H$_2$O RETAILING CORPORATION

FINANCIAL REPORT 2010

H$_2$O 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 35 subsidiaries and 6 affiliates that operate retail businesses, including its core-department store operations, supermarket operations and shopping center operations.

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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 ver. 2, with fiscal 2014 as its final year. Various measures have been taken based on this plan to strengthen Group businesses.

The "Umeda Project," embracing the Umeda main stores of both Hankyu Department Stores and Hanshin Department Store has been positioned as the centrepiece of the plan. We have been working on this long-term project with a grand opening scheduled for 2012 since the announcement in 2004 of a reconstruction plan for the Hankyu Department Store's Umeda Main Store. In September 2009, we opened Phase I (the southern section). However, because the works are now about to make their largest encroachment into our sales area, we expect business performance to be adversely affected in the years before the grand opening.

Meanwhile, in suburban areas, we opened our Amagasaki Hanshin branch store in Hyogo Prefecture in October 2009. In our supermarket business, we introduced face-to-face sales consultation and other initiatives to develop higher-quality food retailing spaces. In April 2009, we likewise took measures aimed at expanding our market share in our core Kansai area, such as an overhaul of house credit cards at our department stores, and, in October, the issuance of Hankyu Hanshin Emerald STACIA Card in partnership with Hankyu Hanshin Holdings, Inc. In further measures to build basic infrastructure for expansion of business under the GP10 Plan ver. 2, we completed our migration to a "private cloud"-type data centre after concluding the shutdown of our old host computers. Meanwhile, we decided to terminate operations at Shijo Kawaramachi Hankyu Department Store by summer 2010, after judging that it would be difficult to continue department store operations in Kyoto city centre due to the store's inadequate scale in a very competitive environment.

Despite repeated, serious discussions of management integration following the signing of an operational and capital alliance with Takashimaya Company, Limited, rapid deterioration in the retail operating environment has resulted in suspension by mutual agreement of this integration move as of March 2010. Both sides wished to prioritise separate development of new business models and raise their own management quality standards first. However, having confirmed the success of cooperation in certain areas, we will continue to build relations through a new operational alliance, centred on sales display and product development as well as measures to improve efficiency.

At the beginning of fiscal 2009 ended March 31, 2010, we began rationalisation measures in anticipation of the impact of reduced sales area at the Hankyu Department Store's Umeda Main Store. As a result of ¥8.7 billion (consolidated basis) in cost-cutting measures, sales on a consolidated basis declined 7.7% year-on-year to ¥470,395 million. Operating income fell 40.2% year-on-year to ¥8,024 million. Net income slumped 52.7% year-on-year to ¥3,016 million, reflecting booking of impairment losses and provisions to the reserve to cover store closure costs following the decision to shut Shijo Kawaramachi Hankyu Department Store as well as recognition of an impairment loss on overall operations of the Department Store Business, in order to improve financial soundness.

Results for the term

	Millions of yen	YoY %
Net sales	470,395	92.3
Operating income	8,024	59.8
Net income	3,016	47.3

The following is a breakdown of performance by business segment.

Department Store Business

Sales at Hankyu Department Store's Umeda Main Store declined year-on-year as its retail area was reduced to around 68% of former levels (including the "ings" store) despite the launch of operations on 3rd September 2009 of Phase I of the renovated southern section. However, specific floors had a better year than anticipated. In particular, third- and fourth-quarter sales beat forecasts on the fifth and sixth floors, declining only 23.5%, due to a strong customer response to promotional campaigns and customer-attentive stock selection in ladies' wear, with introduction of new talk-of-the-town brands, and on the ground floor (confectionery) where product line-up was expanded. Overall, sales at Hankyu Department Store's Umeda Main Store declined by 16.6% year-on-year to ¥144,075 million including sales at the MEN's Emporium.

With the deepening of management integration of Hankyu Department Stores and Hanshin Department Store, the Hankyu-Hanshin Persona Card was launched, usable at stores of both chains, after an overhaul of house credit cards in April 2009. With the harmonisation of personnel (April) and pension systems (October), the process of unifying both chains that began with the launch of H_2O Retailing Corporation in October 2007 is now more or less complete. Both department stores now truly operate as one.

On 26th August 2009 we finished a full renovation of Hanshin Department Store's Umeda Main Store, in tandem with the launch of operations at Phase I of Hankyu Department Store's Umeda Main Store. The goal was to foster a more competitive but complimentary relationship between the two chains, by more clearly distinguishing product line-up and brand images while eliminating unnecessary duplication and inconvenience for shoppers of both stores. As a result of the relocation of the non-standard-sized womenswear section from Hankyu's Umeda Main Store to the Hanshin's Umeda Main Store, and a strengthening of product line-up of accessories, cosmetics and foods, the number of customers grew steadily after the Hanshin renovation, and full-year sales were down only 2.2% year-on-year to ¥92,185 million. Sales dipped only 0.5% in the third quarter and rose 4.4% in the fourth.

Branch stores, however, continued to face difficult operating conditions since autumn 2008. Nevertheless, at the beginning of the fourth quarter, sales showed signs of recovery at some stores. After a year of operation, the Nishinomiya Hankyu store boosted its fourth-quarter sales by 9.6% from levels after its opening, attracting customer support through localised product line-up and services, which triggered a surge in demand for fresh products as well as other daily delicatessen items, general household goods, linen, accessories and children's clothing. Performance has been largely in line with forecasts at Hanshin Amagasaki store near JR Amagasaki Station, which began business on 20th October 2009 as the principal tenant of retail facility operator COCOE.

As a result of the foregoing, sales in the Department Store Business were down 8.2% year-on-year to ¥357,952 million, and operating income fell 46.1% year-on-year to ¥5,815 million. This business was badly hit by the reduction of sales area at Hankyu Department Store's Umeda Main Store.

Department Store Business

	Millions of yen	YoY %
Sales	357,952	91.8
Operating income	5,815	53.9

Supermarket Business
In the Supermarket Business, sales at existing stores fell 3.7% year-on-year. Average spending per customer was eroded as recession-hit customers gravitated towards lower priced items, but customer numbers held up from the previous year at food supermarket operator Hanshoku Co., Ltd., due to longstanding leaflet distribution and other promotional activities, and a more finely tailored customer approach leveraging information gathered from our point card members, who account for some 75% of the Supermarket Business' sales. At the same time, we undertook new store development to deal with competitive pressures in the market. Sales were robust at three new stores- Hankyu Oasis Senri Chuo store (Toyonaka, Osaka Prefecture), Hankyu Oasis Mikage store (Higashi-Nada Ward, Kobe City) and Hankyu Family Store Sumiyoshi (Sumiyoshi Ward, Osaka City) where we experimented with face-to-face sales consultation and weigh-and-sell services for fresh-food customers. Other innovations were highly specialised product line-up, installation of large display panels and in-store cookery lessons. We are introducing these ideas on a prototype basis at other existing stores.

Alliances have also been strengthened with food supermarkets and food producers to increase overall earnings potential in this business. The delicatessen plant of Hankyu Delica, Inc. completed in autumn 2008 came fully on-stream at the beginning of the term, enabling integrated manufacturing and marketing for delicatessen products sold at food supermarkets. At the same time, in October 2009, Hankyu Bakery Co., Ltd. launched a new ¥100 bread and pastry business after overhauling production lines. Products were launched at two Group department stores and 33 food supermarkets, with strong sales reported at all outlets, contributing to customer drawing power.

As a result of the foregoing, revenues and earnings rose in the Supermarket Business, with sales up 1.4% year-on-year to ¥88,440 million, while operating income jumped 21.8% to ¥1,425 million.

Supermarket Business

	Millions of yen	YoY %
Sales	88,440	101.4
Operating income	1,425	121.8

Property Management Business
Both of the main companies in this business saw revenues and earnings fall. Hankyu Shopping Center Development Co., Ltd., which manages and operates retail facilities, was hit by lower revenues from rentals due to a decline in shopping centre sales. Ours Inn Hankyu, which operates business hotels (basic, functional accommodations with relatively low rates), suffered from a decrease in occupancy due to business demand.

As a result, sales in the Property Management Business fell 8.4% to ¥8,198 million and operating income slumped 34.7% to ¥843 million.

However, in line with GP10 Plan ver. 2, this Business made smooth progress in its multi-purpose redevelopment project near JR Oimachi Station in Shinagawa Ward, Tokyo, featuring a hotel (principally for lodging, without function rooms) and commercial facilities, which is scheduled for completion in 2014. Phase I is due to open in spring 2011.

Property Management Business

	Millions of yen	YoY %
Net sales	8,198	91.6
Operating income	843	65.3

Other Businesses
All companies in the Other Businesses segment had a difficult year, due largely to corporate cost-cutting.

Against this backdrop, and in light of their poor future growth prospects, the Group sold off the businesses of Hanshin Shoji Co., Ltd., which marketed womenswear at specialty stores, on 1st April 2009, and logistic companies Esaka Logistics Services Co., Ltd. and Hanshin Unso on 1st October 2009.

At the same time, revenues and earnings rose at Hankyu Kitchen Yell Co., Ltd., which provides a home-delivery service in the Group's business area. Its catchment area for next-day delivery was expanded in June 2009 to include Sakai city and eastern Osaka. In addition to an increase in product range and an overhaul of its website, this company upgraded its services in February 2010, with launch of deliveries for which the customer can set the time band. These improvements drove a 4,100 increase in service subscribers.

As a result of the foregoing, sales at Other Businesses including a holding company declined 33.0% year-on-year to ¥15,806 million, and operating income was down 43.3% year-on-year at ¥1,932 million.

Other Businesses

	Millions of yen	YoY %
Sales	15,806	67.0
Operating income	1,932	56.7

Management Issues to be Resolved
We launched the GP10 Plan ver. 2, a long-term business plan aimed at countering the adverse impact on the Group's business performance because of certain factors in our operating environment. Notable among these factors are growing competition with companies from other industries and companies following different business formats and the effect of social factors like the declining birthrate and rising average age of population. Under the GP10 Plan ver. 2 we have been pursuing an expansion of our business scale through the opening of new stores, as well as measures to establish a solid earnings base for our existing stores and all Group companies. However, since the autumn before last, the financial crisis as well as the transformation of social environment has brought about a sharp deterioration of the economy, which has led to a rapid transformation in consumer habit, featuring a stronger focus on value for money and an increased preference for online purchasing and other retail formats. We have thus been obliged to take steps to push through measures under the plan more forcefully. Responding effectively to these changed circumstances is now a crucial issue for the management of H_2O RETAILING CORPORATION.

In our department store business, work is proceeding on the rebuilding of the Hankyu Department Store's Umeda Main Store, with the Grand Opening of the entire store scheduled for 2012. By forging a balance between the Hankyu and Hanshin Main Stores that is both competitive and complimentary through a well-defined product line-up and brand image as well as our credit card policies, and by sharing customer traffic between these stores, the Group will build a firm business foundation in the Umeda area.
In the spring of 2011, the Group is scheduled to open a Hankyu Department Store in front of the JR Hakata Station (in Hakata Ward, Fukuoka City). While preparations for the building of a new department store at the train terminal are moving forward, we are also taking steps to improve our earning capacity at existing stores and have set our sights on achieving a new department store image through the above-mentioned policies.

In the supermarket business, the Group opened the Hankyu Oasis Senri-chuo Store, the Mikage Store and others as prototype stores launched last year that introduce a new retailing approach. Focusing on these prototype stores, the Group will proceed with the opening of new stores and the refurbishment of existing stores while raising the earning capacity of the business as a whole through a number of measures. The measures include producing our own delicatessen items at the delicatessen facility built the autumn before last and now in operation, increasing the number of our private brand (PB) products and the expansion of our 100-yen bread business.

By constructing our own business model that incorporates the retail business, including department stores, supermarkets, and home delivery services, we will expand our market share in the Kansai market area. We will also move forward with store openings in Hakata and the redevelopment project in front of the JR Oimachi Station with the goal of building a strong business group that will withstand future competition.

Corporate Governance System

1) Corporate Governance System

Outline and Rationale of Corporate Governance System in the H2O Retailing Group, H2O Retailing Corporation (the Company), a holding company, is responsible for the business planning, management and oversight of the entire Group. It seeks through proper and legal means to raise the corporate value of Group companies by building a corporate governance system in order to create a fast-acting and efficient company. The Company has adopted a company with 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 conduct in Group companies through stronger oversight of corporate auditors.

The Board of Directors and Board of Corporate Auditors are explained below.

(Board of Directors)

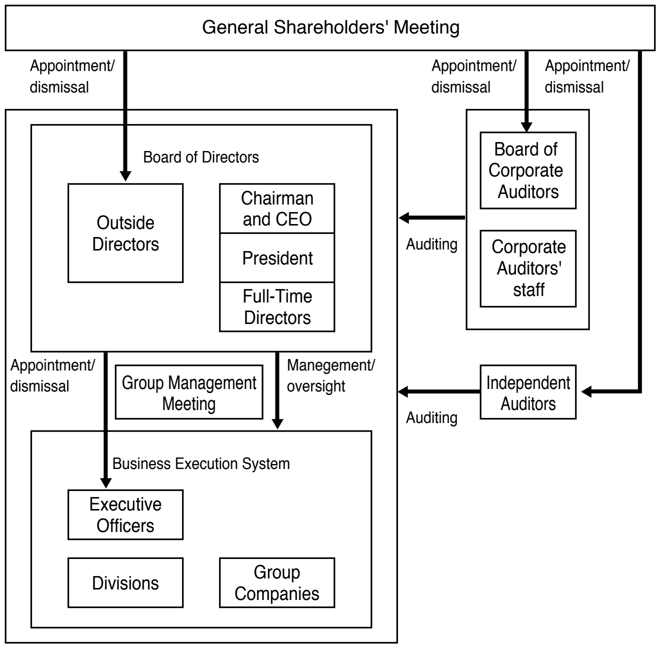
The Board of Directors is comprised of 10 members, with one highly independent directors with corporate management experience appointed from outside the Company.

(Board of Corporate Auditors)

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

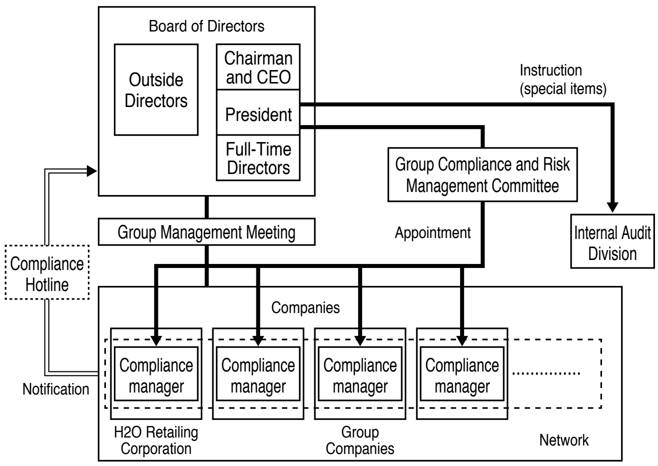
In addition, for swift decision making and management efficiency of the Group, the Group Management Meeting was established as the fronting body for the Board of Directors, making decisions on important matters for Group companies. Group companies including H2O Retailing Corporation have clearly defined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

To clearly define the responsibilities of directors and executive officers, a term of office of one year has been established.



The Company employs the executive officer system. Each director on the Board of Directors individually and the Board of Directors collectively supervise the performance of the executive officers.

2) Internal Control and Risk Management Systems



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.

To ensure that the directors and employees of the H_2O RETAILING Group act strictly in 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 the implementation of 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 so as 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 established risk management regulations which include guidelines for risk prevention, for reporting risks when they occur, measures to take when risks occur and how to implement those measures, thereby stipulating basic policies and rules relating to risk management.

At the Group Compliance and Risk Management Committee, the Company formulates measures to gather and deal with risk information, and constructs the system which the companies implement to deal with each risk voluntarily and systematically to prevent risks and minimise the 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 liaison 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 are outside corporate auditors and one is a full-time auditor. The Company assigns professionals with corporate management experience and specialised knowledge of the 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 corporate auditors' staff of six works in the Corporate Auditors' Office to augment the corporate auditors' audit.

In the consolidated reporting period, the internal audit division (four members) and 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 work 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 reports and work processes.

In the consolidated reporting period, following audit plans for the corporate auditors' audit, the corporate auditors attended regular meetings with directors and the president. Outside corporate auditors give their opinion and ask questions, as necessary, from the standpoint of a specialist with extensive business management experience or as 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 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 & Co. as its accounting auditing firm. The certified public accountants who executed the accounting audit were Mr. Takashi Yoshida, Mr. Katsuhiro Wakita and Mr. Yusuke Kawasaki. 11 other certified public accountants and 15 other staff assisted them with the audit. In drafting the accounting audit plan, the auditors bounce opinions about important accounting audit matters off of each other. 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 an outside director for his management supervisory and investingative 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 an independent director. Outside director Mr.Yohsaku Fuji also has no special interests in the Company.

Mr. Hideyuki Takai was appointed an outside corporate auditor for his management supervisory and investigative skills based on his being the president and representative director of Toho Co., Ltd., a core company of the Hankyu Hanshin Toho Group. The Toho Co., Ltd., of which outside corporate auditor Mr. Hideyuki Takai is the president and representative director, has business relationships with the Hankyu Hanshin Department Stores, Inc., which include the rental of real estate.

Mr. Takeshi Nakagawa was appointed 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. Takeshi Nakagawa has been appointed an independent director. Outside corporate auditor Mr. Takeshi Nakagawa also has no special interests in the Company.

Mr. Toshihisa Takamura was appointed 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 an independent director. Outside corporate auditor Mr. Toshihisa Takamura also has no special interests in the Company.

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.
Director	Atsunori Ando	Attended 3 of 5 Board of Directors' meetings held since assuming his post on June 24th, 2009.
Corporate Auditor	Hideyuki Takai	Attended 5 of 6 Board of Directors' meetings (excluding written resolutions) and 7 of 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: Outside director Atsunori Ando retired on March 25th, 2010 after resigning from his position.

5) Compensation for Directors and Corporate Auditors

For directors we have instituted a system of compensation that allows for higher incentives for improving 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 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 consists only of monthly compensation, in consideration of their function.

Moreover, compensation for corporate auditors, just as for part-time directors, consists only of monthly compensation, in consideration of their function, 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 a. 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)	236	172	35	29	9
Corporate auditors (excluding outside corporate auditors)	25	25	-	-	1
Outside directors	35	35	-	-	5

6) Shareholdings

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

Number of different stocks 68

Balance sheet value ¥56,431 million

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

Stock	Number of shares	Balance sheet value (Millions of yen)	Purpose of holding
Takashimaya Company, Limited	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

c. Investment securities whose purpose of holding is for net investment purposes

None

d. Investment securities whose purpose of holding has changed

None

Five-Year Summary

H_2O RETAILING CORPORATION and Consolidated Subsidiaries

Years ended 31st March	Millions of yen 2006	2007	2008	2009	2010	Thousands of U.S. dollars (Note1) 2010
For the year:						
Net sales	¥381,285	¥395,950	¥471,617	¥509,525	¥470,395	$5,058,011
Cost of sales	268,044	279,365	334,688	364,028	339,027	3,645,452
Gross profit	113,241	116,585	136,929	145,497	131,368	1,412,559
Selling, general and administrative expenses	98,649	101,821	119,815	132,080	123,344	1,326,279
Interest expense	97	125	72	98	337	3,624
Income before income taxes	13,349	14,308	16,905	9,449	5,766	62,000
Net income	7,922	8,100	9,450	6,380	3,017	32,441
Per share data (in yen and dollars)						
Net income - basic	42.28	43.23	50.07	31.02	14.62	0.16
Net income - diluted	38.13	38.99	45.19	28.23	13.30	0.14
Cash dividends	12.50	12.50	12.50	12.50	12.50	0.13
At year-end:						
Inventories	¥12,355	¥13,050	¥15,686	¥16,916	¥15,319	$164,720
Property, plant and equipment (book value)	66,473	74,788	80,892	87,396	91,526	984,151
Total assets	276,175	282,759	337,778	323,044	344,700	3,706,452
Long-term debt	22,000	23,044	21,159	40,921	60,755	653,279
Shareholders' equity	138,568	143,195	163,897	153,839	159,330	1,713,226
Ratio analysis:						
Gross profit / Net sales (%)	29.70	29.44	29.03	28.56	27.93	
Income before income taxes / Net sales (%)	3.50	3.61	3.58	1.85	1.23	
Net income / Net sales (%)	2.08	2.05	2.00	1.25	0.64	
Net income /Total assets (%)	2.92	2.90	3.05	1.93	0.90	
Net income / Shareholders' equity (%)	6.08	5.75	6.15	4.02	1.93	
Shareholders' equity / Total assets (%)	50.17	50.64	48.52	47.62	46.22	
Long-term debt / Shareholders' equity (times)	0.16	0.16	0.13	0.27	0.38	
Net sales / Inventories (times)	30.86	30.34	30.07	30.12	30.71	
Net sales / Total assets (times)	1.38	1.40	1.40	1.58	1.36	

Note 1: U.S. dollar amounts represent translations of yen amounts at the rate of ￥93=U.S.$1.00.
2: Effective 1st April 2006, the Company adopted the new accounting standard for presentation of net assets in the balance sheet and related guidance (Accounting Standards Board Statement No. 5, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" and Financial Standards Implementation Guidance No. 8, "Implementation Guidance for Accounting Standard for Presentation of Net Assets in the Balance Sheet"). The prior year amount of shareholders' equity has not been restated.
3: 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.
4: In the five-year summary, Shareholders' equity means Net assets excluding subscription rights to shares and Minority interests in consolidated subsidiaries.

Consolidated Balance Sheets

H2O RETAILING CORPORATION and Consolidated Subsidiaries

As of 31st March, 2008, 2009 and 2010	Millions of yen 2008	Millions of yen 2009	Millions of yen 2010	Thousands of U.S. dollars (Note1) 2010
Assets				
Current assets:				
Cash on hand and in banks (Note 7)	¥59,812	¥39,890	¥45,890	$493,441
Notes and accounts receivable:				
Trade	24,599	20,613	17,595	189,193
Other	3,572	3,738	3,560	38,280
Allowance for doubtful receivables	(278)	(157)	(129)	(1,387)
	27,893	24,194	21,026	226,086
Inventories (Note 4)	15,686	16,916	15,319	164,720
Deferred tax assets (Note 14)	4,113	5,025	3,485	37,473
Prepaid expenses and other (Note 3 and 8)	3,845	3,319	2,916	31,355
Total current assets	111,349	89,344	88,636	953,075
Investments and long-term loans:				
Investment securities (Note 3)	60,565	63,344	69,990	752,581
Investments in an unconsolidated subsidiary and affiliates	882	820	808	8,688
Long-term loans	2,159	1,862	1,487	15,989
Long-term loans to employees	237	179	211	2,269
Total investments and long-term loans	63,843	66,205	72,496	779,527
Property, plant and equipment:				
Land (Note 7 and 16)	32,869	32,494	33,948	365,032
Buildings and structures (Note 7)	121,064	124,756	120,796	1,298,882
Machinery and equipment	18,092	19,078	18,927	203,516
Construction in progress	376	3,785	4,511	48,506
	172,401	180,113	178,182	1,915,936
Accumulated depreciation	(91,509)	(92,717)	(86,656)	(931,785)
Total property, plant and equipment	80,892	87,396	91,526	984,151
Other assets:				
Long-term leasehold deposits (Note 5)	40,743	40,956	54,011	580,763
Goodwill (Note 2)	18,938	17,971	17,004	182,839
Intangibles	5,985	7,180	7,241	77,860
Long-term deferred tax assets (Note 14)	14,084	12,487	12,373	133,043
Interest swaps	69	—	—	—
Other assets	1,983	1,540	1,465	15,753
Allowance for doubtful receivables	(108)	(35)	(52)	(559)
Total other assets	81,694	80,099	92,042	989,699
	¥337,778	¥323,044	¥344,700	$3,706,452

See accompanying notes.

	Millions of yen			Thousands of U.S. dollars (Note1)
	2008	2009	2010	2010
Liabilities and Net Assets				
Liabilities				
Current liabilities:				
Current portion of long-term debt (Notes 6 and 7)	¥1,324	¥238	¥166	$1,785
Notes and accounts payable:				
Trade	36,385	30,456	28,972	311,527
Other	9,070	6,708	7,114	76,495
	45,455	37,164	36,086	388,022
Accrued expenses	2,524	2,837	2,715	29,193
Income and enterprise taxes payable	5,443	2,886	1,428	15,355
Consumption tax payable	1,575	623	551	5,925
Advances received	34,725	32,989	33,344	358,538
Deferred tax liabilities	—	240	—	—
Provision for bonuses to employees (Note 2)	4,798	4,613	4,733	50,892
Provision for bonuses to directors and corporate auditors (Note 2)	135	80	58	624
Provision for loss of store rebuilding (Note 2)	956	3,228	—	—
Provision for loss on store closing (Note 2)	—	—	784	8,430
Provision for business reorganisation of subsidiaries and affiliates	—	971	—	—
Other current liabilities	3,180	2,976	2,757	29,645
Total current liabilities	100,115	88,845	82,622	888,409
Long-term liabillities:				
Long-term debt (Note 6 and 7)	21,159	40,921	60,755	653,279
Long-term deferred tax liabilities (Note 14)	19,439	9,294	13,252	142,495
Long-term deferred tax liabilities related to land revaluation (Note 16)	348	348	348	3,742
Employees' severance and retirement benefits (Note 9)	17,975	18,292	15,577	167,495
Directors' severance and retirement benefits	541	101	104	1,118
Provision for loss of store rebuilding (Note 2)	4,272	1,179	1,189	12,785
Provision for redemption of gift certificates (Note 2)	1,685	1,785	1,804	19,398
Long-term payable accrued	47	796	2,279	24,505
Guarantee deposits	7,963	7,433	7,200	77,419
Other non current liabilities	247	55	4	43
Contingent liabilities (Note 11)				
Total liabilities	173,791	169,049	185,134	1,990,688
Net assets (Note 15)				
Shareholders' equity :				
Common stock:				
Authorised - 300,000,000 shares,				
Issued - 206,740,777 shares in 2008, 2009 and 2010	17,797	17,797	17,797	191,365
Capital surplus	37,172	37,172	37,172	399,699
Retained earnings	92,388	95,608	96,045	1,032,742
Treasury stock - 183,302 shares in 2008				
- 401,899 shares in 2009	(192)	(280)	(294)	(3,161)
- 425,885 shares in 2010				
Total shareholders' equity	147,165	150,297	150,720	1,620,645
Accumulated gains from revaluation and translation:				
Net unrealised holding gains on securities	16,840	3,904	8,933	96,054
Deferred hedge gains	41	—	—	—
Land revaluation, net of tax (Note 16)	43	43	43	462
Foreign currency translation adjustments	(191)	(405)	(366)	(3,935)
Total accumulated gains from revaluation and translation	16,733	3,542	8,610	92,581
Subscription rights to shares	—	45	139	1,495
Minority interests in consolidated subsidiaries	89	111	97	1,043
Total net assets	163,987	153,995	159,566	1,715,763
	¥337,778	¥323,044	¥344,700	$3,706,452

See accompanying notes.

Consolidated Statements of Income

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Years ended 31st March	Millions of yen 2008	Millions of yen 2009	Millions of yen 2010	Thousands of U.S. dollars (Note1) 2010
Net sales	¥471,617	¥509,525	¥470,395	$5,058,011
Cost of sales (Note 25)	334,688	364,028	339,027	3,645,452
Gross profit	136,929	145,497	131,368	1,412,559
Selling, general and administrative expenses	119,815	132,080	123,344	1,326,279
Operating income	17,114	13,417	8,024	86,280
Other income (expenses):				
Interest and dividend income	863	897	941	10,118
Equity in losses of affiliated companies	(268)	(60)	—	—
Amortisation of negative goodwill	75	44	43	462
Gain on reversal of provision for loss of store rebuilding	228	58	—	—
Gain on sales of property, plant and equipment (Note 19)	2,391	68	1,994	21,441
Gain on sales of investment securities	—	145	33	355
Gain on sales of subsidiaries and affiliates stocks	—	—	171	1,839
Gain on donations of property, plant and equipment	200	—	—	—
Interest expense	(72)	(98)	(337)	(3,624)
Loss of store rebuilding (Note 20)	(67)	(173)	(154)	(1,656)
Loss on store closing (Note 21)	—	—	(1,343)	(14,441)
Loss on disposal of property, plant, equipment and intangibles (Note 24)	(812)	(692)	(861)	(9,258)
Impairment losses (Note 23)	(867)	(204)	(3,050)	(32,796)
Outplacement expenses	(249)	(1,004)	—	—
Expenses for opening new stores	(418)	(556)	(327)	(3,516)
Loss on revision of retirement benefit plan	—	—	(236)	(2,537)
Business reorganisation expenses (Note 22)	—	(2,723)	—	—
Loss on valuation of investment securities	—	(529)	—	—
Loss on provision for redemption of gift certificates	(882)	(1,058)	(955)	(10,269)
Loss on provision for redemption of gift certificates for prior periods	(1,131)	—	—	—
Loss on depreciation of property, plant, equipment and intangibles	(354)	—	—	—
Loss on decrease in investment in an affiliated company	(57)	—	—	—
Other-net	1,211	1,917	1,823	19,602
	(209)	(3,968)	(2,258)	(24,280)
Income before income taxes	16,905	9,449	5,766	62,000
Income taxes (Note 14) :				
Current	6,821	3,577	1,241	13,344
Deferred	628	(533)	1,523	16,376
	7,449	3,044	2,764	29,720
Minority interests (losses)	6	25	(15)	(161)
Net income	¥9,450	¥6,380	¥3,017	$32,441

	Yen			U.S. dollars (Note 1)
Net income per share - basic (Note 29)	¥50.07	¥31.02	¥14.62	$0.16
Net income per share - diluted (Note 29)	¥45.19	¥28.23	¥13.30	$0.14
Cash dividends	¥12.50	¥12.50	¥12.50	$0.13

See accompanying notes.

Consolidated Statements of Changes in Net Assets

H2O RETAILING CORPORATION and Consolidated Subsidiaries

	Thousands	Millions of yen									
Years ended 31st March	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealised holding gains (losses) on securities	Deferred hedge gains	Land revaluation, net of tax (Note 16)	Foreign currency translation adjustments	Subscription rights to shares	Minority interests in consolidated subsidiaries
Balance at 31st March, 2007	187,688	¥17,797	¥17,580	¥86,091	(¥288)	¥22,970	¥79	(¥797)	(¥237)	–	¥1,697
Cash dividends- ¥12.5 per share	–	–	–	(2,241)	–	–	–	–	–	–	–
Net income	–	–	–	9,450	–	–	–	–	–	–	–
Gain on treasury stock	–	–	(16)	(29)	95	–	–	–	–	–	–
Stock exchange	19,052	–	19,608	–	1	–	–	–	–	–	–
Land revaluation, net of tax (Note 16)	–	–	–	(840)	–	–	–	840	–	–	–
Decrease resulting from increase in number of consolidated subsidiaries	–	–	–	(43)	–	–	–	–	–	–	–
Decrease in net unrealised holding gains on securities	–	–	–	–	–	(6,130)	–	–	–	–	–
Deferred hedge gains	–	–	–	–	–	–	(38)	–	–	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	–	–	46	–	–
Minority interests in consolidated subsidiaries	–	–	–	–	–	–	–	–	–	–	(1,607)
Balance at 31st March, 2008	206,740	¥17,797	¥37,172	¥92,388	(¥192)	¥16,840	¥41	¥43	(¥191)	–	¥90
Cash dividends- ¥12.5 per share	–	–	–	(2,581)	–	–	–	–	–	–	–
Net income	–	–	–	6,380	–	–	–	–	–	–	–
Gain on treasury stock	–	–	–	(579)	(88)	–	–	–	–	–	–
Land revaluation, net of tax (Note 16)	–	–	–	–	–	–	–	–	–	–	–
Decrease resulting from increase in number of consolidated subsidiaries	–	–	–	–	–	–	–	–	–	–	–
Decrease in net unrealised holding gains on securities	–	–	–	–	–	(12,936)	–	–	–	–	–
Deferred hedge gains	–	–	–	–	–	–	(41)	–	–	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	–	–	(214)	–	–
Subscription rights to shares	–	–	–	–	–	–	–	–	–	45	–
Minority interests in consolidated subsidiaries	–	–	–	–	–	–	–	–	–	–	21
Balance at 31st March, 2009	206,740	¥17,797	¥37,172	¥95,608	(¥280)	¥3,904	–	¥43	(¥405)	¥45	¥111
Cash dividends- ¥12.5 per share	–	–	–	(2,579)	–	–	–	–	–	–	–
Net income	–	–	–	3,017	–	–	–	–	–	–	–
Gain on treasury stock	–	–	–	(1)	(14)	–	–	–	–	–	–
Land revaluation, net of tax (Note 16)	–	–	–	–	–	–	–	–	–	–	–
Decrease resulting from increase in number of consolidated subsidiaries	–	–	–	–	–	–	–	–	–	–	–
Increase in net unrealised holding gains on securities	–	–	–	–	–	5,029	–	–	–	–	–
Deferred hedge gains	–	–	–	–	–	–	–	–	–	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	–	–	39	–	–
Subscription rights to shares	–	–	–	–	–	–	–	–	–	94	–
Minority interests in consolidated subsidiaries	–	–	–	–	–	–	–	–	–	–	(14)
Balance at 31st March, 2010	206,740	¥17,797	¥37,172	¥96,045	(¥294)	¥8,933	–	¥43	(¥366)	¥139	¥97

	Thousands of U.S. dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealised holding gains (losses) on securities	Deferred hedge gains	Land revaluation, net of tax (Note 16)	Foreign currency translation adjustments	Subscription rights to shares	Minority interests in consolidated subsidiaries
Balance at 31st March, 2009	$191,365	$399,699	$1,028,043	($3,011)	$41,979	–	$462	($4,354)	484	$1,194
Cash dividends-$0.13 per share	–	–	(27,731)	–	–	–	–	–	–	–
Net income	–	–	32,441	–	–	–	–	–	–	–
Gain on treasury stock	–	–	(11)	(150)	–	–	–	–	–	–
Stock exchange	–	–	–	–	–	–	–	–	–	–
Land revaluation, net of tax (Note 16)	–	–	–	–	–	–	–	–	–	–
Decrease resulting from increase in number of	–	–	–	–	–	–	–	–	–	–
consolidated subsidiaries	–	–	–	–	–	–	–	–	–	–
Increase in net unrealised holding gains on securities	–	–	–	–	54,075	–	–	–	–	–
Deferred hedge gains	–	–	–	–	–	–	–	–	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	–	419	–	–
Subscription rights to shares	–	–	–	–	–	–	–	–	1,011	–
Minority interests in consolidated subsidiaries	–	–	–	–	–	–	–	–	–	(151)
Balance at 31st March, 2010	$191,365	$399,699	$1,032,742	($3,161)	$96,054	–	$462	($3,935)	$1,495	$1,043

See accompanying notes.

Consolidated Statements of Cash Flows

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Years ended 31st March	Millions of yen 2008	2009	2010	Thousands of U.S. dollars (Note1) 2010
Cash flows from operating activities:				
Income before income taxes	¥16,905	¥9,449	¥5,766	$62,000
Depreciation and amortisation	7,731	10,104	10,397	111,796
Loss on disposal of property, plant, equipment and intangible assets	812	692	790	8,495
Impairment loss	867	204	3,630	39,032
Decrease in allowance for doubtful receivables	(146)	(193)	(10)	(108)
Increase (decrease) in provision for bonuses to employees	2,516	(185)	264	2,839
Increase (decrease) in provision for bonuses to directors and corporate auditors	46	(55)	(22)	(237)
Increase (decrease) in provision for retirement benefits	146	(123)	(2,319)	(24,935)
Decrease in provision for loss of store rebuilding	(161)	(822)	—	—
Increase in provision for loss on store closing	—	—	784	8,430
Increase in provision for redemption of gift certificates	1,685	100	19	204
Increase (decrease) in provision for business reorganisation of subsidiaries and affiliates	—	971	(971)	(10,441)
Interest and dividend income	(863)	(897)	(941)	(10,118)
Interest expense	72	98	337	3,624
Gain on sales of property, plant and equipment	(2,391)	(68)	(1,994)	(21,441)
Gain on sales of investment securities	—	(145)	(204)	(2,194)
Gain on valuation of investment securities	—	529	—	—
Decrease (increase) in notes and accounts receivable	(2,861)	3,985	2,622	28,194
Decrease (increase) in inventories	582	(1,229)	1,359	14,613
Increase (decrease) in notes and accounts payable	1,540	(5,928)	(1,124)	(12,086)
Increase (decrease) in consumption tax payable	1,028	(952)	(51)	(548)
Other	(1,558)	1,253	2,586	27,806
	25,950	16,788	20,918	224,925
Interest and dividends received	875	857	937	10,075
Interest paid	(76)	(44)	(355)	(3,817)
Income tax paid	(6,642)	(6,470)	(2,649)	(28,484)
Net cash provided by operating activities	20,107	11,131	18,851	202,699
Cash flows from investing activities:				
Net decrease (increase) in time deposits	—	100	(5,500)	(59,140)
Additions to property, plant and equipment	(10,262)	(19,460)	(17,165)	(184,570)
Proceeds from disposal of property, plant and equipment	8,119	536	53	570
Additions to intangibles	(1,447)	(3,394)	(2,394)	(25,742)
Proceeds from disposal of intangibles	94	15	—	—
Investment in securities	(1,508)	(25,816)	(379)	(4,075)
Proceeds from sales of investment securities	658	1,543	2,631	28,290
Proceeds from the purchase of stock of subsidiaries accompanied by a change in the scope of consolidation	21,336	—	—	—
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	—	—	1,515	16,290
Proceeds from collection of long-term loans receivable	562	321	310	3,333
Payments for guarantee deposits	—	—	(15,317)	(164,699)
Proceed from collection of guarantee deposits	—	—	736	7,914
Net cash provided by (used in) investing activities	17,552	(46,155)	(35,510)	(381,828)
Cash flows from financing activities:				
Proceeds from long-term debt	—	20,000	20,000	215,054
Repayments of long-term debt	(2,885)	(1,324)	(238)	(2,559)
Dividends paid	(2,264)	(2,585)	(2,579)	(27,731)
Proceeds from sale of treasury stock	142	2,267	2	22
Additions to treasury stock	(18,609)	(2,933)	(16)	(172)
Other	—	(1)	(49)	(527)
Net cash provided by (used in) financing activities	(23,616)	15,424	17,120	184,087
Foreign exchange differences of cash and cash equivalents	46	(222)	39	419
Net Increase (decrease) in cash and cash equivalents	14,089	(19,822)	500	5,377
Cash and cash equivalents at beginning of year	40,595	54,688	34,866	374,903
Cash and cash equivalents at beginning of year of newly consolidated subsidiaries	4	—	—	—
Cash and cash equivalents at end of year	¥54,688	¥34,866	¥35,366	$380,280
Reconciliation to balance sheet:				
Cash and cash equivalents:				
Cash on hand and in banks in the balance sheet	¥59,812	¥39,890	¥45,890	$493,441
Time deposits with maturities exceeding three months	(5,124)	(5,024)	(10,524)	(113,161)
Total	¥54,688	¥34,866	¥35,366	$380,280

See accompanying notes.

Notes to the Consolidated Financial Statements

H2O RETAILING CORPORATION and Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law which took effect on 30th September 2007, replacing the Japanese Securities and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

H2O RETAILING CORPORATION (the "Company") and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen, and 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 2010, which was ¥93 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 34 (37 in 2009 and 47 in 2008) significant majority owned subsidiaries. All significant inter-company transactions and accounts have been eliminated in consolidation.

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 2009, the subsidiaries listed below have been removed from the scope of consolidation.

Hanshin Department Store, Ltd. (attendant on merger with consolidated subsidiary Hankyu Department Stores, Inc. on 1st October 2008)

Hankyu Oasis, Inc.; Hankyu Nissho Store.; Hankyu Family Store Co., Ltd.; Hankyu Fresh Yell Co., Ltd. (attendant on merger with consolidated subsidiary Hanshoku Co., Ltd. on 1st October 2008)

Canteen West Co., Ltd.; Hansel Co., Ltd. (attendant on merger with consolidated subsidiary Humek Foods, Inc. on 1st October 2008)

Hanshin Gift Service Co., Ltd. (attendant on liquidation with effect from 31st January 2009)

Mosaic Realty Co., Ltd. (attendant on merger with the parent company on 6th February 2009)

The trade name of Hankyu Department Stores, Inc., has been changed to Hankyu Hanshin Department Stores, Inc., while that of Humek Foods, Inc. has been changed to Heart Dining. Inc.

In the year ended 31st March 2008, the Company made Hanshin Department Store, Ltd. a subsidiary by a stock-for-stock exchange.

One of the consolidated subsidiaries has 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 difference between the cost of investments in consolidated subsidiaries and the equity in their net assets at dates of acquisition has been, with minor exceptions, amortised over five to twenty years.

The equity method has been applied to 6 (6 in 2009 and 7 in 2008) affiliates for the year ended 31st March 2010.

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 non-marketable 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 (book value 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.)
(Change in accounting policies)
Effective from the year ended 31st March 2009, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Measurement of Inventories" (Statement No. 9 issued by the Accounting Standards Board of Japan on 5th July 2006).This change has had no material effect on profits and losses.

Property, plant and equipment
Property, plant and equipment excluding lease assets:
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 assets. 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: 3 to 50 years
- Machinery and equipment: 4 to 17 years
- Other: 3 to 20 years

Lease assets:
Lease assets under lease contracts that are not deemed to transfer ownership of the leased property to the lessee are depreciated using the straight-line method over the period of the lease, with 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 five to twenty years. The investments in the Hanshin Department Store, Ltd. and the Hankyu Nissho Store are amortised over twenty years.

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

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

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.

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 (50% of the whole plan), contributory pension plans (25% of the whole plan) and non-contributory pension plans (25% of the whole plan). Other subsidiaries also have unfunded lump-sum payment plans, contributory pension plans or noncontributory pension plans. The employees of the Company are all seconded from the consolidated subsidiaries and provided with the respective subsidiary's post-employment benefit plans.

The Companies 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 2008, 2009 and 2010 was ¥142 million, ¥27 million, and 35 million ($376 thousand) respectively.

(Additional Information)
In the year ended 31st March 2009, the Company and its subsidiary, Hankyu Hanshin Department Stores, Inc., resolved to abolish the retirement benefits plan for directors at the Board of Directors' meeting, and their Shareholders meeting approved payments to directors and corporate auditors to settle the allowances for retirement benefits for directors and corporate auditors.

Accordingly, ¥417 million, corresponding to the allowances for retirement benefits for the directors and corporate auditors of the two companies, was posted under "long-term payables accrued."

(Change in accounting policies)
In consolidated fiscal 2009, the Company began applying the "Partial Amendments to Accounting Standard for Retirement Benefits (Part3)" (Statement No.19 issued by the Accounting Standards Board of Japan on 31st July 2008).

This will have no impact on Company profit or loss or retirement benefit obligations.

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 a derivative financial instruments until the related loss or gain on the hedged items is 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 or 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.

Finance leases
(Change in accounting policies)
Until the fiscal period ended 31st March 2008, finance leases which do not transfer ownership are accounted for in the same manner as operating leases in accordance with Japanese GAAP.

Effective from the year ended 31st March 2009, the Company and its domestic consolidated subsidiaries have adopted the new accounting standards, "Accounting Standard for Lease Transactions" (Statement No.13 issued by the Accounting Standards Board of Japan on 30th March 2007) and "the Implementation Guidance for Accounting Standards for Lease Transactions" (the Financial Accounting Standard Implementation Guidance No.16 issued by the Accounting Standards Board of Japan on 30th March 2007). The new standard requires the recording of capital leases as ordinary buying and selling transactions.

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 will continue to be accounted for by the method applied to ordinary operating leases.

This change has had no material effect on the profits and losses of the Company.

Reclassifications
The “Decrease in provision for loss of store rebuilding” from the year ended 31st March 2009 in amount of (¥160) million, previously included in “Other” under “Cash flows from operating activities”, is separately presented retroactively due to its increased materiality.

Provision for loss of store rebuilding
The Companies made a provision to cover estimated losses arising from the rebuilding of the Umeda Main Store, Hankyu-Oi Building and Oi Development Building. The estimates of these losses were based on historical precedents, the book value of the stores’ property at the time of demolition, and the estimated cost of the demolition work for the year ended 31st March 2008.

Gain on reversal of provision for loss of store rebuilding for the year ended 31st March 2009 is reversal of the reserve to cover losses arising from the demolition of the Hankyu Oi Building, which were recorded as extraordinary gains, was made in an amount corresponding to the difference between the estimated and actual expenses.

The provision for loss of stores rebuilding in relation to the Umeda Main Store of Hankyu Department Stores was completely reversed following the start of the second phase of construction in fiscal 2009.

Provision for loss on store closing
To provide for losses incurred from the closing of the Shijo Kawaramachi Hankyu, the Company posted a reasonably estimated amount of the loss expected from the store closing.

Provision for redemption of gift certificates
The Company records a liability for gift certificates upon the issuance of certificates to its customers. If 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.

(Change in accounting policies)
For gift certificates not redeemed by customers within a certain time period, the Company previously reversed the liability associated with unredeemed gift certificates and recognised a gain in other non-operating income, in the same manner as that under Corporate Tax Law. Beginning with the year ended 31st March 2008, the Company records a provision for the unredeemed gift certificates based on the estimated future redemption of those certificates.

The reason for this change in accounting policies is to more accurately present profits and losses for the period and to present a more sound financial position by recording the provision. This is reflective of the concept in the Japanese Institute of Certified Public Accountants Auditing and Assurance Practice Committee Report No. 42, April 13, 2007, “Audit Treatment of Reserves Under the Special Taxation Measures Law, Allowance and Reserves Under Special Laws, and Reserves for Officers’ Retirement Benefits.”

As of the beginning of the year ended 31st March 2008, the Company recognised a loss of ¥1,131 million related to the provision and change in accounting policy. The Company additionally recorded ¥177 million of provision during the current year. As a result, ordinary income and income before income taxes for the current fiscal year were ¥177 million and ¥1,308 million less, respectively, than the amounts that would have been recorded with the previous accounting policy.

Provision for business reorganisation of subsidiaries and affiliates
To cover losses on investments in affiliated companies as a result of reorganisation of the Group’s business portfolio, provisions have been made to reserves for this purpose in the estimated amount of such losses. In the consolidated statements of income, these provisions to reserves are posted under the category of “business reorganisation expenses.”

Bond issue expenses
Bond issue expenses are charged to expenses when incurred.

Per share information
Computations of basic net income per share are based on the weighted average number of shares outstanding during each period. As for diluted net income per share for the years ended 31st March 2008, 2009 and 2010, see Note 29.

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 the revenue and expense accounts which are subject to such taxes.

3. 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 2008, 2009 and 2010.

Securities with book values exceeding acquisition costs:

	Millions of yen									Thousands of U.S. dollars		
	2008			2009			**2010**			**2010**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 19,693	¥ 48,016	¥ 28,323	¥ 21,300	¥ 32,893	¥ 11,593	**¥ 45,386**	**¥ 60,602**	**¥ 15,216**	**$ 488,022**	**$ 651,634**	**$ 163,612**
Government bonds	-	-	-	2,952	3,017	65	**510**	**525**	**15**	**5,484**	**5,645**	**161**
Other	5,690	5,773	83	1,056	1,062	6	**1,441**	**1,477**	**36**	**15,495**	**15,882**	**387**
Total	¥ 25,383	¥ 53,789	¥ 28,406	¥ 25,308	¥ 36,972	¥ 11,664	**¥ 47,337**	**¥ 62,604**	**¥ 15,267**	**$ 509,001**	**$ 673,161**	**$ 164,160**

Other securities:

	Millions of yen									Thousands of U.S. dollars		
	2008			2009			**2010**			**2010**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 1,595	¥ 1,216	(¥ 379)	¥ 25,047	¥ 19,842	(¥ 5,205)	**¥ 1,200**	**¥ 862**	**(¥ 338)**	**$ 12,903**	**$ 9,269**	**($ 3,634)**
Government bonds	-	-	-	75	68	(7)	**-**	**-**	**-**	**-**	**-**	**-**
Other	1,145	1,091	(54)	1,353	1,319	(34)	**968**	**960**	**(8)**	**10,409**	**10,323**	**(86)**
Total	¥ 2,740	¥ 2,307	(¥ 433)	¥ 26,475	¥ 21,229	(¥ 5,246)	**¥ 2,168**	**¥ 1,822**	**(¥ 346)**	**$ 23,312**	**$ 19,592**	**($ 3,720)**

The following table summarises sales of available-for-sale securities for the years ended 31st March 2008, 2009 and 2010:

	Millions of yen									Thousands of U.S. dollars		
	2008			2009			**2010**			**2010**		
	Sales	Gains on sales	Losses on sales	Sales	Gains on sales	Losses on sales	Sales	Gains on sales	Losses on sales	Sales	Gains on sales	Losses on sales
Equity securities	¥ 1	-	-	¥ 90	¥ 152	-	**¥ 2,023**	**¥ 33**	**¥ 47**	**$ 21,753**	**$ 355**	**$ 505**

4. Inventories

Inventories at 31st March 2008, 2009 and 2010 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2008	2009	**2010**	**2010**
Merchandise goods and finished goods	¥ 15,001	¥ 16,129	**¥ 14,435**	**$ 155,215**
Work in progress	67	102	**211**	**2,269**
Raw materials and supplies	618	685	**673**	**7,236**
	¥ 15,686	¥ 16,916	**¥ 15,319**	**$ 164,720**

5. 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 by 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.

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

There were no short-term bank loans as of 31st March 2008, 2009 and 2010.
Long-term debt at 31st March 2008, 2009 and 2010 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2008	2009	**2010**	**2010**
0.85% to 3.17% loans from banks and others, due through 2010	¥ 2,483	¥ 21,159	**¥ 40,921**	**$ 440,011**
Finance lease obligations	-	296	**1,187**	**12,763**
Zero coupon convertible bonds, due 2011	20,000	20,000	**20,000**	**215,054**
	22,483	¥ 41,455	**¥ 62,108**	**$ 667,828**
Less amounts due within one year	(1,324)	(261)	**(231)**	**(2,484)**
	¥ 21,159	¥ 41,194	**¥ 61,877**	**$ 665,344**

In the year ended 31st March 2005, the Company entered into debt assumption agreements with banks for ¥6,800 million 3.05% bonds due in 2009.
There were no debt assumption agreements with banks as of 31st March 2010.

The current conversion price of the zero coupon convertible bonds issued by the Company on 16th August 2004 is ¥982 ($10.56). The convertible bonds are convertible into 20,366,598 shares of common stock as of 31st March 2010.

Annual maturities of long-term debt at 31st March 2010 were as follows:

Year ending 31st March,	Millions of yen	Thousands of U.S. dollars
2011	**¥ 231**	**$ 2,484**
2012	**40,231**	**432,591**
2013	**231**	**2,484**
2014	**229**	**2,462**
2015 and thereafter	**21,186**	**227,807**
	¥ 62,108	**$ 667,828**

7. Pledged Assets

The following assets were pledged as collateral for the current portion of long-term debt of ¥166 million ($1,785 thousand) and long-term debt of ¥755 million ($8,118 thousand) at 31st March 2010:

	Millions of yen	Thousands of U.S. dollars
Time deposits	**¥ 5**	**$ 54**
Buildings	**1,843**	**19,817**
Land	**890**	**9,570**
	¥ 2,738	**$ 29,441**

8. Deposited Securities

Certain securities, included in investment securities, were deposited with the Ministry of Justice in accordance with the relevant laws regarding the following transactions:

	Millions of yen			Thousands of U.S. dollars
	2008	2009	**2010**	**2010**
Installment sales transactions	¥ 1,955	¥ 1,950	**¥ -**	**$ -**
Law on gift certificates	2,239	-	**-**	**-**
	¥ 4,194	¥ 1,950	**¥ -**	**$ -**

9. Employees' Severance and Retirement Benefits

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of 31st March 2008, 2009 and 2010 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2008	2009	**2010**	**2010**
Projected benefit obligation	¥ 42,021	¥ 38,714	**¥ 36,701**	**$ 394,635**
Unrecognised actuarial differences	557	(1,932)	**(3,034)**	**(32,624)**
Fair value of pension assets	(24,603)	(19,349)	**(18,908)**	**(203,312)**
Prepaid pension cost	-	859	**818**	**8,796**
Liability for severance and retirement benefits	¥ 17,975	¥ 18,292	**¥ 15,577**	**$ 167,495**

Included in the consolidated statements of income for the years ended 31st March 2008, 2009 and 2010 were severance and retirement benefit expenses that comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2008	2009	**2010**	**2010**
Service costs - benefits earned during the year	¥ 2,321	¥ 1,620	**¥ 1,384**	**$ 14,882**
Interest cost on projected benefit obligation	828	800	**741**	**7,968**
Expected return on plan assets	(468)	(438)	**(386)**	**(4,151)**
Amortisation of prior service cost	-	7	**-**	**-**
Amortisation of actuarial differences	59	15	**179**	**1,925**
Severance and retirement benefit expenses	2,740	2,004	**1,918**	**20,624**
Other	322	511	**690**	**7,419**
Total	¥ 3,062	¥ 2,515	**¥ 2,608**	**$ 28,043**

Retirement benefit expenses of 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 mainly both 2.0% for the years ended 31st March 2008, 2009 and 2010. 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

As described in Note 2 "Summary of Significant Accounting Policies-Finance leases"

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 2008, 2009 and 2010 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2009	**2010**	**2010**
Original lease obligations (including finance charges) for machinery and equipment and other	¥ 1,749	¥ 1,088	**¥ 727**	**$ 7,817**
Payments remaining:				
Payments due within one year	¥ 281	¥ 175	**¥ 103**	**$ 1,108**
Payments due after one year	389	212	**81**	**871**
Total	¥ 670	¥ 387	**¥ 184**	**$ 1,979**

Rental expenses under such non-capitalised finance leases for the years ended 31st March 2008, 2009 and 2010 were ¥456 million, ¥274 million and ¥174 million ($1,871 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
	2009	**2010**	**2010**
Payments due within one year	¥ 4,911	**¥ 5,905**	**$ 63,495**
Payments due after one year	12,365	**10,515**	**113,064**
Total	¥ 17,276	**¥ 16,420**	**$ 176,559**

The Group as lessor

	Millions of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
Payments due within one year	¥ 694	**¥ 472**	**$ 5,075**
Payments due after one year	4,584	**4,911**	**52,807**
Total	¥ 5,278	**¥ 5,383**	**$ 57,882**

11. Contingent Liabilities

Contingent liabilities as of 31st March 2008, 2009 and 2010 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2009	**2010**	**2010**
Debt assumption agreements	¥ 6,800	¥ -	**¥ -**	**$ -**

12. Derivative Transactions

The Company enters into interest rate swap contracts to manage risk and reduce exposure to interest rate fluctuations and currency swap contracts to manage risk related to marketable securities denominated in foreign currencies. The Company does not use derivatives for leveraging or speculative purposes.

Derivative transactions involve credit risk and market risk. However, the Company is exposed to minimum credit risk from breach of contract because it deals only with highly rated financial institutions. In addition, the Company enters into interest rate and currency swaps to hedge against risks of market fluctuations in relation to interest rates and its assets and liabilities. Accordingly, although profits or losses are produced temporarily, no profit or loss will be incurred at the expiration of the contracts.

To maintain adequate risk management, the Board of Directors and other persons in management approve derivative transactions and review them as to purpose, content, counter-party and risk.

The Company evaluates hedge effectiveness by comparing the cumulative changes in cash flows or the changes in fair value of the hedged items and the corresponding changes in the hedging derivative instruments, except in cases of obvious hedge effectiveness.

13. Business Segment Information

Business segment information for the years ended 31st March 2008, 2009 and 2010, required to be disclosed by the Financial Instruments and Exchange Law of Japan, was as follows:

As of and for the year ended 31st March 2008	Millions of yen					
	Department stores	Supermarkets	Property management	Other	Eliminations	Total
Net sales						
External customers	¥ 351,435	¥ 89,785	¥ 9,686	¥ 20,711	¥ -	¥ 471,617
Intersegment	988	3,770	773	17,257	(22,788)	-
Total net sales	352,423	93,555	10,459	37,968	(22,788)	471,617
Operating costs and expenses	338,836	92,130	8,712	36,937	(22,112)	454,503
Operating income	¥ 13,587	¥ 1,425	¥ 1,747	¥ 1,031	¥ (676)	¥ 17,114
Assets	¥ 154,970	¥ 42,136	¥ 24,031	¥ 268,606	¥(151,965)	¥ 337,778
Depreciation and amortisation	4,743	1,765	501	721	-	7,730
Impairment loss	-	867	-	-	-	867
Capital expenditure	9,431	1,928	525	1,241	-	13,125

As of and for the year ended 31st March 2009	Millions of yen					
	Department stores	Supermarkets	Property management	Other	Eliminations	Total
Net sales						
External customers	¥ 389,792	¥ 87,207	¥ 8,948	¥ 23,578	¥ -	¥ 509,525
Intersegment	94	3,344	582	21,510	(25,530)	-
Total net sales	389,886	90,551	9,530	45,088	(25,530)	509,525
Operating costs and expenses	379,095	89,381	8,238	41,679	(22,285)	496,108
Operating income	¥ 10,791	¥ 1,170	¥ 1,292	¥ 3,409	¥ (3,245)	¥ 13,417
Assets	¥ 146,140	¥ 42,129	¥ 23,049	¥ 257,196	¥(145,470)	¥ 323,044
Depreciation and amortisation	6,152	1,716	480	1,756	-	10,104
Impairment loss	-	178	-	25	-	203
Capital expenditure	12,646	3,950	210	3,143	-	19,949

As of and for the year ended 31st March 2010	Millions of yen					
	Department stores	Supermarkets	Property management	Other	Eliminations	Total
Net sales						
External customers	**¥ 357,952**	**¥ 88,440**	**¥ 8,198**	**¥ 15,806**	**¥ -**	**¥ 470,395**
Intersegment	**201**	**4,101**	**620**	**18,305**	**(23,227)**	**-**
Total net sales	**358,153**	**92,541**	**8,818**	**34,111**	**(23,227)**	**470,395**
Operating costs and expenses	**352,338**	**91,116**	**7,975**	**32,179**	**(21,236)**	**462,371**
Operating income	**¥ 5,815**	**¥ 1,425**	**¥ 843**	**¥ 1,932**	**¥ (1,991)**	**¥ 8,024**
Assets	**138,712**	**42,849**	**23,127**	**266,442**	**(126,431)**	**344,700**
Depreciation and amortisation	**5,821**	**1,815**	**438**	**2,324**	**-**	**10,397**
Impairment loss	**3,364**	**150**	**107**	**10**	**-**	**3,630**
Capital expenditure	**12,846**	**2,882**	**3,188**	**4,595**	**-**	**23,511**

As of and for the year ended 31st March 2010	Thousands of U.S. dollars					
	Department stores	Supermarkets	Property management	Other	Eliminations	Total
Net sales						
External customers	**$ 3,848,946**	**$ 950,968**	**$ 88,151**	**$ 169,957**	**$ -**	**$ 5,058,011**
Intersegment	**2,161**	**44,097**	**6,667**	**196,828**	**(249,753)**	**-**
Total net sales	**3,851,107**	**995,065**	**94,818**	**366,785**	**(249,753)**	**5,058,011**
Operating costs and expenses	**3,788,580**	**979,742**	**85,753**	**346,011**	**(228,344)**	**4,971,731**
Operating income	**$ 62,527**	**$ 15,323**	**$ 9,065**	**$ 20,774**	**$ (21,409)**	**$ 86,280**
Assets	**1,491,527**	**460,742**	**248,677**	**2,864,968**	**(1,359,473)**	**3,706,451**
Depreciation and amortisation	**62,591**	**19,516**	**4,710**	**24,989**	**-**	**111,796**
Impairment loss	**36,172**	**1,613**	**1,151**	**108**	**-**	**39,032**
Capital expenditure	**138,129**	**30,989**	**34,280**	**49,409**	**-**	**252,806**

Segment	Commodity and business lines
Department stores	Clothing, accessories, foods, Restaurants and coffee shops, general merchandise, services and others
Supermarkets	Supermarkets, food production, purchasing and other food related business
Property management	Rental management of commercial facilities and hotels
Other	Wholesaling, membership management, home delivery, transportation, interior facilities, restaurants, temporary staffing, information processing

Geographic segment information for the years ended 31st March 2008, 2009 and 2010 was not disclosed since the proportion of amounts attributable to domestic operations to the total amounts were more than 90% for both the total sales and assets.

Overseas sales segment information was not disclosed since overseas sales of the Companies were less than 10% of consolidated net sales.

14. 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 2008, 2009 and 2010 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2009	**2010**	**2010**
Deferred tax assets:				
Loss carry-forwards	¥ 818	¥ 5,244	**¥ 4,110**	**$ 44,194**
Provision for redemption of gift certificates	684	724	**733**	**7,882**
Bonuses to employees	1,923	1,732	**1,817**	**19,538**
Retirement benefits	7,224	6,921	**6,195**	**66,613**
Investments in consolidated subsidiaries	1,924	-	**-**	**-**
Loss on disposal of fixed assets	512	470	**432**	**4,645**
Depreciation	153	89	**53**	**570**
Impairment losses of fixed assets	1,150	1,119	**2,398**	**25,785**
Provision for loss of stores rebuilding	2,115	1,786	**499**	**5,366**
Unpaid transitional contribution on definite contribution pension plan	2	-	**-**	**-**
Retirement benefit trust assets	415	595	**493**	**5,301**
Provision for loss on store closing	-	-	**314**	**3,376**
Other	3,649	3,482	**4,144**	**44,557**
	20,569	22,162	**21,188**	**227,829**
Valuation allowance	(166)	(1,241)	**(1,540)**	**(16,559)**
Total deferred tax assets	20,403	20,921	**19,648**	**211,268**
Deferred tax liabilities:				
Deferred gains on real properties	(2,941)	(3,459)	**(3,954)**	**(42,516)**
Special appropriation to the deferred gains on real properties	(664)	(21)	**-**	**-**
Land revaluation of a consolidated subsidiary	(1,957)	(1,920)	**(1,919)**	**(20,634)**
Valuation gain on investment securities resulting from conversion of retirement benefit trust assets (equity securities)	(4,591)	(4,591)	**(4,591)**	**(49,366)**
Unrealised holding gains on securities	(11,288)	(2,584)	**(6,057)**	**(65,129)**
Other	(204)	(368)	**(521)**	**(5,602)**
Total deferred tax liabilities	(21,645)	(12,943)	**(17,042)**	**(183,247)**
Net deferred tax assets (liabilities)	¥ (1,242)	¥ 7,978	**¥ 2,606**	**$ 28,021**

Net deferred tax assets (liabilities) as of 31st March 2008, 2009 and 2010 were included in the consolidated balance sheets as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2009	**2010**	**2010**
Current assets	¥ 4,113	¥ 5,025	**¥ 3,485**	**$ 37,473**
Long-term assets	14,084	12,487	**12,373**	**133,043**
Current liabilities	-	(240)	**-**	**-**
Long-term liabilities	(19,439)	(9,294)	**(13,252)**	**(142,495)**
Net deferred tax assets (liabilities)	¥ (1,242)	¥ 7,978	**¥ 2,606**	**$ 28,021**

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

	2009	2010
Aggregate statutory income tax rate	40.0%	40.0%
Increase (reduction) in taxes resulting from:		
Non-deductible expenses	1.2	1.4
Tax on inhabitants per capita	1.7	2.9
Gain on extinguishment of tie-in shares	5.3	-
Retained earnings held by affiliated companies	7.8	2.3
Permanent differences (including dividends)	(3.6)	(2.7)
Net operating loss carry-forwards	(20.5)	0.5
Amortisation of consolidated goodwill	4.1	6.7
Others	(3.8)	(3.2)
Effective income tax rate	32.2	47.9

Reconciliation of the differences between the statutory tax rate and the effective income tax rate for 2008 is not disclosed since the difference between the statutory tax rate and the effective income tax rate was less than 5% of the aggregate statutory income tax rate.

15. 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 13th May 2008, the Company resolved cash dividends amounting to ¥1,290 million. These appropriations have not been accrued in the consolidated financial statements as of 31st March 2008. The appropriations were recognised on 3rd June 2008.

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 ver.2.

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

Stock Information

Changes in number of shares issued and outstanding during the years ended 31st March 2008, 2009 and 2010 were as follows:

Common stock outstanding

	Number of shares		
	2008	2009	**2010**
Balance at beginning of year	187,688,301	206,740,777	**206,740,777**
Increase due to stock exchange	19,052,476	-	**-**
Balance at end of year	206,740,777	206,740,777	**206,740,777**

Treasury stock outstanding

	Number of shares		
	2008	2009	**2010**
Balance at beginning of year	345,561	183,302	**401,899**
Increase due to additions to treasury stock in preparation for allotment of shares	-	4,000,000	**-**
Increase due to additions to treasury stock in preparation for stock exchange	16,257,000	-	**-**
Increase due to purchase of odd-lot shares	90,507	258,969	**28,297**
Increase due to treasury stock held by Hanshin Department Stores, Ltd.	20,050	-	**-**
Decrease due to stock exchange	16,364,000	-	**-**
Decrease due to sales of the Company's shares on the market by a subsidiary	-	3,950,400	**-**
Decrease due to sales of odd-lot shares	39,816	89,972	**4,311**
Decrease due to exercise of stock options	126,000	-	**-**
Balance at end of year	183,302	401,899	**425,885**

16. 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" in net assets, and the relevant deferred taxes were shown as "Long-term deferred tax liabilities related to land revaluation" in liabilities and "Long-term deferred tax assets related to land revaluation" in assets at 31st March 2008, 2009 and 2010.

Related information was as follows:

	Millions of yen	Thousands of U.S. dollars
Date of revaluations: 28th February 2002 and 31st March 2002	**2010**	**2010**
Book value of land after revaluation	**¥ 2,387**	**$ 25,667**
Market value of land at 31st March 2010	**¥ 1,683**	**$ 18,097**
Difference	**¥ 704**	**$ 7,570**

17. Stock Purchase Rights

The details of zero coupon convertible bonds due 2011 were as follows:

Date of issue	16th August 2004
The number of stock purchase rights	4,000
Class and number of stock	20,366,598 shares of common stock
The exercise period of stock purchase rights	From 23rd August 2004 to 9th August 2011
The exercise price of stock purchase rights (convertible price)	¥ 982 per share
The stock issuing price and capitalising amount	¥ 982 per share ¥ 491 per share

The exercise price of stock purchase rights (convertible price) would be adjusted if the Company issued new shares at a price below the market price or in other circumstances.

18. Stock Options

In the year ended 31st March 2009

(1) Outline of 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 condition	No provisions
Intended service period	No provisions
Exercise period	From 1st April 2009 to 31st March 2039

(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 describes scale and changes in stock options that existed during the fiscal year ended 31st March 2009.

The number of stock options is translated into number of shares.

Fiscal year ended 31st March 2009:

Number of stock options

Before vested		After vested	
As of March 31, 2008	-	As of March 31, 2008	-
Granted	92,000	Vested	92,000
Forfeited	-	Exercised	-
Vested	92,000	Forfeited	-
Outstanding	-	Outstanding	92,000

Price information

Exercise price	¥ 1
Average exercise price	-
Fair value at the grant date	¥ 493

(3) Valuation method for estimating per share fair value of stock options

Valuation technique used for valuating fair value of stock options is as follows:

Valuation method used Adjusted Black-Scholes option-pricing model

Principal parameters and estimation method

Expected volatility of the underlying stock Note 1	32.8%
Remaining expected life of the option Note 2	6 years
Expected dividends on the stock Note 3	¥ 12.5 per share
Risk-free interest rate during the expected option term Note 4	0.86%

Notes 1. The fair value of stock options is caluculated on the basis of the Company's weekly share price movements over the period from 31st March 2003 to 23rd March 2009. This period (313 weeks) corresponds to the estimated remaining life of the stock options.

2. This period has been caluculated 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. Projection as of March 2008

4. This figure has been caluculated using the compound interest rate on Japanese Government Bonds whose remaining period is similar to that of the stock options as of 31st March 2009.

(4) Estimate method for number of vested share subscription rights

All of the share subscription rights were vested when granted.

In the year ended 31st March 2010

(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 condition	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 condition	No provisions
Intended service period	No provisions
Exercise period	From 1st April 2010 to 31st March 2040

(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 describes scale and changes in stock options that existed during the fiscal year ended March 31, 2010.
The number of stock options is translated into number of shares.
Fiscal year ended 31st March, 2010:
Number of stock options

	Subscription rights to shares issued on March 2009 as stock options	Subscription rights to shares issued on March 2010 as stock options
Before vested		
As of March 31, 2009	-	-
Granted	-	165,000
Forfeited	-	-
Vested	-	165,000
Outstanding	-	-
After vested		
As of March 31, 2009	92,000	-
Vested	-	165,000
Exercised	-	-
Forfeited	-	-
Outstanding	92,000	165,000

Price information

	Subscription rights to shares issued on March 2009 as stock options	Subscription rights to shares issued on March 2010 as stock options
Exercise price	¥ 1 ($ 0.01)	¥ 1 ($ 0.01)
Average exercise price	-	-
Fair value at the grant date	¥ 493 ($ 5)	¥ 568 ($ 6)

(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 March 2010 as stock options is as follows:
Valuation method used Adjusted Black-Scholes option-pricing model

Principal parameters and estimation method

Expected volatility of the underlying stock Note 1	37.3%
Remaining expected life of the option Note 2	6 years
Expected dividends on the stock Note 3	¥12.5 per share ($ 0.13 per share)
Risk-free interest rate during the expected option term Note 4	0.74%

Notes 1. The fair value of stock options is caluculated on the basis of the Company's weekly share price movements over the period from 1st October 2007 to 22nd March 2010. This period corresponds to the estimated remaining life of the stock options.
2. This period has been caluculated 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. Projection as of March 2009
4. This figure has been caluculated using the compound interest rate on Japanese Government Bonds whose remaining period is similar to that of the stock options as of 31st March 2010.

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

19. Gain on Sales of Property, Plant and Equipment

The gain on sales of property, plant and equipment in the year ended 31st March 2008 was mainly due to the sale of land, buildings and structures of Hankyu Oasis Shioe store for ¥170 million, land, buildings and structures of Kawanishi Mosaic Box for ¥1,674 million and land of Hankyu Nissho Store, the former Ikeda store, for ¥547 million.

The gain on sales of property, plant and equipment in the year ended 31st March 2009 was mainly due to the sale of land, buildings and structures of Nishinomiya Distribution Centre operated by Hankyu Foods, Inc. for ¥59 million.

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 ($21,441thousand).

20. Loss of Store Rebuilding

Loss of store rebuilding in the year ended 31st March 2008 consisted of a loss of ¥67 million for the provision for loss of store rebuilding.

Loss of store rebuilding in the year ended 31st March 2009 consisted of a loss of ¥173 million for the provision for loss of store rebuilding.

Loss of store rebuilding in the year ended 31st March 2010 consisted of a loss of ¥144 million ($1,548 thousand) for the cost from the second stage rebuilding construction of the Hankyu Umeda Main Store and a loss of ¥10 million ($108 thousand) for the provision for loss of store rebuilding.

21. Loss on Store Closing

Loss on store closing in the year ended 31st March 2010 consisted of a loss of ¥762 million ($8,194 thousand) for the provision for a loss on store closing and a loss of ¥580 million ($6,237 thousand) for the impairment loss on Shijo Kawaramachi Hankyu, Hankyu Hanshin Department Stores, Inc.

22. Business Reorganisation Expenses

Business reorganisation expenses at 31st March 2009 consisted of the following:

	Millions of yen
	2009
Expenses for mergers within department store business	¥ 1,265
Expenses for mergers within supermarket business	330
Reorganisation expenses incurred in other businesses	1,128
	¥ 2,723

Reorganisation expenses incurred in other businesses consist of provision for business reorganisation of subsidiaries and affiliates.

23. Impairment Losses

The Companies recorded impairment losses in the year ended 31st March 2008 as follows:

Company	Asset Group	Use	Type of Assets	Millions of yen
Hankyu Oasis, Inc.	Kitasenri store	Store	Buildings and structures, machinery and equipment and other	¥ 50
Hankyu Nissho Store	Neyagawa store and other	Store	Buildings and structures, machinery and equipment and other	¥ 267
Hankyu Family Store Co., Ltd.	Shimpoin store and other	Store	Buildings and structures, machinery and equipment and other	¥ 264
Hankyu Foods, Inc.	Nishinomiya centre	Logistics centre	Buildings and structures, machinery and equipment	¥ 286

Hankyu Oasis Inc., Hankyu Nissho Store, and Hankyu Family Store Co., Ltd. recognised impairment losses on some of their stores because their operating environments became severe with the growing competition.

The recoverable amounts of the assets are based on the present values of expected cash flows from the on-going utilisation and subsequent disposal of the assets using a discount rate of 5%.

Hankyu Foods, Inc. classified the Nishinomiya Centre, which was used as a logistics centre, into a separate item and recognised impairment loss for it because it became an idle asset with the restructuring of their facilities. The recoverable amount of the asset is its net realisable value based on the assessed asset value. As a result, ¥867 million was recorded as impairment losses in total.

The Companies recorded impairment losses in the year ended 31st March 2009 as follows:

Company	Asset Group	Use	Type of Assets	Millions of yen	Thousands of U.S. dollars
Hanshoku Co., Ltd.	Kusatsu store	Store	Buildings and structures, machinery and equipment	¥ 178	$ 1,816
Hanshin Shoji Co., Ltd	Yao store and other	Store	Buildings and structures, machinery and equipment	¥ 25	$ 255

Hanshoku Co., Ltd. and Hanshin Shoji Co., Ltd. recognised impairment losses on some of their stores because their operating environments became severe with the growing 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, ¥204 million was recorded as impairment losses in total.

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

Company	Asset Group	Use	Type of Assets	Millions of yen	Thousands of U.S. dollars
Hankyu Hanshin Department Stores, Inc.	Shijo Kawaramachi Hankyu Kobe Hankyu and other	Store	Buildings and structures, machinery and equipment	¥ 3,364	$ 36,172
Hanshoku Co., Ltd	Kuzuha store and other	Store	Buildings and structures, machinery and equipment	¥ 150	$ 1,613
Hankyu Shopping Center Development Co., Ltd.and other	Mosaic Box and other	Store	Buildings and structures, machinery and equipment	¥ 117	$ 1,258

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 Deparetment Stores, Inc., Hanshoku Co, Ltd. and Hankyu Shopping Center Development Co, Ltd. whitch are facing a harsh earnings environment resulting from increasing 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 ($39,032 thousand) was recorded as impairment losses in total.

Of that amount, an impairment loss of ¥581 million ($6,247 thousand) for the Shijo Kawaramachi Hankyu is shown inclusive of Loss on store closing.

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

Loss on disposal of property, plant, equipment and intangibles in the year ended 31st March 2008 consisted of losses of ¥652 million on the disposal of buildings and structures, losses of ¥10 million on the disposal of machinery and vehicles, losses of ¥53 million on the disposal of intangibles and losses of ¥97 million on the disposal of other assets.

Loss on disposal of property, plant, equipment and intangibles in the year ended 31st March 2009 consisted of losses of ¥275 million on the disposal of buildings and structures, losses of ¥17 million on the disposal of machinery and vehicles, losses of ¥320 million on the disposal of intangibles and losses of ¥80 million on the disposal of other assets.

Loss on disposal of property, plant, equipment and intangibles in the year ended 31st March 2010 consisted of losses of ¥379 million ($4,080 thousand) on disposal of buildings and structures, losses of ¥39 million ($418 thousand) on disposal of machinery and vehicles, losses of ¥204 million ($2,192 thousand) on disposal of losses of intangibles and losses of ¥239 million ($2,566 thousand) on disposal of other assets.

25. Reduction in Book Value of Inventories

Reduction in book value of inventories held for ordinary sale
due to a decline in profitability in the year ended 31st March 2009 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	**2010**	**2010**
Cost of sales	¥ 154	**¥ 207**	**$ 2,226**

26. Consolidated Statements of Cash Flows

Assets and liabilities of newly consolidated subsidiaries by acquisition of shares at the inception of their consolidation, 1 October 2007, was as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2009	**2010**	**2010**
Current assets	¥ 22,634	¥ -	**¥ -**	**$ -**
Fixed assets	22,625	-	**-**	**-**
Total assets	¥ 45,259	¥ -	**¥ -**	**$ -**
Current liabilities	16,862	-	**-**	**-**
Long-term liabilities	5,406	-	**-**	**-**
Total liabilities	¥ 22,268	¥ -	**¥ -**	**$ -**

27. Financial Instruments

(Additional Information)

In consolidated fiscal 2009, the Company began applying "Accounting Standard for Financial Instruments" (Statement No.10 issued by the Accounting Standards Board of Japan on 10th March 2008) and "the Implementation Guidance for Accounting Standards for the Disclosure of Fair Value, etc. of Financial Instruments" (the Financial Accounting Standard Implementation Guidance No.19 issued by the Accounting Standards Board of Japan on 10th March 2008).

1. Matters Related to Financial Instruments

(1) Policies for Financial Instruments

In view of 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, operating receivable, 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 five and one-half years 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 payable, and long-term loans are subject to the liquidity risk of the inability to make payment by the payment due date.

As of the end of the consolidated reporting period, the Group conducted no derivative transactions.

(3) Risk Management System for Financial Instruments

① Management of credit risk (risk of customer default of 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, an operating receivable, according to sales management guidelines and routinely monitors the status of key customers by managing due dates and balance for each customer. At the same time, the Company attempts to quickly determine if there are concerns about the collection of payment from the customer 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 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.

Consolidated subsidiaries do not conduct interest-rate swap.

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 sheet for the fiscal year ended 31st March 2010 (the consolidated closing date for the reporting term), and fair values and differences of them are as follows. Figures for which fair value is not readily determinable are not included in the following chart (Please see Note 2).

	Millions of yen			Thousands of U.S. dollars		
	2010			2010		
	Book value	Fair value	Difference	Book value	Fair value	Difference
(1) Cash on hand and in banks	¥45,890	¥45,890	¥ -	$493,441	$493,441	$ -
(2) Notes and accounts receivable-Trade	17,595			189,193		
Allowance for doubtful receivables	(95)			(1,022)		
	17,500	17.500	-	188,171	188,171	-
(3) Notes and accounts receivable-Other	3,560			38,280		
Allowance for doubtful receivables	(31)			(333)		
	3,529	3,529	-	37,947	37,947	-
(4) Securities and investment securities						
Other securities	64,426	64,426	-	692,753	692,753	-
Total assets	131,345	131,345	-	1,412,312	1,412,312	-
(1) Notes and accounts payable-Trade	28,972	28,972	-	311,527	311,527	-
(2) Long-term debt - Corporate bonds	20,000	19,708	292	215,054	211,914	3,140
(3) Long-term debt - Long-term loans *	40,921	40,972	(51)	440,010	440,559	(549)
Total liabilities	¥89,893	¥89,652	¥241	$966,591	$964,000	$2,591

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

Note:

1. Matters related to the method 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

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

(2) Long-term debt - Corporate bonds

Fair value of corporate bonds is their value based on their market 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	2010
	Book value	Book value
Unlisted shares	¥ 6,563	$ 70,570
Long-term leasehold deposits	54,011	580,763
Guarantee deposits	¥ 7,200	$ 77,419

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

	Millions of yen				Thousands of U.S. dollars			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years	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	¥ -	¥ -	¥ -	$493,441	$ -	$ -	$ -
Notes and accounts receivable-Trade	17,595	-	-	-	189,193	-	-	-
Notes and accounts receivable-Other	3,560	-	-	-	38,280	-	-	-
Securities and investment securities								
Other securities with maturity (government bonds)	190	-	300	-	2,043	-	3,226	-
Other securities with maturity (corporate bonds)	-	100	-	-	-	1,075	-	-
Total	¥67,235	¥100	¥300	¥ -	$722,957	$1,075	$3,226	$ -

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

	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

	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	$ -	$215,054	$ -	$ -	$ -	$ -
Long-term debt - Long-term loans	1,785	216,838	1,785	1,785	216,838	979
Lease obligations	699	699	699	677	656	9,334
Total	$2,484	$432,591	$2,484	$2,462	$217,494	$10,313

28. Related Party Transactions

In the year ended 31st March 2009

(Additional Information)

With effect from the year ended 31st March 2009, the Company applies "Accounting Standards for Disclosure of Related Party Transactions" (Statement No.11 issued by the Accounting Standards Board of Japan on 17th October 2006) and "Implementation Guidance on Accounting Standards for Disclosure of Related Party Transactions" (The Financial Accounting Standard Implementation Guidance No.13 issued by the Accounting Standards Board of Japan on 17th October 2006).

As a result of this change, Osaka Chuo Syokuryo, Hankyu Corporation, and Hanshin Electric Railway Co., Ltd. have been added to the scope of disclosure of related party transactions.

1 Transactions with 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 (%)
Director or Corporate Auditor	Hideyuki Takai	-	-	Corporate Auditor for the Company; President of TOHO CO., LTD.	7.27% shares of the Company directly held
Companies in which the director, the corporate auditor or his immediate family own a majority of voting rights	Osaka Chuo Syokuryo	Ibaraki City, Osaka	-	Food wholesaling	-

Nature of relationship	Nature of transactions	Value of transactions	Accounting title	Term-end balance
Rental of real estate	Rental fees	¥ 2,139 million	Prepaid expenses	¥ 187 million
	Common service charge	¥ 273 million	-	-
	Fees for display of signs, etc.	¥ 12 million	-	-
	Lease deposit	-	Long-term leasehold deposits	¥ 3,213 million
Materials procurement	Purchase of foodstuffs for processing	¥ 23 million	Notes and accounts payable-Trade	¥ 1 million

Business terms and policies for determination of business terms

Note 1 Transactions are conducted under third party beneficiary contracts

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

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

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

5 Immediate family members of Senior Managing Director Shigeru Yasukawa of Hankyu Hanshin Department Stores, Inc., a subsidiary of the company, held 100% of voting rights in Osaka Chuo Syokuryo.

(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 (%)
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	-
	HANSHIN ELECTORIC RAILWAY CO., LTD.	Fukushima-ku, Osaka City	¥ 29,384 million	Railway operations; bus operations; real estate rental and dealership operations; sports business; travel business	14.38% of shares held by the Company

Nature of relationship	Nature of transactions	Value of transactions	Accounting title	Term-end balance
Same person serving concurrently as director or corporate auditor for both parties Rental of real estate	Rental fees	¥ 5,252 million	Prepaid expenses	¥ 110 million
			Notes and accounts receivable-Other	¥ 90 million
			Notes and accounts payable-Other	¥ 1 million
	Deposit of guarantee money	¥ 548 million	Long-term leasehold deposits	¥ 7,867 million
	Return of guarantee money	¥ 160 million		
Same person serving concurrently as director or corporate auditor for both parties Rental of real estate	Rental fees	¥ 2,354 million	Accrued expenses	¥ 556 million
	Fees for display of signs, etc.	¥ 9 million	-	-
	Deposit of guarantee money	-	Long-term leasehold deposits	¥ 2,554 million
	Return of guarantee money	¥ 6 million	Other assets	¥ 38 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 levels.
3 All other matters are determined according to the general terms and conditions.

In the year ended 31st March 2010
1 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 (%)
Director or Corporate Auditor	Hideyuki Takai	-	-	Corporate Auditor for the Company; President of TOHO CO. LTD.	7.32% shares of the Company directly held
Companies in which the director, the corporate auditor or his immediate family own a majority of voting rights	Osaka Chuo Syokuryo	Ibaraki City, Osaka	¥ 10 million ($ 108 thousand)	Food wholesaling	-

Nature of relationship	Nature of transactions	Value of transactions	Accounting title	Term-end balance
Rental of real estate	Rental fees	¥ 2,122 million ($ 22,817 thousand)	Prepaid expenses	¥ 172 million ($ 1,849 thousand)
	Common service charge	¥ 271 million ($ 2,914 thousand)	-	-
	Fees for display of signs, etc.	¥ 10 million ($ 108 thousand)	-	-
	Lease deposit	-	Long-term leasehold deposits	¥ 3,213 million ($ 34,548 thousand)
Materials procurement	Purchase of foodstuffs for processing	¥ 19 million ($ 204 thousand)	Notes and accounts payable-Trade	¥ 2 million ($ 22 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 levels.

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

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

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

Classification	Name of company or personal name	Location	Capital or investment	Occupation or business lines	Ownership of voting rights (%)
Subsidiaries of companies that have significant stakes in the reporting entity	Hankyu Corporation	Kita-ku, Osaka City	¥ 100 million ($ 1,075 thousand)	Railway operations, real estate rental and dealership operations, stage revues, retailing	-
	HANSHIN ELECTORIC RAILWAY CO., LTD.	Fukushima-ku, Osaka City	¥ 29,384 million ($ 315,957 thousand)	Railway operations; bus operations; real estate rental and dealership operations; sports business; travel business	14.40% of shares held by the Company

Nature of relationship	Nature of transactions	Value of transactions	Accounting title	Term-end balance
Same person serving concurrently as director or corporate auditor for both parties Rental of real estate	Rental fees	¥ 4,781 million ($ 51,409 thousand)	Prepaid expenses	¥ 109 million ($ 1,172 thousand)
			Notes and accounts payable-Other	¥ 115 million ($ 1,237 thousand)
			Accrued expenses	¥ 65 million ($ 699 thousand)
	Deposit of guarantee money	¥ 15,001 million ($ 161,301 thousand)	Long-term leasehold deposits	¥ 22,780 million ($ 244,946 thousand)
	Return of guarantee money	¥ 143 million ($ 1,538 thousand)		
Same person serving concurrently as director or corporate auditor for both parties Rental of real estate	Rental fees	¥ 4,960 million ($ 53,333 thousand)	Prepaid expenses	¥ 1 million ($ 11 thousand)
			Accrued expenses	¥ 559 million ($ 6,011 thousand)
	Fees for display of signs, etc.	¥ 18 million ($ 194 thousand)	-	-
	Deposit of guarantee money	¥ 6 million ($ 65 thousand)	Long-term leasehold deposits	¥ 2,560 million ($ 27,527 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 levels.

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

29. Net Income Per Share

Reconciliation of the difference between basic and diluted net income per share ("EPS") for the years ended 31st March 2008, 2009 and 2010.

	Millions of yen			Thousands of U.S. dollars
	2008	2009	**2010**	**2010**
Basic net income per share calculation:				
Income (numerator):				
Net income	¥ 9,450	¥ 6,380	**¥ 3,017**	**$ 32,441**
Amounts not belonging to common stock	-	-	**-**	**-**
Net income available to common stockholders	9,450	6,380	**3,017**	**32,441**
Shares, thousands (denominator):				
Weighted average number of shares	188,738	205,665	**206,327**	
Basic EPS (yen and U.S. dollars)	¥ 50.07	¥ 31.02	**¥ 14.62**	**$ 0.16**
Diluted net income per share calculation:				
Income (numerator):				
Net income	¥ 9,450	¥ 6,380	**¥ 3,017**	**$ 32,441**
Amounts not belonging to common stock	-	-	**-**	**-**
Net income available to common stockholders	9,450	6,380	**3,017**	**32,441**
Effect of dilutive securities-convertible bonds	-	-	**-**	**-**
Adjusted net income	9,450	6,380	**3,017**	**32,441**
Shares, thousands (denominator):				
Weighted average number of shares	188,738	205,665	**206,327**	
Assumed conversion of convertible bonds	20,366	20,367	**20,367**	
Assumed exercise of stock purchase rights	-	-	**92**	
Adjusted weighted average number of shares	209,104	226,032	**226,786**	
Diluted EPS (yen and U.S. dollars)	¥ 45.19	¥ 28.23	**¥ 13.30**	**$ 0.14**

30. Business Combinations

In the year ended 31st March 2008

Purchase Method Application

(Management Combination with Hanshin Department Store, Ltd. through share transfer)
The Company integrated its operations with Hanshin Department Store, Ltd., a wholly owned subsidiary of the Company, through a share transfer effective 1st October 2007.

1. Corporate name and description of business of acquired company, primary reason for business combination, date of business combination, legal form of business combination, corporate name after business combination, and Percentage of voting rights acquired.
   (1) Corporate name and description of operations of acquired company
   Hanshin Department Store, Ltd. - Department store operations
   (2) Primary reason for business combination of operations
   In addition to major changes in the operating environment such as the declining birthrate, the aging of the population, competition between different business formats, and a decline in the number of market participants triggered by industry reorganisations, the downtown of Osaka ("Kita") is expected to become an area of unprecedented business concentration by 2011, creating an exceptionally competitive business environment. Accordingly, the companies, which are ranked as the number one and number two stores in the area, decided to merge in order to build a unified business foundation that can take full advantage of both brands and jointly utilise the business resources of both companies to construct a "super main store" that will give them a competitive advantage and, thereby, improve customer satisfaction and boost shareholder value.

(3) Date of business combination
1st October 2007
(4) Legal form of business combination
Share transfer whereby Hankyu Department Stores, Inc. became the 100% parent company and Hanshin Department Store, Ltd. became the wholly-owned subsidiary (Note: The Hankyu Department Stores, Inc. changed its trade name to H_2O RETAILING CORPORATION as of 1st October 2007.)
(5) Corporate name after business combination
H_2O RETAILING CORPORATION
(6) Percentage of voting rights acquired
99.9%
As a result of the above-mentioned acquisition, Hanshin Department Store, Ltd. became a wholly-owned subsidiary of the Company.

2. Period of the business performance of the acquired company contained in the consolidated financial statements
1st October 2007 to 31st March 2008

3. Acquisition cost
¥38,144 million

4. Share transfer ratio
One common share of the Company was exchanged for one common share of Hanshin Department Store, Ltd. However, this exchange was not applied to twenty thousand (20,000) shares of common stock in Hanshin Department Store, Ltd. that were owned by the Company

5. Calculation method of share transfer ratio
Daiwa Securities SMBC Co. Ltd. calculated the share transfer ratio on behalf of the Company, while Ernst & Young Transaction Advisory Services Co., Ltd. performed the calculation on behalf of Hanshin Department Store, Ltd.
Daiwa Securities SMBC performed a share value appraisal with respect to the Company based on the discounted cash flow method (DCF method) and another method used for a comparison of similar companies. It also performed a share value appraisal with respect to Hanshin Department Store, Ltd. based on the same methods.

Ernst & Young made similar calculations with respect to the Company based on the market stock price method, DCF method, the other method used for the comparison of similar companies, and the net asset method. After comprehensively considering these results, the market stock price method and the DCF method were adopted to calculate the stock value per share. For valuation of Hanshin Department Store, Ltd., Ernst & Young adopted the DCF method and calculated the stock value per share after comprehensively considering the calculation results based on the DCF method, the method used for the comparison of similar companies and the net asset method.
Based on the results of these calculations, and after considering the respective financial situations, business performance trends, and so on of both companies, and after extensive discussions between the two companies, it was finally agreed that the above-mentioned share transfer ratio was appropriate.

6. Number of shares delivered and appraised value
Number of shares delivered: 35,416,476 shares of common stock
Appraised value: ¥38,144 million
With respect to 16,364,000 shares of the above-mentioned stock, shares in treasury stock were allocated for delivery.

7. Amount of goodwill, reason, method of amortisation, and period for amortisation
(1) Amount of goodwill: ¥10,066 million
(2) Reason
Goodwill arose in connection with the anticipated future profitability resulting from improvements in the competitive predominance of the department store business as well as cost reductions achieved through integration of the business infrastructure.
(3) Method of amortisation and period for amortisation
Equal amounts over a twenty-year period

8. Amount of assets received and liabilities assumed on the date of business combination and breakdown thereof
   (1) Amount of assets
   Current assets: ¥22,634 million
   Non-current assets: ¥22,624 million
   (2) Amount of liabilities
   Current liabilities: ¥16,862 million
   Long-term liabilities: ¥5,405 million

9. Estimated effect on consolidated income statements for the reporting term assuming that the business combination is completed on the date of the commencement of the reporting period
   Sales and profit and loss information
   Net sales: ¥527,206 million
   Operating income: ¥17,967 million
   Income before income taxes: ¥18,110 million
   Net income: ¥10,017 million
   Net income per share: ¥48.85

(Calculation method of estimated amounts and important prerequisites)
The sales and profits and losses of Hanshin Department Store, Ltd. and five subsidiaries for the 2007 fiscal year were totaled and calculated after assuming the estimated amounts of eliminations for consolidation adjustment and goodwill amortisation expenses.

Procedures and Other Relationships Under Common Control

(Changeover to holding company system through corporate split of department store business)
The department store business of the Company was taken over by the new company that was established by the corporate split on 1st October 2007. The Company itself was transformed into a holding company.

1. Name and description of target business, legal form of business combination, name of business after combination and summary of transactions, including purpose of transaction
   In order to change to a holding company system, the Company carried out a corporate split to establish a new company, which took the department store business (including the departments of the headquarters, such as personnel, general affairs, management, development, etc. related to the department store business, and internal companies) of the Company. The new company was named Hankyu Department Stores, Inc. Simultaneously, the Company changed its trade name to H_2O RETAILING CORPORATION.

2. Summary of accounting procedures performed
   As of 30th September 2007, the assets and liabilities of The Hankyu Department Stores, Inc. were divided into department store-related assets and liabilities and holding company-related assets and liabilities. Thereafter, the assets and liabilities related to the department store business were transferred to the newly established company through a corporate split in consideration for which the Company acquired shares of the new company.

   (1) Amounts of transferred assets and liabilities and breakdown thereof
   1. Amount of assets
   Current assets: ¥41,099 million
   Non-current assets: ¥44,359 million
   2. Amount of liabilities
   Current liabilities: ¥34,609 million
   Long-term liabilities: ¥16,438 million

(2) Number of shares and calculation basis of the shares of the new company

1. Number of shares: 100,000 shares
2. Calculation basis

We determined the number of shares to be issued by the new company to realise efficient management, taking into consideration the amount of its paid-in capital.

In addition, notwithstanding the number of shares issued or allocated, the net assets of H_2O RETAILING CORPORATION remain unchanged.

(3) Paid-in capital and description of business of the new company

Paid-in capital: ¥5 million

Line of business: Department store operations

The corporate split has no effect on the consolidated financial statements as the procedure comes under the category of common control.

(Establishment of intermediate holding company (development of Oi Development Co., Ltd.) through corporate split of property management business)

In order to achieve speedy and efficient expansion of the property management business, at the Board of Directors' meeting held on 1st October 2007, the Company resolved to establish Oi Development Co., Ltd. as an intermediate holding company to take over the property management business planning operations of the H_2O RETAILING Group through a corporate split and established an intermediate holding company on 22nd October 2007.

1. Name and description of target business, legal form of business combination, name of business after business combination, and summary of procedures, including their purpose

Oi Development Co., Ltd., as a holding company which controls the property management (PM) business of the H_2O RETAILING Group to optimise the Group's entire PM business, conducts strategic planning related primarily to the redevelopment of the JR Oimachi Station area (in Tokyo), and promotes the further acceleration of the growth strategy. For this purpose, the operations of the PM Business Planning Department of the Company (drafts the strategic planning for the PM Business segment) were taken over by Oi Development Co., Ltd., the newly established intermediate holding company.

2. Summary of accounting procedures performed

Among the assets and liabilities of H_2O RETAILING CORPORATION as 22nd October 2007, the assets and liabilities related to the redevelopment of the JR Oimachi Station area were transferred to the newly established company, in consideration for which the shares of the newly established company were acquired by H_2O RETAILING CORPORATION.

Amounts of transferred assets and liabilities and breakdown thereof

(1) Amount of assets

Current assets: ¥34 million

Non-current assets: ¥9,969 million

(2) Amount of liabilities

Long-term liabilities: ¥145 million

The corporate split has had no effect on the consolidated financial statements as the procedure comes under the category of common control.

In addition, Oi Development Co., Ltd. (the intermediate holding company of the PM Business) and Ours Inn Hankyu (its trade name was changed as of 22nd October 2007 from Oi Development Co., Ltd.), which operates a hotel near JR Oimachi Station, passed a resolution at the Board or Directors' meeting of both companies held on 25th October 2007 to approve the business transfer agreement, stating that the business related to the redevelopment of the JR Oimachi Station area would be transferred from Ours Inn Hankyu to Oi Development Co. Ltd. The transfer agreement was implemented on 1st December 2007.

In the year ended 31st March 2009

Procedures and Other Relationships Under Common Control

(Mergers of department store operation subsidiaries)
Hankyu Department Stores, Inc. and Hanshin Department Store, Ltd., both wholly-owned subsidiaries, were merged effective from 1st October 2008.

1. Names of companies prior to business combination and their lines of business, legal form of business combination, corporate name after business combination and summary of transactions, including their purpose
 (1) Names of companies prior to business combination and their lines of business
  Hankyu Department Stores, Inc. - department store business
  Hanshin Department Store, Ltd. - department store business
 (2) Legal form of business combination
  Absorption of Hanshin Department Stores by Hankyu Department Stores, Inc. as the surviving entity
 (3) Corporate name after business combination
  Hankyu Hanshin Department Stores, Inc.

 (4) Summary of transactions, including their purpose
  Prior to the merger, Hankyu Department Stores, Inc. and Hanshin Department Store, Ltd. had firstly engaged in the integration of their infrastructures, including their computer systems, and also arranged for the shared use of their facilities and common procurement of fittings and fixtures. In the second stage of integration, the human resources departments of the two companies were reorganised and steps were taken to synchronise administrative work processes. The two companies were then merged, based on the management's judgment that full integration through merger would be the most effective means of ensuring wholehearted collaboration in the integration process, thereby enabling the speeding up of final integration and the achievement of the maximum synergistic effect.

2. Summary of accounting procedures performed
 Accounting procedures for common control transactions were applied in line with the "Accounting Standards for Business Combinations" and the "Application Guidance for Accounting Standards for Business Combinations and Accounting Standards for Business Divestitures."
 This merger has had no material effect on the consolidated financial statements.

(Merger of subsidiaries in the supermarket operation business)
Effective from 1st October 2008 the following five subsidiaries were merged: Hanshoku Co., Ltd., Hankyu Oasis, Inc., Hankyu Nissho Store, Hankyu Family Store Co., Ltd. and Hankyu Fresh Yell Co., Ltd.
1. Names of companies prior to business combination and their lines of business, legal form of business combination, corporate name after business combination and summary of transactions, including their purpose
 (1) Names of companies prior to business combination and their lines of business
  Hanshoku Co., Ltd.
  Supervision of food business companies and management of business activities
  Hankyu Oasis, Inc.
  Management of food supermarkets
  Hankyu Nissho Store
  Management of food supermarkets
  Hankyu Family Store Co., Ltd.
  Management of food supermarkets
  Hankyu Fresh Yell Co., Ltd.
  Procurement and wholesaling of food products

 (2) Legal form of business combination
  Absorption of four companies by Hanshoku Co., Ltd. as the surviving company

(3) Corporate name after business combination
Hanshoku Co., Ltd.

(4) Summary of transactions, including their purpose
In addition to the active pursuit of new store openings in the food supermarket business, the Company made Hankyu Nissho Store into a subsidiary as part of a broad plan to expand the scale of its operations in July 2006. In September 2006, the Company reorganised Hanshoku Co., Ltd. as an intermediate holdings company for supermarket operations. Since then, it has been working to prepare the necessary infrastructure to support a rapid expansion in business scale, including centralisation of administrative and procurement functions, integration of computer systems, and creation of a comprehensive marketing system, among other matters. This merger (of Hanshoku Co., Ltd. with the food supermarket operating companies Hankyu Oasis, Inc., Hankyu Nissho Store, and Hankyu Family Store Co., Ltd., as well as the merchandise procurement company Hankyu Fresh Yell Co., Ltd.) was decided on after the determination that this infrastructure was largely in place, and was aimed at realising further improvements in business efficiency.

2. Summary of accounting procedures performed
Accounting procedures for common control transactions were applied in line with the “Accounting Standards for Business Combinations” and the “Application Guidance for Accounting Standards for Business Combinations and the Accounting Standards for Business Divestitures.”
This merger has had no material effect on the consolidated financial statements.

Independent Auditors' Report

To the Board of Directors of
H2O RETAILING CORPORATION:

We have audited the accompanying consolidated balance sheets of H2O RETAILING CORPORATION and consolidated subsidiaries as of 31st March, 2008, 2009, and 2010, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended 31st March 2010, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of H2O RETAILING CORPORATION and subsidiaries as of 31st March, 2008, 2009 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended 31st March 2010, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.

> As discussed in Note 2 to the consolidated financial statements, effective 1st April 2007, the Company and subsidiaries changed the accounting policy of provision for redemption of gift certificates.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March 2010 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 June 2010

KPMG AZSA & Co.

Corporate Data

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Board of Directors and Corporate Auditors

Chairman, Representative Director and CEO
Shunichi Sugioka
President and Representative Director
Jun Wakabayashi
Representative Director
Nobuaki Nitta
Directors
Yohsaku Fuji, Kazuo Sumi, Kazutoshi Senno,
Keiji Uchiyama, Shigeru Yasukawa
Director, Executive Officer
Tadatsugu Mori, Katsuhiro Hayashi
Standing Corporate Auditor
Toshimitsu Konishi
Corporate Auditors
Hideyuki Takai, Takeshi Nakagawa, Toshihisa Takamura
(as of 24th June 2010)

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 :	16,071
Employees :	54

Principal Shareholders :

Hankyu Hanshin Department Stores Kyoeikai
HANSHIN ELECTRIC RAILWAY CO., LTD.
Takashimaya Company, Limited
Hankyu Hanshin Holdings, Inc.
Japan Trustee Services Bank, Ltd. (Trust account)
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Juniper
The Master Trust Bank of Japan, Ltd. (Trust account)
Sumitomo Mitsui Banking Corporation
The Bank of New York, Treaty JASDEC Account

Principal Consolidated Subsidiaries

Company name	Stated capital (Millions of yen)	Annual sales (Millions of yen)	Direct holding by the company (%)	Principal business
Hankyu Hanshin Department Stores, Inc.	¥ 5,000	¥ 358,153	100.0	Operation of department stores
Hanshoku Co., Ltd.	100	87,069	100.0	Operation of supermarkets
Hankyu Kitchen Yell, Inc.	50	6,663	100.0	Food delivery service
Hankyu Foods, Inc.	50	2,403	100.0	Manufacture and sale of food products
Hankyu Bakery Co., Ltd.	50	1,746	100.0	Manufacture and sale of food products
Oi Development Co., Ltd.	100	962	100.0	Supervision of property maneagement business
Hankyu Shopping Center Development Co., Ltd.	50	5,111	100.0	Developer
Ours Inn Hankyu	100	1,923	100.0	Hotel
Heart Dining Inc.	10	3,833	72.4	Management of cafe, restaurants and company cafeteria
Hankyu Seisakusho Co., Ltd.	20	3,474	100.0	Manufacture and sale of furniture and furnishings
Hankyu Design Systems Co., Ltd.	10	2,642	100.0	Sale of sales promotion materials and printings
Hankyu Department Stores Europe B.V.	EUR.220 thousands	EUR.490 thousands	100.0	Fund-raising and fund management related to overseas business
Hankyu Home Styling Co., Ltd.	10	631	100.0	Sale of furniture
Persona Co., Ltd.	20	767	100.0	Credit card business
Hankyu Maintenance Service Co., Ltd.	10	2,199	100.0	Operation of office maintenance service
With System Corporation	100	1,533	81.0	Data processing and systems development
Hankyu Job Yell Co., Ltd.	40	1,566	100.0	Temporary employment agency
Hankyu Tomonokai Co., Ltd.	50	623	100.0	Membership organisation for customer service

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