on sales of subsidiaries and affiliates stocks

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

23. Outplacement expenses

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

24. 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 wil be assets groups.

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

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

On September 2012, the Company decided to move the sales floors of the sporting goods and baby & kids wear of the Hankyu Ings store to the Hankyu Umeda main store upon the grand opening on November 2012 and to close the Hankyu Ings store. Thus, the Company recognised impairment loss on the Hankyu Ings store on September 2012. The Company also recognised impairment loss on some stores of Hanshoku Co., Ltd., KAZOKUTEI CO., LTD. and others resulting from increased competition. The recoverable amounts of the assets were the present values of expected cash flows from on-going use and subsequent disposal of the assets based on a discount rate of 5%. As a result, ¥1,565 million was recorded as total impairment loss. Of this amount, the impairment loss for Hankyu Hanshin Department Stores, Inc. is shown inclusive of loss on store closings.

The Companies recorded impairment loss in the year ended 31st March 2014 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 and equipment and other, goodwill	Kita-ku, Osaka City and other	¥9,991
Hanshoku Co., Ltd.	Higashinakahama store and other	Store	Buildings and structures, machinery and equipment and other	Joto-ku, Osaka City and other	¥366
Cotobuki and other	Factory and other	Factory and other	Buildings and structures, machinery and equipment and other, goodwill	Shisou-City, Hyogo Prefecture and other	¥368

As the schedule for rebuilding the Hanshin Umeda main store has been confirmed, the Company recognised impairment loss on the fixed assets held by Hankyu Hanshin Department Stores, Inc. based on net realisable value calculated using future cash flow analysis. The Company also recognised impairment loss on some stores resulting from increased competition or for reduced sales floors. As to Hanshoku Co., Ltd. and Cotobuki, 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, ¥10,725 million was recorded as total impairment loss. Of this amount, the impairment loss of ¥9,329 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 ¥101 million in connection with stores reduced sales floors is shown inclusive of loss on store closing.

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	Thousands of U.S. dollars
Hankyu Hanshin Department Stores, Inc.	Hanshin Umeda main store and other	Store	Buildings and structures, machinery and equipment and other	Kita-ku, Osaka City and other	¥3,070	$25,583
Izumiya Co., Ltd.	Oyama store and other	Store	Buildings and structures, machinery and equipment, land and other	Oyama City, Tochigi and other	¥2,149	$17,908
Hanshoku Co., Ltd	Higashinakahama store and other	Store	Buildings and structures, machinery and equipment and other	Joto-ku, Osaka City and other	¥407	$3,392
Hankyu Kitchen Yell Kyushu, Inc. and other	Hankyu Kitchen Yell Kyushu, Inc. and other	Merchandise warehouse and other	Buildings and structures, machinery and equipment, land and other, goodwill	Hakata-ku, Fukuoka City and other	¥1,281	$10,675

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 ($57,558 thousand) was recorded as total impairment loss. Of this amount, impairment loss of 2,458 million ($20,483 thousand) 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 ($833 thousand) in connection with stores reduced sales floors is shown inclusive of loss on store closing.

Impairment loss of ¥2,015 million ($16,792 thousand) in connection with Oyama and other of Izumiya co., Ltd. were included in loss on store closing.

25. Loss on disposal of property, plant, equipment and intangibles

Loss on disposal of property, plant, equipment and intangibles in the year ended 31st March 2013 consisted of loss of ¥1,421 million on disposal of buildings and structures, loss of ¥47 million on disposal of machinery and equipment and loss of ¥213 million on disposal of other assets.

Loss on disposal of property, plant, equipment and intangibles in the year ended 31st March 2014 consisted of loss of ¥317 million on disposal of buildings and structures, loss of ¥40 million on disposal of machinery and equipment and loss of ¥75 million on disposal of other assets.

Loss on disposal of property, plant, equipment and intangibles in the year ended 31st March 2015 consisted of loss of ¥229 million ($1,908 thousand) on disposal of buildings and structures, loss of ¥9 million ($75 thousand) on disposal of machinery and equipment and loss of ¥219 million ($1,825 thousand) on disposal of other assets.

26. 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 2013, 2014 and 2015 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2013	2014	**2015**	**2015**
Cost of sales	¥ 205	¥ 287	¥ **350**	$ **2,917**

27. Expenses for opening new stores

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

Expenses for opening new stores in the year ended 31st March 2014 were incurred in connection with the grand opening of Hankyu Oimachi Garden.

28. Gain on sales of property, plant and equipment

Gain on sales of property, plant and equipment in the year ended 31st March 2013 and 2015 consisted of gains on sales of land, buildings and structures and other held by H2O Retailing Corporation.

29. Cash flows information

The reconciliation of cash on hand and in banks shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of 31st March 2013, 2014 and 2015 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2013	2014	**2015**	**2015**
Cash on hand and in banks	¥ 15,136	¥ 35,402	¥ **44,381**	$ **369,842**
MMF, including securities account	0	–	–	–
Total	15,136	35,402	**44,381**	**369,842**
Time deposits with maturities exceeding three months	(53)	(19)	**(47)**	**(392)**
Cash and cash equivalents	¥ 15,083	¥ 35,383	¥ **44,334**	$ **369,450**

Major components of the assets and liabilities of the companies that have been included in consolidation due to acquisition of stocks
The following is a summary of the assets and liabilities of Izumiya Co., Ltd. and its consolidated subsidiaries, which became the Company's subsidiaries due to stock acquisition, and the acquisition cost.

	Millions of yen	Thousands of U.S. dollars
	2015	**2015**
Current assets	¥ **49,370**	$ **411,417**
Noncurrent assets	**155,132**	**1,292,767**
Current liabilities	**(62,714)**	**(522,617)**
Long-term liabilities	**(88,294)**	**(735,783)**
Gain on bargain purchase	**(10,030)**	**(83,583)**
Minority interests	**(4)**	**(34)**
Diff: Acquisition cost	¥ **43,460**	$ **362,167**

Current assets above include ¥8,374 million ($69,783 thousand) 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 flow for the year ended 31st March 2015. Since the Company delivered its treasury stock for the share exchange, treasury stock decreased by ¥123 million ($1,025 thousand) and capital surplus increased by ¥43,289 million ($360,742 thousand).

Major components of the assets and liabilities of the companies that have been excluded from consolidation due to sale of stocks
The following is a summary of assets and liabilities of NAKANO FOODS, CO., LTD. and Cotobuki, which have been excluded from consolidation due to sale of stocks, and the proceeds from sales.

	Millions of yen		Thousands of U.S. dollars
	2015		2015
Current assets	¥ 1,458	$	12,150
Noncurrent assets	2,163		18,024
Current liabilities	(1,618)		(13,483)
Long-term liabilities	(1,725)		(14,375)
Goodwill (unamortised balance)	53		442
Minority interests	(65)		(542)
Gain of sales of stocks	296		2,467
Amount of stock sales	562		4,683
Stock sales expense	(3)		(25)
Cash and cash equivalents held by the companies sold	(344)		(2,866)
Diff: Proceeds from sales	¥ 215	$	1,792

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
	2014	2015	2015
Assets and liabilities in connection with finance lease transactions	¥ 771	¥ 1,919	$ 15,992

30. 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, operating receivables and accounts receivable - other are subject to credit risk. Securities and investment securities are subject to market price volatility risk.

Notes and accounts payable, 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 and corporate bonds are mainly for capital investment. Repayment deadlines are at most 9 years and 11 months after the closing of accounts. Some are subject to interest rate risk because of variable interest rates. Moreover, notes and accounts payable, operating payables and long-term loans, and corporate bonds 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. 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

① 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 and operating receivables 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.

② Management of interest rate risk
To limit the risk of fluctuation in interest rate payments for long-term debt and corporate bonds, the Company conducts interest-rate swap transactions only with major and highly trusted financial institutions according to derivative management guidance.

③ Management of price volatility risk
The Company and Hankyu Hanshin Department Stores, Inc., invest and manage securities and investment securities according to securities management guidance. Other consolidated subsidiaries also manage price volatility risk in the same way.

④ Management of liquidity risk
The Company and Hankyu Hanshin Department Stores, Inc., manage liquidity risk for accounts payable and long-term debt following a cash management plan that the financial department prepares and updates based on reports provided by all departments in accordance with accounting rules. Other consolidated subsidiaries also manage liquidity risk in the same way.

2. Matters Related to Fair Value of Financial Instruments
The book values recorded in the consolidated balance sheets for the fiscal years ended 31st March 2013, 2014 and 2015 (the consolidated closing date for the reporting term) and fair values and differences between them are set forth in the table below. Figures for which fair value was not readily determinable were not included in the following chart (See Table 2, “Financial instruments whose fair value is not readily determinable”).

	Millions of yen		
	2013		
	Book value	Fair value	Difference
(1) Cash on hand and in banks	¥15,136	¥15,136	¥ –
(2) Notes and accounts receivable - trade	22,960		
Allowance for doubtful receivables	(63)		
	22,897	22,897	–
(3) Accounts receivable - other	2,936		
Allowance for doubtful receivables	(3)		
	2,933	2,933	–
(4) Securities and investment securities			
Other securities	81,641	81,641	–
Total assets	¥122,607	¥122,607	¥ –
(1) Notes and accounts payable - trade	¥35,960	¥35,960	¥ –
(2) Current accounts payable (included in Notes and accounts payable "Other" and income taxes payable)	7,286	7,286	–
(3) Income taxes payable (except for accrued business office taxes included in above (2) Current accounts payable)	3,093	3,093	–
(4) Commercial papers	–	–	–
(5) Bonds *1	–	–	–
(6) Long-term debt - long term loans *2	41,790	41,927	137
Total liabilities	¥88,129	¥88,266	¥137

	Millions of yen		
	2014		
	Book value	Fair value	Difference
(1) Cash on hand and in banks	¥35,402	¥35,402	¥ –
(2) Notes and accounts receivable - trade	30,987		
Allowance for doubtful receivables	(72)		
	30,915	30,915	–
(3) Accounts receivable - other	2,747		
Allowance for doubtful receivables	(7)		
	2,740	2,740	–
(4) Securities and investment securities			
Other securities	82,556	82,556	–
Total assets	¥151,613	¥151,613	¥ –
(1) Notes and accounts payable - trade	¥44,214	¥44,214	¥ –
(2) Current accounts payable (included in Notes and accounts payable "Other" and income taxes payable)	8,069	8,069	–
(3) Income taxes payable (except for accrued business office taxes included in above (2) Current accounts payable)	5,065	5,065	–
(4) Commercial papers	–	–	–
(5) Bonds *1	–	–	–
(6) Long-term debt - long term loans *2	40,985	41,095	110
Total liabilities	¥98,333	¥98,443	¥110

	Millions of yen			**Thousands of U.S. dollars**		
	2015			**2015**		
	Book value	**Fair value**	**Difference**	**Book value**	**Fair value**	**Difference**
(1) Cash on hand and in banks	**¥44,381**	**¥44,381**	**¥–**	**$369,842**	**$369,842**	**$ –**
(2) Notes and accounts receivable - trade	**39,159**			**326,325**		
Allowance for doubtful receivables	**(371)**			**(3,092)**		
	38,788	**38,788**	–	**323,233**	**323,233**	–
(3) Accounts receivable - other	**7,247**			**60,392**		
Allowance for doubtful receivables	**(6)**			**(50)**		
	7,241	**7,241**	–	**60,342**	**60,342**	–
(4) Securities and investment securities						
Other securities	**109,215**	**109,215**	–	**910,125**	**910,125**	–
Total assets	**¥199,625**	**¥199,625**	**¥–**	**$1,663,542**	**$1,663,542**	**$ –**
(1) Notes and accounts payable - trade	**¥61,922**	**¥61,922**	**¥–**	**$516,017**	**$516,017**	**$ –**
(2) Current accounts payable (included in Notes and accounts payable "Other" and income taxes payable)	**17,139**	**17,139**	–	**142,825**	**142,825**	–
(3) Income taxes payable (except for accrued business office taxes included in above (2) Current accounts payable)	**5,127**	**5,127**	–	**42,725**	**42,725**	–
(4) Commercial papers	**6,500**	**6,500**	–	**54,167**	**54,167**	–
(5) Bonds *1	**18,800**	**18,855**	**(55)**	**156,666**	**157,125**	**(459)**
(6) Long-term debt - long term loans *2	**125,771**	**126,282**	**(511)**	**1,048,092**	**1,052,350**	**(4,258)**
Total liabilities	**¥235,259**	**¥235,825**	**¥(566)**	**$1,960,492**	**$1,965,209**	**$(4,717)**
Derivative transactions *3	**¥1**	**¥1**	**¥-**	**$8**	**$8**	**$-**

*1. Figures shown include bonds with redemption dates of one year or less.
*2. Figures shown include long-term debt with repayment due dates of one year or less.
*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 on hand and in banks, (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 shall be fair value.
(4) Securities and 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) Current accounts payable, (3) Income taxes payable and (4) Commercial papers
Because these items have short payment periods, fair value approximates book value. Therefore, book value shall be fair value.

(5) Bonds and (6) Long-term debt - long-term loans
Fair value of bonds and long-term loans 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 variable interest rates reflect market interest rates over the short term. In addition, because the Company's credit status has not changed substantially since taking on these loans and as the fair value approximates book value, the book value shall be 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
	2013	2014	2015	2015
	Book value	Book value	Book value	Book value
Unlisted shares	**¥5,999**	**¥6,394**	**¥17,871**	**$148,925**
Long-term leasehold deposits	**47,609**	**47,217**	**74,486**	**620,717**
Guarantee deposits	**5,671**	**5,834**	**12,901**	**107,508**

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

	Millions of yen			
2013	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	**¥15,136**	**¥**–	**¥**–	**¥**–
Notes and accounts receivable - trade	**22,960**	–	–	–
Notes and accounts receivable - other	**2,936**	–	–	–
Securities and investment securities				
Other securities with maturity (government bonds)	–	–	**300**	–
Other securities with maturity (corporate bonds)	–	**2,260**	–	**20**
Total	**¥41,032**	**¥2,260**	**¥300**	**¥20**

	Millions of yen			
2014	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	**¥35,402**	**¥**–	**¥**–	**¥**–
Notes and accounts receivable - trade	**30,987**	–	–	–
Notes and accounts receivable - other	**2,747**	–	–	–
Securities and investment securities				
Other securities with maturity (corporate bonds)	–	**2,260**	–	**20**
Total	**¥69,136**	**¥2,260**	**¥**–	**¥20**

2015	Millions of yen: Within 1 year	Millions of yen: Over 1 year but within 5 years	Millions of yen: Over 5 years but within 10 years	Millions of yen: Over 10 years	Thousands of U.S. dollars: Within 1 year	Thousands of U.S. dollars: Over 1 year but within 5 years	Thousands of U.S. dollars: Over 5 years but within 10 years	Thousands of U.S. dollars: Over 10 years
Cash on hand and in banks	**¥44,381**	¥–	¥–	¥–	**$369,842**	$ –	$ –	$ –
Notes and accounts receivable - trade	**39,159**	–	–	–	**326,325**	–	–	–
Notes and accounts receivable - other	**7,247**	–	–	–	**60,392**	–	–	–
Securities and investment securities								
Other securities with maturity (corporate bonds)	**2,260**	–	–	–	**18,833**	–	–	–
Total	**¥93,047**	¥–	¥–	¥–	**$775,392**	$ –	$ –	$ –

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

2013 (Millions of yen)	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Long-term debt - corporate bonds	¥35	¥–	¥–	¥–	¥–	¥–
Long-term debt - long-term loans	580	35,316	5,496	124	35	239
Lease obligations	309	280	247	213	153	1,290
Total	¥924	¥35,596	¥5,743	¥337	¥188	¥1,529

2014 (Millions of yen)	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Long-term debt - corporate bonds	¥–	¥–	¥–	¥–	¥–	¥–
Long-term debt - long-term loans	35,484	5,330	122	36	12	2
Lease obligations	290	257	223	175	120	1,884
Total	¥35,774	¥5,587	¥345	¥211	¥132	¥1,886

2015 (Millions of yen)	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Commercial papers	**¥6,500**	¥–	¥–	¥–	¥–	¥–
Long-term debt - corporate bonds	**100**	2,100	6,600	–	–	10,000
Long-term debt - long-term loans	**14,774**	12,614	29,419	42,462	202	26,300
Lease obligations	**929**	653	575	467	393	3,882
Total	**¥22,303**	¥15,367	¥36,594	¥42,929	¥595	¥40,182

2015 (Thousands of U.S. dollars)	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Commercial papers	**$54,167**	$ –	$ –	$ –	$ –	$ –
Long-term debt - corporate bonds	**833**	17,500	55,000	–	–	83,333
Long-term debt - long-term loans	**123,117**	105,117	245,158	353,850	1,683	219,167
Lease obligations	**7,741**	5,442	4,792	3,892	3,275	32,350
Total	**$185,858**	$128,059	$304,950	$357,742	$4,958	$334,850

31. Derivative transactions

No derivative transactions to report for the years ended 31st March 2013 and 2014.

For the year ended 31st March 2015

1. Derivatives for which hedge accounting is applied

(1) Currency related

			Millions of yen			Thousands of U.S. dollars		
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 contract	Currency swaps Receive USD/ Pay JPY	Long-term loans	¥3,500	¥3,500	(Note)	$29,167	$29,167	(Note)

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

(2) Interest related

			Millions of yen			Thousands of U.S. dollars		
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	¥13,286	¥12,240	(Note 1) ¥(139)	$110,717	$102,000	(Note 1) $(1,158)
Exceptional method for interest rate swaps	Interest rate swaps Pay fixed/ Receive floating	Long-term loans	¥22,609	¥13,783	(Note 2)	$188,408	$114,858	(Note 2)
Total			¥35,895	¥26,023	¥(139)	$299,125	$216,858	$(1,158)

(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.

32. Asset Retirement Obligations

Asset retirement obligations that are recorded on the consolidated balance sheets

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

2. Calculation method for asset retirement obligations
For the fiscal years ended 31st March 2013, 2014 and 2015 an estimated period of use of 2-39 years and a discount rate of 0.2%-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 years ended 31st March 2013, 2014 and 2015
For the fiscal year ended 31st March 2013, it became possible for the Company to determine the restoration and abandonment costs of Hankyu Hanshin Department Store Inc.'s Hankyu Ings store, which was closed on 18th November 2012. Thus, the amount of ¥384 million was additionally provided as asset retirement obligations. Moreover, the amount of ¥150 million was provided as asset retirement obligations since it also became possible to determine the restoration and abandonment costs in connection with a large-scale renovation of Tsuzuki Hankyu. The decrease due to the fulfilment of asset retirement obligations was due to Kobe Hankyu, for which the obligation was accounted for in the fiscal year ended 31st March 2012, and Hankyu Ings store and Tsuzuki Hankyu, for which the obligations were accounted for in the fiscal year ended 31st March 2013.

For the fiscal year ended 31st March 2014, the Company changed estimates for restoration costs associated with the real estate rental agreements of Kazokutei Co., Ltd. based on the most recent information available, including the actual data of restoration costs, and increased the amount of asset retirement obligation by ¥339 million. The amount of ¥73 million was also provided as asset retirement obligations due to the acquisition of property, plant and equipment for new stores of Hanshoku Co., Ltd. The decrease due to the fulfilment of asset retirement obligations was primarily due to Kazokutei Co., Ltd. and Hankyu Kitchen Yell Kyushu, Inc.

For the fiscal year ended 31st March 2015, asset retirement obligations increased by ¥1,849 million ($15,408 thousand) due to the business combination with Izumiya Co., Ltd. on 1st June 2014. ¥394 million ($3,283 thousand) in asset retirement obligation was additionally recorded after the Company was able to estimate restoration costs related to branch shops to be closed, such as the Oyama branch of Izumiya Co., Ltd. It was also possible to estimate restoration costs to cover the partial handover of “Amagasaki Hanshin,” a branch shop of Hankyu Hanshin Department Stores, Inc. This led to the additional recording of ¥100 million ($833 thousand) in asset retirement obligation. The acquisition of fixed assets for the opening of branch shops by Hanshoku Co., Ltd. also resulted in the ¥102 million ($850 thousand) increase in asset retirement obligations. The decrease due to the fulfilment of asset retirement obligations was primarily due to Be-U Co., Ltd. and Kazokutei Co., Ltd.

Changes in the balances are as follows:

	Millions of yen			Thousands of U.S. dollars
	2013	2014	**2015**	**2015**
Balance at beginning of year	¥ 1,488	¥ 314	**¥ 412**	**$ 3,433**
Increase due to business combination	–	–	**1,849**	**15,408**
Increase due to estimate changes	583	339	**585**	**4,875**
Increase due to acquisition of property, plant and equipment	66	76	**122**	**1,017**
Adjustments with passage of time	5	5	**38**	**317**
Decrease due to fulfilment of asset retirement obligations	(1,828)	(159)	**(68)**	**(567)**
Other	–	(163)	–	–
Balance at end of year	¥ 314	¥ 412	**¥ 2,938**	**$ 24,483**

33. Related Party Transactions

For the year ended 31st March 2013

Transactions with related parties

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

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

(a) Directors, corporate auditors and major individual shareholders of the reporting entity of the consolidated financial statements

Classification	Name of company or individual	Location	Capital or invest-ment	Occupation or business lines	Ownership of voting rights (%)	Nature of relation-ship	Nature of transactions	Value of transac-tions	Accoun-ting designa-tion	Term-end balance
Companies in which the director, the corporate auditor or his immediate family owns a majority of voting rights	Osaka Chuo Syokuryo	Ibaraki City, Osaka	¥10 million	Food wholesaling	-	Materials procurement	Purchases of foodstuffs for processing	¥12 million	Notes and accounts payable-trade	¥1 million

Business terms and policies for determination of business terms

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

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

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

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

Business terms and policies for determination of business tearms

Classification	Name of company or individual	Location	Capital or investment	Occupation or business lines	Ownership of voting rights (%)	Nature of relationship	Nature of transactions	Value of transactions	Accounting designation	Term-end balance
Subsidiaries of companies that have significant stakes in the reporting entity	Hankyu Corporation	Kita-ku, Osaka City	¥ 100 million	Railway operations, real estate rental and dealership operations, stage revues, retailing	-	Same person serving concurrently as director or corporate auditor for both parties, Rental of real estate	Rental fees	¥5,762 million	Prepaid expenses and other	¥143 million
									Notes and accounts payable - other	¥11 million
									Accrued expenses	¥89 million
							Fees for display of signs, etc.	¥7 million	Prepaid expenses and other	¥0 million
							Deposits of guarantee money	¥513 million	Long-term leasehold deposits	¥21,538 million
							Return of guarantee money	¥1,674 million		
	HANSHIN ELECTORIC RAILWAY CO., LTD.	Fukushima-ku, Osaka City	¥ 29,384 million	Railway operations, real estate rental and dealership operations, sports business, travel business	15.30% shares of the Company directly held	Same person serving concurrently as director or corporate auditor for both parties, Rental of real estate	Rental fees	¥4,955 million	Prepaid expenses and other	¥2 million
									Accrued expenses	¥480 million
							Fees for display of signs, etc.	¥18 million	-	-
							Deposits	-	Long-term leasehold deposits	¥2,583 million

Business terms and policies for determination of business terms

Note1. Transaction amounts are exclusive of consumption taxes; term-end balances (exclusive of guarantee money deposited) include consumption taxes.

2. Rents for buildings are determined on the basis of current market rates.

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

For the year ended 31st March 2014

Transactions with related parties

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

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

(a) Directors, corporate auditors and major individual shareholders of the reporting entity of the consolidated financial statements

Classification	Name of company or individual	Location	Capital or invest-ment	Occupation or business lines	Ownership of voting rights (%)	Nature of relation-ship	Nature of transactions	Value of transac-tions	Accoun-ting designa-tion	Term-end balance
Companies in which the director, the corporate auditor or his immediate family owns a majority of voting rights	Osaka Chuo Syokuryo	Ibaraki City, Osaka	¥10 million	Food wholesaling	-	Materials procurement	Purchases of foodstuffs for processing	¥11 million	Notes and accounts payable-trade	¥1 million

Business terms and policies for determination of business terms

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

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

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

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

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

Classification	Name of company or individual	Location	Capital or investment	Occupation or business lines	Ownership of voting rights (%)	Nature of relationship	Nature of transactions	Value of transactions	Accounting designation	Term-end balance
Subsidiaries of companies that have significant stakes in the reporting entity	Hankyu Corporation	Kita-ku, Osaka City	¥ 100 million	Railway operations, real estate rental and dealership operations, stage revues, retailing	-	Same person serving concurrently as director or corporate auditor for both parties, Rental of real estate	Rental fees	¥7,635 million	Prepaid expenses and other	¥150 million
									Notes and accounts payable - other	¥13 million
									Accrued expenses	¥78 million
							Fees for display of signs, etc.	¥8 million	Prepaid expenses and other	¥0 million
							Deposits of guarantee money	¥19 million	Long-term leasehold deposits	¥21,539 million
							Return of guarantee money	¥37 million		
	HANSHIN ELECTORIC RAILWAY CO., LTD.	Fukushima-ku, Osaka City	¥ 29,384 million	Railway operations, real estate rental and dealership operations, sports business, travel business	15.29% shares of the Company directly held	Same person serving concurrently as director or corporate auditor for both parties, Rental of real estate	Rental fees	¥4,890 million	Prepaid expenses and other	¥2 million
									Accrued expenses	¥474 million
							Fees for display of signs, etc.	¥18 million	-	-
							Deposits	-	Long-term leasehold deposits	¥2,583 million

Business terms and policies for determination of business terms

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

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

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

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

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 ($833 thousand)	Railway operations, real estate rental and dealership operations, stage revues, retailing	-	Same person serving concurrently as director or corporate auditor for both parties, Rental of real estate	Rental fees	¥8,270 million ($68,917 thousand)	Prepaid expenses and other	¥204 million ($1,700 thousand)
									Notes and accounts payable - other	¥12 million ($100 thousand)
									Accrued expenses	¥54 million ($450 thousand)
							Fees for display of signs, etc.	¥8 million ($67 thousand)	Prepaid expenses and other	¥0 million ($0 thousand)
							Deposits of guarantee money	¥11 million ($92 thousand)	Long-term leasehold deposits	¥21,840 million ($182,000 thousand)
							Return of guarantee money	¥210 million ($1,750 thousand)		
	HANSHIN ELECTORIC RAILWAY CO., LTD.	Fukushima-ku, Osaka City	¥ 29,384 million ($244,867 thousand)	Railway operations, real estate rental and dealership operations, sports business, travel business	12.00% shares of the Company directly held	Same person serving concurrently as director or corporate auditor for both parties, Rental of real estate	Rental fees	¥4,545 million ($37,875 thousand)	Prepaid expenses and other	¥4 million ($33 thousand)
									Accrued expenses	¥142 million ($1,183 thousand)
							Fees for display of signs, etc.	¥14 million ($117 thousand)	-	-
							Deposits of guarantee money	¥5,033 million ($41,942 thousand)	Long-term leasehold deposits	¥7,628 million ($63,567 thousand)
							Return of guarantee money	¥6 million ($50 thousand)		

Business terms and policies for determination of business terms

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

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

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

34. Net Income Per Share

Reconciliation of the difference between basic and diluted net income per share ("EPS") for the years ended 31st March 2013, 2014 and 2015.

	Millions of yen			Thousands of U.S. dollars
	2013	2014	**2015**	**2015**
Basic net income per share calculation:				
Income (numerator):				
Net income	¥6,201	¥296	**¥11,586**	**$96,550**
Amounts not belonging to common stock	–	–	**–**	**–**
Net income available to common stockholders	6,201	296	**11,586**	**96,550**
Shares, (denominator):				
Weighted average number of shares	97,082,110	97,075,959	**118,161,147**	
Basic EPS (yen and U.S. dollars)	¥63.87	¥3.05	**¥98.06**	**$0.82**
Diluted net income per share calculation:				
Income (numerator):				
Net income	¥6,201	¥296	**¥11,586**	**$96,550**
Amounts not belonging to common stock	–	–	**–**	**–**
Net income available to common stockholders	6,201	296	**11,586**	**96,550**
Effect of dilutive securities - convertible bonds	–	–	**–**	**–**
Adjusted net income	6,201	296	**11,586**	**96,550**
Shares, (denominator):				
Weighted average number of shares	97,082,110	97,075,959	**118,161,147**	
Assumed conversion of convertible bonds	–	–	**–**	
Assumed exercise of stock purchase rights	322,688	417,487	**506,831**	
Adjusted weighted average number of shares	97,404,798	97,493,446	**118,667,978**	
Diluted EPS (yen and U.S. dollars)	¥63.66	¥3.03	**¥97.64**	**$0.81**

As stated in Note 3, "Changes in Accounting Policies," the Company has applied the Accounting Standard for Retirement Benefits and the Guidance on Accounting Standard for Retirement Benefits. The Company transitionally applied this Accounting Standard as determined in Paragraph 37. As a result, for the year ended 31st March 2015, basic EPS and diluted EPS have each decreased by ¥0.06 ($0.0005).

On 1st September 2014, the Company executed a reverse stock split (two-to-one share). Basic EPS and diluted EPS were calculated as if the reverse stock split was executed at the beginning of the fiscal year ended 31st March 2013.

35. Business Combination

1. Merger with Izumiya Co., Ltd. by share exchange

At the Board of Directors' meeting held on 31st January 2014, it was resolved that the Company would execute a business combination with Izumiya Co., Ltd. ("Izumiya") through a share exchange ("Share Exchange") with the Company as a parent and Izumiya as a wholly owned subsidiary, on an equal footing in spirit. A Share Exchange agreement ("Agreement") between the Company and Izumiya was concluded on the same day. On 26th March 2014, the Agreement was approved at the extraordinary shareholders' meetings held by both companies. Thus, the business combination was completed on 1st June 2014 and Izumiya became a wholly owned subsidiary of the Company. Before the effective date of the Share Exchange, Izumiya's common stocks were delisted from the Tokyo Stock Exchange on 28th May 2014 (Last trading date was 27th May 2014).

The overview of the business combination is as follows.

(1) Overview
(a) Corporate name and lines of business of the acquired company
Corporate name of the acquired company: Izumiya Co., Ltd.

Lines of business:
General merchandise chain stores including clothing, foods, electrical goods, furniture, leisure goods, household goods, etc.

(b) Primary reason for business combination
With focus on the main stores of Hankyu Hanshin Department Stores, the Group intends to expand market shares in the Kansai commercial area utilising the Hankyu and Hanshin brand name and expand various retail businesses, including department stores, supermarkets and home delivery. Izumiya aims at increasing its market share in the Kansai region through establishing networks of general merchandise stores and supermarkets focusing mainly on the Kansai region.

Consumption trends have changed significantly because of a decrease in consumption power due to the aging population as well as a shift in purchasing behaviour due primarily to the expansion of shopping on the Internet. Thus, the management of each company realises that it is urgently necessary to increasingly attract customers by securing market share and providing products, sales floors and marketing channels which appeal to various customers' needs.

After discussions and negotiations about future strategies, the management of each company has reached a mutual understanding that the business combination through the Share Exchange would be the best option to achieve the mid- and long-term increase in the value of each company. Sharing the common business principle of contribution to the local economy, Izumiya and the Company will merge management resources on even grounds and establish a general retail conglomerate essential to the local economy with diverse lines and categories of business which provides various services and products in the Kansai region.

(c) Date of business combination
1st June 2014

(d) Legal form of business combination
Share exchange

(e) Corporate name after business combination
Izumiya Co., Ltd.

(f) Percentage of voting rights acquired
100.00%

(g) Primary reason for deciding the acquiring company
The Company became the acquiring company since it acquired all outstanding shares of Izumiya by allocating a 0.63 share of the Company's common shares for each share of Izumiya's common stock to the shareholders of Izumiya (excluding the Company) immediately prior to the time at which it acquired all outstanding shares of Izumiya.

(2) Operating period of the acquired company included in the consolidated statements of income
The fiscal year end of Izumiya and most of its subsidiaries (the Izumiya group) are 31st March. For the fiscal year ended 31st March 2015, the consolidated statements of income include the financial results of the Izumiya group from 1st June 2014 to 31st March 2015.

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

	Millions of yen	Thousands of U.S. dollars
Consideration for the acquisition: fair value of the common shares issued by the Company on the date of business combination	¥ 43,412	$ 361,767
Direct acquisition costs: financial and legal due diligence fees and fees for valuation, etc.	48	400
Total acquisition cost	¥ 43,460	$ 362,167

(4) Share exchange ratio by class of shares, the method used to determine the ratio and the number of shares issued
(a) Share exchange ratio by class of stock
For each share of Izumiya's common stock, a 0.63 share of the Company's common stock was allocated.

(b) Method to determine share exchange ratio
The Company and Izumiya appointed SMBC Nikko Securities Inc. and KPMG FAS Co., Ltd., respectively, as third party advisors to determine the share exchange ratio. By reference to the calculation results rendered by both advisors, the Company and Izumiya carefully discussed and negotiated, taking into account their respective financial status, performance trends, stock price trends and other factors as a whole. In the end, both companies decided that the Share Exchange ratio was reasonable to their respective shareholders.

(c) Number of shares issued
Number of common shares issued by the Company through the Share Exchange is as follows:

Total number of issued shares	**53,662,016 shares**
Of which, issuance of new shares	**43,662,016 shares**
Of which, use of shares held in treasury	**10,000,000 shares**

(5) Amount of negative goodwill generated and reason for generation

	Millions of yen	Thousands of U.S. dollars
(a) Amount of negative goodwill generated	**¥ 10,030**	**$ 83,583**

(b) Reason for generation
Fair net asset value on the date of business combination exceeded the total acquisition cost.

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

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥ 49,370**	**$ 411,417**
Noncurrent assets	**155,132**	**1,292,767**
Total assets	**204,502**	**1,704,183**
Current liabilities	**62,714**	**522,617**
Noncurrent liabilities	**88,294**	**735,783**
Total liabilities	**151,008**	**1,258,400**

(7) Approximate impact on the consolidated statement of income for the year ended 31st March 2015 and calculation method, assuming that the business combination had been completed on the beginning of the fiscal year

	Millions of yen	Thousands of U.S. dollars
Net sales	**¥ 928,370**	**$ 7,736,417**
Operating income	**19,440**	**162,000**
Income before income taxes and minority interests	**18,732**	**156,100**
Net income	**11,586**	**96,550**
	yen	U.S. dollars
Net income per share	**¥ 93.17**	**$ 776.42**

(Calculation method of approximate amounts)
The approximate amounts were calculated by adding the consolidated financial results of the Izumiya group before the business combination from March to May 2014 to the Company's consolidated financial results and adjusting for gain on bargain purchase. This footnote is out of audit scope.

(Major extraordinary gain and loss)
Izumiya group reported ¥20,465 million ($170,542 thousand) of impairment loss on noncurrent assets as extraordinary loss during the period from March to May 2014.

2. Transactions under common control

Additional acquisition of subsidiary's stocks
(1) Overview
(a) Corporate name and lines of business of the acquired company
Corporate name of the acquired company: KAZOKUTEI CO., LTD. (consolidated subsidiary of the Company)
Lines of business:
Operation of restaurants and food sales
Sales of kitchen equipment and tools as well as fixtures and fittings in restaurants
Design and construction of restaurants and management consulting
Managing restaurants and food stores through the franchise chain system

(b) Date of business combination	1st August 2014
(c) Legal form of business combination	Share exchange
(d) Corporate name after business combination	KAZOKUTEI CO., LTD.

(e) Percentage of voting rights acquired	
Percentage of voting rights held before business combination	73.44%
Percentage of additional voting rights acquired on the date of business combination	26.56%
Percentage of voting rights after acquisition	100.00%

(f) Other matters regarding transaction overview
In August 2011, KAZOKUTEI became a consolidated subsidiary of the Company through a tender offer conducted by the Company to acquire KAZOKUTEI's common shares. The Company and KAZOKUTEI together have been cooperating with each other in various projects and achieving a certain result of operations under common business strategies as group companies, such as: (1) cost cutting by utilising cooperative purchase of ingredients, including wheat and rice, or materials, (2) customer share marketing to customers with house cards issued by the department stores, and (3) improving efficiency in operation by utilisation of shared service within the Group.

In order to further strengthen the profitability of KAZOKUTEI and to maximize the corporate value of the Group as a whole, the management of the Company determined that it was necessary to establish a flexible decision making structure regarding the management strategy of KAZOKUTEI based on a stronger cooperative relationship between the two companies and considered the best option was to acquire KAZOKUTEI as a wholly owned subsidiary. Thus, the Company conducted the business combination.

Prior to the Share Exchange, KAZOKUTEI was delisted from the Tokyo Stock Exchange, enabling KAZOKUTEI to strategically conduct a significant renewal or renovation of stores that could impact operational results or drastic business restructuring without being entrenched by short-term performance fluctuations. Accordingly, it will enable the Group to develop its business and make strategic investments from a medium to long-term viewpoint, seeking to maximise profits. Also, the Group will be able to establish an effective management platform by eliminating the possibility of potential conflicts of interests stemming from publicly listed parent/subsidiary pairs as well as effectively allocating financial and human resources throughout business operations.

All shares allocated through the Stock Exchange were the Company's common stocks held in treasury.

(2) Overview of accounting treatment applied
Pursuant to the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, issued 26th December 2008) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10 (Revised 2008)),” the business combination under common control was treated as a transaction with minority shareholders.

(3) Acquisition cost of the stock of the subsidiary and its breakdown	Millions of yen	Thousands of U.S. dollars
Consideration for the acquisition: fair value of common shares issued by the Company on the date of business combination	**¥ 1,576**	**$ 13,133**
Direct acquisition costs: fees for valuation	**3**	**25**
Total acquisition cost	**¥ 1,579**	**$ 13,158**

(4) Share exchange ratio by class of stock, the method to determine the ratio and the number of shares issued

(a) Share exchange ratio by class of stock
For each 1 share of KAZOKUTEI's common stock, 1 share of the Company’s common stock was allocated.

(b) Method to determine share exchange ratio
The Company and KAZOKUTEI each appointed IR Japan, Inc. and Mitsubishi UFJ Trust and Banking Corporation, respectively, as a third party advisors to determine the exchange ratio. Referring to the results of the calculation by the both advisors, the Company and KAZOKUTEI carefully discussed and negotiated, taking into account their respective financial status, performance trends, stock price trends and other factors as a whole. In the end, both companies decided that the Share Exchange ratio was reasonable to respective shareholders.

(c) The number of shares allocated **1,867,545 shares**

(5) Amount of goodwill generated and reason for generation and amortisation method and period

	Millions of yen	Thousands of U.S. dollars
(a) Amount of goodwill generated	**¥ 486**	**$ 4,050**

(b) Reason for generation
Additional future earnings capacity expected as a result of the development of the restaurant business of KAZOKUTEI.

(c) Amortisation method and period Straight-line amortisation over 15 years

3. Establishment of a jointly controlled entity

(1) Overview
(a) Name and lines of business involved in the establishment
Name of business: Management of Ningbo Hankyu Co., Ltd.
Details of business: Management of business activities of Ningbo Hankyu Co., Ltd. and other miscellaneous affairs

(b) Date of business combination
29th October 2014

(c) Legal form of business combination
Establishment of a jointly controlled entity by the Company and Cool Japan Fund Inc.

(d) Corporate name after business combination
Ningbo Development Co., Ltd.

(e) Other matters relating to the transaction
Under the Company's long-term business plan, "GP 10 Plan-II," the Company identifies that the development of business overseas is one of its major growth strategies. As a first step, the Company plans to open a Hankyu Department Store in Ningbo, China.
In order to carry out the plan, the Company established a new domestic company named Ningbo Development Co., Ltd. (hereinafter, "Ningbo Development") in Japan. Ningbo Development and Ningbo Property Development Co., Ltd., a Chinese company, established a joint venture named "Ningbo Hankyu Co., Ltd." (hereinafter, "Ningbo Hankyu") in China, which is expected to operate the shopping centre.

On 29th October 2014, after the establishment of Ningbo Hankyu Co., Ltd., Ningbo Development allocated new shares to the following third parties: Cool Japan Fund Inc., Hankyu Hanshin Holdings, Inc., Itochu Corporation and the Company. As a result of the allocation, Ningbo Development became an equity-method affiliate of the Company. The establishment of the joint venture has had no significant impact on the consolidated operational results of the Company for the fiscal year ended 31st March 2015.

Corporate name:	Ningbo Development Co., Ltd.	
Representative person:	President: Atsushi Suzuki	
Address of the head office:	Kakudacho 8-7, Osaka Kita-ku, Osaka	
Date of establishment:	20th August 2014	
Capital stock:	10 million yen	
Line of business:	Investment in and financing for Ningbo Hankyu Co., Ltd.	
Major shareholders and their ownership ratio:	H2O Retailing Corporation	47.6%
	Cool Japan Fund Inc.	47.6%
	Hankyu Hanshin Holdings, Inc.	4.4%
	Itochu Corporation	0.4%

(f) Reason for treating the transaction as establishment of a jointly controlled entity
To establish the jointly controlled entity, Cool Japan Fund Inc. and the Company have concluded a shareholders agreement under which both companies jointly control Ningbo Development. All of the considerations provided for this business combination are shares with voting rights, and no other circumstances exist to indicate any controlling relationships. Based on the above, the Company treated the business combination as establishment of a jointly controlled entity.

(2) Overview of accounting treatment applied
Pursuant to the "Accounting Standard for Business Combinations (ASBJ Statement No. 21, 26th December 2008)" and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10 [Revised 2008])," the business combination was treated as the establishment of a jointly controlled entity. Accordingly, Ningbo Development, a jointly controlled entity, is outside the scope of consolidation of the Company and is subject to treatment in accordance with the equity method.

36. Significant subsequent events

The Company held 33,084 thousand shares of common stock of Takashimaya Co., Ltd. ("Takashimaya"). In April 2015, while continuing to hold 5% of Takashimaya's outstanding shares based on its capital alliance, the Company disposed of a total of 15,310 thousand shares by: (1) applying 5,000 thousand shares for Takashimaya's tender offer and (2) selling 10,310 thousand shares to UBS Securities Co., Ltd. In connection, the Company will report a capital gain of ¥7,361 million in the consolidated financial results.

Independent Auditors' Report

H2O RETAILING CORPORATION and Consolidated Subsidiaries

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, 2013, 2014 and 2015, 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, 2013, 2014 and 2015, 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, 2015 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 18th, 2015
Osaka, Japan

Corporate Data

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Board of Directors and Corporate Auditors

President and Representative Director
Atsushi Suzuki
Representative Directors
Naoya Araki, Haruya Shijo
Representative Director and Senior Managing Executive Officer
Katsuhiro Hayashi
Director and Senior Corporate Adviser
Shunichi Sugioka
Outside Directors
Naoshi Ban, Makoto Yagi
Directors
Kazuo Sumi, Kazutoshi Senno, Keiji Uchiyama, Yutaka Wada
Director, Managing Executive Officer
Tadatsugu Mori
Standing Corporate Auditor
Toshimitsu Konishi
Corporate Auditors
Hideyuki Takai, Toshihisa Takamura, Masashi Muromachi

Outline of the Company

(as of 31st March 2015)

Date of Establishment:	March 1947
Stated Capital:	¥17,797 million
Authorised Shares:	150,000,000
Issued and Outstanding Shares:	125,201,396
Shareholders:	23,211
Employees:	58

Principal Shareholders :

(as of 31st March 2015)

HANSHIN ELECTRIC RAILWAY CO., LTD.
Hankyu Hanshin Holdings, Inc.
Takashimaya Company, Limited
The Master of Trust Bank of Japan.Ltd.(Trust Account)
Japan Trustee Service Bank,Ltd.(Trust Account)
Izumiya Kyowakai Association
H2O Retailing Group Employees' shareholding Association
MARUNAKA Co., Ltd.
Pictet & Cie (Europe) S.A.
The Bank of Tokyo-Mitsubishi UFJ,Ltd.

Principal Consolidated Subsidiaries

Company name	Stated capital (millions of yen)	Direct (indirect) holding by the Company (%)	Principal business
Department Store Business			
Hankyu Hanshin Department Stores, Inc.	¥200	100.00	Department Store (15 stores)
Supermarket Business			
Hanshoku Co., Ltd.	100	100.00	Operational management of supermarkets
Hankyu Foods, Inc.	10	100.00 (100.00)	Manufacture and sale of laver seaweed and dried foods
Hankyu Delica, Inc.	10	100.00 (100.00)	Manufacture and sale of prepared food and sushi
Hankyu Bakery Co., Ltd.	10	100.00 (100.00)	Manufacture and sale of bread
Izumiya Business			
Izumiya Co., Ltd.	100	100.00	Chain operator of general merchandise stores, supermarkets and supercenters
Delica I Foods Co., Ltd.	10	100.00 (100.00)	Food processor and manufacturer & retailer of deli
Izumiya Card Co., Ltd.	100	100.00	Insurance agency, credit-card business and travel agency
Kanso Co., Ltd.	100	100.00 (100.00)	Building maintenance business
Qanat Co., Ltd.	10	100.00 (100.00)	Supermarkets
Sun Fresh Co., Ltd.	10	100.00 (100.00)	Specialty stores of fresh seafoods and sushi
Sun Laurie Co., Ltd.	10	100.00 (100.00)	Operator of restaurants
Suzhou Izumiya Co., Ltd.	5,892	100.00 (100.00)	Operator of a department store in Suzhou, China
Other Business			
Oi Development Co., Ltd	100	100.00	Operational management of a hotel
Hankyu Shopping Center Development Co., Ltd.	50	100.00	Operational management of commercial facilities
Hankyu Kensou Co., Ltd.	20	100.00	Manufacture and sales of furniture and furnishings
Heart Dining, Inc.	10	100.00	Management of cafe, restaurants and company cafeteria
Hankyu Kitchen Yell Kansai, Inc.	10	100.00	Membership-based home-delivery service providing groceries and commodities in Kansai Area
Hankyu Kitchen Yell Kyushu, Inc.	10	99.09	Membership-based home-delivery service providing groceries and commodities in Kyushu Area
EveryD.com, Inc.	10	100.00	Supply of the system and the know-how of home-delivery service
KAZOKUTEI CO., LTD.	10	100.00	Operation of restaurants mainly serving "Soba/Udon"
Hankyu Tomonokai Co., Ltd.	50	100.00	Membership organization for customer service
Hankyu Wedding	10	100.00	Costume salon for bridal use
Hankyu Home Styling Co., Ltd.	10	100.00	Sale of furniture and interior goods
Hankyu Design Systems Co., Ltd.	10	100.00	Commercial design, web design and production, photographing & printing
Hankyu Job Yell Co., Ltd.	10	100.00	Manpower dispatching and fee-charging employment agency
Hankyu Maintenance Service Co., Ltd.	10	100.00	General building maintenance (facilities, cleaning and security)
Persona Co., Ltd.	20	100.00	Management of services for members of Persona card
Hankyu Act For	10	100.00	Contractor engaged in bookkeeping and payroll calculation
With System Corporation	100	100.00	Data processing and systems development

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