H2O RETAILING CORPORATION

FINANCIAL REPORT 2014

RETAILING

Profile

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

On 1st October 2007, Hankyu Department Stores, Inc. changed its name to H2O RETAILING CORPORATION and became a holding company in accordance with the management integration between Hankyu Department Stores, Inc. and Hanshin Department Store, Ltd. Currently, the Group consists of 45 subsidiaries and 4 affiliates that operate retail businesses, including its core department store operations, supermarket operations and shopping center operations.

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

Consolidated business results for the reporting period

	Millions of yen	YOY %
Net sales	576,852	109.8
Operating income	17,314	162.3
Net income	296	4.8

Consolidated financial results for the reporting period saw sales and operating income achieve new records since the Company's establishment in 1947.

The Department Store Business, the Hankyu Umeda Flagship Store, which held its grand opening in November 2012 after rebuilding, attracted more customers and steadily increased sales thanks to its overwhelming assortment of goods, particularly in our dominant sales area of Kansai, and greater communication of information over a wide area. In addition, 7 of our 13 branch stores, including the Hakata Hankyu, the HANKYU MEN'S TOKYO, and the Nishinomiya Hankyu, posted sales greater than those of the previous year. Due in part to demand preceding the consumption tax rate increase, sales in the Department Store Business came to ¥427,266 million, up 11.5% year on year.
The Supermarket Business recorded sales of ¥100,224 million, rising 7.4% year on year due to the opening of 5 new stores during the reporting period, mainly in Kansai's urban center - our dominant sales area, and the expansion of the sales channels of our food processing subsidiary.
Consolidated sales including those of the Department Store Business, the Supermarket Business, the Property Management Business and the Other Businesses, were ¥576,852 million, up 9.8% year on year.
Operating income was ¥17,314 million, up 62.3% on a substantial earnings increase in the Department Store Business. Net income, however, was ¥296 million, down 95.2% as a result of a loss on store rebuilding of ¥9,412 million in connection with construction to rebuild the Hanshin Umeda Main Store and impairment losses of ¥1,295 million.

The following is a breakdown of performance by business segment.

Department Store Business

Results for Department Store Business

	Millions of yen	YOY %
Sales	427,266	111.5
Segment income (operating income)	13,247	168.9

In the Osaka and Umeda area, where our core Hankyu and Hanshin department main stores that symbolise the Group are located, the recent opening of large commercial facilities and increase in floor space has further intensified the competitive environment. Construction of office buildings and hotels and more recently high-rise condominiums has also picked up and a distinct return to urban living has occurred. This has increased employment and resident populations and created a massive market in the Kansai area. In this environment, the Hankyu Umeda Flagship Store has become a department store that is like a theater, abounding with entertainment. Thus the time that each person spends in the store has increased substantially, allowing customers to shop in a more leisurely manner.
As a result, it is now perceived as a store with an appeal not found in other stores and has increased its sales.
This has led to drawing more customers not only from our dominant sales area but also from a broad domestic area including Chugoku and Shikoku. Moreover, the store has disseminated information to a wide range of inbound customers, especially those flying into Japan from Asia, thereby attracting large numbers of visitors and contributing to higher sales.
As a result, sales of the Hankyu Umeda Flagship Store have been strong, with 17 consecutive months of year-on-year sales increases since its grand opening in November 2012.
Sales at the Hankyu Umeda Main Store, including Hankyu Men's Osaka, came to ¥192,215 million, up 32.8%.
Meanwhile, sales at the Hanshin Umeda Main Store were ¥82,414 million, down 7.6%, due mainly to more intense competition among large commercial facilities in the Umeda area and the grand opening of the Hankyu Umeda Flagship Store. However, looking at the Umeda business as a whole, sales of the 2 main stores came to ¥274,628 million, up 17.4% year on year.
At our branch stores, our product policies for each store, which are based on market trends in the Kyushu and Kansai areas, have been successful, with 20 consecutive months of year-on-year sales increases at the Hakata Hankyu since August 2012, and 11 consecutive months at HANKYU MEN'S TOKYO and Oi Hankyu Food Hall since May 2013.
Thanks to steady sales growth, total sales at our branch stores came to ¥152,210 million, up 2.9% from the previous year.
Overall, sales in the Department Store Business were ¥427,266 million, up 11.5%, and operating income was ¥13,247 million, up 68.9%.

For reference: sales of the Group's department stores

	Millions of yen	YOY %
Hanky Umeda Main Store	192,215	132.8
Senri Hankyu	17,391	101.2
Sakai Kitahanada Hankyu	10,124	98.4
Kawanishi Hankyu	17,550	99.1

Takarazuka Hankyu	8,690	97.8
Nishinomiya Hankyu	25,116	103.9
Sanda Hankyu	1,392	99.8
Hakata Hankyu	40,465	108.0
HANKYU MEN'S TOKYO	12,647	110.3
Oi Hankyu Food Hall	4,683	102.8
Tsuzuki Hankyu	5,232	87.4
Hanshin Umeda Main Store	82,414	92.4
Amagasaki Hanshin	3,818	100.8
Hanshin Nishinomiya	4,539	100.7
Hanshin Mikage	564	98.3

Note1. Figures for the Hankyu Umeda Main Store include sales of Hankyu Men's Osaka. The "YOY%" column includes the previous fiscal year's sales of Hankyu Ings, which closed on 18th November 2012. In addition, the Hankyu Umeda Main Store, which has been under reconstruction, opened the Phase II Building for business on 25th October 2012, ahead of the main store and held its grand opening on 21st November 2012.
2. From 3rd October 2012, Tsuzuki Hankyu was reduced from 5 floors (first floor basement and floors 1-4) to 2 floors (first floor basement and floor 1) following the remodeling of Kohoku Mosaic Mall.
3. The first-floor sales area of Takarazuka Hankyu was closed on 4th March 2014.

Supermarket Business

Results for Supermarket Business

	Millions of yen	YOY %
Sales	100,224	107.4
Segment income (operating income)	2,127	117.4

Our subsidiary Hanshoku Co., Ltd., which operates the Group's Hankyu Oasis chain of food supermarkets, has been aggressively pursuing a strategy of opening urban supermarkets that appeal to a high-quality lifestyle and opened 5 new stores during the reporting period. The Company has steadily expanded its store network and had 71 stores as of 31st March 2014.
Specifically, the Company opened the Hankyu Oasis Asahidori Store (Chuo Ward, Kobe) in April 2013, the Ishiyagawa Store (Higashinada Ward, Kobe) in September 2013, the Takadono Store (Asahi Ward, Osaka) in November 2013, the Kumata Store (Higashisumiyoshi Ward, Osaka) in December 2013 and the Fukushima Tamagawa Store (Fukushima Ward, Osaka) in February 2014. On the product side, by developing several original products in collaboration with excellent producers, enhancing prepared foods with in-store processing and other measures, the new stores offered an assortment of products meeting diverse customer needs. On the service side, the new stores got off to a good start by applying its accumulated know-how to evolve from an existing supermarket store operation to a livelier sales style by focusing on more face-to-face sales that emphasises communication with customers. Sales at existing stores were also steady throughout the year, resulting in a 7.4% increase in total sales for Hankyu Oasis stores.
Our food processing subsidiary Hankyu Bakery Co., Ltd. steadily expanded the scale of its ¥100 bread/pasty business. Other food processing subsidiaries also fared well. As a result, the Supermarket Business posted sales of ¥100,224 million, up 7.4%, and operating income of ¥2,127 million, up 17.4% year on year.

Property Management Business

Results for Supermarket Business

	Millions of yen	YOY %
Sales	12,925	93.9
Segment income (operating income)	1,394	87.5

In the Property Management Business, Oi Development Co., Ltd., a key subsidiary, continued to fare well. The guest room occupancy rate at Ours Inn Hankyu Single Hall, a business hotel within the Hankyu Oimachi Garden, a commercial complex that operates in front of the Tokyo/Oimachi Station, was 95.2%, a 1.9 percentage point improvement. In addition, the Ours Inn Hankyu Twin Hall, a hotel with all twin beds for guests including tourists that had been under reconstruction, had its grand opening together with the commercial complex on 4th March 2014. As a result of these factors, sales and operating income of Oi Development Co., Ltd. both exceeded those of the previous fiscal year.
Meanwhile, Hankyu Shopping Center Development Co., Ltd., which is involved in the management and operation of commercial facilities, recorded year-on-year decreases in sales and operating income due to the 31st August 2012 closing of commercial facilities that it had operated.
As a result, in the Property Management Business, sales came to ¥12,925 million, down 6.1%, and operating income was ¥1,394 million, down 12.5% year on year.

Other Businesses

Results for Other Businesses

	Millions of yen	YOY %
Sales	36,437	104.9
Segment income (operating income)	3,541	572.4

In the Other Businesses segment, sales came to ¥36,437 million, up 4.9%, while operating income was ¥3,541 million, up 472.4%, due to increased sales from newly opened stores and an increase in dividend income received by the Group's holding company H2O Retailing Corporation from its subsidiaries.

(2) Cash Flows
During the reporting period "Cash and cash equivalents at end of year" came to ¥35,383 million, up ¥20,300 million

year on year. Net cash provided by operating activities was ¥33,416 million, up ¥8,883 million, attributable to a substantial increase in operating income - particularly in the Department Store Business. Net cash used in investing activities came to ¥9,628 million, down ¥14,297 million, due to an expenditure of ¥29,865 million for the purchase of property, plant and equipment as a result of the grand opening of the Hankyu Umeda Main Store in the previous fiscal year and in contrast to an expenditure of ¥9,891 million in the reporting fiscal year, a ¥19,974 decrease in spending. Net cash used in financing activities came to ¥3,559 million, up ¥137 million and largely unchanged from the previous fiscal year.

2. Management Policies

(1) The Company's Basic Management Policy

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

In operating these businesses, we aim to be a strong corporation. To realise this goal we place great importance on compliance with social norms, while at the same time working constantly to realise innovation in the sphere of management, thereby enabling prompt responses to changes in the competitive environment. Izumiya, which the Company had business integration with in June 2014, operates GMS and SM mainly in Kansai (Western Japan) region. Izumiya seeks to contribute to society by offering support for healthy, enjoyable and enriching lifestyles for its customers. Acting as the bedrock is Izumiya's commitment to providing "Goody Goods at a Nice Price" via safe and dependable products and services.
Thus, the Company and Izumiya Co., Ltd. have very similar Corporate policies. The goal of the business combination between the two companies is to make the business group contributing to the development of Kansai region, since both of us have common regional business base as "Kansai". Through these means, we aim to meet the expectations of all our stakeholders, including our customers, shareholders, business partners and employees. It is also our firm belief that the raison d'être of any business corporation is to contribute to the good of society as a whole. On the basis of this philosophy, we aim to maintain a sound financial structure and, principally through our retail businesses, to offer our customers high-quality merchandise and excellent services. In this way, we hope to achieve continued growth as a business corporation.

2) Our Target Business Indicators

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

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

The business environment in which the Group operates is expected to become still more difficult in the near future, with the consumption tax increase scheduled for April 2014. In view of these factors, the Company had business integration with Izumiya Co., Ltd. on June 2014. We will develop the Izumiya business, together with supermarket business, as another core business of the group, as important as the department store business. The group continues to expand its oprerational scale through the use of M&As and business development abroad.

(4) Management Issues to be Resolved

In light of changes in the social environment in Japan such as increased competition across industry sectors and business categories, as well as an ageing society with declining birthrates and a population decrease, the Group seeks to further expand its market share in the Kansai area, its business base, and grow as an independent corporate group capable of flexible and effective responses to whatever changes may occur in the social environment.
We will also draw up business growth strategies covering the medium and long term and will work to reengineer our business base through measures to reinforce the Group’s earning power, including steps to enhance operational efficiency.
In the Department Store Business, we will create stores that constantly adapt to the times and markets by rebuilding and refurbishing our existing stores and thereby strengthening our earning capacity. In the Supermarket Business, to respond to changing social conditions such as the urban revival phenomenon, we will continue to move aggressively forward with the opening of new stores in the city’s urban center. In June 2014, we expanded the scale of the Group’s business through a business merger with Izumiya Co., Ltd. By leveraging the customer bases of both companies, we will create a competitive advantage over other companies. At the same time, by sharing infrastructure including store networks, food processing plants and distribution networks, we will seek to establish a dominant retailing business group in the Kansai area.
In addition, we will aggressively expand our business in diverse ways, not only in Japan but overseas, with a focus on Asia and strive to attain additional growth.
Our aim is to take maximum advantage of the strong brand

image created by the Group and its excellent profitability to enhance the synergy generated through business operations by the entire Group and gain a still larger share of the market.
The Group will establish a business base that generates stable profits through each business achieving its goals, with the aim of creating a strong business group with sustained growth potential far into the future, even in difficult business environments.

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)

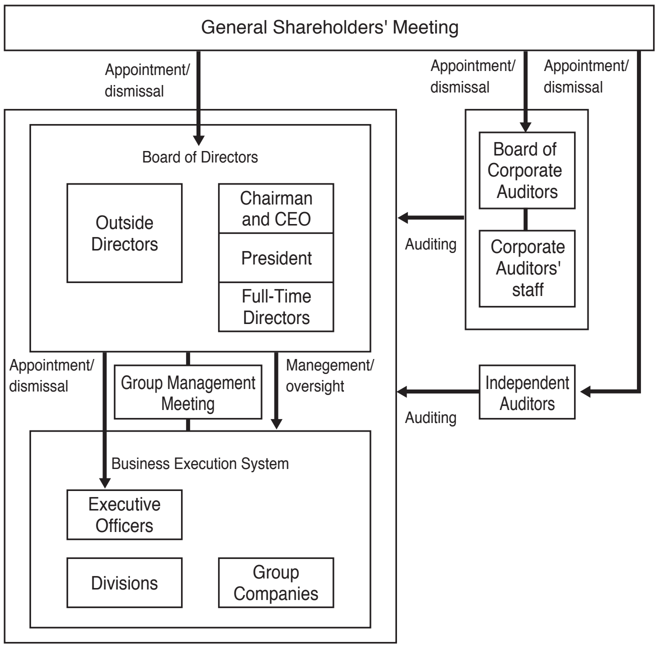
The Board of Directors consists of 12 members, with 1 highly independent director with corporate management experience appointed from outside the Company.

(Board of Corporate Auditors)

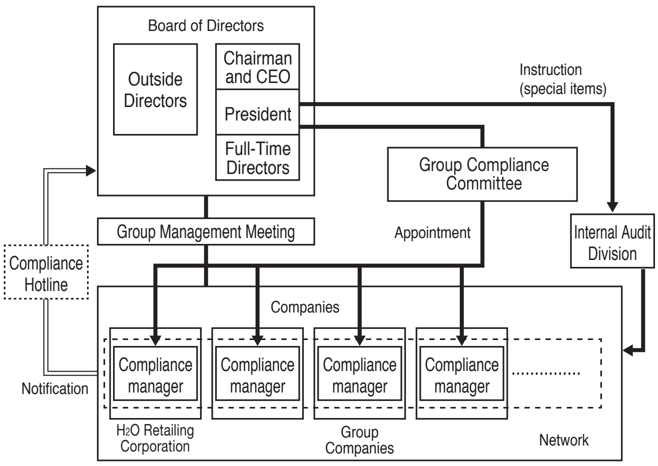
The Board of Corporate Auditors consists of 4 members, with 3 highly independent corporate auditors, including specialists with corporate management and legal experience, appointed from outside the Company.

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

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

F. Audit assistants and their independence from directors in cases 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 Company appoints full-time officers as auditors at subsidiaries.

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 attend regular meetings with directors and the president. Outside corporate auditors give their opinion and ask questions as necessary from the standpoint of specialists with extensive business management experience or attorneys. All full-time corporate auditors attend the monthly Group Management Meeting, the weekly 830 Meetings and the Group Compliance Committee, which is held as needed. The full-time corporate auditors express their opinions at these meetings as necessary and inspect final decision reports on key matters as well as the minutes of the meeting. They are also directly briefed on the execution of Company business affairs by the internal control division (Finance and Accounting Office, General Affairs Office, System Planning Office, etc.).

Regarding the auditing of subsidiaries, full-time corporate auditors assume the position of corporate auditors of Hankyu Hanshin Department Stores, Inc., a core company, while corporate auditors' staffs assume the position of dedicated auditors of other subsidiaries, leading to the augmentation of the audit system. Full-time corporate audictors and corporate audictors' 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. Yusuke Kawasaki and Mr. Satoshi Kihira. Assisting them with the audit were 17 other certified public accountants and 14 other staff. In drafting the accounting audit plan, the auditors exchange opinions about important accounting audit matters. A full-time corporate auditor receives monthly audit result reports, and, at the Board of Corporate Auditors, close coordination is maintained through mutual verification of audit plan progress.

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

4) Outside Directors and Outside Corporate Auditors
The Company has 1 outside director and 3 outside corporate auditors.

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

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

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

Classification	Name	Main Activities
Director	Yohsaku Fuji	Attended all 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 specialized 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.

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)	277	178	56	43	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: 53
Balance sheet value: ¥73,776 million

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

In the year ended 31st March 2012

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

In the year ended 31st March 2013

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

Corporate Governance System

In 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 Kaisha, 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

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

	Millions of yen					Thousands of U.S. dollars (Note 1)
Years ended 31st March	2010	2011	2012	2013	2014	2014
For the year:						
Net sales	¥470,395	¥465,034	¥505,589	¥525,154	¥576,852	$5,655,412
Cost of sales	339,027	335,876	366,122	382,625	420,838	4,125,863
Gross profit	131,368	129,158	139,467	142,529	156,014	1,529,549
Selling, general and administrative expenses	123,344	118,603	129,509	131,859	138,700	1,359,804
Interest expense	337	393	415	440	453	4,441
Income before income taxes and minority interests	5,766	5,847	2,836	11,294	6,825	66,912
Net income	3,017	3,110	1,057	6,201	296	2,902
Comprehensive income	8,070	(5,632)	7,270	19,814	2,252	22,078
Per share data (in yen and dollars)						
Net income - basic	14.62	15.07	5.74	31.94	1.52	0.01
Net income - diluted	13.30	13.70	5.51	31.83	1.52	0.01
Cash dividends	12.50	12.50	12.50	12.50	12.50	0.12
At year-end:						
Inventories	¥15,319	¥15,597	¥15,459	¥16,079	¥16,508	$161,843
Property, plant and equipment (book value)	91,526	106,905	109,106	123,312	120,485	1,181,225
Total assets	344,700	344,188	335,230	359,324	377,717	3,703,107
Long-term debt	60,755	40,589	41,593	41,210	5,501	53,931
Shareholders' equity	150,720	151,237	161,194	164,957	162,817	1,596,245
Ratio analysis:						
Gross profit / Net sales (%)	27.93	27.77	27.58	27.14	27.05	
Income before income taxes / Net sales (%)	1.23	1.26	0.56	2.15	1.18	
Net income / Net sales (%)	0.64	0.67	0.21	1.18	0.05	
Net income / Total assets (%)	0.90	0.90	0.31	1.79	0.08	
Net income / Shareholders' equity (%)	1.93	2.06	0.68	3.80	0.18	
Shareholders' equity / Total assets (%)	46.22	43.94	48.08	45.91	43.11	
Long-term debt / Shareholders' equity (times)	0.38	0.27	0.26	0.25	0.03	
Net sales / Inventories (times)	30.71	29.81	32.71	32.66	34.94	
Net sales / Total assets (times)	1.36	1.35	1.51	1.46	1.53	

Note 1. U.S. dollar amounts represent translations of yen amounts at the rate of ¥102 = 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.

Consolidated Balance Sheets

H2O RETAILING CORPORATION and Consolidated Subsidiaries

As of 31st March, 2012, 2013 and 2014	Millions of yen 2012	Millions of yen 2013	Millions of yen 2014	Thousands of U.S. dollars (Note 1) 2014
Assets				
Current assets:				
Cash on hand and in banks (Note 27 and 28)	¥17,823	¥15,136	¥35,402	$347,078
Notes and accounts receivable:				
Trade (Note 28)	19,979	22,960	30,987	303,794
Other	2,545	2,936	2,747	26,931
Allowance for doubtful receivables (Note 28)	(42)	(69)	(83)	(813)
	22,482	25,827	33,651	329,912
Inventories (Note 5)	15,459	16,079	16,508	161,843
Deferred tax assets (Note 12)	4,850	6,117	3,936	38,588
Prepaid expenses and other (Note 4)	2,693	2,260	2,530	24,804
Total current assets	63,307	65,419	92,027	902,225
Investments and long-term loans receivable:				
Investment securities (Note 4 and 28)	63,765	87,224	88,601	868,637
Investments in an unconsolidated subsidiary and affiliates	535	416	349	3,422
Long-term loans receivable	2,608	2,635	2,730	26,765
Long-term loans to employees	249	200	125	1,225
Total investments and long-term loans receivable	67,157	90,475	91,805	900,049
Property, plant and equipment:				
Land (Note 8 and 15)	35,324	35,730	37,460	367,255
Buildings and structures (Note 8)	141,697	155,382	160,064	1,569,255
Machinery and equipment	23,725	27,316	27,714	271,706
Construction in progress	3,708	1,356	141	1,382
	204,454	219,784	225,379	2,209,598
Accumulated depreciation	(95,348)	(96,472)	(104,894)	(1,028,373)
Total property, plant and equipment	109,106	123,312	120,485	1,181,225
Other noncurrent assets:				
Long-term leasehold deposits (Note 6 and 8)	57,373	47,609	47,217	462,912
Goodwill	17,108	16,020	7,942	77,863
Intangibles	8,190	8,739	7,155	70,147
Deferred tax assets (Note 12)	9,575	6,737	9,863	96,696
Other assets	3,541	1,168	1,488	14,588
Allowance for doubtful receivables	(127)	(155)	(265)	(2,598)
Total other noncurrent assets	95,660	80,118	73,400	719,608
Total assets	¥335,230	¥359,324	¥377,717	$3,703,107

See accompanying notes.

Consolidated Balance Sheets

H2O RETAILING CORPORATION and Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2012	2013	2014	2014
Liabilities and Net Assets				
Liabilities				
Current liabilities:				
Current portion of bonds (Note 7 and 28)	¥36	¥35	¥ —	$ —
Current portion of long-term debt (Note 7, 8 and 28)	651	580	35,484	347,882
Short-term bank loans payable (Note 7 and 8)	40	6	6	59
Notes and accounts payable:				
Trade (Note 28)	32,444	35,960	44,214	433,471
Other (Note 7 and 28)	7,730	6,888	7,964	78,078
	40,174	42,848	52,178	511,549
Accrued expenses	3,407	3,294	3,666	35,941
Income taxes payable (Note 28)	1,453	3,490	5,459	53,520
Consumption tax payable	1,710	342	2,400	23,529
Advances received	32,195	32,490	33,688	330,275
Deferred tax liabilities (Note 12)	1	1	2	20
Provision for bonuses to employees	4,300	3,661	5,251	51,480
Provision for bonuses to directors and corporate auditors	76	99	128	1,255
Asset retirement obligations (Note 29)	1,264	33	6	59
Provision for loss of reorganisation of personnel management system	546	371	258	2,529
Provision for point card certificates	1,155	1,166	1,272	12,471
Other current liabilities	1,883	2,284	1,806	17,706
Total current liabilities	88,891	90,700	141,604	1,388,275
Long-term Liabilities:				
Long-term debt (Note 7, 8 and 28)	41,593	41,210	5,501	53,931
Deferred tax liabilities (Note 12)	10,546	17,537	18,339	179,794
Deferred tax liabilities related to land revaluation (Note 15)	310	310	310	3,039
Provision for retirement benefits to employees (Note 9)	15,456	12,562	—	—
Net defined benefit liability (Note 9)	—	—	18,222	178,647
Provision for retirement benefits to directors and corporate auditors	150	161	177	1,735
Provision for redemption of gift certificates	1,743	1,874	2,083	20,422
Long-term payable accrued (Note 7)	1,463	2,477	2,937	28,795
Guarantee deposits	5,871	5,671	5,834	57,196
Asset retirement obligations (Note 29)	224	281	406	3,980
Other long-term liabilities (Note 28)	128	119	26	255
Total long-term liabilities	77,484	82,202	53,835	527,794
Total liabilities	166,375	172,902	195,439	1,916,069
Net assets (Note 13)				
Shareholders' equity:				
Common stock:				
Authorised - 300,000,000 shares,				
Issued - 206,740,777 shares in 2012, 2013 and 2014	17,797	17,797	17,797	174,480
Capital surplus	48,257	48,260	48,274	473,275
Retained earnings	95,259	99,032	96,901	950,010
Treasury stock - 12,571,631 shares in 2012				
- 12,583,415 shares in 2013				
- 12,584,542 shares in 2014	(119)	(132)	(155)	(1,520)
Total shareholders' equity	161,194	164,957	162,817	1,596,245
Accumulated other comprehensive income:				
Net unrealised holding gains on securities	6,619	19,976	21,637	212,127
Land revaluation, net of tax (Note 15)	81	81	81	794
Foreign currency translation adjustments	(564)	(269)	—	—
Remeasurements of defined benefit plans	—	—	(4,128)	(40,471)
Total accumulated other comprehensive income	6,136	19,788	17,590	172,450
Subscription rights to shares	342	531	677	6,637
Minority interests	1,183	1,146	1,194	11,706
Total net assets	168,855	186,422	182,278	1,787,038
Total liabilities and net assets	¥335,230	¥359,324	¥377,717	$3,703,107

See accompanying notes.

Consolidated Statements of Income

H2O RETAILING CORPORATION and Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars (Note 1)
Years ended 31st March 2012, 2013 and 2014	2012	2013	2014	2014
Net sales	¥505,589	¥525,154	¥576,852	$5,655,412
Cost of sales (Note 23)	366,122	382,625	420,838	4,125,863
Gross profit	139,467	142,529	156,014	1,529,549
Selling, general and administrative expenses	129,509	131,859	138,700	1,359,804
Operating income	9,958	10,670	17,314	169,745
Other income (expenses):				
Interest and dividend income	911	898	1,046	10,255
Equity in gains (losses) of affiliated companies	(17)	7	104	1,020
Amortisation of negative goodwill	79	—	—	—
Gain on sales of property, plant and equipment (Note 25)	—	158	—	—
Gain on amortisation of prior service cost of pension plan	682	—	—	—
Gain on step acquisitions	261	—	—	—
Gain on sales of investment securities (Note 4)	77	1,002	—	—
Compensation income (Note 17)	—	6,000	—	—
Gain on liquidation of subsidiaries and associates (Note 18)	—	—	126	1,235
Interest expense	(415)	(440)	(453)	(4,441)
Loss on store rebuilding (Note 19)	(292)	—	(9,412)	(92,275)
Loss on reorganisation of personnel management system	(5,282)	—	—	—
Loss on store closing (Note 20)	(1,766)	(1,642)	(152)	(1,490)
Loss on disposal of property, plant, equipment and intangibles (Note 22)	(662)	(1,647)	(432)	(4,235)
Impairment losses (Note 21)	(269)	(621)	(1,295)	(12,696)
Loss on liquidation of subsidiaries and affiliates	—	(525)	—	—
Loss on sales of property, plant and equipment (Note 26)	—	(34)	—	—
Expenses for opening new stores (Note 24)	—	(2,735)	(171)	(1,676)
Loss on valuation of investment securities (Note 4)	(223)	—	—	—
Loss on provision for redemption of gift certificates	(984)	(1,130)	(1,037)	(10,167)
Other - net	778	1,333	1,187	11,637
	(7,122)	624	(10,489)	(102,833)
Income before income taxes and minority interests	2,836	11,294	6,825	66,912
Income taxes (Note 12):				
Current	1,402	3,790	5,434	53,275
Deferred	394	1,343	1,069	10,480
	1,796	5,133	6,503	63,755
Income before minority interests	1,040	6,161	322	3,157
Minority interests in net income (loss)	(17)	(40)	26	255
Net income	¥1,057	¥6,201	¥296	$2,902
	Yen			U.S. dollars (Note 1)
Net income per share - basic (Note 31)	¥5.74	¥31.94	¥1.52	$0.01
Net income per share - diluted (Note 31)	¥5.51	¥31.83	¥1.52	$0.01
Cash dividends	¥12.50	¥12.50	¥12.50	$0.12

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, 2012, 2013 and 2014	2012	2013	2014	2014
Income before minority interests	¥1,040	¥6,161	¥322	$3,157
Other comprehensive income (Note 14)				
Net unrealised holding gains on securities	6,242	13,359	1,661	16,284
Revaluation reserve for land	38	—	—	—
Foreign currency translation adjustments	(50)	294	269	2,637
Total other comprehensive income	6,230	13,653	1,930	18,921
Comprehensive income	¥7,270	¥19,814	¥2,252	$22,078
Comprehensive income attributed to:				
Owners of the parent	7,285	19,852	2,226	21,824
Minority interests	(15)	(38)	26	254

See accompanying notes.

Consolidated Statements of Changes in Net Assets

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Years ended 31st March 2012, 2013 and 2014	Thousands	Millions of yen										
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealised holding gains on securities	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 2011	206,740	¥17,797	¥37,172	¥96,575	(¥307)	¥380	¥43	(¥514)	¥-	¥232	¥60	¥151,438
Cash dividends - ¥12.5 per share	–	–	–	(2,373)	–	–	–	–	–	–	–	(2,373)
Net income	–	–	–	1,057	–	–	–	–	–	–	–	1,057
Gain on purchase and disposition of treasury stock	–	–	11,085	–	188	–	–	–	–	–	–	11,273
Land revaluation, net of tax (Note 15)	–	–	–	–	–	–	38	–	–	–	–	38
Increase in net unrealised holding gains on securities	–	–	–	–	–	6,239	–	–	–	–	–	6,239
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	–	(50)	–	–		
Subscription rights to shares	–	–	–	–	–	–	–	–	–	110	–	110
Minority interests	–	–	–	–	–	–	–	–	–	–	1,123	1,123
Balance at 31st March 2012	206,740	¥17,797	¥48,257	¥95,259	(¥119)	¥6,619	¥81	(¥564)	¥–	¥342	¥1,183	¥168,855
Balance at 1st April 2012	206,740	¥17,797	¥48,257	¥95,259	(¥119)	¥6,619	¥81	(¥564)	¥–	¥342	¥1,183	¥168,855
Cash dividends - ¥12.5 per share	–	–	–	(2,428)	–	–	–	–	–	–	–	(2,428)
Net income	–	–	–	6,201	–	–	–	–	–	–	–	6,201
Gain on purchase and disposition of treasury stock	–	–	3	–	(13)	–	–	–	–	–	–	(10)
Increase in net unrealised holding gains on securities	–	–	–	–	–	13,357	–	–	–	–	–	13,357
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	–	295	–	–	–	295
Subscription rights to shares	–	–	–	–	–	–	–	–	–	189	–	189
Minority interests	–	–	–	–	–	–	–	–	–	–	(37)	(37)
Balance at 31st March 2013	206,740	¥17,797	¥48,260	¥99,032	(¥132)	¥19,976	¥81	(¥269)	¥–	¥531	¥1,146	¥186,422
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)
Increase in net unrealised holding gains on securities	–	–	–	–	–	1,661	–	–	–	–	–	1,661
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	–	269	–	–	–	269
Remeasurements of defined benefit plans	–	–	–	–	–	–	–	–	(4,128)	–	–	(4,128)
Subscription rights to shares	–	–	–	–	–	–	–	–	–	146	–	146
Minority interests	–	–	–	–	–	–	–	–	–	–	48	48
Balance at 31st March 2014	206,740	¥17,797	¥48,274	¥96,901	(¥155)	¥21,637	¥81	¥–	(¥4,128)	¥677	¥1,194	¥182,278

	Thousands of U.S. dollars (Note 1)										
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealised holding gains on securities	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 2013	$174,480	$473,137	$970,902	($1,294)	$195,843	$794	($2,637)	$-	$5,206	$11,235	$1,827,666
Cash dividends - $0.12 per share	–	–	(23,794)	–	–	–	–	–	–	–	(23,794)
Net income	–	–	2,902	–	–	–	–	–	–	–	2,902
Gain on purchase and disposition of treasury stock	–	138	–	(226)	–	–	–	–	–	–	(88)
Increase in net unrealised holding gains on securities	–	–	–	–	16,284	–	–	–	–	–	16,284
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	2,637	–	–	–	2,637
Remeasurements of defined benefit plans	–	–	–	–	–	–	–	(40,471)	–	–	(40,471)
Subscription rights to shares	–	–	–	–	–	–	–	–	1,431	–	1,431
Minority interests	–	–	–	–	–	–	–	–	–	471	471
Balance at 31st March 2014	$174,480	$473,275	$950,010	$1,520	$212,127	$794	$–	$40,471	$6,637	$11,706	$1,787,038

Consolidated Statements of Cash Flows

H2O RETAILING CORPORATION and Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars (Note 1)
Years ended 31st March 2012, 2013 and 2014	2012	2013	2014	2014
Cash flows from operating activities:				
Income before income taxes and minority interests	¥2,836	¥11,294	¥6,825	$66,912
Depreciation and amortisation	12,638	13,512	13,598	133,314
Loss on disposal of property, plant and equipment, and intangibles	662	1,647	475	4,657
Impairment losses	269	621	1,295	12,696
Loss on store rebuilding	-	-	9,329	91,461
Gain on liquidation of subsidiaries and associates	-	-	(126)	(1,235)
Loss on liquidation of subsidiaries and affiliates	-	525	-	-
Loss on store closings	1,288	1,463	151	1,480
Increase (decrease) in allowance for doubtful receivables	(23)	54	124	1,216
Increase (decrease) in provision for bonuses to employees	391	(640)	1,589	15,578
Increase (decrease) in provision for bonuses to directors and corporate auditors	(13)	23	28	275
Increase (decrease) in provision for retirement benefits	(599)	(2,890)	(12,547)	(123,010)
Increase (decrease) in net defined benefit liability	-	-	11,810	115,784
Increase (decrease) in provision for loss on store rebuilding	(375)	-	-	-
Increase (decrease) in provision for loss on store closing	(708)	-	-	-
Increase (decrease) in provision for redemption of gift certificates	(28)	132	209	2,049
Increase (decrease) in provision for loss of reorganisation of personnel management system	546	(175)	(113)	(1,108)
Interest and dividend income	(911)	(899)	(1,046)	(10,255)
Interest expense	415	440	453	4,441
Net gain on sales of property, plant and equipment	-	(124)	(43)	(422)
Gain on step acquisitions	(261)	-	-	-
Gain on sales of investment securities	(77)	(1,002)	-	-
Loss on valuation of investment securities	223	-	-	-
Decrease (increase) in notes and accounts receivable	450	(2,810)	(8,044)	(78,863)
Decrease (increase) in inventories	475	(562)	(429)	(4,206)
Increase (decrease) in notes and accounts payable	(1,418)	3,394	8,250	80,882
Increase (decrease) in consumption tax payable	1,242	(1,368)	2,058	20,176
Other	561	3,188	2,994	29,353
Subtotal	17,583	25,823	36,840	361,176
Interest and dividend income received	861	871	1,016	9,961
Interest expense paid	(361)	(439)	(498)	(4,882)
Income taxes paid	(1,906)	(1,722)	(3,942)	(38,647)
Net cash provided by operating activities	16,177	24,533	33,416	327,608
Cash flows from investing activities:				
Decrease (increase) in time deposits	10,187	-	34	333
Purchases of property, plant and equipment	(21,374)	(29,865)	(9,891)	(96,971)
Proceeds from sales of property, plant and equipment	20	1,107	103	1,010
Purchases of intangibles	(1,982)	(1,925)	(1,511)	(14,814)
Purchases of investment securities	(38)	(3,439)	(511)	(5,010)
Proceeds from sales of investment securities	88	1,978	1,819	17,833
Purchases of investments in subsidiaries	(20)	-	(51)	(500)
Payment for sales of investments in subsidiaries resulting in change in scope of consolidation	(32)	-	-	-
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(4,638)	(39)	-	-
Payments for exercise of asset retirement obligations	(120)	(1,798)	(79)	(775)
Payments of long-term loans receivable	(10)	(16)	(215)	(2,108)
Proceeds from collection of long-term loans receivable	116	133	144	1,412
Payments for guarantee deposits	(390)	(844)	(446)	(4,373)
Proceeds from collection of guarantee deposits	1,419	10,638	868	8,510
Other	-	144	108	1,061
Net cash used in investing activities	(16,774)	(23,926)	(9,628)	(94,392)
Cash flows from financing activities:				
Net decrease in short-term bank loans payable	(232)	(40)	-	-
Proceeds from long-term debt	600	-	-	-
Repayments of long-term debt	(2,799)	(652)	(812)	(7,961)
Redemption of bonds	(20,018)	(36)	(35)	(343)
Dividends paid	(2,422)	(2,436)	(2,446)	(23,980)
Proceeds from share issuance to minority shareholders	-	-	54	529
Proceeds from sale of treasury stock	11,280	3	1	10
Additions to treasury stock	(6)	(13)	(23)	(225)
Other	(108)	(248)	(298)	(2,921)
Net cash used in financing activities	(13,705)	(3,422)	(3,559)	(34,891)
Foreign exchange differences of cash and cash equivalents	(54)	128	66	646
Net increase in cash and cash equivalents	(14,356)	(2,687)	20,295	198,971
Cash and cash equivalents at beginning of year	32,126	17,770	15,083	147,873
Increase in cash and cash equivalents resulting from merger with consolidated and unconsolidated subsidiaries	-	-	5	48
Cash and cash equivalents at end of year (Note 27)	¥17,770	¥15,083	¥35,383	$346,892

See accompanying notes.

Notes to the Consolidated Financial Statements

H2O RETAILING CORPORATION and Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange 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 2014, which was ¥102 to U.S.$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

Consolidation and investments in affiliates

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

The consolidated financial statements include the accounts of the Company and its 43 (43 in 2013 and 41 in 2012) significant majority owned subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

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 2012, the following companies were included within the scope of consolidation:

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

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

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

However, any profit or loss generated by the company until the time it was liquidated has been included in the consolidated statements of income and consolidated statements of comprehensive income.
The trade name of EveryD.com, Inc. has been changed to Hankyu OrangeLife, Inc. and that of EDC Preparatory Company, Inc. has been changed to EveryD.com, Inc.

In the year ended 31st March 2014, 1 consolidated subsidiary (1 in 2013 and 3 in 2012) 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.

The equity method was applied to 3 affiliates (4 in 2013 and 5 in 2012) for the year ended 31st March 2014.
In the year ended 31st March 2014, Cinemosaic Co., Ltd. has been removed from the scope of the equity-method affiliates since 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.
In the year ended 31st March 2012, EveryD.com, Inc. was removed from the scope of the equity-method affiliates since it has been included in the scope of consolidation due to the acquisition of additional shares. Rakuyu Tatemono Kanri K.K. also was removed from the scope of the equity-method affiliates due to a liquidation. However, any profit or loss generated during the period leading up to the share sell-off was included in the consolidated statements of income and consolidated statements of comprehensive income.
In addition, the trade name of EveryD.com, Inc. has been changed to Hankyu OrangeLife, Inc.

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 an 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 50 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 expenses as incurred.

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

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

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

Provision for 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 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. Other subsidiaries also have unfunded lump-sum payment plans or non-contributory pension plans. The employees of the Company are all seconded from the consolidated subsidiaries and provided with the respective subsidiary’s post-employment benefit plans.

The Companies apply the straight-line attribution for allocation of the estimated amount of retirement benefits upon calculation of projected benefit obligation.
In the years ended 31st March 2012 and 2013, the Companies provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of plan assets.
Prior service costs are 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 (mainly 13 years) commencing with the following period.

With regard to retirement benefits for directors and corporate auditors of some consolidated subsidiaries, the liability for lump-sum payments is stated at the amount which would be required to be paid if they retired as of the balance sheet date. The Companies provide executive officers' severance and retirement benefits. The amount of liability as of 31st March 2012, 2013 and 2014 was ¥33 million, ¥32 million and ¥27 million ($265 thousand), respectively.

Translation of foreign currencies
Monetary assets and liabilities denominated in foreign currency are translated into Japanese yen at the rates prevailing at each balance sheet date, and the resulting translation gains and losses are charged to income.
In the translation of the financial statements of the overseas subsidiary, assets, liabilities, revenues and expenses are translated at the rates prevailing at the subsidiary's balance sheet date and shareholders' equity accounts are translated at historical rates. The resulting foreign currency translation adjustments are shown as a separate component of net assets.

Reclassifications
Certain reclassifications of the financial statements for the years ended 31st March 2012 and 2013 have been made to conform to the presentation for the year ended 31st March 2014.

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

Per share information
Computations of basic net income per share are based on the weighted average number of shares outstanding during each period. For diluted net income per share for the years ended 31st March 2012, 2013 and 2014, see Note 31.
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 nondeductible portion of consumption taxes are accounted for as expenses in the same year they are incurred.

(Additional Information)
Accounting changes and error corrections

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

3. Changes in accounting policies

Retirement benefits
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 said liability.
The Company transitionally applied this Accounting Standard as determined in its 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 ($178,647 thousand), deferred tax assets were ¥2,283 million ($22,382 thousand) more and accumulated other comprehensive income ¥4,128 million ($40,471 thousand) less than the amounts that would have been reported without the change.
The effect on per share information is stated in Note 31 "Net Income Per Share."

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 ($4,833 thousand) 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, issued 13th September 2013)
The "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, issued 13th September 2013)
The "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7, issued 13th September 2013)
The "Revised Accounting Standard for Earnings Per Share" (ASBJ Statement No.2, issued 13th September 2013)
The "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, issued 13th September 2013)
The "Revised Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No.4, issued 13th September 2013)

(1) Overview
These accounting standards and guidance introduce revisions to accounting for: (i) changes in a company's ownership interests while retaining a controlling financial interest in 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 will adopt 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 the adoption of the accounting standard
The financial impact is not yet determined.

The "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, issued 17th May 2012)
The "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued 17th May 2012)

(1) Overview
These accounting standards introduce revisions to accounting for retirement benefits from the viewpoint of improvements to financial reporting and international convergence, mainly focusing on (i) how actuarial gains and losses and past service costs should be accounted for, (ii) how retirement benefit obligations and current service costs should be determined and (iii) how disclosure can be enhanced.

(2) Date of adoption
The Company will adopt the revisions applicable to the calculation of retirement benefit obligations and service costs effective 1st April, 2014.

(3) Impact of the adoption of the accounting standard
The adoption of these accounting standards will have no significant impact on the financial status for the year ending 31st March 2015, including operating income, income before income taxes and minority interests and retained earnings to be carried forward.

4. Investment Securities

The following tables summarise acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of 31st March 2012, 2013 and 2014.

Securities with book values exceeding acquisition cost:

	Millions of yen									Thousands of U.S. dollars		
	2012			2013			**2014**			**2014**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 21,542	¥ 32,745	¥ 11,203	¥ 46,308	¥ 76,770	¥ 30,462	**¥ 46,693**	**¥ 79,680**	**¥ 32,987**	**$ 457,775**	**$ 781,176**	**$ 323,402**
Government bonds	317	341	24	314	343	29	**-**	**-**	**-**	**-**	**-**	**-**
Other	505	523	18	2,712	3,124	412	**2,274**	**2,804**	**530**	**22,294**	**27,490**	**5,196**
Total	¥ 22,364	¥ 33,609	¥ 11,245	¥ 49,334	¥ 80,237	¥ 30,903	**¥ 48,967**	**¥ 82,484**	**¥ 33,517**	**$ 480,069**	**$ 808,666**	**$ 328,598**

Other securities:

	Millions of yen									Thousands of U.S. dollars		
	2012			2013			**2014**			**2014**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 24,771	¥ 23,680	(¥ 1,091)	¥ 453	¥ 431	(¥ 22)	**¥ 78**	**¥ 71**	**(¥ 7)**	**$ 765**	**$ 696**	**($ 69)**
Government bonds	-	-	-	-	-	-	**-**	**-**	**-**	**-**	**-**	**-**
Other	1,129	1,119	(10)	976	973	(3)	**-**	**-**	**-**	**-**	**-**	**-**
Total	¥ 25,900	¥ 24,799	(¥ 1,101)	¥ 1,429	¥ 1,404	(¥ 25)	**¥ 78**	**¥ 71**	**(¥ 7)**	**$ 765**	**$ 696**	**($ 69)**

The following table summarises sales of available-for-sale securities for the years ended 31st March 2012, 2013 and 2014:

	Millions of yen									Thousands of U.S. dollars		
	2012			2013			**2014**			**2014**		
	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	¥ 49	¥ 48	¥ -	¥ 1,732	¥ 1,002	(¥ 2)	**¥ 26**	**¥ 1**	**(¥ 12)**	**$ 255**	**$ 9**	**($ 118)**
Government bonds	10	-	-	-	-	-	**1,793**	**79**	**(14)**	**17,578**	**775**	**(137)**

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

The “acquisition cost” which appears in the tables above is the book value after impairment loss. The Company incurred impairment loss and recorded loss on valuation of investment securities of ¥223 million for the year ended 31st March 2012. The amount of impairment loss for the year ended 31st March 2013 and 2014 was insignificant and its disclosure was omitted.

5. Inventories

Inventories at 31st March 2012, 2013 and 2014 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2012	2013	**2014**	**2014**
Merchandise goods and finished goods	¥ 14,369	¥ 14,864	¥ **15,270**	$ **149,706**
Work in progress	122	270	**177**	**1,735**
Raw materials and supplies	968	945	**1,061**	**10,402**
	¥ 15,459	¥ 16,079	¥ **16,508**	$ **161,843**

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 instalments commencing in the eleventh year of the lease term, with the balance refundable only on termination of the lease. The deposits bear no interest or bear interest only at a nominal rate.

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

Short-term bank loans and long-term debt, including finance lease obligations, at 31st March 2012, 2013 and 2014 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2012	2013	**2014**	**2014**
0.50% short-term bank loans	¥ 40	¥ 6	¥ **6**	$ **59**
0.70% to 2.98% loans from banks and others, due through 2019	42,208	41,790	**40,985**	**401,814**
Finance lease obligations	1,288	2,492	**2,949**	**28,911**
0.94% unsecured bonds, due 2014	40	20	**-**	**-**
0.75% unsecured bonds, due 2014	31	15	**-**	**-**
	¥ 43,607	¥ 44,323	¥ **43,940**	$ **430,784**
Less amounts due within one year	(855)	(930)	**(35,778)**	**(350,765)**
	¥ 42,752	¥ 43,393	¥ **8,162**	$ **80,019**

Annual maturities of short-term bank loans and long-term debt including finance lease obligations at 31st March 2014 were as follows:

Year ending 31st March.	Millions of yen	Thousands of U.S. dollars
2015	¥ 35,778	$ **350,765**
2016	5,587	**54,775**
2017	345	**3,382**
2018	210	**2,059**
2019 and thereafter	2,020	**19,803**
	¥ 43,940	$ **430,784**

In order to obtain working funds efficiently, the Companies have entered loan commitment agreements with two financial institutions. The loan commitment facilities and unused balances as of 31st March 2012, 2013 and 2014 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2012	2013	**2014**	**2014**
Total loan commitment facilities	¥ 20,000	¥ 20,000	¥ **20,000**	$ **196,078**
Outstanding balances	-	-	**-**	**-**
Unused blanaces	¥ 20,000	¥ 20,000	¥ **20,000**	$ **196,078**

8. Pledged Assets

The following assets were pledged as collateral for short-term bank loans of ¥40 million at 31st March 2012 and for the current portion of long-term debt of ¥440 million, ¥397 million and ¥360 million ($3,529 thousand) and long-term debt of ¥1,140 million, ¥744 million and ¥384 million ($3,765 thousand) at 31st March 2012, 2013 and 2014, respectively:

	Millions of yen			Thousands of U.S. dollars
	2012	2013	**2014**	**2014**
Long-term leasehold deposits	¥ 133	¥ -	¥ **-**	$ **-**
Buildings	2,023	1,923	**1,848**	**18,118**
Land	1,689	1,656	**1,656**	**16,235**
	¥ 3,845	¥ 3,579	¥ **3,504**	$ **34,353**

9. Employees' Severance and Retirement Benefits

For the years ended 31st March 2012 and 2013

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

	Millions of yen	
	2012	2013
Projected benefit obligation	¥ 33,925	¥ 38,047
Unrecognised actuarial differences	(2,417)	(7,186)
Fair value of pension assets	(18,417)	(18,299)
Prepaid pension cost	2,365	-
Liability for severance and retirement benefits	¥ 15,456	¥ 12,562

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

	Millions of yen	
	2012	2013
Service costs - benefits earned during the year	¥ 1,276	¥ 1,205
Interest cost on projected benefit obligation	719	651
Expected return on plan assets	(642)	(538)
Amortisation of actuarial differences	331	296
Severance and retirement benefit expenses	1,684	1,614
Other	(256)	387
Total	¥ 1,428	¥ 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:

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

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

For the year ended 31st March 2014

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		2014	
Projected benefit obligation - beginning balance	¥	37,132	$	364,039
Service cost		1,203		11,794
Interest cost		312		3,059
Changes in actuarial differences		(451)		(4,422)
Retirement benefits paid		(2,407)		(23,598)
Changes in prior service cost		-		-
Other		310		3,040
Projected benefit obligation - ending balance	¥	36,099	$	353,912

(2) Changes in plan assets were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2014		2014	
Plan assets - beginning balance	¥	18,299	$	179,402
Expected return on plan assets		533		5,225
Changes in actuarial differences		(361)		(3,539)
Employers' contributions		1,949		19,108
Retirement benefits paid		(1,564)		(15,333)
Other		-		-
Plan assets - beginning balance	¥	18,856	$	184,863

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

	Millions of yen		Thousands of U.S. dollars	
	2014		2014	
Projected benefit obligation under funded plan	¥	23,525	$	230,637
Plan assets		(18,856)		(184,863)
		4,669		45,774
Projected benefit obligation under non-funded plan		12,574		123,275
Net balance in the consolidated balance sheet		17,243		169,049
Net defined benefit liability		17,243		169,049
Net defined benefit asset		-		-
Net balance in the consolidated balance sheet	¥	17,243	$	169,049

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

	Millions of yen		Thousands of U.S. dollars	
	2014		2014	
Service cost	¥	1,203	$	11,794
Interest cost		312		3,059
Expected return on plan assets		(533)		(5,225)
Amortisation of actuarial differences		685		6,716
Amortisation of prior service cost		-		-
Other		41		401
Retirement benefit cost	¥	1,708	$	16,745

(5) Remeasurements of defined benefit plans are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognised actuarial differences	¥ 6,412	$ 62,863
Total	¥ 6,412	$ 62,863

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

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

The total plan assets include a 7% contribution to the retirement benefit trust in the retirement benefit plans.

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.

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

	2014
Discount rate	0.84%
Long-term expected rate of return	3.0%

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	2014
Projected benefit obligation - beginning balance	¥ 915	$ 8,971
Defined benefit cost	149	1,461
Retirement benefits paid	(83)	(814)
Contribution to the plan	-	-
Other	(2)	(20)
Projected benefit obligation - ending balance	¥ 979	$ 9,598

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

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Projected benefit obligation under funded plan	¥ -	$ -
Plan assets	-	-
	-	-
Projected benefit obligation under non-funded plan	**979**	**9,598**
Net balance in the consolidated balance sheet	**979**	**9,598**
Net defined benefit liability	**979**	**9,598**
Net balance in the consolidated balance sheet	**¥ 979**	**$ 9,598**

(3) Retirement benefit cost calculated under the simplified method was ¥149 million ($1,461 thousand) for the year ended 31st March 2014.

3. The amount required for contributions to the retired benefit plan of the Company and its consolidated subsidiaries was ¥381million ($3,735 thousand) for the year ended 31st March 2014.

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)

(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 2012, 2013 and 2014 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2012	2013	**2014**	**2014**
Original lease obligations (including finance charges) for machinery and equipment	¥ 400	¥ 116	¥ **24**	**$ 235**
Payments remaining:				
Payments due within one year	46	9	**3**	**29**
Payments due after one year	11	5	**2**	**20**
Total	¥ 57	¥ 14	¥ **5**	**$ 49**

Rental expenses under such non-capitalised finance leases for the years ended 31st March 2012, 2013 and 2014 were ¥60 million, ¥52 million and ¥9 million ($88 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
	2012	2013	**2014**	**2014**
Payments due within one year	¥ 8,725	¥ 8,162	¥ **8,501**	**$ 83,343**
Payments due after one year	58,984	55,558	**54,438**	**533,706**
Total	¥ 67,709	¥ 63,720	¥ **62,939**	**$ 617,049**

The Group as lessor

	Millions of yen			Thousands of U.S. dollars
	2012	2013	**2014**	**2014**
Payments due within one year	¥ 1,425	¥ 1,338	¥ **1,971**	$ **19,324**
Payments due after one year	8,420	8,972	**13,635**	**133,676**
Total	¥ 9,845	¥ 10,310	¥ **15,606**	$ **153,000**

11. Segment Information

Segment information for the years ended 31st March 2012, 2013 and 2014 required to be disclosed by the Financial Instruments and Exchange Law of Japan was as follows:

1. General information about reportable segments
The Company Group's reportable segments are components of the Group whose operating results are regularly reviewed by the Board of Directors when making resource allocation and performance assessment decisions and for which discrete financial information is available.
The Company Group is expanding its business activities primarily in the department stores business, but also in the supermarkets business, property management (“PM”) business and others businesses. Accordingly, “Department stores,” “Supermarkets,” “PM” and “Other” have each been made reportable segments.
The “Department stores” segment is primarily engaged in the sale of clothing, accessories, home furnishings, foods and others. The “Supermarkets” segment is engaged in supermarket operations and food production. The “PM” segment is engaged in rental management of commercial facilities, hotels, eating and drinking establishments, remodelling and others. The “Other” segment is engaged in membership management, home delivery, temporary staffing, information processing and others.

2. Basis of measurement about reportable segment net sales, segment income or loss, segment assets and 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.

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

Change in accounting policy which is difficult to distinguish from a change in an accounting estimate
As stated in Note 3, 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.

Thus, operating income, income before income taxes and minority interests were each ¥373 million ($3,657 thousand) more for the Department stores segment and ¥120 million ($1,176 thousand) more for the Supermarket segment, respectively, compared with the amounts that would have been reported with the previous method.

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

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

As of and for the year ended 31st March 2014	Millions of yen					
	Department stores	Supermarkets	PM	Other	Reconciliation	Total
Net sales						
External customers	¥ 427,266	¥ 100,224	¥ 12,925	¥ 36,437	¥ -	¥ 576,852
Intersegment	466	4,609	2,834	20,257	(28,166)	-
Total net sales	¥ 427,732	¥ 104,833	¥ 15,759	¥ 56,694	(¥ 28,166)	¥ 576,852
Segment income	¥ 13,247	¥ 2,127	¥ 1,394	¥ 3,541	(¥ 2.995)	¥ 17,314
Segment assets	¥ 149,466	¥ 49,592	¥ 35,376	¥ 295,711	(¥ 152,428)	¥ 377,717
Other items						
Depreciation and amortisation	¥ 7,148	¥ 1,964	¥ 955	¥ 3,570	(¥ 39)	¥ 13,598
Investment expenditures for affiliated companies accounted for by the equity method	-	-	-	340	-	340
Impairment losses	9,991	366	-	368	-	10,725
Increase in property, plant and equipment and intangibles	¥ 1,457	¥ 5,282	¥ 4,261	¥ 2,563	(¥ 31)	¥ 13,532

As of and for the year ended 31st March 2014	Thousands of U.S. dollars					
	Department stores	Supermarkets	PM	Other	Reconciliation	Total
Net sales						
External customers	$ 4,188,882	$ 982,588	$ 126,716	$ 357,226	$ -	$ 5,655,412
Intersegment	4,569	45,186	27,784	198,598	(276,137)	-
Total net sales	$ 4,193,451	$ 1,027,774	$ 154,500	$ 555,824	($ 276,137)	$ 5,655,412
Segment income	$ 129,873	$ 20,853	$ 13,667	$ 34,716	($ 29,364)	$ 169,745
Segment assets	$ 1,465,353	$ 486,196	$ 346,824	$ 2,899,127	($ 1,494,393)	$ 3,703,107
Other items						
Depreciation and amortisation	$ 70,078	$ 19,255	$ 9,363	$ 35,000	($ 382)	$ 133,314
Investment expenditures for affiliated companies accounted for by the equity method	-	-	-	3,333	-	3,333
Impairment losses	97,951	3,588	-	3,608	-	105,147
Increase in property, plant and equipment and intangibles	$ 14,284	$ 51,784	$ 41,775	$ 25,127	($ 303)	$ 132,667

Note 1. Adjustments are as follows:

Adjustment of segment income was ¥(897) million, ¥(1,196) million and ¥(2,995) ($(29,364) thousand) for the years ended 31st March, 2012, 2013 and 2014, respectively, and comprised the elimination of intersegment transactions.

For the years ended 31st March, 2012, 2013 and 2014, respectively, adjustment of assets was ¥(125,434) million, ¥(137,288) million and ¥(152,428) million ($(1,494,393) thousand) and included ¥(101,815) million, ¥(101,815) million and ¥(105,108) million ($(1,030,471) thousand) offset elimination of investments and capital, ¥(21,624) million, ¥(33,507) million and ¥(45,416) million ($(445,255) thousand) offset elimination of debts and credits and ¥(1,743) million, ¥(1,803) million and ¥(1,815) million ($(17,794) thousand) adjustment for unrealised gains and losses on fixed assets.

Adjustment of depreciation and amortisation, amounting to ¥(60) million and ¥(39) million ($(382) thousand) and adjustment of increase in property, plant and equipment and intangibles, amounting to ¥(107) million and ¥(31) million ($(303) thousand) consists of the elimination of intersegment transactions for the year ended 31st March 2013 and 2014, respectively. For the year ended 31st March 2013, adjustment of impairment loss in the amount of ¥(24) million is 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 2012	Millions of yen					
	Department stores	Supermarkets	PM	Other	Reconciliation	Total
Goodwill						
Amortisation	¥ 503	¥ 507	¥ -	¥ 140	¥ -	¥ 1,150
Unamortised balance	¥ 7,802	¥ 7,269	¥ -	¥ 2,037	¥ -	¥ 17,108
Negative goodwill						
Amortisation	¥ -	¥ -	¥ 43	¥ -	¥ -	¥ 43
Unamortised balance	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -

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

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

As of and for the year ended 31st March 2014	Thousands of U.S. dollars					
	Department stores	Supermarkets	PM	Other	Reconciliation	Total
Goodwill						
Amortisation	$ 4,931	$ 4,971	$ -	$ 2,314	$ -	$ 12,216
Impairment	$ 66,618	$ -	$ -	$ 735	$ -	$ 67,353
Unamortised balance	$ -	$ 61,324	$ -	$ 16,539	$ -	$ 77,863
Negative goodwill						
Amortisation	$ -	$ -	$ -	$ -	$ -	$ -
Unamortised balance	$ -	$ -	$ -	$ -	$ -	$ -

12. Income Taxes

Income taxes consist of corporation, inhabitants and enterprise taxes.

Significant components of the Companies' deferred tax assets and liabilities as of 31st March 2012, 2013 and 2014 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2012	2013	**2014**	**2014**
Deferred tax assets:				
Loss carryforwards	¥ 3,662	¥ 4,061	**¥ 2,285**	**$ 22,402**
Provision for redemption of gift certificates	670	716	**755**	**7,402**
Bonuses to employees	1,542	1,306	**1,793**	**17,578**
Retirement benefits	5,562	4,495	**-**	**-**
Net defined benefit liability	-	-	**6,326**	**62,020**
Loss on disposal of property, plant and equipment	415	-	**-**	**-**
Depreciation	45	24	**655**	**6,422**
Impairment losses	1,377	657	**1,787**	**17,520**
Retirement benefit trust assets	448	455	**461**	**4,520**
Asset retirement obligations	537	115	**149**	**1,461**
Investment in subsidiaries and affiliates	-	416	**146**	**1,431**
Other	4,433	4,696	**4,286**	**42,019**
	18,691	16,941	**18,643**	**182,775**
Valuation allowance	(583)	(1,164)	**(1,737)**	**(17,030)**
Total deferred tax assets	18,108	15,777	**16,906**	**165,745**
Deferred tax liabilities:				
Deferred gains on real property	(3,334)	(3,037)	**(3,022)**	**(29,627)**
Land revaluation of consolidated subsidiaries	(1,804)	(1,819)	**(1,820)**	**(17,843)**
Valuation gain on investment securities resulting from conversion of retirement benefit trust assets (equity securities)	(4,086)	(4,086)	**(4,086)**	**(40,059)**
Unrealised holding gains on securities	(3,605)	(10,984)	**(11,909)**	**(116,755)**
Other	(1,401)	(535)	**(611)**	**(5,991)**
Total deferred tax liabilities	(14,230)	(20,461)	**(21,448)**	**(210,275)**
Net deferred tax assets	¥ 3,878	(¥ 4,684)	**(¥ 4,542)**	**($ 44,530)**

Net deferred tax assets as of 31st March 2012, 2013 and 2014 were included in the consolidated balance sheets as follows:

	Millions of yen			Thousands of U.S. dollars
	2012	2013	**2014**	**2014**
Current assets	¥ 4,850	¥ 6,117	**¥ 3,936**	**$ 38,588**
Other noncurrent assets	9,575	6,737	**9,863**	**96,696**
Current liabilities	(1)	(1)	**(2)**	**(20)**
Long-term liabilities	(10,546)	(17,537)	**(18,339)**	**(179,794)**
Net deferred tax assets	¥ 3,878	(¥ 4,684)	**(¥ 4,542)**	**($ 44,530)**

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

	2012	2013	**2014**
Aggregate statutory income tax rate	40.0%	38.0%	**38.0%**
Increase (reduction) in taxes resulting from:			
Non-deductible expenses	3.7	1.1	**2.0**
Tax on inhabitants per capita	6.4	2.0	**3.2**
Permanent differences (including dividends)	(4.4)	(1.1)	**(2.2)**
Net operating loss carryforwards	13.3	3.8	**2.6**
Impairment of goodwill	-	-	**38.3**
Amortisation of consolidated goodwill	15.1	4.1	**6.9**
Timing difference in connection with investments	-	(3.7)	**(2.1)**
Gain on step acquisitions	(3.7)	-	**-**
Changes in valuation allowances	(8.1)	(0.2)	**(0.6)**
Effects of tax rate change	4.3	-	**-**
Change in tax rate due to special measures for reconstruction	-	0.2	**7.1**
Others	(3.3)	1.3	**2.1**
Effective income tax rate	63.3%	45.5%	**95.3%**

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

In line with the "Act for Partial Amendment of the Income Tax Act, etc. for the Purpose of Creating a Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114 of 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction Following the Great East Japan Earthquake"(Act No. 117 of 2011) promulgated on 2nd December 2012, the new corporate income tax rates are applied for the consolidated fiscal years on and after 1st April 2012. As a result, the statutory income tax rate used for calculating deferred tax assets and liabilities was changed from 40.0% to 38.0% for assets and liabilities that are expected to be recovered or settled after the consolidated fiscal years starting from 1st April 2012 and to 35.6% for those on or after 1st April 2015.
As a result of this change, for the year ended 31st March 2012, deferred tax assets under current assets decreased by ¥268 million, deferred tax liabilities under long-term liabilities decreased by ¥51 million, deferred tax liabilities related to land revaluation decreased by ¥38 million and minority interests decreased by ¥0 million. On the other hand, deferred tax assets under noncurrent assets increased by ¥533 million, land revaluation and net unrealised holding gains on securities under accumulated other comprehensive income increased by ¥38 million and ¥440 million, respectively, and deferred income taxes expense increased by ¥123 million.

In line with the promulgation on 31st March 2014 of the "Act for Partial Revision of the Income Tax Act, etc." (Act No. 10 of 2014), the additional tax as Special Corporate Tax for Reconstruction will not be imposed effective from fiscal periods beginning on or after 1st April 2014. In connection therewith, for temporary differences reversing on or after 1st April 2014, the statutory effective tax rate used to calculate deferred tax assets or liabilities will be changed from 38.0% to 35.6%.
As a result of this change, deferred tax assets decreased by ¥383 million ($3,755 thousand) and income taxes-deferred increased by the same amount for the year ended 31st March 2014.

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

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with the Law.

At the Board of Directors' meeting held on 9th May 2014, the Company resolved cash dividends amounting to ¥1,213 million ($11,892 thousand). These appropriations have not been accrued in the consolidated financial statements as of 31st March 2014. The appropriations were recognised on 3rd June 2014.

Stock information
Changes in number of shares issued and outstanding during the years ended 31st March 2012, 2013 and 2014 were as follows:

	Number of shares		
Common stock outstanding	2012	2013	**2014**
Balance at beginning of year	206,740,777	206,740,777	**206,740,777**
Balance at end of year	206,740,777	206,740,777	**206,740,777**

	Number of shares		
Treasury stock outstanding	2012	2013	**2014**
Balance at beginning of year	450,757	12,571,631	**12,583,415**
Increase due to gratuitous transfer of shares from Hankyu Hanshin Department Stores Kyoeikai	32,860,596	-	**-**
Increase due to purchase of odd-lot shares	10,278	16,576	**25,883**
Decrease due to disposal of shares through public subscription	(20,000,000)	-	**-**
Decrease due to disposal of shares by means of third-party allotment	(750,000)	-	**-**
Decrease due to sales of odd-lot shares	-	(1,792)	**(756)**
Decrease due to exercise of stock options	-	(3,000)	**(24,000)**
Balance at end of year	12,571,631	12,583,415	**12,584,542**

14. Other Comprehensive Income

The recycling and effect of deferred income tax on other comprehensive income for the year ended 31st March 2012, 2013 and 2014 is summarised as follows:

	Millions of yen			Thousands of U.S. dollars
	2012	2013	**2014**	**2014**
Other comprehensive income				
Net unrealised holding gains on securities realised for the year	¥ 9,337	¥ 21,738	¥ **2,639**	$ **25,873**
Recycling	155	(1,000)	**(54)**	**(530)**
Amount before the effect of deferred income tax	9,492	20,738	**2,585**	**25,343**
Effect of deferred income tax	(3,250)	(7,379)	**(924)**	**(9,059)**
Net unrealised holding gains on securities	6,242	13,359	**1,661**	**16,284**
Revaluation reserve for land				
Effect of deferred income tax	38	-	**-**	**-**
Foreign currency translation adjustments realised for the year	(50)	119	**119**	**1,167**
Recycling	-	-	**326**	**3,196**
Amount before the effect of deferred income tax	-	119	**445**	**4,363**
Effect of deferred income tax	-	175	**(176)**	**(1,726)**
Foreign currency translation adjustments	(50)	294	**269**	**2,637**
Total other comprehensive income	¥ 6,230	¥ 13,653	¥ **1,930**	$ **18,921**

15. Land Revaluation

In accordance with the Law Concerning Revaluation of Land, land used for business owned by two consolidated subsidiaries was revaluated. The unrealised gains and losses, net of deferred taxes, were excluded from the statement of income and reported as “Land revaluation, net of tax” in net assets, and the relevant deferred taxes were shown as “Deferred tax liabilities related to land revaluation” in liabilities at 31st March 2012, 2013 and 2014.
Related information was as follows:

	Millions of yen			Thousands of U.S. dollars
Date of revaluations: 28th February 2002 and 31st March 2002	2012	2013	**2014**	**2014**
Book value of land after revaluation	¥ 2,386	¥ 2,386	¥ **2,386**	$ **23,392**
Market value of land	1,564	1,557	**1,550**	**15,196**
Difference	¥ 822	¥ 829	¥ **836**	$ **8,196**

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)	92,000 common shares
Date of issue	31st March 2009
Exercise conditions	No provisions
Intended service period	No provisions
Exercise period	From 1st April 2009 to 31st March 2039

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

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

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

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

	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)	202,000 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

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

(2) Scale and changes in stock options
The following table describes scale and changes in stock options that existed during the fiscal years ended 31st March 2012, 2013 and 2014.
The number of stock options is translated into number of shares.

	Subscription rights to shares issued on					
	March 2009 as stock options	March 2010 as stock options	March 2011 as stock options	February 2012 as stock options	March 2013 as stock options	March 2014 as stock options
In the year ended 31st March 2012:						
Before vested						
As of 31st March 2011	-	-	-	-	-	-
Granted	-	-	-	199,000	-	-
Forfeited	-	-	-	-	-	-
Vested	-	-	-	199,000	-	-
Outstanding	-	-	-	-	-	-
After vested						
As of 31st March 2011	92,000	161,000	194000	-	-	-
Vested	-	-	-	199,000	-	-
Exercised	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-
Outstanding	92,000	161,000	194,000	199,000	-	-
In the year ended 31st March 2013:						
Before vested						
As of 31st March 2012	-	-	-	-	-	-
Granted	-	-	-	-	198,000	-
Forfeited	-	-	-	-	-	-
Vested	-	-	-	-	198,000	-
Outstanding	-	-	-	-	-	-
After vested						
As of 31st March 2012	92,000	161,000	194,000	199,000	-	-
Vested	-	-	-	-	198,000	-
Exercised	3,000	-	-	-	-	-
Forfeited	-	-	-	-	-	-
Outstanding	89,000	161,000	194,000	199,000	198,000	-

In the year ended 31st March 2014:						
Before vested						
As of 31st March 2013	-	-	-	-	-	-
Granted	-	-	-	-	-	202,000
Forfeited	-	-	-	-	-	-
Vested	-	-	-	-	-	202,000
Outstanding	-	-	-	-	-	-
After vested						
As of 31st March 2013	89,000	161,000	194,000	199,000	198,000	-
Vested	-	-	-	-	-	202,000
Exercised	6,000	17,000	1000	-	-	-
Forfeited	-	-	-	-	-	-
Outstanding	83,000	144,000	193,000	199,000	198,000	202,000

Price information

	Subscription rights to shares issued on					
	March 2009 as stock options	March 2010 as stock options	March 2011 as stock options	February 2012 as stock options	March 2013 as stock options	March 2014 as stock options
In the year ended 31st March 2012:						
Exercise price	¥1	¥1	¥1	¥1	-	-
Average exercise price	-	-	-	-	-	-
Fair value at the grant date	¥493	¥568	¥492	¥550	-	-
In the year ended 31st March 2013:						
Exercise price	¥1	¥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 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)
Average exercise price	¥735 ($7.21)	¥821 ($8.05)	¥790 ($7.75)	-	-	-
Fair value at the grant date	¥493 ($4.83)	¥568 ($5.57)	¥492 ($4.82)	¥550 ($5.39)	¥966 ($9.47)	¥783 ($7.68)

(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 2012, 2013 and 2014 as stock options is as follows:

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

Principal parameters and estimation method	February 2012 as stock options	March 2013 as stock options	March 2014 as stock options
Expected volatility of the underlying stock (Note 1)	32.90%	28.76%	31.63%
Remaining expected life of the option (Note 2)	5 years	4 years	3years and 2 months
Expected dividends on the stock (Note 3)	¥12.5 per share	¥12.5 per share	¥12.5 ($0.12) per share
Risk-free interest rate during the expected option term (Note 4)	0.320%	0.081%	0.108%

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

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 year ended 31st March 2012, it is based on projections as of March 2011.
For the year ended 31st March 2013 and 2014, it is based on the actual dividends paid in the latest 4 years or 3 years, respectively.

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

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

17. Compensation Income

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 year ended 31st March 2012 consisted of a loss of ¥292 million resulting from Hankyu Oimachi Garden opening (Phase II) rebuilding.
Loss on store rebuilding in the year ended 31st March 2014 consisted of impairment losses of 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 2012 consisted of a loss of ¥1,766 million for the closing of Kobe Hankyu, Hankyu Hanshin Department Stores, Inc. This amount included impairment losses of ¥1,288 million.
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 losses of ¥944 million.
Loss on store closing in the year ended 31st March 2014 consisted of a loss of ¥117 million ($1,147 thousand) due to reduction of the sales floor of the Takarazuka Hankyu store and ¥35 million ($343 thousand) for others. This amount included impairment losses of ¥101 million ($990 thousand).

21. Impairment Losses

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

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

The Company recognised impairment losses on Hankyu Hanshin Department Store's Kobe Hankyu (closed on 11th March 2012) for the amount capitalised as restoration costs (asset retirement obligations) based on a reasonable estimate. The Company also recognised impairment losses on Hanshoku Co., Ltd. and other for its harsh earnings environments resulting from increased competition. The recoverable amounts of the assets 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, ¥1,557 million was recorded as total impairment losses. Of this amount, the impairment losses for Hankyu Hanshin Department Stores, Inc. are shown inclusive of the loss on store closings.

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

Company	Asset Group	Use	Type of Assets	Location	Millions of yen
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 losses on the Hankyu Ings store on September 2012.
The Company also recognised impairment losses on some stores of Hanshoku Co., Ltd., KAZOKUTEI CO., LTD. and other for harsh earnings environments 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 losses. Of this amount, the impairment losses for Hankyu Hanshin Department Stores, Inc. is shown inclusive of loss on store closings.

The Companies recorded impairment losses in the year ended 31st March 2014 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, goodwill	Kita-ku, Osaka City and other	¥9,991	$97,951
Hanshoku Co., Ltd	Higashinakahama store and other	Store	Buildings and structures, machinery and equipment and other	Joto-ku, Osaka City and other	¥366	$3,588
Cotobuki and other	Factory and other	Factory, etc.	Buildings and structures, machinery and equipment and other, goodwill	Shisou-City, Hyogo Prefecture and other	¥368	$3,608

As the schedule of rebuilding the Hanshin Umeda main store has been confirmed, the Company recognised impairment losses on the fixed assets held by Hankyu Hanshin Department Stores Inc. based on their net realisable value calculated using future cash flow analysis. Besides, the Company recognised impairment losses on some stores for harsh earnings environment resulting from increased competition or for reducing sales floors. As to Hanshoku Co., Ltd. and Cotobuki Co., Ltd., impairment losses were recognised for certain stores and factories for harsh earnings environments resulting from increased competition.
The recoverable amounts of the assets are the present values 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 ($105,147 thousand) was recorded as total impairment losses. Of this amount, the impairment losses of ¥9,329 million ($91,461 thousand) on the Hanshin Umeda main store of Hankyu Hanshin Department Stores, Inc. is shown inclusive of loss on store rebuilding. Similarly, the impairment losses of ¥101 million ($990 thousand) in connection with stores reducing sales floors is shown inclusive of loss on store closings.

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

Loss on disposal of property, plant, equipment and intangibles in the year ended 31st March 2012 consisted of loss of ¥559 million on disposal of buildings and structures, loss of ¥7 million on disposal of machinery and equipment, loss of ¥1 million on disposal of intangibles and loss of ¥96 million on disposal of other assets.
Loss on disposal of property, plant, equipment and intangibles in the year ended 31st March 2013 consisted of loss of ¥1,421 million on disposal of buildings and structures, loss of ¥47 million on disposal of machinery and equipment and loss of ¥179 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 ($3,108 thousand) on disposal of buildings and structures, loss of ¥40 million ($392 thousand) on disposal of machinery and equipment and loss of ¥75 million ($735 thousand) on disposal of other assets.

23. 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 2012, 2013 and 2014 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2012	2013	**2014**	**2014**
Cost of sales	¥ 135	¥ 205	¥ **287**	$ **2,814**

24.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.

25.Gain on sales of property, plant and equipment

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

26.Loss on sales of property, plant and equipment

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

27. 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 2012, 2013 and 2014 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2012	2013	**2014**	**2014**
Cash on hand and in banks	¥ 17,823	¥ 15,136	¥ **35,402**	$ **347,078**
MMF, including securities account	0	0	**-**	**-**
Total	17,823	15,136	**35,402**	**347,078**
Time deposits with maturities exceeding three months	(53)	(53)	**(19)**	**(186)**
Cash and cash equivalents	¥ 17,770	¥ 15,083	¥ **35,383**	$ **346,892**

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

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

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

Important noncash transactions were as follows:
In the year ended 31st March 2012, asset retirement obligations of ¥1,252 million were recorded due to the store closing of Kobe Hankyu of Hankyu Hanshin Department Stores, Inc. In addition, the reversal of provision for loss on the store rebuilding following the launch of the Phase II construction of the Hankyu Oimachi Garden offset fixed assets. The amount of offset was ¥1,189 million.
In the year ended 31st March 2013 and 2014, the disclosure is omitted due to its insignificance.

28. 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 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 and operating receivables are subject to credit risk. Securities and investment securities are subject to market price volatility risk.
Notes and accounts payable, an operating payable, are almost all subject to payment deadlines of one year or less. Long-term loans and corporate bonds are for the purpose of procuring needed funds mainly for capital investment. Their repayment deadlines are at most 5 years and 2 months after the closing of accounts. Some of them are subject to interest rate risk because of variable interest rates. Moreover, notes and accounts payable, operating payables and long-term loans are subject to the liquidity risk of the inability to make payment by the payment due date.

(3) Risk Management System for Financial Instruments
① Management of credit risk (risk of customer default on contract)
At Hankyu Hanshin Department Stores, Inc., a consolidated subsidiary, the management of each business unit cooperates with the accounting office concerning notes and accounts receivable and operating receivables according to sales management guidelines and routinely monitors the status of key customers by managing due dates and balances for each customer. 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 described above.

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 2011, 2012 and 2013 (the consolidated closing date for the reporting term) and fair values and differences between them are set forth in the table below. Figures for which fair value was not readily determinable were not included in the following chart (See Table 2, "Financial instruments whose fair value is not readily determinable").

	Millions of yen		
	2012		
	Book value	Fair value	Difference
(1) Cash on hand and in banks	¥17,823	¥17,823	¥ -
(2) Notes and accounts receivable - trade	19,979		
Allowance for doubtful receivables	(40)		
	19,939	19,939	-
(3) Securities and investment securities			
Other securities	58,408	58,408	-
Total assets	96,170	96,170	-
(1) Notes and accounts payable - trade	32,444	32,444	-
(2) Current accounts payable (included in Notes and accounts payable "Other" and income taxes payable)	8,115	8,115	-
(3) Long-term debt - long term loans *	42,208	42,355	147
Total liabilities	¥82,767	¥82,914	¥147

	Millions of yen		
	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) Securities and investment securities			
Other securities	81,641	81,641	-
Total assets	119,674	119,674	-
(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) Long-term debt - long term loans *	41,790	41,927	137
Total liabilities	¥85,036	¥85,173	¥137

	Millions of yen			**Thousands of U.S. dollars**		
	2014			**2014**		
	Book value	**Fair value**	**Difference**	**Book value**	**Fair value**	**Difference**
(1) Cash on hand and in banks	**¥35,402**	**¥35,402**	**¥-**	**$347,078**	**$347,078**	**$ -**
(2) Notes and accounts receivable - trade	**30,987**			**303,794**		
Allowance for doubtful receivables	**(72)**			**(706)**		
	30,915	**30,915**	**-**	**303,088**	**303,088**	**-**
(3) Securities and investment securities						
Other securities	**82,556**	**82,556**	**-**	**809,373**	**809,373**	**-**
Total assets	**148,873**	**148,873**	**-**	**1,459,539**	**1,459,539**	**-**
(1) Notes and accounts payable - trade	**44,214**	**44,214**	**-**	**433,471**	**433,471**	**-**
(2) Current accounts payable (included in Notes and accounts payable "Other" and income taxes payable)	**8,358**	**8,358**	**-**	**81,941**	**81,941**	**-**
(3)Income taxes payable (except for accrued business office taxes included in above (2) Current accounts payable)	**5,065**	**5,065**	**-**	**49,657**	**49,657**	**-**
(4) Long-term debt - long term loans *	**40,985**	**41,095**	**110**	**401,814**	**402,892**	**1,078**
Total liabilities	**¥98,622**	**¥98,732**	**¥110**	**$966,883**	**$967,961**	**$1,078**

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

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

Assets

(1) Cash on hand and in banks and (2) Notes and accounts receivable - trade

Because these items have short repayment periods, fair value approximates book value. Therefore book value shall be fair value.

(3) 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 and (3) Income taxes payable

Because these items have short payment periods, fair value approximates book value. Therefore book value shall be fair value.

(4) Long-term debt - long-term loans

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.

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 fair value is not readily determinable, they have not been included in the above table.

	Millions of yen			Thousands of U.S. dollars
	2012	2013	2014	2014
	Book value	Book value	Book value	Book value
Unlisted shares	**¥6,099**	**¥5,999**	**¥6,394**	**$62,686**
Long-term leasehold deposits	**57,373**	**47,609**	**47,217**	**462,912**
Guarantee deposits	**5,871**	**5,671**	**5,834**	**57,196**

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

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

	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				Thousands of U.S. dollars			
2014	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years	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**	**¥-**	**¥-**	**¥-**	**$347,078**	**$ -**	**$ -**	**$ -**
Notes and accounts receivable - trade	**30,987**	**-**	**-**	**-**	**303,794**	**-**	**-**	**-**
Notes and accounts receivable - other	**2,747**	**-**	**-**	**-**	**26,931**	**-**	**-**	**-**
Securities and investment securities								
Other securities with maturity (government bonds)	**-**	**2,260**	**-**	**-**	**-**	**22,157**	**-**	**-**
Other securities with maturity (corporate bonds)	**-**	**-**	**-**	**20**	**-**	**-**	**-**	**196**
Total	**¥69,136**	**¥2,260**	**¥-**	**¥20**	**$677,803**	**$22,157**	**$-**	**$196**

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

	Millions of yen					
2012	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Long-term debt - corporate bonds	**¥36**	**¥35**	**¥-**	**¥-**	**¥-**	**¥-**
Long-term debt - long-term loans	**651**	**243**	**35,306**	**5,314**	**502**	**192**
Lease obligations	**129**	**122**	**110**	**91**	**79**	**757**
Total	**¥816**	**¥400**	**¥35,416**	**¥5,405**	**¥581**	**¥949**

	Millions of yen					
2013	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**

	Millions of yen					
2014	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**

	Thousands of U.S. dollars					
2014	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	**347,882**	**52,255**	**1,196**	**353**	**118**	**20**
Lease obligations	**2,843**	**2,520**	**2,186**	**1,716**	**1,176**	**18,471**
Total	**$350,725**	**$54,775**	**$3,382**	**$2,069**	**$1,294**	**$18,491**

29. Asset Retirement Obligations

Asset retirement obligations that are recorded on the consolidated balance sheets

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

2. Calculation method for asset retirement obligations
For the fiscal years ended 31st March 2012, 2013 and 2014, an estimated period of use of 2-30 years and a discount rate of 0.2%-2.2% were used to calculate the amount of asset retirement obligation.

3. Changes in the total amount of the asset retirement obligations for the fiscal years ended 31st March 2012, 2013 and 2014
For the fiscal year ended 31st March 2012, it became possible for the Company to determine the restoration and abandonment costs of Kobe Hankyu of Hankyu Hanshin Department Stores, Inc. Thus, the amount of ¥1,288 was additionally provided as asset retirement obligations.
For the fiscal year ended 31st March 2013, it became possible for the Company to determine the restoration and abandonment costs of Hankyu 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 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 ($3,324 thousand). Besides, the amount of ¥73 million ($716 thousand) was provided as asset retirement obligations due to 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.

Changes in the balances are as follows:

	Millions of yen			Thousands of U.S. dollars
	2012	**2013**	**2014**	**2014**
Balance at beginning of year	**¥271**	**¥1,488**	**¥314**	**$3,078**
Increase due to estimate changes	**1,596**	**583**	**339**	**3,324**
Increase due to acquisition of property, plant and equipment	**9**	**66**	**76**	**745**
Increase due to increase in the number of consolidated subsidiaries	**66**	**-**	**-**	**-**
Adjustments with passage of time	**3**	**5**	**5**	**49**
Decrease due to fulfilment of asset retirement obligations	**(457)**	**(1,828)**	**(159)**	**(1,559)**
Other	**-**	**-**	**(163)**	**(1,598)**
Balance at end of year	**¥1,488**	**¥314**	**¥412**	**$4,039**

30. Related Party Transactions

In the year ended 31st March 2012

Transactions with related parties

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

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

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

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

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

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

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

Business terms and policies for determination of business tearms

Note 1. Transactions are conducted under third-party beneficiary contracts.
2. Transaction amounts are exclusive of consumption taxes; term-end balances (exclusive of guarantee money paid) include consumption taxes.
3. Rents for buildings are determined by current market rates.
4. All other matters are determined according to general terms and conditions.
5. Hideyuki Takai retired as President of TOHO CO., LTD. and took office as an advisor on 26th May 2011. The amounts in "Value of transactions" reflect amounts of transactions during his administration as President and those in "Term-end balance" reflect balances as of the date of his retirement.
6. Immediate family members of Director Shigeru Yasukawa of H2O RETAILING CORPORATION and Hankyu Hanshin Department Stores, Inc., a subsidiary of the Company, held 100% of the voting rights in Osaka Chuo Shokuryo.

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

Classification	Name of company or individual	Location	Capital or investment	Occupation or business lines	Ownership of voting rights (%)	Nature of relationship	Nature of transactions	Value of transactions	Accounting designation	Term-end balance
Subsidiaries of companies that have significant stakes in the reporting entity	Hankyu Corporation	Kita-ku, Osaka City	¥100 million	Railway operations, real estate rental and dealership operations, stage revues, retailing	-	Same person serving concurrently as director or corporate auditor for both parties, Rental of real estate	Rental fees	¥4,381 million	Prepaid expenses and other	¥149 million
									Notes and accounts payable - other	¥14 million
									Accrued expenses	¥139 million
							Fees for display of signs, etc.	¥6 million	Prepaid expenses and other	¥0 million
							Deposits of guarantee money	¥29 million	Long-term leasehold deposits	¥22,699 million
							Return of guarantee money	¥167 million		
	HANSHIN ELECTORIC RAILWAY CO., LTD.	Fukushima-ku, Osaka City	¥29,384 million	Railway operations, real estate rental and dealership operations, sports business, travel business	15.30% shares of the Company directly held	Same person serving concurrently as director or corporate auditor for both parties, Rental of real estate	Rental fees	¥4,977 million	Prepaid expenses and other	¥2 million
									Accrued expenses	¥521 million
							Fees for display of signs, etc.	¥18 million	-	-
							Deposits	-	Long-term leasehold deposits	¥2,583 million

Business terms and policies for determination of business terms

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.

In the year ended 31st March 2013
Transactions with related parties
(1) Transactions between the reporting entity of the consolidated financial statements and related parties: None
(2) Transactions between subsidiaries of the reporting entity of the consolidated financial statements and related parties
(a) Directors, corporate auditors and major individual shareholders of the reporting entity of the consolidated financial statements

Classification	Name of company or individual	Location	Capital or investment	Occupation or business lines	Ownership of voting rights (%)	Nature of relationship	Nature of transactions	Value of transactions	Accounting designation	Term-end balance
Companies in which the director, the corporate auditor or his immediate family own a majority of voting rights	Osaka Chuo 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
Note1. 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.

(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	¥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.

In 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 investment	Occupation or business lines	Ownership of voting rights (%)	Nature of relationship	Nature of transactions	Value of transactions	Accounting designation	Term-end balance
Companies in which the director, the corporate auditor or his immediate family own a majority of voting rights	Osaka Chuo Syokuryo	Ibaraki City, Osaka	¥10 million ($98 thousand)	Food wholesaling	-	Materials procurement	Purchases of foodstuffs for processing	¥11 million ($108 thousand)	Notes and accounts payable - trade	¥1 million ($10 thousand)

Business terms and policies for determination of business terms
Note1. 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 ($980 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	¥7,635 million ($74,833 thousand)	Prepaid expenses and other	¥150 million ($1,471 thousand)
									Notes and accounts payable - other	¥13 million ($127 thousand)
									Accrued expenses	¥78 million ($765 thousand)
							Fees for display of signs, etc.	¥8 million ($78 thousand)	Prepaid expenses and other	¥0 million ($0 thousand)
							Deposits of guarantee money	¥19 million ($186 thousand)	Long-term leasehold deposits	¥21,539 million ($211,167 thousand)
							Return of guarantee money	¥37 million ($363 thousand)		
	HANSHIN ELECTORIC RAILWAY CO., LTD.	Fukushima-ku, Osaka City	¥ 29,384 million ($288,078 thousand)	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 ($47,941 thousand)	Prepaid expenses and other	¥2 million ($20 thousand)
									Accrued expenses	¥474 million ($4,647 thousand)
							Fees for display of signs, etc.	¥18 million ($176 thousand)	-	-
							Deposits	-	Long-term leasehold deposits	¥2,583 million ($25,324 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.

31. Net Income Per Share

Reconciliation of the difference between basic and diluted net income per share ("EPS") for the years ended 31st March 2012, 2013 and 2014.

	Millions of yen			Thousands of U.S. dollars
	2012	2013	**2014**	**2014**
Basic net income per share calculation:				
Income (numerator):				
Net income	¥1,057	¥6,201	**¥296**	**$2,902**
Amounts not belonging to common stock	-	-	**-**	**-**
Net income available to common stockholders	1,057	6,201	**296**	**2,902**
Shares, thousands (denominator):				
Weighted average number of shares	184,142	194,164	**194,152**	
Basic EPS (yen and U.S. dollars)	¥5.74	¥31.94	**¥1.52**	**$0.01**
Diluted net income per share calculation:				
Income (numerator):				
Net income	¥1,057	¥6,201	**¥296**	**$2,902**
Amounts not belonging to common stock	-	-	**-**	**-**
Net income available to common stockholders	1,057	6,201	**296**	**2,902**
Effect of dilutive securities - convertible bonds	-	-	**-**	**-**
Adjusted net income	1,057	6,201	**296**	**2,902**
Shares, thousands (denominator):				
Weighted average number of shares	184,142	194,164	**194,152**	
Assumed conversion of convertible bonds	7,290	-	**-**	
Assumed exercise of stock purchase rights	464	645	**835**	
Adjusted weighted average number of shares	191,896	194,810	**194,987**	
Diluted EPS (yen and U.S. dollars)	¥5.51	¥31.83	**¥1.52**	**$0.01**

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 its 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, BPS for the year ended 31st March 2014 has decreased by 21.26 yen.

32. Business Combinations

In the year ended 31st March 2012

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

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

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

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

(f) Percentage of voting rights acquired

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

(g) Primary reason for deciding the acquiring company

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

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

From 1st April 2011 to 31st March 2012

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

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

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

Gain on step acquisitions ¥261 million

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

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

(b) Reason for recognising goodwill

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

(c) Amortisation method and period

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

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

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

2. Business combination by acquisition

(1) Overview

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

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

(b) Primary reason for business combination

The Group realised that providing customers with an additional selection of "dining out" in their "dietary life" would have the beneficial effect of expanding the market share in the Kansai commercial area.

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

(f) Percentage of voting rights acquired

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

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

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

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

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

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

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

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

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

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

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

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

	yen
Net income per share	**¥6.04**

No significant items to report for the years ended 31st March 2013 and 2014.

33. Subsequent Events

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

At the Board of Directors' meetings 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") was concluded on the same day between the Company and Izumiya. 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.

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 focusing 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 while expanding 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 mainly focusing on the Kansai region.

In the meantime, 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 primarily due to the expansion of shopping on the Internet. Thus, the management of each company realizes 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 sincere discussions and negotiations about future strategies, the management of each company has reached a mutual agreement 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 0.63 shares of the Company's common share 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) Acquisition cost of the acquired company 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	¥ **43,412**	$ **425,608**
Direct acquisition costs: financial and legal due diligence fees and fees for valuation, etc.	**48**	**470**
Total acquisition cost	**43,460**	**426,078**

(3) Share exchange ratio by class of shares, the method 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, 0.63 shares of the Company's common stock was allocated.

(b) Method to determine the 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

(4) Amount of negative goodwill gererated and reason for generation

	Millions of yen	Thousands of U.S. dollars
(a) Amount of negative goodwill generated	¥ **10,030**	$ **98,333**

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

2. Conclusion of Share Exchange Agreement to make KAZOKUTEI CO., LTD. a wholly owned subsidiary of the Company

Based on the resolutions at the Board of Directors' meetings held on 9th May 2014, the Company and KAZOKUTEI CO., LTD. ("KAZOKUTEI") concluded a Share Exchange agreement ("Agreement") stipulating that the Company would acquire all remaining shares (26.56%) of KAZOKUTEI through a share exchange ("Share Exchange") with one share of KAZOKUTEI to be exchanged for one share of the Company. The Company will execute the Share Exchange, using shares held in treasury without a resolution at a shareholders' meeting as a simplified share exchange pursuant to Article 796, Paragraph 3 of the Companies Act, whereas it was resolved to approve the Share Exchange at the ordinary general meeting of KAZOKUTEI's shareholders held on 18th June 2014. Thus, KAZOKUTEI became a wholly owned subsidiary of the Company upon the execution of the Share Exchange effective on 1st August 2014. Prior to the effective date of the Share Exchange, KAZOKUTEI was delisted from the Tokyo Stock Exchange on 29th July 2014 (Last trading date was 28th July 2014).

The overview of this business combination is as follows:
(1) Overview
(a) Corporate name and lines of business of the acquired company
Corporate name of the acquired company: KAZOKUTEI CO., LTD.
Lines of business:
Operation of restaurants 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) Primary reason for business combination

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. It will enable 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 maximize 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.

(c) Date of business combination 1st August 2014

(d) Legal form of business combination Share exchange

(e) Corporate name after business combination KAZOKUTEI CO., LTD.

(f) 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%

(g) Primary reason for deciding the acquiring company

The Company became the acquiring company since it acquired all outstanding shares of KAZOKUTEI by allocating one share of the Company's common stock for each share of KAZOKUTEI's common stock to the shareholders (excluding the Company) of KAZOKUTEI immediately prior to the time at which it acquired all outstanding shares of KAZOKUTEI.

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

(2) Acquisition cost of the acquired company 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**	**$ 15,451**
Direct acquisition costs: fees for valuation	**3**	**29**
Total acquisition cost	**1,579**	**15,480**

(3) 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 the 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 statuses, 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

(4) Amount of goodwill gererated and reason for generation

	Millions of yen	Thousands of U.S. dollars
(a) Amount of goodwill generated	**¥ 486**	**$ 4,765**

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

3. Consolidation of shares and change in number of shares per share unit

At the Company's 95th ordinary general meeting of shareholders held on 24th June 2014, it was resolved to approve the proposal submitted by the Board of Directors for the consolidation of shares at a rate of 1 share for every 2 shares, a change in the number of shares per share unit from 1,000 shares to 100 shares and a partial revision of the Articles of Incorporation with regard to a change in the authorised number of shares from 300 million shares to 150 million shares.

The consolidation of shares, a change in the number of shares per share unit and a partial revision of the Article of Incorporation mentioned above took effect as of 1st September 2014.

(1) Reason for consolidation of shares and change in number of shares per share unit
Although the Company's share unit number is currently 1,000 shares, the majority of Izumiya's shareholders have held shares less than one unit due to the Share Exchange effective on 1st June 2014. Since the Company acquired KAZOKUTEI as a wholly owned subsidiary through the Share Exchange effective 1st August 2014, the number of shareholders holding shares less than 1 unit increased.
In addition, under their "Action Plan for the Consolidation of Share Trading Units," Japan's stock exchanges seek to standardise the common stock trading units of all listed domestic corporations at 100 shares.
Under these circumstances, the Company pays full consideration not to prejudice the rights of all shareholders holding shares less than 1 unit in terms of the voting rights and convenience in market trading. As a corporation listed on the Tokyo Stock Exchange, the Company respects the purpose of the above mentioned plan promoted by Japan's stock exchanges and changed its number of shares per share unit from 1,000 shares to 100 shares. In addition, the Company also consolidated 2 shares into 1 share in order to achieve an investment unit at an appropriate level in consideration of the investment unit deemed desirable by Japan's stock exchanges (50,000 yen or more and less than 500,000 yen) and the mid to long-term stock price fluctuation.

(2) Change in number of shares per share unit
The Company changed the number of common shares per share unit from 1,000 to 100.
Thus, effective on 27th August 2014, the trading unit of the Company's common stock at the Tokyo Stock Exchange was changed from 1,000 to 100.

(3) Consolidation of shares
(a) Class of stock to be consolidated and ratio
Every 2 shares of the Company's common stock was consolidated into 1 share.

(b) Decrease in number of shares due to consolidation

Number of shares issued and outstanding before consolidation as of 24th June 2014 250,402,793 shares
Decrease in number of shares after consolidation 125,201,397 shares
Number of shares issued and outstanding after consolidation 125,201,396 shares

(c) Effect on per share information

The following shows adjusted per share information calculated on the assumption that the consolidation of shares had been completed at the beginning of the consolidated fiscal year ended 31st March 2013.

	Millions of yen		Thousands of U.S. dollars
	2013	2014	**2014**
Adjusted net asset per share	¥ 1,903.04	¥ 1,858.37	$ **18.22**
Adjusted net income per share	63.87	3.05	**0.03**
Adjusted diluted net income per share	63.66	3.03	**0.03**

Note : Above figures are calculated based on the number of shares issued and outstanding (206,740,777 shares) as of 31st March 2014. The number of shares newly issued for the Share Exchange effective on 1st June 2014 with Izumiya (43,662,016 shares) is not included in the calculation.

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, 2012, 2013 and 2014, and the consolidated income statements, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of H2O RETAILING CORPORATION and its consolidated subsidiaries as at March 31, 2012, 2013 and 2014, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 33 of the Notes to Consolidated Financial Statements that details how the Company carried out a share exchange with the Company as a parent and Izumiya Co.,Ltd. as a wholly owned subsidiary effective on 1st June 2014.

Without qualifying our opinion, we draw attention to Note 33 of the Notes to Consolidated Financial statements that the Company carried out a share exchange with the Company as a parent and KAZOKUTEI CO.,LTD. as a wholly owned subsidiary effective on 1st August 2014.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 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 25th, 2014
Osaka, Japan

KPMG AZSA LLC

Corporate Data

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Board of Directors and Corporate Auditors

Chairman, Representative Director and CEO
Shunichi Sugioka
President and Representative Director
Atsushi Suzuki
Representative Director
Naoya Araki, Haruya Shijo
Directors
Yohsaku Fuji, Kazuo Sumi, Kazutoshi Senno, Keiji Uchiyama, Yutaka Wada
Director, Managing Executive Officer
Tadatsugu Mori, Katsuhiro Hayashi
Director, Executive Officer
Hiroyasu Kuromatsu
Standing Corporate Auditor
Toshimitsu Konishi
Corporate Auditors
Hideyuki Takai, Toshihisa Takamura, Masashi Muromachi

Outline of the Company (as of 30th September 2014)

Date of Establishment:	March 1947
Stated Capital:	¥17,797 million
Authorised Shares:	150,000,000
Issued and Outstanding Shares:	125,201,396
Shareholders:	23,404
Employees:	59

Principal Shareholders : (as of 31st March 2014)

HANSHIN ELECTRIC RAILWAY CO., LTD.
Takashimaya Company, Limited
Hankyu Hanshin Holdings, Inc.
Northen Trust Co. (AVFC) Re 15 PCT Treaty Account
Japan Trustee Service Bank,Ltd.(Trust Account)
The Master of Trust Bank of Japan.Ltd.(Trust Account)
Pictet & Cie (Europe) S.A.
Japan Trustee Service Bank,Ltd.(Trust Account 9)
The Bank of Tokyo-Mitsubishi UFJ,Ltd.
State Street Bank and Trust Company

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
Related 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 Eyewear Co., Ltd.	10	100.00	Sale of glasses
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.	1,465	73.44	Operation of restaurants mainly serving "Soba/Udon"
Hankyu Tomonokai Co., Ltd.	50	100.00	Membership organization for customer service
Hanshin Midorikai	20	100.00	Membership organization for customer service
Hankyu Wedding	10	100.00	Costume salon for bridal use
Hankyu Home Styling Co., Ltd.	10	100.00	Sale of furniture and interior goods
Hankyu Department Stores Uniform	10	100.00	Sale of uniforms
Hankyu Hello Dog Co., Ltd.	10	100.00	Sale of pet-accessories
Hankyu Design Systems Co., Ltd.	10	100.00	Commercial design, web design and production, photographing & printing
Hankyu Job Yell Co., Ltd.	10	100.00	Manpower dispatching and fee-charging employment agency
Hankyu Career Q School	10	100.00	Training school for sales personnel and job training
Hankyu Hanshin Department Stores Insurance, Inc.	10	100.00	Life and casualty insurance agency
Hankyu Maintenance Service Co., Ltd.	10	100.00	General building maintenance (facilities, cleaning and security)
Hankyu Quality Support	10	100.00	Quality testing and consulting service
Persona Co., Ltd.	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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