H_2O RETAILING CORPORATION

FINANCIAL REPORT 2012

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 H_2O 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 44 subsidiaries and 7 affiliates that operate retail businesses, including its core-department store operations, supermarket operations and shopping center operations.

Contents

General Business Conditions

Business Performance

To increase market share in the Kansai commercial area, the Group has compiled a long-term business plan, Grand Prix 10 (GP10) Plan, with fiscal 2014 as its final year. Various measures have been taken based on this plan to strengthen Group businesses.

In the year ended 31st March 2012, net sales on a consolidated basis came to ¥505,589 million, for an increase of 8.7% over the previous term. This performance was the result of the full-term contribution to sales by the Hakata Hankyu Store in Fukuoka, Kyushu, and the Hankyu Department Store Oi Hankyu Food Hall in Tokyo's Oimachi, both of which opened in March 2011. In addition, we made the Kyushu based home delivery business Hankyu OrangeLife, Inc. and restaurant chain operator Kazokutei Co., Ltd. (which operates mainly in Kansai) into subsidiaries in April and September 2011, respectively.

In addition, as a result of the recognition of depreciation costs attendant on the opening of new stores in our Department Store Business, we posted operating income of ¥9,958 million (down 5.7% year-on-year). Due to the posting of temporary expenses incurred due to the reorganisation of the personnel system within the Department Store Business and the costs of closing the Kobe Hankyu Store in March 2012, net income for the reporting term came to ¥1,057 million, for a year-on-year decrease of 66%.

In the Umeda district of Osaka, commercial facilities that are in competition with our Hankyu and Hanshin main stores opened one after another throughout the term, and business conditions were expected to be difficult, In the end, however, the combined net sales of the two main stores recorded a year-on-year decrease of only 4.5%. As a result, the Group's business performance on a consolidated basis exceeded our start of the year forecasts.

Consolidated results for the year ended 31st March 2012 were as follows:

Results for the term (for reference)

	Millions of yen	YoY %	Start of the year forecasts (Millions of yen)
Net sales	505,589	108.7	497,000
Operating income	9,958	94.3	6,200
Net income	1,057	34.0	400

The following is a breakdown of performance by business segment.

Department Store Business

In the Umeda district, due to the reconstruction work, the Phase I Building of the Hankyu Umeda Flagship Store was reduced to a sales floorspace of 27,000 square meters, making it the smallest such store in the district. In addition, a number of department stores and shopping centers have recently opened in the same area, and existing stores have expanded their floorspace. To minimize the impact of these developments, in the spring of 2011 the Group decided to refurbish the Hanshin Umeda Main Store and to revise our approach to our loyal customers as well as our sales promotion methods at our Hankyu and Hanshin main stores. In line with this policy, we have been pursuing a number of precisely targeted customer strategies.

As a result of these efforts, sales to holders of our house credit cards held firm at the previous year's level at both Umeda main stores, and sales by the Group's outlets in the Umeda district rose well above the start of the term forecasts. The Hankyu Umeda Flagship Store, including the HANKYU MEN'S OSAKA, posted sales of ¥124,458 million (down 5.1% year-on-year), while the Hanshin Umeda Main Store posted sales of ¥92,350 million (down 3.8%).

The Hakata Hankyu Store, which opened in March 2011, proved to be popular with consumers, particularly food items, apparel accessories and fashionable clothing items targetted at young women. As a result of this and the opening of the completed Kyushu Shinkansen railway line, sales for the reporting term, the first year of operation, were an impressive ¥37,260 million.

The former Yurakucho Hankyu Store, which was fully refurbished and reopened in October 2011 under the name HANKYU MEN'S TOKYO, offers the latest fashions and has proved popular, with sales for the first business year after reopening recording a sharp year-on-year increase of 61.0%. Thanks to this, we believe that the Group has established a significant presence in the Tokyo men's apparel market. In addition, the Nishinomiya Hankyu Store, which opened in November 2008, has posted year-on-year sales growth for 27 consecutive months beginning in January 2010. For the reporting term, sales were up by 6.6% year-on-year. Thanks to these strong performances, total sales of the Group for the term, on an existing store basis excluding both Umeda Main Stores, recorded a year-on-year growth of 0.8%.

On the other hand, we made the decision to close the Kobe Hankyu Store, which had opened in the Kobe Harborland area in 1992, as it was judged difficult to continue operating this department store amid a rapidly changing consumer environment. The store was closed in March 2012.

Overall, sales of the Group's Department Store Business came to ¥375,304 million, for year-on-year growth of 7.1%, but owing to a one-time increase in depreciation expenses associated with the opening of new stores, among other factors, operating income for the reporting term fell by 30% to ¥5,761 million.

General Business Conditions

Department Store Business

	Millions of yen	YoY %
Sales	375,304	107.1
Segment income (Operating income)	5,761	70.0

For reference: sales of the Group's department stores

	Millions of yen	YoY %
Hankyu Umeda Flagship Store	124,458	94.9
Senri Hankyu	17,265	99.7
Sakai Kitahanada Hankyu	10,260	100.9
Kawanishi Hankyu	18,106	98.1
Takarazuka Hankyu	8,906	97.2
Nishinomiya Hankyu	23,197	106.6
Kobe Hankyu	9,705	106.1
Sanda Hankyu	1,410	98.1
Hakata Hankyu	37,260	868.6
HANKYU MEN'S TOKYO	9,088	107.4
Oi Hankyu Food Hall	4,746	1,228.7
Tsuzuki Hankyu	7,827	97.9
Hanshin Umeda Main Store	92,351	96.2
Amagasaki Hanshin	3,728	102.6
Hanshin Nishinomiya	4,580	98.3
Hanshin Mikage	883	65.2

Note 1: Figures for Hankyu Umeda Flagship Store includes sales of the "ings" and the HANKYU MEN'S OSAKA.
2: The above sales figures do not include ¥135 million in sales (down 89.8% year-on-year) by regional businesses. Within the regional businesses, uniform manufacturing operations were transferred to Hankyu Department Store's Uniform Co., Ltd. established on 11th April, 2011.
3: The Hakata Hankyu Store held a Grand Opening on 3rd March, 2011.
4: Hankyu Department Store Oi Hankyu Food Hall held a Grand Opening on 16th March, 2011.
5: The Yurakucho Hankyu Store was closed for refurbishing from 19th July, 2011 to 14th October, 2011 and reopened under the name HANKYU MEN'S TOKYO on 15th October, 2011.
6: The second-floor sales area of the Hanshin Mikage Store in Kobe was closed on 24th July, 2011.
7: The Kobe Hankyu Store was closed on 11th March, 2012.

Supermarket Business

Hanshoku Co., Ltd. the Group's supermarket operations subsidiary, targetting an increase in customer share in the Kansai market, has opened stores of a new prototype with a larger percentage of over-the-counter sales and is redesigning existing stores along these lines.

During the reporting term, the company opened the Hankyu Oasis Hirano-nishi Store (Hirano Ward, Osaka) in February 2012, and the Hankyu Oasis Nonaka-kita Store (Yodogawa Ward, Osaka) in March 2012, both of which got off to a good start. In April 2011, the company reopened the redesigned Hankyu Oasis Amagasaki Shioe Store and subsequently redesigned and reopened an adittional ten stores, which posted an average year-on-year sales growth of 9.4%. The company's existing stores as a whole recorded sales roughly at the previous year's level. As a result, revenues and earnings in the Supermarket Business both exceeded levels in the previous year.

Supermarket Business

	Millions of yen	YoY %
Sales	91,628	100.8
Segment income (Operating income)	1,798	103.5

Property Management Business

In March 2011, Group company Oi Development Co., Ltd. launched Phase I of the Hankyu Oimachi Garden project, which includes the Ours Inn Hankyu, a 1,100-room business hotel and the Hankyu Department Store Oi Hankyu Food Hall. The Ours Inn Hankyu, which had been expanded from an 830-room hotel, suffered initially from the economic impact of the Great East Japan Earthquake. Thereafter, however, occupancy rates rose thanks to recoveries in both business travel and tourism demand. For the reporting term, the hotel posted a sharp 159%* year-on-year increase in its operating income.

In addition, four out of the Group's five companies involved in the management and operation of commercial facilities, most notably Hankyu Shopping Center Development Co., Ltd. posted year-on-year increases in operating income. As a result, the Property Management Business as a whole recorded sharply improved earnings.

*Note: The year-on-year comparison is provided with figures reported by Ours Inn Hankyu Co., Ltd. (absorbed by Oi Development Co., Ltd. on April 1, 2011), which had operated the hotel up to the end of fiscal 2010.

Property Management Business

	Millions of yen	YoY %
Sales	13,048	96.7
Segment income (Operating income)	1,741	278.7

Other Businesses

During the reporting term, we took steps to expand our operations in home delivery services with the aim of making this field one of the Group's earnings drivers. In April 2011, we started operations in the Kyushu area by making the Kyushu-based home delivery business Hankyu OrangeLife Inc. into a subsidiary. We also established Hankyu Kitchen Yell Tokyo, Inc. following which we commenced home-delivery services in the Tokyo area from October 2011. As a result of these moves, we secured combined sales of approximately ¥12,000 million for our home delivery operations in the Kyushu, Kansai, and Tokyo areas, roughly twice the previous year's level.

In September 2011 we made the restaurant chain operator Kazokutei Co., Ltd. which operates mainly in Kansai into a subsidiary, and for the reporting term, 14 out of our 19 existing subsidiaries recorded improved operating income figures. Meanwhile, the Other Businesses segment posted the business performance figures shown below, which reflect a decline in income from dividends received from subsidiaries by the Group's holding company, H_2O RETAILING CORPORATION, as well as an increase in costs consequent upon the start of operations of Hankyu Kitchen Yell Tokyo.

Other Businesses

	Millions of yen	YoY %
Sales	25,609	249.8
Segment income (Operating income)	1,555	87.8

Business performance by segment, and consolidated business results

(Millions of yen)

	Department Stores	Supermarkets	PM
Sales	375,304	91,628	13,048
Segment income (Operating income)	5,761	1,798	1,741

	Other	Reconciliation	Total
Sales	25,609	-	505,589
Segment income (Operating income)	1,555	(897)	9,958

Management Issues to be Resolved

In light of changes in the economic environment such as increased competition across industry sectors and business categories as well as an ageing society with declining birthrates, the Group instituted the GP10 Plan, a long-term business plan for the expansion of its business through the opening of new stores and for the increase of profitability of existing stores and subsidiaries.

In pursuit of our objectives under the GP10 Plan and in our core Department Store Business, we are building a new department store business model in response to changes in the market and in the structure of the department store industry. To this end, we are preparing for the Grand Opening in November of this year of our new Hankyu Umeda Flagship Store, which will incorporate this new business model. We also intend to create a solid and profitable business base in the Umeda district by leveraging the competitive and complementary relationship between the Hankyu and Hanshin main stores.

We aim to take maximum advantage of the strong brand images and excellent profitability that will be created by these two main stores to develop our operations in the Kansai region in retail and service sectors such as department stores, food supermarkets, home delivery services and restaurant chains. In this way, we are confident of expanding our market share.

Through the realisation of the goals of the GP10 Plan, the Group intends to establish a business base capable of securing stable earnings. We will employ these earnings to build a strong corporate group that can realise sustainable growth even in the severe business environment predicted for the future.

Corporate Governance System

1) Corporate Governance System

Outline and Rationale of Corporate Governance System

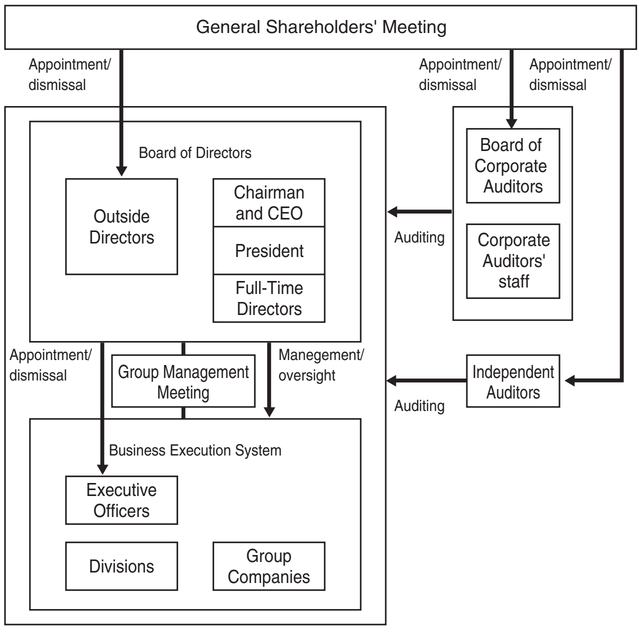
In the H_2O Retailing Group, H_2O Retailing Corporation (the Company), a holding company, is responsible for the business planning, management and oversight of the entire Group. It seeks through proper and legal means to raise the corporate value of Group companies by building a corporate governance system in order to create a fast-acting and efficient company. The Company has adopted a company with a corporate auditor system and has appointed several highly independent outside directors (board 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 stronger oversight of corporate auditors.

The Board of Directors and Board of Corporate Auditors are explained below.
(Board of Directors)
The Board of Directors consists of 10 members, with one 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.

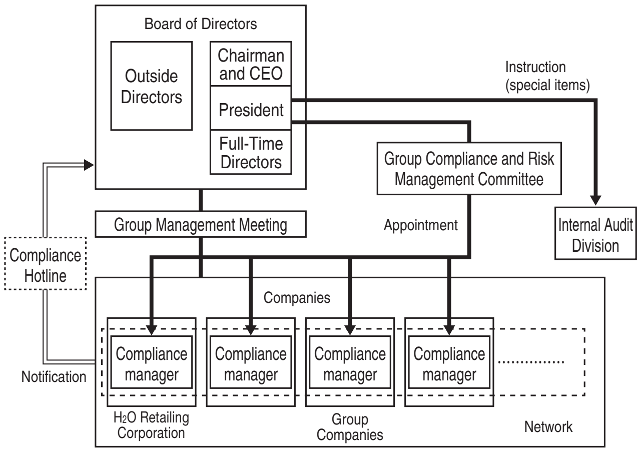
In addition, for quick decision making and efficient management of the Group, the Group Management Meeting was established as the fronting body for the Board of Directors, making decisions on important matters for the Group companies. Group companies, including H_2O Retailing Corporation, have clearly 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 of 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



The H_2O RETAILING Group has a code of conduct stipulating basic principles so that executives and employees will act based on the Companies' ethics, laws, rules and regulations. The Companies strive to have the code of conduct embraced by both executives and employees. Lectures are held in each subsidiary to enhance consciousness of compliance and to develop a mastery of the basic knowledge of compliance.

The Company appoints an outside director and outside corporate auditors with the knowledge and experience necessary to promote compliance and establish the appropriate risk management systems.

To ensure that the directors and employees of the H_2O RETAILING Group act in strict compliance with the law and the

Company's internal regulations, the Company has drawn up the Group Compliance Regulations, which lay down the basic policies and rules to be followed for compliance within the Group. The President of H_2O RETAILING Corporation has final responsibility for all compliance related matters at the Group level.
The H_2O RETAILING Group has set up the Group Compliance and Risk Management Committee to take the lead in the creation of a system for ensuring compliance throughout the Group. The Group Compliance and Risk Management Committee is chaired by the President of the Company, with whom final responsibility rests for all compliance related matters.

The Group Compliance and Risk Management Committee designates the President of each Group company as the officer with final responsibility for compliance matters at the company in question, with the exception of H_2O RETAILING CORPORATION, Hankyu Hanshin Department Stores, Inc. and Hanshoku Co., Ltd. in whose case the director (or executive officer) in charge of general affairs has final responsibility. Meetings are held with the attendance of officers involved in compliance from all Group companies to share information on compliance related measures and report on progress in the implementation of such measures.

Moreover, a Group Compliance Hotline, or whistleblower system, has been established, and a Compliance Hotline has also been established in Hankyu Hanshin Department Store and Hanshoku, the core business companies within the Group.

The Company plans to draw up a new set of rules regarding disciplinary measures to be taken in the event of an illegal or improper act by a director or employee of the Company or any other Group company. The Company will also designate an internal audit officer(s) with responsibility for group-wide business and accounting and will draw up a set of rules relating to internal auditing without delay.

As for the Risk Management Systems, the Companies have stipulated basic policies and rules relating to risk management and have established risk management regulations which include guidelines for risk prevention, for reporting risks when they occur, for measures to take when risks occur and for how to implement those measures.

At the Group Compliance and Risk Management Committee, the Company formulates measures to gather and deal with information concerning risk, and constructs a system which the companies implement to deal with each risk voluntarily and systematically to prevent risks and minimise loss caused when risks occur.

The officer responsible for compliance matters at each group company will also be responsible for overseeing measures related to the monitoring and analysis of risk factors at that company, as well as measures to prevent the realisation of risks and measures to minimise the impact of such risks in the event that they are realised (contingency planning). A compliance network will be constructed that facilitates liaising on compliance matters, and regular compliance meetings will be held to share information on risks affecting Group companies.

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

The Company has 4 corporate auditors, 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. Professionals from within the Company with substantial knowledge of finance and accounting experience in the Company or those who have served as accountants in the Company or as accounting managers are assigned as full-time corporate auditors. 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 (3 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 a specialist with extensive business management experience or an attorney. All full-time corporate auditors attend the monthly Group Management Meeting, the weekly 830 Meetings and the Group Compliance and Risk Management 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 (Control 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' staff assumes the position of dedicated auditors and augments the audit system for corporate auditors of other subsidiaries. At the same time, they work to perform more effective audits by closely monitoring the site through auditing visits, holding a weekly Group Board of Corporate Auditors' meeting and verifying the progress of the audit plan.

With respect to internal audits, the Group has strengthened its auditing function by having full-time corporate auditors verify the audit plan (particularly for the business audit at the beginning of a term), receive monthly 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. Katsuhiro Wakita and Mr. Yusuke Kawasaki. Assisting them with the audit were 11 other certified public accountants and 13 other staff. In drafting the accounting audit plan, the auditors exchange opinions about important accounting audit matters. Full-time corporate auditors receive 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 full-time corporate auditors, 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 was appointed as an outside director for his management supervisory and investigative skills based on 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. Outside director Mr. Yohsaku Fuji also has no special interests in the Company. Mr. Yohsaku Fuji is a senior advisor to Kansai Electric Power Co., Inc. President and Director General of the Institute of Nuclear Safety System, Inc. and an outside director of Sumitomo Life Insurance Company. There are no particular conflicts of interest that require disclosure between these three companies and the Company.

Mr. Hideyuki Takai was appointed as an outside corporate auditor for his management supervisory and investigative skills based on his career 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 May 2012, he served as an outside corporate auditor of Toho Real Estate Co., Ltd. Up to April 2012, he served as an outside director of Tokyo Rakutenchi Co., Ltd. Both Toho Real Estate Co., Ltd. and Tokyo Rakutenchi Co., Ltd. are members of the Hankyu Hanshin Toho Group. The Company owns 7.2% of all issued shares of Toho Co., Ltd. and 1.5% of all issued shares of Toho Real Estate 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 was appointed as an outside corporate auditor for his management supervisory and investigative skills based on 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. Outside corporate auditor Mr. Toshihisa Takamura has no particular conflict of interest with the Company, nor does Mr. Toshihisa Takamura serve in any capacity with another company that has a conflict of interest with the Company.

Mr. Masashi Muromachi was appointed as an outside corporate auditor for his management supervisory and investigative skills based on 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. Outside corporate auditor Mr. Masashi Muromachi also has no special interests in the Company.
Mr. Masashi Muromachi retired from his positions as Director and Representative Executive Officer and Corporate Senior Executive Vice President of Toshiba Corporation with effect from June 22, 2012 at the regular shareholders' meeting of Toshiba Corporation. Mr. Masashi Muromachi has retained his position as a permanent advisor to 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 unique standards. In addition to the requirements laid down by the Companies Act, we take into account the criteria recommended by the Financial Instruments 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	Takeshi Nakagawa	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.
Corporate Auditor	Toshihisa Takamura	Attended all 6 Board of Directors' meeting (excluding written resolutions) and all 8 Board of Corporate Auditors' meetings held during the reporting period, giving his opinion on measures and asking questions based primarily on his specialised knowledge as an attorney.

Note: Corporate Auditor Takeshi Nakagawa resigned at the general meeting of shareholders held on 22nd June 2012.

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 3 components: 1) a monthly salary which is not directly linked to the performance that the director is compensated for, 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 perform. Moreover, compensation for corporate auditors, just as for part-time directors, is dependent on the role expected to perform 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 June 29th, 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 June 24th, 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 in 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	
Director (excluding outside directors)	247	180	39	28	9
Corporate auditors (excluding outside corporate auditors)	25	25	-	-	1
Outside directors	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: 62

Balance sheet value: ¥53,193 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 2010

Stock	Number of shares	Balance sheet value (Millions of yen)	Purpose of holding
Takashimaya Co., Ltd.	33,083,000	25,408	To strengthen relationship between both companies through business partnership
Toho Co., Ltd.	13,664,280	20,578	To strengthen relationship with the Hankyu Hanshin Toho Group
Mitsubishi UFJ Financial Group, Inc.	2,949,110	1,445	For financial policy reasons
Mitsubishi Logistics Corporation	1,109,000	1,289	To strengthen business management relationship
Toho Real Estate Co., Ltd.	840,236	418	To strengthen relationship with the Hankyu Hanshin Toho Group
Asahi Breweries, Ltd.	217,000	380	To strengthen business management relationship
Sumitomo Mitsui Financial Group, Inc.	117,168	362	For financial policy reasons
T & D Holdings, Inc.	154,400	342	For financial policy reasons
Daiwa Securities Group Inc.	504,998	248	For financial policy reasons
Resona Holdings, Inc.	78,445	93	For financial policy reasons

In the year ended 31st March 2011

Stock	Number of shares	Balance sheet value (Millions of yen)	Purpose of holding
Takashimaya Co., Ltd.	33,083,000	17,567	To strengthen relationship between both companies through business partnership
Toho Co., Ltd.	13,664,280	16,301	To strengthen relationship with the Hankyu Hanshin Toho Group
Mitsubishi UFJ Financial Group, Inc.	2,949,110	1,132	For financial policy reasons
Mitsubishi Logistics Corporation	1,109,000	1,031	To strengthen business management relationship
Toho Real Estate Co., Ltd.	840,236	437	To strengthen relationship with the Hankyu Hanshin Toho Group
T & D Holdings, Inc.	154,400	317	For financial policy reasons
Sumitomo Mitsui Financial Group, Inc.	117,168	303	For financial policy reasons
Asahi Breweries, Ltd.	217,000	300	To strengthen business management relationship
Daiwa Securities Group Inc.	504,998	193	For financial policy reasons
Chuo Mitsui Trust Holdings, Inc.	247,523	73	For financial policy reasons
Toyo Seikan Kaisha, Ltd.	33,000	45	To facilitate business activity
Onward Holdings Co., Ltd.	68,672.959	42	To strengthen business management relationship
Asahi Broadcasting Corporation	90,000	37	To facilitate business activity
The Sankei Building Co., Ltd.	66,528	33	To facilitate business activity
Resona Holdings, Inc.	78,445	31	For financial policy reasons
Tokio Marine Holdings, Inc.	12,600	28	For financial policy reasons
Kubota Corporation	20,000	16	To facilitate business activity
Aplus Financial Co., Ltd.	294,368	15	To strengthen business management relationship
Tokyo Rakutenchi Co., Ltd.	55,000	14	To strengthen relationship with the Hankyu Hanshin Toho Group
Mitsubishi Heavy Industries, Ltd.	30,000	11	To facilitate business activity
Osaka Securities Finance Co., Ltd.	60,000	10	For financial policy reasons
Fukushima Industries Corp.	7,350	7	To facilitate business activity
Tokyo Theatres Company, Incorporated	50,000	6	To facilitate business activity
Asahi Kasei Corporation	10,000	6	To facilitate business activity
Tobu Railway Co., Ltd.	15,450	5	To facilitate business activity
Nippon Telegraph And Telephone Corporation	1,020	4	To facilitate business activity
Kobayashi Pharmaceutical Co., Ltd.	900	3	To strengthen business management relationship
Mizuho Securities Co., Ltd.	13,784	3	For financial policy reasons
Tokyo Dome Corporation	15,434	3	To facilitate business activity
Taisho Pharmaceutical Co., Ltd.	1,000	2	To facilitate business activity

Corporate Governance System

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 Breweries, 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.	79,810.080	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

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

d. Investment securities whose purpose for holding has changed
None

Five-Year Summary

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Years ended 31st March	Millions of yen 2008	2009	2010	2011	2012	Thousands of U.S. dollars (Note1) 2012
For the year:						
Net sales	¥471,617	¥509,525	¥470,395	¥465,034	**¥505,589**	**$6,165,720**
Cost of sales	334,688	364,028	339,027	335,876	**366,122**	**4,464,903**
Gross profit	136,929	145,497	131,368	129,158	**139,467**	**1,700,817**
Selling, general and administrative expenses	119,815	132,080	123,344	118,603	**129,509**	**1,579,378**
Interest expense	72	98	337	393	**415**	**5,061**
Income before income taxes	16,905	9,449	5,766	5,847	**2,836**	**34,585**
Net income	9,450	6,380	3,017	3,110	**1,057**	**12,890**
Comprehensive income	—	—	8,070	(5,632)	**7,270**	**88,659**
Per share data (in yen and dollars)						
Net income - basic	50.07	31.02	14.62	15.07	**5.74**	**0.07**
Net income - diluted	45.19	28.23	13.30	13.70	**5.51**	**0.07**
Cash dividends	12.50	12.50	12.50	12.50	**12.50**	**0.15**
At year-end:						
Inventories	¥15,686	¥16,916	¥15,319	¥15,597	**¥15,459**	**$188,524**
Property, plant and equipment (book value)	80,892	87,396	91,526	106,905	**109,106**	**1,330,561**
Total assets	337,778	323,044	344,700	344,188	**335,230**	**4,088,171**
Long-term debt	21,159	40,921	60,755	40,589	**41,593**	**507,232**
Shareholders' equity	147,165	150,297	150,720	151,237	**161,194**	**1,965,780**
Ratio analysis:						
Gross profit / Net sales (%)	29.03	28.56	27.93	27.77	**27.58**	
Income before income taxes / Net sales (%)	3.58	1.85	1.23	1.26	**0.56**	
Net income / Net sales (%)	2.00	1.25	0.64	0.67	**0.21**	
Net income /Total assets (%)	3.05	1.93	0.90	0.90	**0.31**	
Net income / Shareholders' equity (%)	6.15	4.02	1.93	2.06	**0.68**	
Shareholders' equity / Total assets (%)	48.52	47.62	46.22	43.94	**48.08**	
Long-term debt / Shareholders' equity (times)	0.13	0.27	0.38	0.27	**0.26**	
Net sales / Inventories (times)	30.07	30.12	30.71	29.81	**32.71**	
Net sales / Total assets (times)	1.40	1.58	1.36	1.35	**1.51**	

Note 1: U.S. dollar amounts represent translations of yen amounts at the rate of ¥82 = 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.
As for "Net income / Shareholders' equity," the Company uses the average of shareholders' equity at the beginning and end of the the year.

Consolidated Balance Sheets

H2O RETAILING CORPORATION and Consolidated Subsidiaries

As of 31st March 2010, 2011 and 2012	Millions of yen 2010	Millions of yen 2011	Millions of yen 2012	Thousands of U.S. dollars (Note1) 2012
Assets				
Current assets:				
Cash on hand and in banks (Note 8, 26 and 27)	¥45,890	¥42,150	¥17,823	$217,354
Notes and accounts receivable:				
Trade (Note 27)	17,595	18,995	19,979	243,646
Other (Note 27)	3,560	2,702	2,545	31,037
Allowance for doubtful receivables	(129)	(59)	(42)	(512)
	21,026	21,638	22,482	274,171
Inventories (Note 5)	15,319	15,597	15,459	188,524
Deferred tax assets (Note 12)	3,485	4,279	4,850	59,146
Prepaid expenses and other (Note 4 and 27)	2,916	2,668	2,693	32,842
Total current assets	88,636	86,332	63,307	772,037
Investments and long-term loans receivable:				
Investment securities (Note 4 and 27)	69,990	54,560	63,765	777,623
Investments in an unconsolidated subsidiary and affiliates	808	613	535	6,524
Long-term loans receivable	1,487	2,569	2,608	31,804
Long-term loans to employees	211	252	249	3,037
Total investments and long-term loans receivable	72,496	57,994	67,157	818,988
Property, plant and equipment:				
Land (Note 8 and 15)	33,948	33,948	35,324	430,780
Buildings and structures (Note 8)	120,796	140,770	141,697	1,728,012
Machinery and equipment	18,927	21,030	23,725	289,329
Construction in progress	4,511	115	3,708	45,220
	178,182	195,863	204,454	2,493,341
Accumulated depreciation	(86,656)	(88,958)	(95,348)	(1,162,780)
Total property, plant and equipment	91,526	106,905	109,106	1,330,561
Other noncurrent assets:				
Long-term leasehold deposits (Notes 6 and 8)	54,011	56,248	57,373	699,671
Goodwill	17,004	16,038	17,108	208,634
Intangibles	7,241	7,507	8,190	99,878
Deferred tax assets (Note 12)	12,373	10,624	9,575	116,768
Other assets	1,465	2,646	3,541	43,183
Allowance for doubtful receivables	(52)	(106)	(127)	(1,549)
Total other noncurrent assets	92,042	92,957	95,660	1,166,585
Total assets	¥344,700	¥344,188	¥335,230	$4,088,171

See accompanying notes.

	Millions of yen			Thousands of U.S. dollars (Note1)
	2010	2011	2012	2012
Liabilities and Net Assets				
Liabilities				
Current liabilities:				
Current portion of bonds (Notes 7 and 27)	¥ —	¥20,000	¥36	$439
Current portion of long-term debt (Notes 7, 8 and 27)	166	166	651	7,939
Short-term bank loans payable (Notes 7 and 8)	—	—	40	488
Notes and accounts payable:				
Trade (Note 27)	28,972	32,517	32,444	395,659
Other	7,114	18,592	7,730	94,268
	36,086	51,109	40,174	489,927
Accrued expenses	2,715	3,356	3,407	41,549
Income taxes payable	1,428	2,033	1,453	17,719
Consumption tax payable	551	433	1,710	20,854
Advances received	33,344	32,628	32,195	392,622
Deferred tax liabilities (Note 12)	—	4	1	12
Provision for bonuses to employees	4,733	3,734	4,300	52,439
Provision for bonuses to directors and corporate auditors	58	89	76	927
Provision for loss on store rebuilding	—	1,564	—	—
Provision for loss on store closing	784	689	—	—
Asset retirement obligations (Note 28)	—	123	1,264	15,415
Provision for loss of reorganisation of personnel management system	—	—	546	6,658
Other current liabilities	2,757	2,463	3,038	37,049
Total current liabilities	82,622	118,391	88,891	1,084,037
Long-term liabilities:				
Long-term debt (Notes 7, 8 and 27)	60,755	40,589	41,593	507,232
Deferred tax liabilities (Note 12)	13,252	7,495	10,546	128,610
Deferred tax liabilities related to land revaluation (Note 15)	348	348	310	3,780
Provision for retirement benefits to employees (Note 9)	15,577	15,807	15,456	188,488
Provision for retirement benefits to directors and corporate auditors	104	108	150	1,829
Provision for loss on store rebuilding	1,189	—	—	—
Provision for redemption of gift certificates	1,804	1,771	1,743	21,256
Long-term payable accrued	2,279	1,804	1,463	17,841
Guarantee deposits	7,200	6,268	5,871	71,598
Asset retirement obligations (Note 28)	—	148	224	2,732
Other long-term liabilities	4	21	128	1,561
Total long-term liabilities	102,512	74,359	77,484	944,927
Total liabilities	185,134	192,750	166,375	2,028,964
Net assets (Note 13)				
Shareholders' equity:				
Common stock:				
Authorised - 300,000,000 shares,				
Issued - 206,740,777 shares in 2010, 2011 and 2012	17,797	17,797	17,797	217,036
Capital surplus	37,172	37,172	48,257	588,500
Retained earnings	96,045	96,575	95,259	1,161,695
Treasury stock - 425,885 shares in 2010				
- 450,757 shares in 2011				
- 12,571,631 shares in 2012	(294)	(307)	(119)	(1,451)
Total shareholders' equity	150,720	151,237	161,194	1,965,780
Accumulated other comprehensive income:				
Net unrealised holding gains on securities	8,933	380	6,619	80,719
Land revaluation, net of tax (Note 15)	43	43	81	988
Foreign currency translation adjustments	(366)	(514)	(564)	(6,878)
Total accumulated other comprehensive income	8,610	(91)	6,136	74,829
Subscription rights to shares	139	232	342	4,171
Minority interests	97	60	1,183	14,427
Total net assets	159,566	151,438	168,855	2,059,207
Total liabilities and net assets	¥344,700	¥344,188	¥335,230	$4,088,171

See accompanying notes.

Consolidated Statements of Income

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Years ended 31st March 2010, 2011 and 2012	Millions of yen			Thousands of U.S. dollars (Note1)
	2010	2011	2012	2012
Net sales	¥470,395	¥465,034	¥505,589	$6,165,720
Cost of sales(Note 24)	339,027	335,876	366,122	4,464,903
Gross profit	131,368	129,158	139,467	1,700,817
Selling, general and administrative expenses	123,344	118,603	129,509	1,579,378
Operating income	8,024	10,555	9,958	121,439
Other income (expenses):				
Interest and dividend income	941	921	911	11,110
Equity in losses of affiliated companies	—	(43)	(17)	(207)
Amortisation of negative goodwill	43	44	79	964
Gain on sales of property, plant and equipment (Note 17)	1,994	—	—	—
Gain on amortisation of prior service cost of pension plan	—	—	682	8,317
Gain on step acquisitions	—	—	261	3,183
Gain on sales of investment securities (Note 4)	33	137	77	939
Gain on sales of subsidiaries and affiliates stocks	171	—	—	—
Gain on reversal of asset retirement obligations (Note 18)	—	402	—	—
Compensation for transfer (Note 19)	—	240	—	—
Interest expense	(337)	(393)	(415)	(5,061)
Loss on store rebuilding (Note 20)	(154)	(376)	(292)	(3,561)
Loss on reorganisation of personnel management system	—	—	(5,282)	(64,415)
Loss on store closing (Note 21)	(1,343)	(2,085)	(1,766)	(21,537)
Loss on disposal of property, plant and equipment and intangibles (Note 23)	(861)	(466)	(662)	(8,073)
Impairment losses (Note 22)	(3,050)	(226)	(269)	(3,281)
Expenses for opening new stores (Note 25)	(327)	(1,685)	—	—
Loss on revision of retirement benefit plan	(236)	—	—	—
Loss on valuation of investment securities (Note 4)	—	(147)	(223)	(2,720)
Loss on provision for redemption of gift certificates	(955)	(936)	(984)	(12,000)
Environmental expenses	—	(305)	—	—
Loss on adjustment for changes in accounting standard for asset retirement obligations	—	(174)	—	—
Other - net	1,823	384	778	9,488
	(2,258)	(4,708)	(7,122)	(86,854)
Income before income taxes and minority interests	5,766	5,847	2,836	34,585
Income taxes (Note 12) :				
Current	1,241	1,884	1,402	17,097
Deferred	1,523	893	394	4,805
	2,764	2,777	1,796	21,902
Income before minority interests	3,002	3,070	1,040	12,683
Minority interests in net losses	(15)	(40)	(17)	(207)
Net income	¥3,017	¥3,110	¥1,057	$12,890
	Yen			U.S. dollars (Note 1)
Net income per share - basic (Note 30)	¥14.62	¥15.07	¥5.74	$0.07
Net income per share - diluted (Note 30)	¥13.30	¥13.70	¥5.51	$0.07
Cash dividends	¥12.50	¥12.50	¥12.50	$0.15

See accompanying notes.

Consolidated Statements of Comprehensive Income

H2O RETAILING CORPORATION and Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars (Note1)
Years ended 31st March 2010, 2011 and 2012	2010	2011	2012	2012
Income before minority interests	¥3,002	¥3,070	¥1,040	$12,683
Other comprehensive income				
Net unrealised holding gains on securities	5,029	(8,553)	6,242	76,123
Revaluation reserve for land	—	—	38	463
Foreign currency translation adjustments	39	(149)	(50)	(610)
Total other comprehensive income	5,068	(8,702)	6,230	75,976
Comprehensive income (Note 14)	¥8,070	(¥5,632)	(¥7,270)	($88,659)
Comprehensive income attributed to:				
Owners of the parent	8,085	(5,592)	7,285	88,842
Minority interests	(15)	(40)	(15)	(183)

Consolidated Statements of Changes in Net Assets

H2O RETAILING CORPORATION and Consolidated Subsidiaries

	Thousands	Millions of yen									
Years ended 31st March 2010, 2011 and 2012	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealised holding gains (losses) on securities	Land revaluation, net of tax (Note 15)	Foreign currency translation adjustments	Subscription rights to shares	Minority interests	Total
Balance at 1st April 2009	206,740	¥17,797	¥37,172	¥95,608	(¥280)	¥3,904	¥43	(¥405)	¥45	¥111	¥153,995
Cash dividends - ¥12.5 per share	–	–	–	(2,579)	–	–	–	–	–	–	(2,579)
Net income	–	–	–	3,017	–	–	–	–	–	–	3,017
Gain on disposition of treasury stock	–	–	–	(1)	(14)	–	–	–	–	–	(15)
Land revaluation, net of tax (Note 15)	–	–	–	–	–	–	–	–	–	–	–
Increase in net unrealised holding gains on securities	–	–	–	–	–	5,029	–	–	–	–	5,029
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	–	39	–	–	39
Subscription rights to shares	–	–	–	–	–	–	–	–	94	–	94
Minority interests	–	–	–	–	–	–	–	–	–	(14)	(14)
Balance at 31st March 2010	206,740	¥17,797	¥37,172	¥96,045	(¥294)	¥8,933	¥43	(¥366)	¥139	¥97	¥159,566
Balance at 1st April 2010	206,740	¥17,797	¥37,172	¥96,045	(¥294)	¥8,933	¥43	(¥366)	¥139	¥97	¥159,566
Cash dividends - ¥12.5 per share	–	–	–	(2,579)	–	–	–	–	–	–	(2,579)
Net income	–	–	–	3,110	–	–	–	–	–	–	3,110
Gain on disposition of treasury stock	–	–	–	(1)	(13)	–	–	–	–	–	(14)
Land revaluation, net of tax (Note 15)	–	–	–	(0)	–	–	0	–	–	–	–
Decrease in net unrealised holding gains on securities	–	–	–	–	–	(8,553)	–	–	–	–	(8,553)
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	–	(148)	–	–	(148)
Subscription rights to shares	–	–	–	–	–	–	–	–	93	–	93
Minority interests	–	–	–	–	–	–	–	–	–	(37)	(37)
Balance at 31st March 2011	206,740	¥17,797	¥37,172	¥96,575	(¥307)	¥380	¥43	(¥514)	¥232	¥60	¥151,438
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 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)	–	–	(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

	Thousands of U.S. dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealised holding gains (losses) on securities	Land revaluation, net of tax (Note 15)	Foreign currency translation adjustments	Subscription rights to shares	Minority interests	Total
Balance at 1st April 2011	$217,036	$453,317	$1,177,744	($3,744)	$4,634	$525	($6,268)	2,830	$732	$1,846,806
Cash dividends - $0.15 per share	–	–	(28,939)	–	–	–	–	–	–	(28,939)
Net income	–	–	12,890	–	–	–	–	–	–	12,890
Gain on disposition of treasury stock	–	135,183	–	2,293	–	–	–	–	–	137,476
Land revaluation, net of tax (Note 15)	–	–	–	–	–	463	–	–	–	463
Increase in net unrealised holding gains on securities	–	–	–	–	76,085	–	–	–	–	76,085
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	(610)	–	–	(610)
Subscription rights to shares	–	–	–	–	–	–	–	1,341	–	1,341
Minority interests	–	–	–	–	–	–	–	–	13,695	13,695
Balance at 31st March 2012	$217,036	$588,500	$1,161,695	($1,451)	$80,719	$988	($6,878)	$4,171	$14,427	$2,059,207

See accompanying notes.

Consolidated Statements of Cash Flows

H2O RETAILING CORPORATION and Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars (Note1)
Years ended 31st March 2010, 2011 and 2012	2010	2011	2012	2012
Cash flows from operating activities:				
Income before income taxes and minority interests	¥5,766	¥5,847	¥2,836	$34,585
Depreciation and amortisation	10,397	9,822	12,638	154,122
Loss on disposal of property, plant and equipment and intangibles	790	466	662	8,073
Impairment losses	3,630	226	269	3,281
Loss on store closings	—	—	1,288	15,707
Decrease in allowance for doubtful receivables	(10)	(16)	(23)	(280)
Increase (decrease) in provision for bonuses to employees	264	(1,000)	391	4,768
Increase (decrease) in provision for bonuses to directors and corporate auditors	(22)	31	(13)	(159)
Increase (decrease) in provision for retirement benefits	(2,319)	234	(599)	(7,305)
Increase (decrease) in provision for loss on store rebuilding	—	376	(375)	(4,573)
Increase (decrease) in provision for loss on store closing	784	667	(708)	(8,634)
Increase (decrease) in provision for redemption of gift certificates	19	(34)	(28)	(341)
Decrease in provision for business reorganisation of subsidiaries and affiliates	(971)	—	—	—
Increase in provision for loss of reorganisation of personnel management system	—	—	546	6,659
Interest and dividend income	(941)	(921)	(911)	(11,110)
Interest expense	337	393	415	5,061
Gain on sales of property, plant and equipment	(1,994)	—	—	—
Gain on step acquisitions	—	—	(261)	(3,183)
Gain on sales of investment securities	(204)	(137)	(77)	(939)
Loss on valuation of investment securities	—	147	223	2,720
Decrease (increase) in notes and accounts receivable	2,622	(1,399)	450	5,488
Decrease (increase) in inventories	1,359	(279)	475	5,793
Increase (decrease) in notes and accounts payable	(1,124)	3,546	(1,418)	(17,293)
Increase (decrease) in consumption tax payable	(51)	(118)	1,242	15,146
Other	2,586	(257)	561	6,841
	20,918	17,594	17,583	214,427
Interest and dividend income received	937	915	861	10,500
Interest expense paid	(355)	(424)	(361)	(4,402)
Income taxes paid	(2,649)	(1,119)	(1,906)	(23,244)
Net cash provided by operating activities	18,851	16,966	16,177	197,281
Cash flows from investing activities:				
Net decrease (increase) in time deposits	(5,500)	500	10,187	124,232
Purchases of property, plant and equipment	(17,165)	(13,317)	(21,374)	(260,659)
Proceeds from sales of property, plant and equipment	53	6	20	244
Purchases of intangibles	(2,394)	(1,954)	(1,982)	(24,171)
Purchases of investment securities	(379)	(113)	(38)	(463)
Proceeds from sales of investment securities	2,631	1,639	88	1,073
Purchases of investments in subsidiaries	—	—	(20)	(244)
Payment for sales of investments in subsidiaries resulting in change in scope of consolidation	—	—	(32)	(390)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	—	—	(4,638)	(56,561)
Payments for exercise of asset retirement obligations	—	(525)	(120)	(1,464)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	1,515	—	—	—
Payments of long-term loans receivable	—	(1,460)	(10)	(122)
Proceeds from collection of long-term loans receivable	310	401	116	1,415
Payments for guarantee deposits	(15,317)	(4,258)	(390)	(4,756)
Proceeds from collection of guarantee deposits	736	1,846	1,419	17,305
Net cash used in investing activities	(35,510)	(17,235)	(16,774)	(204,561)
Cash flows from financing activities:				
Net decrease in short-term bank loans payable	—	—	(232)	(2,829)
Proceeds from long-term debt	20,000	20,000	600	7,318
Repayments of long-term debt	(238)	(20,166)	(2,799)	(34,134)
Redemption of bonds	—	—	(20,018)	(244,122)
Dividends paid	(2,579)	(2,579)	(2,422)	(29,536)
Proceeds from issuance of stock to minority shareholders	—	4	—	—
Proceeds from sale of treasury stock	2	1	11,280	137,561
Additions to treasury stock	(16)	(18)	(6)	(75)
Other	(49)	(61)	(108)	(1,317)
Net cash provided by (used in) financing activities	17,120	(2,819)	(13,705)	(167,134)
Foreign exchange differences of cash and cash equivalents	39	(152)	(54)	(659)
Net increase (decrease) in cash and cash equivalents	500	(3,240)	(14,356)	(175,073)
Cash and cash equivalents at beginning of year	34,866	35,366	32,126	391,780
Cash and cash equivalents at end of year (Note 26)	¥35,366	¥32,126	¥17,770	$216,707

See accompanying notes.

Notes to the Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange 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.

H_2O 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 2012, which was ¥82 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 41 (36 in 2011 and 34 in 2010) significant majority owned subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

In the year ended 31st March 2012, the following companies have been 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 have been 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.

Besides, 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 2011, KAETOKU SERVICE Co., Ltd. Hankyu Kitchen Yell Kansai, Inc. and Hankyu Kitchen Yell Tokyo, Inc. have been included within the scope of consolidation due to their establishment. Further, Hankyu Kitchen Yell, Inc. has been removed from the scope of consolidation due to its liquidation. 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.

In the year ended 31st March 2010, Hanshin Shouji Co., Ltd. Esaka Logistics Service Co., Ltd. and Hanshin Unso have been removed from the scope of consolidation due to the sale of shares held in those companies.

In the year ended 31st March 2012, 3 (1 in 2011 and 2010) of the consolidated subsidiaries have a financial year ending on 31st December. With respect to the period from the subsidiary's year-end to 31st March, necessary adjustments are made for significant transactions to reflect them appropriately in the consolidated financial statements.

In the elimination of investments in consolidated subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

The equity method has been applied to 5 (7 in 2011 and 6 in 2010) affiliates for the year ended 31st March 2012. EveryD.com, Inc. has been removed from the scope of the equity-method affiliates since it is included in the scope of consolidation due to acquisition of additional shares. Rakuyu Tatemono Kanri K.K. has also been 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 has been 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.

In the year ended 31st March 2011, Hankyu Hanshin Point Co., Ltd. a newly established company, and EveryD.com, Inc. have been included in the scope of the equity-method affiliates following the acquisition of shares in each of these companies. In addition, from the fiscal year ended 31st March 2011, High Security System Co., Ltd. has been removed from the scope of the equity-method affiliates due to the sale of its share holdings. However, any profit or loss generated during the period leading up to the share sell-off has been included in the consolidated statements of income and consolidated statements of comprehensive income.

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 declining balance 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. Buildings acquired after 1st April 1998 (excluding peripheral facilities) are depreciated using the straight-line method.The estimated useful life of the assets are as follows:

Buildings and structures:
2 to 50 years (3 to 50 years in 2010 and 2011)
Machinery and equipment: 4 to 17 years
Other:
2 to 20 years (3 to 20 years in 2010 and 2011)

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, with minor exceptions, amortised over 5 to 20 years.

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 the estimated payments to be made after the end of the year.

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 salaries at the time of retirement or termination, length of service and certain other factors.

Hankyu Hanshin Department Stores, Inc. has a retirement benefits plan 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 Hankyu Hanshin Department Stores, Inc. and provided with its post-employment benefit plans.

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 mainly recognised 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 over 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 have executive officers' severance and retirement benefits. The amount of liability as of 31st March 2010, 2011and 2012 was ¥35 million, ¥34 million and ¥33 million ($402 thousand) respectively.

Derivative and hedge accounting
Derivative financial instruments are stated at fair value, and changes in fair value are recognised as gains or losses unless the derivative financial instruments are used for hedging purposes. All derivative financial instruments are used as hedges and meet certain hedging criteria. The Companies defer recognition of gain or loss resulting from changes in fair value of derivative financial instruments until the related loss or gain on the hedged items are recognised.

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 2010 and 2011 have been made to conform to the presentation for the year ended 31st March 2012.

Provision for loss on store rebuilding
The Companies made a provision to cover the estimated loss arising from the rebuilding of the Hankyu-Oi Building and Oi Development Building. The estimates of these losses were based on historical precedents, the book value of the store's property at the time of demolition and estimated cost of the demolition work for the year ended 31st March 2010. For the year ended 31st March 2011, the estimates of losses were based on historical precedents, the book value of the store's property at the time of demolition and the estimated cost of the demolition work and removal expense with the dismantling construction.

Provision for loss on store closing
To provide for losses incurred from the closing of the Shijo Kawaramachi Hankyu and for losses incurred from the Hanshin / Mikage store's floor area reduction, the Company posted a reasonably estimated amount of loss expected from the store closing for each of the years ended 31st March 2010 and 2011.

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 2010, 2011 and 2012, see Note 30.
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.

(Additional Information)
Statements of comprehensive income
Effective from the fiscal year ended 31st March 2011, the Company adopted the "Accounting Standard for Presentation of Comprehensive Income" (Accounting Standards Board of Japan ("ASBJ ") Statement No. 25, issued on 30th June 2010). As a result of the adoption, the Company has presented the consolidated statement of comprehensive income in the consolidated financial statements for the fiscal year ended 31st March 2011.

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

The Equity Method
Effective from the fiscal year ended 31st March 2011, the Company has adopted "Accounting Standard for the Equity Method" (ASBJ Statement No. 16, issued 10th March 2008) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (Practical Issues Task Force ("PITF") No. 24, 10th March 2008.) This change had no material impact on Company profit or loss.

Asset retirement obligations
Effective from the fiscal year ended 31st March 2011, the Company and its consolidated domestic subsidiaries adopted "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, issued 31st March 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, issued 31st March 2008). As a result, in the fiscal year ended 31st March 2011, operating income was ¥16 million less, ordinary income ¥16 million less, and income before income taxes ¥208 million less than the amounts that would have been reported without the change. Further, the change in the amount of asset retirement obligations due to the adoption of this accounting standard was ¥1,007 million at the beginning of the fiscal year, out of which ¥762 million was a portion of the balance of provision for loss on store closing at the end of the previous fiscal year assumed as asset retirement obligations.

Business combinations
Effective from the fiscal year ended 31st March 2011, the Company and its consolidated domestic subsidiaries adopted "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, issued 26th December 2008), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, issued 26th December 2008), "Partial Amendments to Accounting Standard for Research and Development Costs" (ASBJ Statement No. 23, issued 26th December 2008), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, issued 26th December 2008), "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No. 16, issued 26th December 2008) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, issued 26th December 2008).

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 2010, 2011 and 2012.

Securities with book values exceeding acquisition costs:

	Millions of yen									Thousands of U.S. dollars		
	2010			2011			**2012**			**2012**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 45,386	¥ 60,602	¥ 15,216	¥ 20,770	¥ 27,851	¥ 7,081	**¥ 21,542**	**¥ 32,745**	**¥ 11,203**	**$ 262,707**	**$ 399,329**	**$ 136,622**
Government bonds	510	525	15	319	338	19	**317**	**341**	**24**	**3,866**	**4,159**	**293**
Other	1,441	1,477	36	491	508	17	**505**	**523**	**18**	**6,159**	**6,378**	**219**
Total	¥ 47,337	¥ 62,604	¥ 15,267	¥ 21,580	¥ 28,697	¥ 7,117	**¥ 22,364**	**¥ 33,609**	**¥ 11,245**	**$ 272,732**	**$ 409,866**	**$ 137,134**

Other securities:

	Millions of yen									Thousands of U.S. dollars		
	2010			2011			**2012**			**2012**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 1,200	¥ 862	(¥ 338)	¥ 25,667	¥ 19,194	(¥ 6,473)	**¥ 24,771**	**¥ 23,680**	**(¥ 1,091)**	**$ 302,085**	**$ 288,780**	**($ 13,305)**
Government bonds	-	-	-	-	-	-	**-**	**-**	**-**	**-**	**-**	**-**
Other	968	960	(8)	1,129	1,123	(6)	**1,129**	**1,119**	**(10)**	**13,769**	**13,647**	**(122)**
Total	¥ 2,168	¥ 1,822	(¥ 346)	¥ 26,796	¥ 20,317	(¥ 6,479)	**¥ 25,900**	**¥ 24,799**	**(¥ 1,101)**	**$ 315,854**	**$ 302,427**	**($ 13,427)**

The following table summarises sales of available-for-sale securities for the years ended 31st March 2010, 2011 and 2012:

	Millions of yen									Thousands of U.S. dollars		
	2010			2011			**2012**			**2012**		
	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	¥ 2,023	¥ 33	¥ 47	¥ 1,383	¥ 137	¥ 17	**¥ 49**	**¥ 48**	-	**$ 598**	**$ 585**	-
Government bonds	-	-	-	-	-	-	**10**	-	-	**122**	-	-

Impairment losses on investment securities as of 31st March 2010, 2011and 2012
The “acquisition cost” which appears in the tables above is the book value after impairment loss.
The Company incurred impairment losses and recorded losses on valuation of investment securities of ¥147 million and ¥223 million ($2,720 thousand) at the end of the years ended 31st March 2011and 2012, respectively.

5. Inventories

Inventories at 31st March 2010, 2011 and 2012 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2010	2011	**2012**	**2012**
Merchandise goods and finished goods	¥ 14,435	¥ 14,830	**¥ 14,369**	**$ 175,232**
Work in progress	211	80	**122**	**1,488**
Raw materials and supplies	673	687	**968**	**11,804**
	¥ 15,319	¥ 15,597	**¥ 15,459**	**$ 188,524**

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 premises. Under such agreements, lessors in Japan generally require the lessee to make substantial deposits in addition to monthly rental payments. A large portion of such deposits is refundable, generally in 10 to 15 equal annual installments commencing in the eleventh year of the lease term, with the balance refundable only on termination of the lease. The deposits bear no interest or bear interest only at a nominal rate.

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

There were no short-term bank loans as of 31st March 2010 and 2011.
Long-term debt at 31st March 2010, 2011 and 2012 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2010	2011	**2012**	**2012**
0.96% short-term bank loans	¥ -	¥ -	**¥ 40**	**$ 488**
0.40% to 2.98% loans from banks and others, due through 2020	40,921	40,755	**42,208**	**514,732**
Finance lease obligations	1,187	1,121	**1,288**	**15,707**
0.94% unsecured bonds, due 2014	-	-	**40**	**488**
0.75% unsecured bonds, due 2014	-	-	**31**	**378**
Zero coupon convertible bonds, due 2011	20,000	20,000	**-**	**-**
	¥ 62,108	¥ 61,876	**¥ 43,607**	**$ 531,793**
Less amounts due within one year	(231)	(20,231)	**(855)**	**(10,427)**
	¥ 61,877	¥ 41,645	**¥ 42,752**	**$ 521,366**

The conversion price of the zero coupon convertible bonds issued by the Company on 16th August 2004 was ¥982.
The convertible bonds are convertible into 20,366,598 shares of common stock as of 31st March 2011.

Annual maturities of long-term debt at 31st March 2012 were as follows:

Year ending 31st March.	Millions of yen	Thousands of U.S. dollars
2013	**¥ 855**	**$ 10,427**
2014	**400**	**4,878**
2015	**35,416**	**431,902**
2016	**5,405**	**65,915**
2017 and thereafter	**1,531**	**18,671**
	¥ 43,607	**$ 531,793**

In order to obtain working funds efficiently, the Companies have entered loan commitment agreements with 2 financial institutions. The loan commitment facilities and unused balances as of 31st March 2010, 2011 and 2012 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2010	2011	**2012**	**2012**
Total loan commitment facilities	¥ -	¥ -	**¥ 20,000**	**$ 243,902**
Outstanding balances	-	-	**-**	**-**
Unused blanaces	¥ -	¥ -	**¥ 20,000**	**$ 243,902**

8. Pledged Assets

The following assets were pledged as collateral for short-term bank loans of ¥40 million ($488 thousand) at 31st March 2012 and for the current portion of long-term debt of ¥166 million, ¥166 million and ¥440 million ($5,366 thousand) and long-term debt of ¥755 million, ¥589 million and ¥1,140 million ($13,902 thousand) at 31st March 2010, 2011 and 2012:

	Millions of yen			Thousands of U.S. dollars
	2010	2011	**2012**	**2012**
Long-term leasehold deposits	¥ -	¥ -	**¥ 133**	**$ 1,622**
Time deposits	5	-	**-**	**-**
Buildings	1,843	1,787	**2,023**	**24,670**
Land	890	890	**1,689**	**20,598**
	¥ 2,738	¥ 2,677	**¥ 3,845**	**$ 46,890**

9. Employees' Severance and Retirement Benefits

The liability for severance and retirement benefits included in the liability section of the consolidated balance sheets as of 31st March 2010, 2011 and 2012 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2010	2011	**2012**	**2012**
Projected benefit obligation	¥ 36,701	¥ 36,539	**¥ 33,925**	**$ 413,720**
Unrecognised actuarial differences	(3,034)	(3,235)	**(2,417)**	**(29,476)**
Fair value of pension assets	(18,908)	(18,941)	**(18,417)**	**(224,598)**
Prepaid pension cost	818	1,444	**2,365**	**28,842**
Liability for severance and retirement benefits	¥ 15,577	¥ 15,807	**¥ 15,456**	**$ 188,488**

Included in the consolidated statements of income for the years ended 31st March 2010, 2011 and 2012 were severance and retirement benefit expenses that comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2010	2011	**2012**	**2012**
Service costs - benefits earned during the year	¥ 1,384	¥ 1,299	**¥ 1,276**	**$ 15,561**
Interest cost on projected benefit obligation	741	723	**719**	**8,768**
Expected return on plan assets	(386)	(645)	**(642)**	**(7,829)**
Amortisation of prior service cost	-	-	**-**	**-**
Amortisation of actuarial differences	179	293	**331**	**4,037**
Severance and retirement benefit expenses	1,918	1,670	**1,684**	**20,537**
Other	690	416	**(256)**	**(3,122)**
Total	¥ 2,608	¥ 2,086	**¥ 1,428**	**$ 17,415**

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 both mainly 2.0% for the year ended 31st March 2010. The discount rate was 2.0% and the rate of expected return on plan assets used by the Companies was mainly 3.5% for the years ended 31st March 2011 and 2012. 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. Past service costs are mainly recognised as expenses when incurred, and actuarial gains and losses are recognised in equal amounts mainly over 13 years.

10. Lease Transactions

Finance lease transactions

The Group as lessee

Finance leases that are not deemed to transfer ownership of the leased 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 2010, 2011 and 2012 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2010	2011	**2012**	**2012**
Original lease obligations (including finance charges) for machinery and equipment	¥ 727	¥ 428	**¥ 400**	**$ 4,878**
Payments remaining:				
Payments due within one year	103	48	**46**	**561**
Payments due after one year	81	30	**11**	**134**
Total	¥ 184	¥ 78	**¥ 57**	**$ 695**

Rental expenses under such non-capitalised finance leases for the years ended 31st March 2010, 2011 and 2012 were ¥174 million, ¥107 million and ¥60 million ($732 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
	2010	2011	**2012**	**2012**
Payments due within one year	¥ 5,905	¥ 9,110	**¥ 8,725**	**$ 106,402**
Payments due after one year	10,515	62,475	**58,984**	**719,318**
Total	¥ 16,420	¥ 71,585	**¥ 67,709**	**$ 825,720**

The Group as lessor

	Millions of yen			Thousands of U.S. dollars
	2010	2011	**2012**	**2012**
Payments due within one year	¥ 472	¥ 1,244	**¥ 1,425**	**$ 17,378**
Payments due after one year	4,911	4,836	**8,420**	**102,683**
Total	¥ 5,383	¥ 6,080	**¥ 9,845**	**$ 120,061**

11. Segment Information

Segment information for the years ended 31st March 2010, 2011 and 2012, 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 operation and food production. The "PM" segment is engaged in rental management of commercial facilities, hotels, eating and drinking establishments, remodeling, 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 other items

The accounting policies for the reportable segments are basically the same as those described in Note 2. Summary of Significant Accounting Policies.

Income by the reportable segments are presented on an operating income basis. Intersegment sales and transfers are recognised based on the current market prices.

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

As of and for the year ended 31st March 2010	Millions of yen					
	Department stores	Supermarkets	PM	Other	Reconciliation	Total
Net sales						
External customers	¥ 357,952	¥ 88,440	¥ 12,886	¥ 11,117	¥ -	¥ 470,395
Intersegment	201	4,101	3,156	15,643	(23,101)	-
Total net sales	¥ 358,153	¥ 92,541	¥ 16,042	¥ 26,760	¥ (23,101)	¥ 470,395
Segment income	¥ 5,815	¥ 1,425	¥ 754	¥ 2,027	¥ (1,997)	¥ 8,024
Segment assets	¥ 138,712	¥ 42,849	¥ 25,125	¥ 265,479	¥ (127,465)	¥ 344,700
Other items						
Depreciation and amortisation	¥ 5,820	¥ 1,815	¥ 442	¥ 2,320	¥ -	¥ 10,397
Investment expenditures for affiliated companies accounted for by the equity method	256	-	-	540	-	796
Impairment loss	3,363	150	117	-	-	3,630
Increase in property, plant and equipment and intangibles	¥ 12,846	¥ 2,882	¥ 3,250	¥ 4,533	¥ -	¥ 23,511

As of and for the year ended 31st March 2011	Millions of yen					
	Department stores	Supermarkets	PM	Other	Reconciliation	Total
Net sales						
External customers	¥ 350,383	¥ 90,912	¥ 13,489	¥ 10,250	¥ -	¥ 465,034
Intersegment	177	4,520	3,440	15,518	(23,655)	-
Total net sales	¥ 350,560	¥ 95,432	¥ 16,929	¥ 25,768	¥ (23,655)	¥ 465,034
Segment income	¥ 8,228	¥ 1,737	¥ 625	¥ 1,771	¥ (1,806)	¥ 10,555
Segment assets	¥ 151,850	¥ 41,390	¥ 34,937	¥ 253,298	¥(137,287)	¥ 344,188
Other items						
Depreciation and amortisation	¥ 5,067	¥ 1,858	¥ 478	¥ 2,419	¥ -	¥ 9,822
Investment expenditures for affiliated companies accounted for by the equity method	-	-	-	600	-	600
Impairment loss	374	200	13	-	-	587
Increase in property, plant and equipment and intangibles	¥ 11,929	¥ 1,629	¥ 9,740	¥ 3,382	¥ -	¥ 26,680

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 loss	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 2012	Thousands of U.S. dollars					
	Department stores	Supermarkets	PM	Other	Reconciliation	Total
Net sales						
External customers	$4,576,878	$1,117,415	$ 159,122	$ 312,305	$ -	$6,165,720
Intersegment	2,536	54,927	45,573	183,915	(286,951)	-
Total net sales	$4,579,414	$1,172,342	$ 204,695	$ 496,220	$(286,951)	$6,165,720
Segment income	$ 70,256	$ 21,927	$ 21,232	$ 18,963	$ (10,939)	$ 121,439
Segment assets	$1,710,378	$ 496,719	$ 357,683	$3,053,074	$(1,529,683)	$4,088,171
Other items						
Depreciation and amortisation	$ 83,024	$ 21,732	$ 11,951	$ 37,415	$ -	$ 154,122
Investment expenditures for affiliated companies accounted for by the equity method	-	-	-	4,939	-	4,939
Impairment loss	15,707	3,256	-	24	-	18,987
Increase in property, plant and equipment and intangibles	$ 80,768	$ 19,610	$ 2,890	$ 31,232	$ -	$ 134,500

Notes:

1. Adjustment of segment income was ¥(1,997) million, ¥(1,806) million and ¥(897) million ($(10,939) thousand) for the years ended 31st March, 2010, 2011 and 2012, respectively, and comprised the elimination of intersegment transactions. Adjustment of assets was ¥(127,465) million, ¥(137,287) million and ¥(125,434) million ($(1,529,683) thousand) and included ¥(103,617) million, ¥(102,907) million and ¥(101,815) million ($(1,241,646) thousand) offset elimination of investments and capital, ¥(22,074) million, ¥(32,467) million and ¥(21,624) million ($(263,707) thousand) offset elimination of debts and credits and ¥(1,786) million, ¥(1,778) million and ¥(1,743) million ($(21,256) thousand) adjustment for unrealised gains and losses on fixed assets for the years ended 31st March 2010, 2011 and 2012, respectively.
2. Segment income is reconciled to operating income in the consolidated statements of income.

(Additional Information)
Effective from the fiscal year ended 31st March 2011, the Company has adopted "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17, issued 27th March 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, issued 21st March 2008).

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

As of and for the year ended 31st March 2011	Millions of yen					
	Department stores	Supermarkets	PM	Other	Reconciliation	Total
Goodwill						
Amortisation	¥ 503	¥ 507	¥ -	¥ -	¥ -	¥ 1,010
Unamortised balance	¥ 8,305	¥ 7,776	¥ -	¥ -	¥ -	¥ 16,081
Negative goodwill						
Amortisation	¥ -	¥ -	¥ 43	¥ -	¥ -	¥ 43
Unamortised balance	¥ -	¥ -	¥ 43	¥ -	¥ -	¥ 43

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 2012	Thousands of U.S. dollars					
	Department stores	Supermarkets	PM	Other	Reconciliation	Total
Goodwill						
Amortisation	$ 6,134	$ 6,183	$ -	$ 1,707	$ -	$ 14,024
Unamortised balance	$ 95,146	$ 88,646	$ -	$ 24,841	$ -	$ 208,633
Negative goodwill						
Amortisation	$ -	$ -	$ 524	$ -	$ -	$ 524
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 2010, 2011 and 2012 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2010	2011	**2012**	**2012**
Deferred tax assets:				
Loss carry forwards	¥ 4,110	¥ 3,311	**¥ 3,662**	**$ 44,659**
Provision for redemption of gift certificates	733	721	**670**	**8,171**
Bonuses to employees	1,817	1,405	**1,542**	**18,805**
Retirement benefits	6,195	6,282	**5,562**	**67,829**
Loss on disposal of property, plant and equipment	432	472	**415**	**5,061**
Depreciation	53	60	**45**	**549**
Impairment losses	2,398	1,772	**1,377**	**16,793**
Provision for loss on store rebuilding	499	657	**-**	**-**
Retirement benefit trust assets	493	496	**448**	**5,463**
Provision for loss on store closing	314	276	**170**	**2,073**
Asset retirement obligations	-	111	**537**	**6,549**
Other	4,144	4,071	**4,263**	**51,987**
	21,188	19,634	**18,691**	**227,939**
Valuation allowance	(1,540)	(902)	**(583)**	**(7,110)**
Total deferred tax assets	19,648	18,732	**18,108**	**220,829**
Deferred tax liabilities:				
Deferred gains on real property	(3,954)	(3,826)	**(3,334)**	**(40,659)**
Land revaluation of consolidated subsidiaries	(1,919)	(1,920)	**(1,804)**	**(22,000)**
Valuation gain on investment securities resulting from conversion of retirement benefit trust assets (equity securities)	(4,591)	(4,591)	**(4,086)**	**(49,829)**
Unrealised holding gains on securities	(6,057)	(360)	**(3,605)**	**(43,964)**
Other	(521)	(631)	**(1,401)**	**(17,085)**
Total deferred tax liabilities	(17,042)	(11,328)	**(14,230)**	**(173,537)**
Net deferred tax assets	¥ 2,606	¥ 7,404	**¥ 3,878**	**$ 47,292**

Net deferred tax assets as of 31st March 2010, 2011 and 2012 were included in the consolidated balance sheets as follows:

	Millions of yen			Thousands of U.S. dollars
	2010	2011	**2012**	**2012**
Current assets	¥ 3,485	¥ 4,279	**¥ 4,850**	**$ 59,146**
Other noncurrent assets	12,373	10,624	**9,575**	**116,768**
Current liabilities	-	(4)	**(1)**	**(12)**
Long-term liabilities	(13,252)	(7,495)	**(10,546)**	**(128,610)**
Net deferred tax assets	¥ 2,606	¥ 7,404	**¥ 3,878**	**$ 47,292**

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

	2010	2011	**2012**
Aggregate statutory income tax rate	40.0%	40.0%	**40.0%**
Increase (reduction) in taxes resulting from:			
Non-deductible expenses	1.4	4.3	**3.7**
Tax on inhabitants per capita	2.9	2.7	**6.4**
Retained earnings held by affiliated companies	2.3	-	**-**
Permanent differences (including dividends)	(2.7)	(2.7)	**(4.4)**
Net operating loss carryforwards	0.5	(5.0)	**13.3**
Amortisation of consolidated goodwill	6.7	6.6	**15.1**
Gain on step acquisitions	-	-	**(3.7)**
Changes in valuation allowances	-	2.6	**(8.1)**
Effects of tax rate change	-	-	**4.3**
Others	(3.2)	(1.0)	**(3.3)**
Effective income tax rate	47.9	47.5	**63.3**

3. Adjustments on 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 or after 1st April 2012. As a result, the statutory income tax rate used for calculating the 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, deferred tax assets under current assets decreased by ¥268 million ($3,268 thousand), deferred tax liabilities under long-term liabilities decreased by ¥51 million ($622 thousand), deferred tax liabilities related to land revaluation decreased by ¥38 million ($463 thousand) and minority interests decreased by ¥0 million ($0 thousand). On the other hand, deferred tax assets under noncurrent assets increased by ¥533 million ($6,500 thousand), land revaluation and net unrealised holding gains on securities under accumulated other comprehensive income increased by ¥38 million ($463 thousand) and ¥440 million ($5,366 thousand), respectively, and deferred income taxes expense increased by ¥123 million ($1,500 thousand).

13. Net Assets

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

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

Under the Law, in cases where 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 equaled 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 10th May 2012, the Company resolved cash dividends amounting to ¥1,214 million ($14,805 thousand). These appropriations have not been accrued in the consolidated financial statements as of 31st March 2012. The appropriations were recognised on 1st June 2012.

The dividend policy is one of the most important policies of the Company. The Company used to focus on maintaining the dividend amount, now the Company considers the dividend amount based on the progress of GP10 Plan.

During the period of rebuilding of Umeda Main Store, however, the Company is focused on maintaining a dividend of ¥12.5 per share.

Stock Information

Changes in number of shares issued and outstanding during the years ended 31st March 2010, 2011 and 2012 were as follows:

Common stock outstanding

	Number of shares		
	2010	2011	**2012**
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**

Treasury stock outstanding

	Number of shares		
	2010	2011	**2012**
Balance at beginning of year	401,899	425,885	**450,757**
Increase due to gratuitous transfer of shares from Hankyu Hanshin Department Stores Kyoeikai	-	-	**32,860,596**
Increase due to purchase of odd-lot shares	28,297	30,047	**10,278**
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	4,311	1,175	**-**
Decrease due to exercise of stock options	-	4,000	**-**
Balance at end of year	425,885	450,757	**12,571,631**

14. Other Comprehensive Income

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

	Millions of yen	Thousands of U.S. dollars
	2012	**2012**
Other comprehensive income		
Net unrealised holding gains on securities realised for the year	**¥ 9,337**	**$ 113,866**
Recycling	**155**	**1,891**
Amount before the effect of deferred income tax	**9,492**	**115,757**
Effect of deferred income tax	**(3,250)**	**(39,634)**
Net unrealised holding gains on securities	**6,242**	**76,123**
Revaluation reserve for land		
Effect of deferred income tax	**38**	**463**
Foreign currency translation adjustments realised for the year	**(50)**	**(610)**
Total other comprehensive income	**¥ 6,230**	**$ 75,976**

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 2010, 2011 and 2012.

Related information was as follows:

	Millions of yen			Thousands of U.S. dollars
Date of revaluations: 28th February 2002 and 31st March 2002	2010	2011	**2012**	**2012**
Book value of land after revaluation	¥ 2,387	¥ 2,386	**¥ 2,386**	**$ 29,098**
Market value of land	1,683	1,619	**1,564**	**19,074**
Difference	¥ 704	¥ 767	**¥ 822**	**$ 10,024**

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

(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 2010, 2011 and 2012. 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
In the year ended 31st March 2010:				
Before vested				
As of 31st March 2009	-	-	-	-
Granted	-	165,000	-	-
Forfeited	-	-	-	-
Vested	-	165,000	-	-
Outstanding	-	-	-	-
After vested				
As of 31st March 2009	92,000	-	-	-
Vested	-	165,000	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding	92,000	165,000	-	-

In the year ended 31st March 2011:				
Before vested				
As of 31st March 2010	-	-	-	-
Granted	-	-	194,000	-
Forfeited	-	-	-	-
Vested	-	-	194,000	-
Outstanding	-	-	-	-
After vested				
As of 31st March 2010	92,000	165,000	-	-
Vested	-	-	194,000	-
Exercised	-	4,000	-	-
Forfeited	-	-	-	-
Outstanding	92,000	161,000	194,000	-

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	194,000	-
Vested	-	-	-	199,000
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding	92,000	161,000	194,000	199,000

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
In the year ended 31st March 2010:				
Exercise price	¥ 1	¥ 1	-	-
Average exercise price	-	-	-	-
Fair value at the grant date	¥ 493	¥ 568	-	-
In the year ended 31st March 2011:				
Exercise price	¥ 1	¥ 1	¥ 1	-
Average exercise price	-	¥ 520	-	-
Fair value at the grant date	¥ 493	¥ 568	¥ 492	-
In the year ended 31st March 2012:				
Exercise price	¥ 1($0.01)	¥ 1($0.01)	¥ 1($0.01)	¥ 1($0.01)
Average exercise price	-	-	-	-
Fair value at the grant date	¥ 493($6)	¥ 568($7)	¥ 492($6)	¥ 550($7)

(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 2010, 2011 and 2012 as stock options is as follows:
Valuation method used Adjusted Black-Scholes option-pricing model

Principal parameters and estimation methods	In the fiscal year of		
	March 2010	March 2011	March 2012
Expected volatility of the underlying stock (Note 1)	37.30%	34.60%	32.90%
Remaining expected life of the option (Note 2)	6 years	6 years	5 years
Expected dividends on the stock (Note 3)	¥12.5 per share	¥12.5 per share	¥12.5 ($0.15) per share
Risk-free interest rate during the expected option term (Note 4)	0.74%	0.63%	0.32%

Notes 1. In the fiscal year ended 31st March 2010, 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 22nd March 2010 (the period from 31st March 2004 to 22nd March 2010 except the period from 31st March 2004 to 30th September 2007). This period corresponds to the estimated remaining life of the stock options.
In the fiscal year ended 31st March 2011, 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 21st March 2011 (the period from 31st March 2005 to 21st March 2011 except the period from 31st March 2005 to 30th September 2007). This period corresponds to the estimated remaining life of the stock options.
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.
2. This period has been calculated utilising 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. Based on projections as of March 2009, March 2010 and March 2011 in the fiscal years ended in March 2010, March 2011 and March 2012, 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. Gain on Sales of Property, Plant and Equipment

The gain on sales of property, plant and equipment in the year ended 31st March 2010 was due to the sale of land of Tsuruno-cho for ¥1,994 million.

18. Gain on Reversal of Asset Retirement Obligations

The gain on reversal of asset retirement obligations in the year ended 31st March 2011 is the difference between estimated and actual expenses on the fulfilment of asset retirement obligations due to the closing of Shijo Kawaramachi Hankyu.

19. Compensation for Transfer

Compensation for the transfer in the year ended 31st March 2011 is for the Awaji Hankyu Family Store's property transferred due to land readjustment in the area surrounding Hankyu Awaji Station.

20. Loss on Store Rebuilding

Loss on store rebuilding in the year ended 31st March 2010 consisted of a loss of ¥144 million for the cost of the second stage rebuilding construction of the Hankyu Umeda Main Store and a loss of ¥10 million for the provision for loss on store rebuilding.

Loss on store rebuilding in the year ended 31st March 2011 consisted of a loss of ¥376 million for the provision for loss of Hankyu Oimachi Garden opening (Phase Ⅱ) rebuilding.

Loss on store rebuilding in the year ended 31st March 2012 consisted of a loss of ¥292 million ($3,561 thousand) resulting from Hankyu Oimachi Garden opening (Phase Ⅱ) rebuilding.

21. Loss on Store Closing

Loss on store closing in the year ended 31st March 2010 consisted of a loss of ¥762 million for the provision for loss on store closing and ¥580 million for the impairment loss on Shijo Kawaramachi Hankyu, Hankyu Hanshin Department Stores, Inc.

Loss on store closing in the year ended 31st March 2011 consisted of a loss of ¥1,066 million for the closing of Sannomiya Hanshin Food Hall, Hankyu Hanshin Department Stores, Inc. and a loss of ¥1,019 million for the Hanshin Mikage store floor area reduction, Hankyu Hanshin Department Stores, Inc. (*1)

Loss on store closing in the year ended 31st March 2012 consisted of a loss of ¥1,766 million ($21,537 thousand) for the closing of Kobe Hankyu, Hankyu Hanshin Department Stores, Inc. (*2)

＊1. This amount includes provision for loss on store closing of ¥689 million.

＊2. This amount includes impairment losses of ¥1,288 million ($15,707 thousand).

22. Impairment Losses

The Companies recorded impairment losses in the year ended 31st March 2010 as follows:

Company	Asset Group	Use	Type of Assets	Location	Millions of yen
Hankyu Hanshin Department Stores, Inc.	Shijo Kawaramachi Hankyu, Kobe Hankyu and other	Store	Buildings and structures, machinery and equipment	Shimogyo-ku, Kyoto City and other	¥ 3,363
Hanshoku Co., Ltd	Kuzuha store and other	Store	Buildings and structures, machinery and equipment	Hirakata City, Osaka Prefecture and other	¥ 150
Hankyu Shopping Center Development Co., Ltd. and other	Mosaic Box and other	Store	Buildings and structures, machinery and equipment	Kawanishi City, Hyogo Prefecture and other	¥ 117

In light of the store closing plan for Shijo Kawaramachi Hankyu, Hankyu Hanshin Department Stores, Inc. recognised impairment losses on Shijo Kawaramachi Hankyu, and with a view toward improving the financial soundness of Hankyu Hanshin Department Stores, Inc. Hanshoku Co., Ltd. and Hankyu Shopping Center Development Co., Ltd. which were facing a harsh earnings environment resulting from increased competition, recognised impairment losses on some of their stores. The recoverable amounts of the assets are the present values of expected cash flows from on-going utilisation and subsequent disposal of the assets based on a discount rate of 5%. As a result, ¥3,630 million was recorded as total impairment losses. Of that amount, an impairment loss of ¥581 million for the Shijo Kawaramachi Hankyu is shown inclusive of loss on store closing.

The Companies recorded impairment losses in the year ended 31st March 2011 as follows:

Company	Asset Group	Use	Type of Assets	Location	Millions of yen
Hankyu Hanshin Department Stores, Inc.	Hanshin Mikage, Sannomiya Hanshin Food Hall and other	Store	Buildings and structures, machinery and equipment	Nada-ku, Kobe City and other	¥ 374
Hanshoku Co., Ltd	Fushimi store and other	Store	Buildings and structures, machinery and equipment	Hushimi-ku, Kyoto City and other	¥ 200
Hankyu Shopping Center Development Co., Ltd. and other	Canmeet Kawasaki and other	Store	Buildings and structures, machinery and equipment	Kawasaki-ku, Kawasaki City and other	¥ 13

With a view toward improving their financial soundness, the Company recognised impairment losses on Hankyu Hanshin Department Store's Sannomiya and Hanshin Food Hall closing, on Hanshin Mikage reduction in shop floor space, and Hanshoku Co., Ltd. and Hankyu Shopping Center Development Co., Ltd. their harsh earnings environments resulting from increased competition. The recoverable amounts of the assets are the present values of expected cash flows from on-going utilisation and subsequent disposal of the assets based on a discount rate of 5%. As a result, ¥587 million was recorded as total impairment losses. Of this amount, the ¥330 million for Hanshin Mikage and ¥31 million for Sannomiya Hanshin Food Hall is shown inclusive of loss on store closing and loss on adjustment for changes in accounting standard for asset retirement obligations.

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	Thousands of U.S. dollars
Hankyu Hanshin Department Stores, Inc.	Kobe Hankyu	Store	Buildings and structures	Chuo-ku, Kobe City	¥ 1,288	$ 15,707
Hanshoku Co., Ltd and other	Higashikagaya store and other	Store	Buildings and structures, machinery and equipment	Suminoe-ku, Osaka City and other	¥ 269	$ 3,280

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 are the present values of expected cash flows from on-going utilisation and subsequent disposal of the assets based on a discount rate of 5%. As a result, ¥1,557 million ($18,987 thousand) 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 closing.

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

Loss on disposal of property, plant, equipment and intangibles in the year ended 31st March 2010 consisted of losses of ¥379 million on disposal of buildings and structures, losses of ¥39 million on disposal of machinery and vehicles, losses of ¥204 million on disposal of intangibles and losses of ¥239 million on disposal of other assets.

Loss on disposal of property, plant, equipment and intangibles in the year ended 31st March 2011 consisted of losses of ¥372 million on disposal of buildings and structures, losses of ¥5 million on disposal of machinery and vehicles, losses of ¥10 million on disposal of intangibles and losses of ¥79 million on disposal of other assets.

Loss on disposal of property, plant, equipment and intangibles in the year ended 31st March 2012 consisted of losses of ¥559 million ($6,817 thousand) on disposal of buildings and structures, losses of ¥7 million ($85 thousand) on disposal of machinery and vehicles, losses of ¥1 million ($12 thousand) on disposal of intangibles and losses of ¥96 million ($1,171 thousand) on disposal of other assets.

24. 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 2010, 2011 and 2012 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2010	2011	**2012**	**2012**
Cost of sales	¥ 207	¥ 181	**¥ 135**	**$ 1,646**

25. Expenses for opening new stores

Expenses for opening new stores in the year ended 31st March 2011 consisted of expenses of ¥1,140 million for opening expenses of the Hakata Hankyu store and expenses of ¥545 million for the opening expenses of Hankyu Oimachi Garden (Phase I).

26. 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 2010, 2011 and 2012 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2010	2011	**2012**	**2012**
Cash on hand and in banks	¥ 45,890	¥ 42,150	**¥ 17,823**	**$ 217,354**
MMF including securities account	0	0	**0**	**0**
Total	45,890	42,150	**17,823**	**217,354**
Time deposits with maturities exceeding three months	(10,524)	(10,024)	**(53)**	**(647)**
Cash and cash equivalents	¥ 35,366	¥ 32,126	**¥ 17,770**	**$ 216,707**

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

The following assets and liabilities have been included in consolidation as a result of acquisition of stocks. The relationship between the acquisition price and the net disbursements for the acquisition is as follows:

KAZOKUTEI CO., LTD.	Millions of yen 2012	Thousands of U.S. dollars 2012
Current assets	¥ 1,355	$ 16,524
Noncurrent assets	6,505	79,329
Goodwill	692	8,439
Current liabilities	(1,663)	(20,280)
Noncurrent liabilities	(1,785)	(21,768)
Minority interests	(1,172)	(14,293)
Acquisition cost of the company's stock	3,932	47,951
Cash and cash equivalents held by the company	(363)	(4,427)
Diff: Disbursements to acquire the company	¥ 3,569	$ 43,524

EveryD.com, Inc. (presently Hankyu OrangeLife, Inc.)	Millions of yen 2012	Thousands of U.S. dollars 2012
Current assets	¥ 1,215	$ 14,817
Noncurrent assets	365	4,451
Goodwill	1,367	16,671
Current liabilities	(735)	(8,963)
Noncurrent liabilities	(208)	(2,537)
Minority interests	(134)	(1,634)
Acquisition cost of the company's stock	1,870	22,805
Carrying value under the equity method	(188)	(2,293)
Gain on step acquisition	(261)	(3,183)
Cash and cash equivalents held by the company	(537)	(6,549)
Diff: Disbursements to acquire the company	¥ 884	$ 10,780

The important noncash transactions are as follows:
In the year ended 31st March 2010, the reversal of provision for loss on store rebuilding following the launch of the second stage rebuilding construction of the Hankyu Umeda Main Store offset fixed assets. The amount of offset was ¥3,185 million.

In the year ended 31st March 2011, effective from fiscal 2010, the Company has adopted "Accounting Standard for Asset Retirement Obligations" and "Guidance on Accounting Standard for Asset Retirement Obligations." As a result, at the end of fiscal 2010, buildings and structures were ¥63 million more and asset retirement obligations ¥271 million more than the amounts that would have been reported without the change.

In the year ended 31st March 2012, asset retirement obligations of ¥1,252 million ($15,268 thousand) 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 ($14,500 thousand).

27. 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 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 7 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, 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 described above.

② Management of interest rate risk

To limit the risk of fluctuation in interest rate payments for long-term debt and corporation bond, 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 properly manage securities and investment securities according to securities management guidance. Other consolidated subsidiaries also manage price volatility risk in the same way described above.

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 consolidated balance sheets for the fiscal years ended 31st March 2010, 2011 and 2012 (the consolidated closing date for the reporting term) and fair values and differences between them are as follows 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		
	2010		
	Book value	Fair value	Difference
(1) Cash on hand and in banks	**¥45,890**	**¥45,890**	**¥ -**
(2) Notes and accounts receivable-trade	**17,595**		
Allowance for doubtful receivables	**(95)**		
	17,500	**17,500**	**-**
(3) Notes and accounts receivable-other	**3,560**		
Allowance for doubtful receivables	**(31)**		
	3,529	**3,529**	**-**
(4) Securities and investment securities			
Other securities	**64,426**	**64,426**	**-**
Total assets	**131,345**	**131,345**	**-**
(1) Notes and accounts payable-trade	**28,972**	**28,972**	**-**
(2) Long-term debt - corporate bonds	**20,000**	**19,708**	**292**
(3) Long-term debt - long-term loans*	**40,921**	**40,972**	**(51)**
Total liabilities	**¥89,893**	**¥89,652**	**¥241**

	Millions of yen		
	2011		
	Book value	Fair value	Difference
(1) Cash on hand and in banks	¥42,150	¥42,150	¥ -
(2) Notes and accounts receivable-trade	18,995		
Allowance for doubtful receivables	(55)		
	18,940	18,940	-
(3) Notes and accounts receivable-other	2,702		
Allowance for doubtful receivables	(2)		
	2,700	2,700	-
(4) Securities and investment securities			
Other securities	49,014	49,014	-
Total assets	112,804	112,804	-
(1) Notes and accounts payable-trade	32,517	32,517	-
(2) Long-term debt - corporate bonds*	20,000	19,950	50
(3) Current accounts payable (included in Notes and accounts payable “Other” and income taxes payable)	18,933	18,933	-
(4) Long-term debt - long-term loans*	40,755	40,578	177
Total liabilities	¥112,205	¥111,978	¥227

	Millions of yen			Thousands of U.S. dollars		
	2012			2012		
	Book value	Fair value	Difference	Book value	Fair value	Difference
(1) Cash on hand and in banks	¥17,823	¥17,823	¥ -	$217,354	$217,354	$ -
(2) Notes and accounts receivable-trade	19,979			243,646		
Allowance for doubtful receivables	(40)			(487)		
	19,939	19,939	-	243,159	243,159	-
(3) Notes and accounts receivable-other	2,545			31,037		
Allowance for doubtful receivables	(2)			(25)		
	2,543	2,543	-	31,012	31,012	-
(4) Securities and investment securities						
Other securities	58,408	58,408	-	712,292	712,292	-
Total assets	98,713	98,713	-	1,203,817	1,203,817	-
(1) Notes and accounts payable-trade	32,444	32,444	-	395,659	395,659	-
(2) Current accounts payable (included in Notes and accounts payable “Other” and income taxes payable)	8,115	8,115	-	98,963	98,963	-
(3) Long-term debt - long-term loans*	42,208	42,355	147	514,732	516,525	1,793
Total liabilities	¥82,767	¥82,914	¥147	$1,009,354	$1,011,147	$1,793

* 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, (2) Notes and accounts receivable-trade, and (3) Notes and accounts receivable-other
Because these items have short repayment periods, fair value approximates book value, therefore said book value shall be fair value.
(4) Securities and investment securities
Fair value of these securities depends on their stock market price, while fair value of bonds depends on their stock market price or the price submitted by the correspondent financial institution.

Liabilities
(1) Notes and accounts payable-trade and (2) Current accounts payable
Because these items have short payment periods, fair value approximates book value, therefore said book value shall be fair value.
(3) Long-term debt - long-term loans
Fair value of long-term loans is determined by discounting the current value at the assumed applicable interest rates should new loans be taken with the same total principal and interest.
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, said 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
	2010	**2011**	**2012**	**2012**
	Book value	Book value	Book value	Book value
Unlisted shares	**¥ 6,563**	**¥ 6,159**	**¥ 6,099**	**$ 74,378**
Long-term leasehold deposits	**54,011**	**56,248**	**57,373**	**699,671**
Guarantee deposits	**¥ 7,200**	**¥ 6,268**	**¥ 5,871**	**$ 71,598**

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

	Millions of yen			
2010	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	**¥45,890**	**¥ -**	**¥ -**	**¥ -**
Notes and accounts receivable-trade	**17,595**	**-**	**-**	**-**
Notes and accounts receivable-other	**3,560**	**-**	**-**	**-**
Securities and investment securities				
Other securities with maturity (government bonds)	**190**	**-**	**300**	**-**
Other securities with maturity (corporate bonds)	**-**	**100**	**-**	**-**
Total	**¥67,235**	**¥100**	**¥300**	**¥ -**

	Millions of yen			
2011	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	**¥42,150**	**¥ -**	**¥ -**	**¥ -**
Notes and accounts receivable-trade	**18,995**	**-**	**-**	**-**
Notes and accounts receivable-other	**2,702**	**-**	**-**	**-**
Securities and investment securities				
Other securities with maturity (government bonds)	**-**	**-**	**300**	**-**
Other securities with maturity (corporate bonds)	**-**	**100**	**-**	**-**
Total	**¥63,847**	**¥100**	**¥300**	**¥ -**

2012	Millions of yen: Within 1 year	Millions of yen: Over 1 year but within 5 years	Millions of yen: Over 5 years but within 10 years	Millions of yen: Over 10 years	Thousands of U.S. dollars: Within 1 year	Thousands of U.S. dollars: Over 1 year but within 5 years	Thousands of U.S. dollars: Over 5 years but within 10 years	Thousands of U.S. dollars: Over 10 years
Cash on hand and in banks	¥17,823	¥ -	¥ -	¥ -	$217,354	$ -	$ -	$ -
Notes and accounts receivable-trade	19,979	-	-	-	243,646	-	-	-
Notes and accounts receivable-other	2,545	-	-	-	31,037	-	-	-
Securities and investment securities								
Other securities with maturity (government bonds)	-	-	300	-	-	-	3,659	-
Other securities with maturity (corporate bonds)	100	-	-	20	1,220	-	-	244
Total	¥40,447	¥ -	¥300	¥20	$493,257	$ -	$3,659	$244

4. Expected proceeds from redemption after the balance sheet date for corporate bonds and long-term loans

2010	Millions of yen: Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Long-term debt - corporate bonds	¥ -	¥20,000	¥ -	¥ -	¥ -	¥ -
Long-term debt - long-term loans	166	20,166	166	166	20,166	91
Lease obligations	65	65	65	63	61	868
Total	¥231	¥40,231	¥231	¥229	¥20,227	¥959

2011	Millions of yen: Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Long-term debt - corporate bonds	¥20,000	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term debt - long-term loans	166	166	166	35,166	5,091	-
Lease obligations	65	65	63	61	61	805
Total	¥20,231	¥231	¥229	¥35,227	¥5,152	¥805

2012	Millions of yen: Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Long-term debt - corporate bonds	¥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

2012	Thousands of U.S. dollars: Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Long-term debt - corporate bonds	$439	$427	$ -	$ -	$ -	$ -
Long-term debt - long-term loans	7,939	2,963	430,561	64,805	6,122	2,341
Lease obligations	1,573	1,488	1,341	1,110	963	9,232
Total	$9,951	$4,878	$431,902	$65,915	$7,085	$11,573

28. 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 due to a real estate lease agreement for store property, etc.

2. Calculation method for asset retirement obligations
For the fiscal year ended 31st March 2012, an estimated period of use of 2-30 years (3-20 years in 2011) and a discount rate of 0.2%-2.2% (1.3%-2.2% in 2011) were used to calculate the amount of the asset retirement obligation.

3. Changes in the total amount of the asset retirement obligations for the fiscal years ended 31st March 2011 and 2012
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 ($15,707 thousand) was additionally provided as asset retirement obligations. Changes in the balances are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Balance at beginning of year[1]	**¥ 1,007**	**¥ 271**	**$ 3,305**
Increase due to estimate changes	**79**	**1,596**	**19,463**
Increase due to acquisition of property, plant and equipment	**43**	**9**	**110**
Increase due to increase in the number of consolidated subsidiaries	**-**	**66**	**805**
Adjustments with passage of time	**5**	**3**	**36**
Decrease due to fulfilment of asset retirement obligations[2]	**(863)**	**(457)**	**(5,573)**
Balance at end of year	**¥ 271**	**¥ 1,488**	**$ 18,146**

Notes:
1. This was the balance at the beginning of the fiscal year resulting from the Company's adoption from the fiscal year ended 31st March 2011 of "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, issued 31st March 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, issued 31st March 2008).
2. Because the expense for restoring Shijo Kawaramachi Hankyu, a store of Hankyu Hanshin Department Stores, Inc. to its original state had been fixed, the ¥402 million difference between the fixed amount and the estimated amount was transferred to gain on reversal of asset retirement obligations for the fiscal year ended 31st March 2011.

29. Related Party Transactions

In the year ended 31st March 2010
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 personal name	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.	7.32% of shares held by the Company	Rental of real estate	Rental fees	¥2,122 million	Prepaid expenses	¥172 million
							Common service charges	¥271 million	-	-
							Fees for display of signs, etc.	¥10 million	-	-
							Lease deposits	-	Long-term leasehold deposits	¥3,213 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	¥19 million	Notes and accounts payable-trade	¥2 million

Business terms and policies for determination of business terms
Note 1. Transactions are conducted under third-party beneficiary contracts.
2. Transaction amounts are exclusive of consumption taxes; term-end balances (exclusive of guarantee money paid) include consumption taxes.
3. Rents for buildings are determined on the basis of current market rates.
4. All other matters are determined according to the general terms and conditions.
5. Immediate family members of Director Shigeru Yasukawa of H_2O 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

<table>
<tr><th>Classification</th><th>Name of company or personal name</th><th>Location</th><th>Capital or investment</th><th>Occupation or business lines</th><th>Ownership of voting rights (%)</th><th>Nature of relationship</th><th>Nature of transactions</th><th>Value of transactions</th><th>Accounting designation</th><th>Term-end balance</th></tr>
<tr><td rowspan="9">Subsidiaries of companies that have significant stakes in the reporting entity</td><td rowspan="5">Hankyu Corporation</td><td rowspan="5">Kita-ku, Osaka City</td><td rowspan="5">¥100 million</td><td rowspan="5">Railway operations, real estate rental and dealership operations, stage revues, retailing</td><td rowspan="5">-</td><td rowspan="5">Same person serving concurrently as director or corporate auditor for both parties,

Rental of real estate</td><td rowspan="3">Rental fees</td><td rowspan="3">¥4,781 million</td><td>Prepaid expenses</td><td>¥109 million</td></tr>
<tr><td>Notes and accounts payable-other</td><td>¥115 million</td></tr>
<tr><td>Accrued expenses</td><td>¥65 million</td></tr>
<tr><td>Deposit of guarantee money</td><td>¥15,001 million</td><td rowspan="2">Long-term leasehold deposits</td><td rowspan="2">¥22,780 million</td></tr>
<tr><td>Return of guarantee money</td><td>¥143 million</td></tr>
<tr><td rowspan="4">HANSHIN ELECTORIC RAILWAY CO., LTD.</td><td rowspan="4">Fukushima-ku, Osaka City</td><td rowspan="4">¥29,384 million</td><td rowspan="4">Railway operations, bus operations, real estate rental and dealership operations, sports business, travel business</td><td rowspan="4">14.40% shares of the Company directly held</td><td rowspan="4">Same person serving concurrently as director or corporate auditor for both parties,

Rental of real estate</td><td rowspan="2">Rental fees</td><td rowspan="2">¥4,960 million</td><td>Prepaid expenses</td><td>¥1 million</td></tr>
<tr><td>Accrued expenses</td><td>¥559 million</td></tr>
<tr><td>Fees for display of signs, etc.</td><td>¥18 million</td><td>-</td><td>-</td></tr>
<tr><td>Deposit of guarantee money</td><td>¥6 million</td><td>Long-term leasehold deposits</td><td>¥2,560 million</td></tr>
</table>

Business terms and policies for determination of business terms

Note 1. Transaction amounts are exclusive of consumption taxes; term-end balances (exclusive of guarantee 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 2011
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

<table>
<tr><th>Classification</th><th>Name of company or personal name</th><th>Location</th><th>Capital or investment</th><th>Occupation or business lines</th><th>Ownership of voting rights (%)</th><th>Nature of relationship</th><th>Nature of transactions</th><th>Value of transactions</th><th>Accounting designation</th><th>Term-end balance</th></tr>
<tr><td rowspan="4">Director or Corporate Auditor</td><td rowspan="4">Hideyuki Takai</td><td rowspan="4">-</td><td rowspan="4">-</td><td rowspan="4">Corporate Auditor for the Company, President of TOHO CO., LTD.</td><td rowspan="4">7.33% of shares held by the Company</td><td rowspan="4">Rental of real estate</td><td>Rental fees</td><td>¥2,010 million</td><td>Prepaid expenses</td><td>¥181 million</td></tr>
<tr><td>Common service charges</td><td>¥271 million</td><td>-</td><td>-</td></tr>
<tr><td>Fees for display of signs, etc.</td><td>¥10 million</td><td>Prepaid expenses</td><td>¥0 million</td></tr>
<tr><td>Lease deposits</td><td>-</td><td>Long-term leasehold deposits</td><td>¥3,266 million</td></tr>
<tr><td>Companies in which the director, the corporate auditor or his immediate family own a majority of voting rights</td><td>Osaka Chuo Shokuryo</td><td>Ibaraki City, Osaka</td><td>¥10 million</td><td>Food wholesaling</td><td>-</td><td>Materials procurement</td><td>Purchases of foodstuffs for processing</td><td>¥18 million</td><td>Notes and accounts payable-trade</td><td>¥2 million</td></tr>
</table>

Business terms and policies for determination of business terms
Note 1. Transactions are conducted under third-party beneficiary contracts.
2. Transaction amounts are exclusive of consumption taxes; term-end balances (exclusive of guarantee money paid) include consumption taxes.
3. Rents for buildings are determined on the basis of current market rates.
4. All other matters are determined according to general terms and conditions.
5. Immediate family members of Director Shigeru Yasukawa of H_2O 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 personal name	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	¥4,330 million	Prepaid expenses	¥122 million
									Notes and accounts payable-other	¥11 million
									Accrued expenses	¥189 million
							Deposit of guarantee money	¥5 million	Long-term leasehold deposits	¥22,639 million
							Return of guarantee money	¥147 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	14.40% shares of the Company directly held	Same person serving concurrently as director or corporate auditor for both parties, Rental of real estate	Rental fees	¥5,024 million	Prepaid expenses	¥1 million
									Accrued expenses	¥558 million
							Fees for display of signs, etc.	¥18 million	-	-
							Deposits	-	Long-term leasehold deposits	¥2,560 million

Business terms and policies for determination of business terms

Note 1. Transaction amounts are exclusive of consumption taxes; term-end balances (exclusive of guarantee money deposited) include consumption taxes.
2. Rents for buildings are determined 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 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 personal name	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
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 personal name	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 ($2,110 thousand)	Prepaid expenses	¥181 million ($2,207 thousand)
							Common service charges	¥23 million ($280 thousand)	-	-
							Fees for display of signs, etc.	¥1 million ($12 thousand)	Prepaid expenses	¥1 million ($12 thousand)
							Lease deposits	-	Long-term leasehold deposits	¥3,266 million ($39,829 thousand)
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 ($122 thousand)	Food wholesaling	-	Materials procurement	Purchases of foodstuffs for processing	¥17 million ($207 thousand)	Notes and accounts payable-trade	¥1 million ($12 thousand)

Business terms and policies for determination of business terms

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

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

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

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

5. Hideyuki Takai retired from 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 H_2O 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 personal name	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 ($1,220 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	¥4,381 million ($53,427 thousand)	Rental fees	¥149 million ($1,817 thousand)
									Notes and accounts payable-other	¥14 million ($171 thousand)
									Accrued expenses	¥139 million ($1,695 thousand)
							Fees for display of signs, etc.	¥6 million ($73 thousand)	Prepaid expenses	¥0 million ($0 thousand)
							Deposits of guarantee money	¥29 million ($354 thousand)	Long-term leasehold deposits	¥22,699 million ($276,817 thousand)
							Return of guarantee money	¥167 million ($2,037 thousand)		
	HANSHIN ELECTORIC RAILWAY CO., LTD.	Fukushima-ku, Osaka City	¥29,384 million ($358,341 thousand)	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 ($60,695 thousand)	Prepaid expenses	¥2 million ($24 thousand)
									Accrued expenses	¥521 million ($6,354 thousand)
							Fees for display of signs, etc.	¥18 million ($220 thousand)	-	-
							Deposits	-	Long-term leasehold deposits	¥2,583 million ($31,500 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 on the basis of current market rates.

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

30. Net Income Per Share

Reconciliation of the difference between basic and diluted net income per share ("EPS") for the years ended 31st March 2010, 2011 and 2012.

	Millions of yen			Thousands of U.S. dollars
	2010	2011	**2012**	**2012**
Basic net income per share calculation:				
Income (numerator):				
Net income	¥ 3,017	¥ 3,110	**¥ 1,057**	**$ 12,890**
Amounts not belonging to common stock	-	-	**-**	**-**
Net income available to common stockholders	3,017	3,110	**1,057**	**12,890**
Shares, thousands (denominator):				
Weighted average number of shares	206,327	206,305	**184,142**	
Basic EPS (yen and U.S. dollars)	¥ 14.62	¥ 15.07	**¥ 5.74**	**$ 0.07**
Diluted net income per share calculation:				
Income (numerator):				
Net income	¥ 3,017	¥ 3,110	**¥ 1,057**	**$ 12,890**
Amounts not belonging to common stock	-	-	**-**	**-**
Net income available to common stockholders	3,017	3,110	**1,057**	**12,890**
Effect of dilutive securities - convertible bonds	-	-	**-**	**-**
Adjusted net income	3,017	3,110	**1,057**	**12,890**
Shares, thousands (denominator):				
Weighted average number of shares	206,327	206,305	**184,142**	
Assumed conversion of convertible bonds	20,367	20,367	**7,290**	
Assumed exercise of stock purchase rights	92	255	**464**	
Adjusted weighted average number of shares	226,786	226,927	**191,896**	
Diluted EPS (yen and U.S. dollars)	¥ 13.30	¥ 13.70	**¥ 5.51**	**$ 0.07**

31. 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 the potential new market entrants and providing them with the system of 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 to acquire the 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	Thousands of U.S. dollars
Fair value of common stock of EveryD.com, Inc. held before business combination	**¥ 448**	**$ 5,463**
Fair value of common stock of EveryD.com, Inc. acquired on the date of business combination	**1,410**	**17,195**
Direct expenses incurred for the acquisition	**12**	**146**
Acquisition cost of the acquired company	**1,870**	**22,805**

(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 ($3,183 thousand)

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

(a) Amount of goodwill recognised ¥1,367 million ($16,671 thousand)

(b) Reason for recognising goodwill

Goodwill arose in connection with the excess earning power of 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	Thousands of U.S. dollars
Current assets	**¥ 1,215**	**$ 14,817**
Noncurrent assets	**1,094**	**13,342**
Total assets	**2,309**	**28,159**
Current liabilities	**735**	**8,963**
Noncurrent liabilities	**209**	**2,549**
Total liabilities	**944**	**11,512**

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 mainly serving "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 bring the beneficial effect to expand 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 bit (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 to acquire the 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	Thousands of U.S. dollars
Fair value of common stock of KAZOKUTEI CO., LTD. held before business combination	**¥ 2**	**$ 24**
Fair value of common stock of KAZOKUTEI CO., LTD. acquired on the date of business combination	**3,870**	**47,195**
Direct expenses incurred for the acquisition	**60**	**732**
Acquisition cost of the acquired company	**3,932**	**47,951**

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

(a) Amount of goodwill recognised ¥692 million ($8,439 thousand)

(b) Reason for recognising goodwill

Goodwill arose in connection with the excess earning power of 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	Thousands of U.S. dollars
Current assets	**¥ 1,356**	**$ 16,537**
Noncurrent assets	**5,203**	**63,451**
Total assets	**6,559**	**79,988**
Current liabilities	**1,663**	**20,281**
Noncurrent liabilities	**1,314**	**16,024**
Total liabilities	**2,977**	**36,305**

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

	Millions of yen	Thousands of U.S. dollars
(a) Amount allocated to intangible assets	**¥ 1,302**	**$ 15,878**
(b) Type of assets		
Trademark rights	**1,302**	**15,878**
(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	Thousands of U.S. dollars
Net sales	**¥ 509,931**	**$ 6,218,671**
Operating income	**10,109**	**123,280**
Income before income taxes	**3,016**	**36,780**
Net income	**1,112**	**13,561**

	yen	U.S. dollars
Net income per share	**¥ 6.04**	**$ 0.07**

(Calculation method of approximate amounts)
The approximate amounts were calculated by adding the amounts of net sales and income and losses of KAZOKUTEI CO., LTD. for the 2011 fiscal year to consolidated results and adjusting for assumed amounts of eliminations for consolidation and goodwill amortisation expenses.

32. Subsequent Events

No items to report.

Independent Auditors' Report

To the Board of Directors of
H_2O RETAILING CORPORATION:

We have audited the accompanying consolidated financial statements of H_2O RETAILING CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2010, 2011 and 2012, 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 H_2O RETAILING CORPORATION and its consolidated subsidiaries as at March 31, 2010, 2011 and 2012, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 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.

Osaka, Japan
24th, August, 2012

KPMG AZSA LLC

Corporate Data

H_2O RETAILING CORPORATION and Consolidated Subsidiaries

Board of Directors and Corporate Auditors

Chairman, Representative Director and CEO
Shunichi Sugioka
President and Representative Director
Jun Wakabayashi
Representative Director
Naoya Araki
Directors
Yohsaku Fuji, Kazuo Sumi, Kazutoshi Senno, Keiji Uchiyama, Shigeru Yasukawa
Director, Managing Executive Officer
Tadatsugu Mori
Director, Executive Officer
Katsuhiro Hayashi
Standing Corporate Auditor
Toshimitsu Konishi
Corporate Auditors
Hideyuki Takai, Toshihisa Takamura, Masashi Muromachi

Outline of the Company

Date of Establishment :	March 1947
Stated Capital :	¥17,797 million
Authorised Shares :	300,000,000
Issued and Outstanding Shares :	206,740,777
Shareholders :	15,561
Employees :	43

Principal Shareholders :

HANSHIN ELECTRIC RAILWAY CO., LTD.
Takashimaya Company, Limited
Hankyu Hanshin Holdings, Inc.
Japan Trustee Services Bank, Ltd. (trust account)
The Master Trust Bank of Japan, Ltd. (trust account)
Japan Trustee Services Bank, Ltd. (trust account 9)
Goldman Sachs International Ltd.
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Northern Trust Co Avfc Re Northern Trust Guernsey Irish Clients
H_2O Retailing Group employee's shareholding association

Principal Consolidated Subsidiaries

Company name	Stated capital (Millions of yen)	Annual sales (Millions of yen)	Direct (indirect) holding by the company (%)	Principal business
Hankyu Hanshin Department Stores, Inc.	¥ 200	¥ 375,513	100.0	Operation of department stores
Hanshoku Co., Ltd.	100	90,279	100.0	Operational management of supermarkets
Hankyu Delica, Inc.	10	7,245	(100.0)	Manufacture and sale of prepared food and sushi
Hankyu Foods, Inc.	10	2,588	(100.0)	Manufacture and sale of laver seaweed and dried foods
Hankyu Bakery Co., Ltd.	10	2,502	(100.0)	Manufacture and sale of bread
Mameda, Inc.	10	1,089	(100.0)	Manufacture and sale of inarizushi
Oi Development Co., Ltd.	100	2,976	100.0	Operational management of a hotel
Hankyu Shopping Center Development Co., Ltd.	50	4,438	100.0	Operational management of commercial facilitics
Hankyu Seisakusho Co., Ltd.	20	3,827	(100.0)	Manufacture and sale of furniture and furnishings
Heart Dining Inc.	10	3,586	(100.0)	Management of cafe, restaurants and company cafeteria
Hankyu OrangeLife, Inc.	10	4,718	96.0	Membership-based home-delivery service providing groceries and commodities in Kyushu Area
KAZOKUTEI CO., LTD.	1,466	4,220	73.4	Operation of restaurants mainly serving “Soba / Udon”
NAKANO FOODS CO., LTD.	146	2,951	(100.0)	Manufacture and sale of noodles and soup
Hankyu Design Systems Co., Ltd.	10	3,182	100.0	Commercial design, web design and production, photographing and printing
Hankyu Maintenance Service Co., Ltd.	10	2,379	100.0	General building maintenance (facilities, cleaning and security)
Hankyu Kitchen Yell Kansai, Inc.	10	7,022	100.0	Membership-based home-delivery service providing groceries and commodities in Kansai Area
Hankyu Job Yell Co., Ltd.	10	1,632	100.0	Manpower dispatching and fee-charging employment agency
With System Corporation	100	917	100.0	Data processing and systems development
Hankyu Tomonokai Co., Ltd.	50	666	100.0	Membership organisation for customer service
Hankyu Wedding	50	389	100.0	Costume salon for bridal use
Hanshin Midorikai	20	137	(100.0)	Membership organisation for customer service
Hankyu Department Stores Europe B.V.	EUR.220 thousands	EUR.508 thousands	100.0	Fund-raising and fund management related to overseas business

H2O RETAILING CORPORATION
2-6-27, Shibata, Kita-ku, Osaka 530-0012
Telephone: +81 (0) 6 - 6365 - 8120
Facsimile: +81 (0) 6 - 6486 - 8320
URL http://www.h2o-retailing.co.jp/