H2O RETAILING CORPORATION

FINANCIAL REPORT 2019

Profile

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

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

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

On 1st October 2017, the Group purchased the businesses of Sogo Kobe and Seibu Takatsuki stores from Sogo & Seibu Co., Ltd.

Currently, the Group consists of 55 subsidiaries and 5 affiliates that operate retail businesses, including its core department store operations, supermarket operations and shopping centre operations.

Contents

General Business Conditions

1. Management Analysis of Financial Position, Business Performance and Cash Flows

The overview of the financial position, business performance and cash flows of the Group (the Company, consolidated subsidiaries and entities accounted for using equity method) (hereinafter, "Business performance") in the fiscal year ended 31st March 2019 and recognition, analysis and deliberation results on the Group's Business performance from the management's perspective are as follows.

The future information contained in these materials reflects judgments made at the end of fiscal year ended 31st March 2019.

(1) Business Performance for Reporting Period

Consolidated business performance for the fiscal year

(Millions of yen)

	March 2017 Cumulative Amount	March 2018 Cumulative Amount	March 2019 Cumulative				
			Amount	YOY	Change	Versus forecast	Change
Department Store Business	427,644	446,225	451,840	101.3%	+5,614	100.6%	+2,764
Kobe and Takatsuki Business	-	23,379	42,767	182.9%	+19,388	98.0%	(887)
Supermarket Business	409,454	386,552	367,580	95.1%	(18,972)	97.2%	(10,716)
Shopping Centre Business	9,970	10,367	8,736	84.3%	(1,631)	93.4%	(619)
Other Businesses	54,151	55,346	55,948	101.1%	+601	98.8%	(668)
Net sales	901,221	921,871	926,872	100.5%	+5,001	98.9%	(10,127)
Department Store Business	15,993	18,020	17,582	97.6%	(437)	111.3%	+1,782
Kobe and Takatsuki Business	-	603	301	49.9%	(302)	75.3%	(98)
Supermarket Business	3,977	1,104	(438)	-	(1,543)	-	(1,988)
Shopping Centre Business	5,038	4,985	4,281	85.9%	(703)	109.8%	+381
Other Businesses	2,863	3,098	5,030	162.4%	+1,932	96.4%	(186)
Adjustment	(5,330)	(5,047)	(6,335)	-	(1,288)	-	(268)
Operating income	22,542	22,765	20,422	89.7%	(2,343)	98.2%	(377)
Ordinary income	21,725	24,272	21,376	88.1%	(2,896)	99.4%	(123)
Extraordinary income	4,561	5,243	895	17.1%	(4,347)		
Extraordinary losses	6,281	6,296	14,221	225.9%	+7,925		
Profit attributable to owners of parent	14,298	14,636	2,162	14.8%	(12,474)	21.6%	(7,837)

* Net sales refer to sales to external customers.

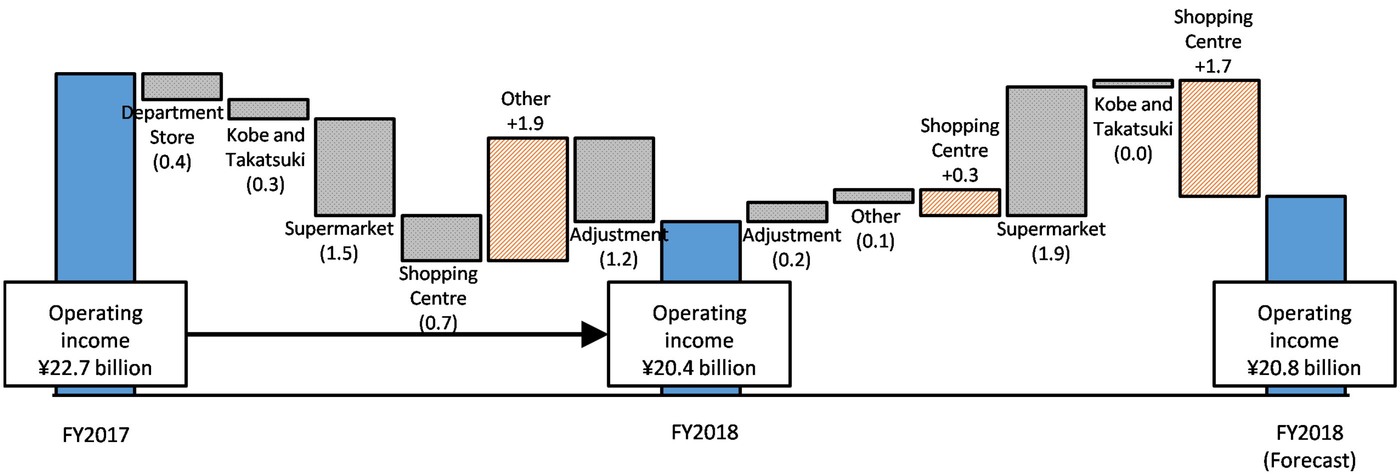
▶ Net sales

Net sales increased year on year because the Department Store Business experienced strong sales in urban department stores, including the Hankyu Main Store, and the Kobe and Takatsuki Business, which was not part of the operating results in the first half of the previous fiscal year, began contributing.

▶ Operating income / ordinary income

Both operating income and ordinary income decreased mainly because of stagnation in the Supermarket Business, progress of the redevelopment project in the Shopping Centre Business, and the rebuilding of the Hanshin Umeda Main Store in the Department Store Business.

(Billions of yen)



Department Store Business

Although the business was affected by natural disasters such as the Osaka Earthquake and typhoons, net sales increased by ¥5.6 billion year on year largely due to a growth by 4.3% in net sales of the Hankyu Main Store driven by strong domestic demand and demand generated by tourists visiting Japan. However, operating income decreased by ¥0.4 billion year on year due to an increase in depreciation accompanying the opening of the Hanshin Umeda Main Store Wing 1 in June 2018.

On the other hand, operating income increased by ¥1.7 billion against the forecast mainly because net sales of the Hanshin Umeda Main Store was higher than the forecast figures by 6.5%.

Kobe and Takatsuki Business

As the Sogo Kobe Store and the Seibu Takatsuki Store (both acquired in October 2017) have been operating without changing the store brands and services, their operating results were almost in line with expectations. Effective October 1, 2019, the Company will transfer the business operations of both stores to Hankyu Hanshin Department Stores, Inc. and rename them “Kobe Hankyu” and “Takatsuki Hankyu,” respectively.

Supermarket Business

Sales and profit decreased from the previous fiscal year and was lower than expectations in the Supermarket Business. In Izumiya Co., Ltd., net sales decreased by 6.3% year on year, and operating income decreased by ¥1.6 billion year on year. Existing general merchandise stores (GMS) struggled to attract customers and bore the additional up-front cost of store rebuilding.

In Hankyu Oasis Co., Ltd., net sales decreased by 3.6% year on year, and operating income decreased by ¥0.1 billion year on year. Existing stores struggled with the effects of warm winter and low market prices of fresh products. The closing of unprofitable stores, which the Company has been proceeding with from the previous fiscal year, also affected the decrease in net sales.

Shopping Centre Business

Sales and profit decreased mainly because of a significant increase in the number of tenants withdrawing due to the redevelopment project in Centre Limited Liability Company, which is the beneficiary of the trust of SELCY, a shopping centre in the Senri-chuo area.

Other Businesses

Profit in H2O RETAILING Corporation was up compared to the previous fiscal year because dividends received from subsidiaries increased. In Hankyu Hanshin Department Stores Tomonokai, Inc., profit was up after recognising the cost related to system changes in the previous fiscal year.

▶ Profit attributable to owners of parent

The Company recorded extraordinary losses of ¥14.2 billion. The Company recorded loss on store closings of ¥7.2 billion accompanying ongoing projects under the medium- and long-term plan, including store redevelopment and store closings of commercial facilities SELCY and Izumiya, which are under consideration for integrated redevelopment with Senri Hankyu.

Also, the Company recorded impairment loss of ¥2.5 billion for the unprofitable stores of Izumiya and Hankyu Oasis, and loss on disaster of ¥1.4 billion as extraordinary losses, which included losses arising from the Osaka Earthquake, the Typhoon JEBI, and other natural disasters. For this loss on disaster, the Company recorded ¥0.8 billion of insurance income as extraordinary income.

As a result of the above-mentioned factors, Profit attributable to owners of parent decreased by 85.2% year on year, to ¥2.1 billion.

Extraordinary income and losses

(Millions of yen)

Item	Amount	Main contents
Extraordinary income	895	(Down ¥4,347 million from the previous fiscal year)
Insurance income	895	Insurance for loss on disaster
Extraordinary losses	14,221	(Up ¥7,925 million from the previous fiscal year)
Loss on store closings	7,228	Store closing of SELCY for rebuilding ¥3,728 million Store closing of Izumiya stores for rebuilding and store reorganisation (Izumifuchu store, Hanazono store, Shonai store, Fushimi store and other stores) ¥1,836 million Store closing of Izumiya Ushiku store (Ibaraki) ¥1,185 million
Impairment loss	2,592	Hankyu Oasis ¥993 million Izumiya ¥941 million
Loss on disaster	1,402	Loss arising from natural disasters such as the Osaka Earthquake and the Typhoon JEBI
Loss on retirement of non-current assets	1,266	Hankyu Hanshin Department Stores, Izumiya
Outplacement expenses	672	Hankyu Hanshin Department Stores
Loss on transfer of business	546	Apparel and sports business of Be-U
Expenses for opening new stores	514	Hanshin Umeda Main Store

Track records of production, orders received and sales are as follows.

(i) Track record of production

The track record of production in the fiscal year ended 31st March 2019 by business segment is as follows:

Name of business segment	Product	Amount of production (millions of yen)	YOY %
Supermarket Business	Foods	34,187	97.5
Total		34,187	97.5

Notes:

1. The above amounts do not include consumption taxes.
2. The amounts are based on selling price.
3. There is no applicable information for business segments other than the above segment.

(ii) Status of orders received

There is no applicable information for the fiscal year ended 31st March 2019.

For the Supermarket Business (food manufacturing business), make-to-stock production is conducted based on the past track records of sales.

(iii) Track record of sales

The track record of sales in the fiscal year ended 31st March 2019 by business segment is as follows:

Name of business segment	Product	Net sales (millions of yen)	YOY %
Department Store Business	Clothing	126,585	98.0
	Accessories, bags and others	85,834	103.8
	Household merchandise	13,351	97.4
	Foods	128,492	98.3
	Restaurants and cafes	9,805	105.6
	General merchandise	84,023	109.0
	Service and other	4,041	98.6
	Elimination	(293)	55.0
	Total	451,840	101.3
Kobe and Takatsuki Business	Clothing	9,035	170.7
	Accessories, bags and others	3,549	184.3
	Household merchandise	620	166.1
	Foods	17,557	182.4
	Restaurants and cafes	537	193.2
	General merchandise	8,326	191.1
	Service and other	3,175	208.0
	Elimination	(36)	–
	Total	42,767	182.9
Supermarket Business	Supermarkets	360,208	94.8
	Food production	9,753	100.0
	Service and other	2,653	159.0
	Elimination	(5,034)	100.4
	Total	367,580	95.1
Shopping Centre Business	Rental management of commercial facilities	13,254	94.4
	Service and other	13,043	92.6
	Elimination	(17,562)	98.9
	Total	8,736	84.3
Other Businesses	Hotels	5,442	102.5
	Construction for interior decorating of stores	6,247	98.1
	Eating and drinking establishments	3,123	108.5
	Membership management	1,642	232.1
	Home delivery and delivery platform	9,406	95.1
	Food service	8,858	101.1
	Temporary staffing	2,088	106.3
	Information processing	617	134.1
	Others	44,816	102.7
	Elimination	(26,295)	106.7
	Total	55,948	101.1
Total		926,872	100.5

Notes:

1. The above amounts do not include consumption taxes.
2. In the Kobe and Takatsuki Business, the year-on-year changes are obtained in comparison to the period between 1st October 2017 and 31st March 2018 due to the succession of businesses related to Sogo Kobe

store and Seibu Takatsuki store from Sogo & Seibu Co., Ltd. as of 1st October 2017.

(2) Financial Position

(Millions of yen)

	31st March 2018	31st March 2019	Change		31st March 2018	31st March 2019	Change
Cash and deposits	67,150	55,229	(11,921)	Notes and accounts payable - trade	62,794	59,732	(3,062)
Notes and accounts receivable - trade	46,939	49,886	+2,946	Loans payable and bonds payable	149,493	164,920	+15,426
Inventories	35,295	33,920	(1,375)	Total liabilities	378,774	383,731	+4,956
Total current assets	160,167	150,003	(10,163)	Shareholders' equity	242,390	239,755	(2,634)
Total non-current assets	499,415	513,331	+13,916	Total net assets	280,807	279,603	(1,204)
Total assets	659,582	663,335	+3,752	Total liabilities and net assets	659,582	663,335	+3,752

Non-current assets rose by ¥13.9 billion mainly because of a ¥32.0 billion increase in capital investment on reconstruction of the Hanshin Umeda Main Store Wing 1, expansion of floor space of the Qanat Rakuhoku, renovations of the Izumiya stores, etc. and a ¥17.3 billion decrease in depreciation.

Centre Limited Liability Company (fiscal year-end: 31st of December) repaid loans from external financial institutions of ¥20.0 billion as of January, 2019. The above transaction is not reflected in the consolidated balance sheets as they refer to the financial statements of said company as of 31st of December 2018, and the ¥20.0 billion is included in both cash and deposits, and the current portion of long-term loans payable.

In the current fiscal year, the Company has promoted each project based on the long-term business plan "GP10." Return on equity (ROE) was 0.8% (previous fiscal year: 5.4%). In addition, return on assets (ROA) was 3.2% (previous fiscal year: 3.7%) and return on invested capital (ROIC) was 3.5% (previous fiscal year: 4.0%). These are attributable to the increased cost due to the opening of the reconstructed Hanshin Umeda Main Store Wing 1 and recording of extraordinary losses related to projects including redevelopment of the Senri-chuo area and reconstruction of the Izumiya stores.

"Partial Amendments to the Accounting Standard for Tax Effect Accounting" (ASBJ No.28; February 16, 2018), etc. have been applied from the beginning of the fiscal year ended March 31, 2019, and results for the fiscal year ended March 31, 2018 are those after retrospective application.

(3) Cash Flows

(Millions of yen)

Major items	March 2017	March 2018	March 2019
Cash flows from operating activities	38,742	32,739	15,392
Profit before income taxes	20,005	23,219	8,050
Depreciation	15,857	16,223	17,399
Decrease (increase) in notes and accounts receivable - trade	3,196	(2,248)	(3,017)
Increase (decrease) in notes and accounts payable - trade	(3,033)	833	(2,249)
Income taxes paid	(8,266)	(5,721)	(7,304)
Cash flows from investing activities	(25,325)	(35,492)	(36,682)
Purchase of property, plant and equipment	(23,983)	(19,197)	(30,289)
Purchase of intangible assets	(3,340)	(4,009)	(3,713)
Payments for transfer of business	–	(14,536)	–
Proceeds from sales of property, plant and equipment	5,827	3,259	1,412
Cash flows from financing activities	21,703	(13,812)	9,581
Proceeds from long-term loans payable	38,000	30,150	20,040
Proceeds from issuance of bonds	–	–	9,946
Repayments of long-term loans payable	(10,777)	(29,578)	(22,624)
Cash dividends paid	(4,628)	(4,938)	(4,941)
Operating CF + investing CF + financing CF	35,120	(16,565)	(11,707)
Cash and cash equivalents at end of year	83,462	67,150	55,229

As of 31st March 2019, cash and cash equivalents stood at ¥55,229 million, a decrease of ¥11,921 million year on year.

Net cash provided by operating activities was ¥15,392 million, down ¥17,346 million year on year.

Net cash used in investing activities was ¥36,682 million, up ¥1,189 million year on year, due in part to purchase of property, plant and equipment in conjunction with the opening of the Hanshin Umeda Main Store Wing 1 which is being rebuilt.

Net cash provided by financing activities was ¥9,581 million year on year (¥13,812 million in cash flows used in financing activities for the previous fiscal year) due in part to issuance of bonds and receipt of new loans.

With regard to the source of capital required for long-term projects such as the reconstruction of the Hanshin Umeda Main Store and the opening of a new store in Ningbo, China, the Group has decided to raise the funds with cash flows provided by operating activities and external loans.

Changes in the Group's indicators related to cash flows are as follows:

Year ended 31st March	2015	2016	2017	2018	2019
Equity ratio	39.8%	42.3%	41.2%	42.4%	42.0%
Equity ratio based on market price	44.3%	40.3%	34.6%	36.4%	28.7%
Interest-bearing debt to cash flow ratio	6.2	5.6	4.3	4.9	11.3
Interest coverage ratio (times)	20.1	19.8	36.1	32.5	21.1

Equity ratio: Equity / Total assets

Equity ratio based on market price: Market capitalization / Total assets

Interest-bearing debt to cash flow ratio: Interest-bearing debt / Operating cash flows

Interest coverage ratio: Operating cash flows / Interest expenses paid

*1 These indicators are calculated based on figures from the consolidated financial statements.

*2 Market capitalization is calculated as the stock price at the end of the period multiplied by the number of shares outstanding at the end of the period (excluding treasury shares).

*3 Operating cash flows are the cash flows from operating activities as indicated in the consolidated statements of cash flows. Interest-bearing debt is all liabilities reflected on the consolidated balance sheets that are subject to interest payments. Interest expenses paid is the amount of interest expenses paid in the consolidated statements of cash flows.

2. Management Policies and Management Issues to be Resolved

The future information contained in this material reflects judgments made by H2O Retailing Corporation at the end of fiscal year ended 31st March 2019.

(1) The Company's Basic Management Policy

The H2O Retailing Group has been proceeding with the "strategy for dominance in Japan's Kansai area" aiming to be indispensable in the Kansai trading area centred on the Umeda area of Osaka, premised on the Basic Philosophy of the H2O Retailing Group calling for us "to remain indispensable to the local communities through our activities of providing a model of lifestyle to local residents." The Group will work on diversifying its retail business in order to make stronger connections with customers in the Kansai area.

(2) Our Target Business Indicators

The Group conducts business in mature markets. To continue to enhance its enterprise value within such markets, the Group is working to improve its profitability and growth potential, focusing its corporate activities on operating income and operating income margin by business segment. The Group also aims to improve its consolidated return on equity (ROE) by realising increased operating income.

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

The Japanese retail market is shrinking as a result of structural changes, including aging population, lower birth rates and declining population. In the shrinking market, it is expected that companies with less competitiveness will not be

able to continue their businesses, and just a few companies will dominant the market. With this in mind, the Company has formulated the long-term business plan “GP10,” based on the long-term perspective and is now proceeding with its implementation in order to continuously expand its market share.
The Company has positioned the Department Store Business and the Supermarket Business as its core businesses. The Company will continue to strengthen these businesses, since they both have value which only bricks-and-mortar stores are able to provide and their business categories will be continuously needed by society.
The Company’s core businesses have dual targets: daily life purchases and special occasion purchases. In addition the Company operates retail business positioned between these core businesses, and for these businesses, the Company aims to collaborate with external partners to build an alliance network related to every aspect of customers’ lifestyles.
Through this alliance network, the Company aims to attract more customers to the core businesses and realise increasing profit by expanding the market share.

3. Business Risk

Of matters concerning the overview of business, financial information, etc., provided in the financial report, matters which may have significant effects on investors’ judgment include those described below. However, risks and uncertainty that may be caused on future operating results and financial position are not limited to these matters. Matters concerning the future in the text were judged by the Group as of the date of filing of the financial report.

(1) Business Environment

Environment surrounding retail businesses

As for the environment surrounding Japan’s retail businesses, significant changes are expected, including aging population, polarization of consumption structure and tightening competition beyond business categories. These changes are expected to have considerable effects on the Group’s operating results.

(2) Laws and Regulations, and Legal Revisions

(i) Laws and regulations such as the Act on the Measures by Large-Scale Retail Stores for Preservation of Living Environment

Opening of department stores and supermarkets by the Group is subject to regulation under the Act on the Measures by Large-Scale Retail Stores for Preservation of Living Environment. Under the act, in cases where a new store with store space of more than 1,000 m^2 is opened and where the store space of an existing store is increased to more than 1,000 m^2, local prefectural governments or ordinance-designated cities examine and control traffic congestion, noise, waste management and other matters from the standpoint of protecting the living environment of neighborhood residents. Accordingly, the Group’s future plans to open stores may be affected by such laws and regulations.
Besides, the Group is subject to laws and regulations such as the Antimonopoly Act, the Subcontract Act, environment and recycle related laws and regulations, and the Act against Unjustifiable Premiums and Misleading Representations and other laws and regulations related to consumer protection, and may also be affected by these laws and regulations.

(ii) Increase in the consumption tax rate resulting from the tax system revision

To secure a financial resource needed for future social welfare, the consumption tax rate is expected to be raised gradually. This may cause a decline in personal consumption and have negative effects on the Group's net sales.

(3) Natural Environment and Accidents

(i) Unusual weather such as cooler-than-normal summers and warmer-than-normal winters

Many of clothing items, which are the Group's mainline products, are highly fashionable and seasonable, and sales of these items are affected by weather to some extent. Therefore, cooler-than-normal summers, warmer-than-normal winters and other unusual weather may have negative effects on the Group's net sales.

(ii) Natural disasters and accidents

To prepare for natural disasters and accidents, the Group has made an emergency management manual and strives to raise awareness of crisis management through education of employees, etc. However, if business facilities including stores are damaged by unforeseeable disasters or accident such as earthquake, flood, typhoon or fire, this may have negative effects on the Group's operating results.

(4) Others

(i) Refusal to renew a lease agreement

Many of the Group's stores and facilities are leasehold properties. If lessors including owners of buildings and land refuse to renew (in the case of fixed-term building lease agreement, refuse to resign) an agreement due to expiration of the lease period, operation of the store, etc. may become unable to be continued.

(ii) Safety of goods sold

As for quality control and hygiene control of goods sold, "Quality Control Promotion Committee" and "Food Hygiene Quality Control Promotion Committee" have been set up within the Group to aggressively promote measures to ensure safety and security of goods for customers. However, general consumers' heightened sense of concern about foods due to outbreaks of BSE, bird flu and other diseases, occurrence of accidents such as food poisoning and health hazards, and a decrease in customer satisfaction or confidence stemming from defects in goods sold may have negative effects on the Group's net sales.

(iii) Management of customer information

As for management of customer information, the Group traditionally ensures the strict operation of rules and the education of employees based on the personal information management regulations and the management manual and strives to comply with the Act on the Protection of Personal Information. However, if customer information is leaked to outsiders as a result of any unpredictable accident or contingent event, this may cause a reduction in credibility of the Group and have negative effects on its net sales.

(iv) Information system

The Group utilises information systems in each field to promote streamlining of operations and provide high-quality services. However, if any unforeseeable contingency, such as earthquake, fire, massive blackout or computer virus, disrupts the smooth operation of information system, this may have negative effects on the Group's operating results.

(v) Overseas business risk

The Group operates stores in China. Therefore, the political climate, economic environment, changes in laws and regulations, terrorist acts and other factors in China may have negative effects on its operating results and financial position.

In addition, items denominated in the local currency including net sales, expenses and assets of stores in China are converted into yen to prepare consolidated financial statements. Exchange rate fluctuations at the time of conversion may affect these items.

Corporate Governance System

(1) Outline of Corporate Governance System

(i) Corporate Governance System

a. Basic views on corporate governance

In line with the basic philosophy "to remain indispensable to the local communities through providing a model of lifestyle to local residents," the Company conducts business under the vision to "pursue a strategy of market share expansion via retail business diversification and realization of domination within the Kansai region, striving to achieve this through constant operational innovations which comply with social norms and laws while enabling rapid adaptation to a changing competitive landscape."

Based on the basic philosophy and management vision, the Company will perform swift, efficient and strong-minded decision-making and work to increase its medium- to long-term corporate value, while meeting various stakeholders' expectations and emphasizing compliance. To this end, the Company will also ensure the enhancement of corporate governance.

b. Outline and rationale of corporate governance system

In the H2O Retailing Group, H2O Retailing Corporation (the Company), a holding company, is responsible for the business planning, management and oversight of the entire Group. It seeks through proper and legal means to raise the corporate value of Group companies by building a corporate governance system that facilitates fast-acting and efficient companies.

Upon approval of the Ordinary General Shareholders' Meeting held on 22nd June 2016, the Company has changed from a "Company with a Board of Corporate Auditors" to a "Company with an Audit and Supervisory Committee" (hereinafter, 'ASC'), aiming to maximise corporate value over the medium- to long-term. As a Company with an ASC, the Company shall have three (3) or more directors who are ASC members and the majority of which shall be outside directors. A director who is an ASC member (i) has voting rights at the Board of Directors' meeting, (ii) may be involved in discussions regarding the appointment, dismissal or resignation of directors who are not ASC members as well as other decision making processes on the execution of operations, and (iii) may state their opinions at a Shareholders' Meeting on the appointment, dismissal or remuneration of directors who are not ASC members. Thus, the Company expects to improve its supervisory function. Furthermore, in cases in which a majority of the directors of a Company with an ASC are outside directors or if provided in the Articles of Incorporation, the Board of Directors may delegate decision making on the execution of important operations to directors by resolution. This new governance system will enable the Company to make decisions and execute business operations more promptly and flexibly.

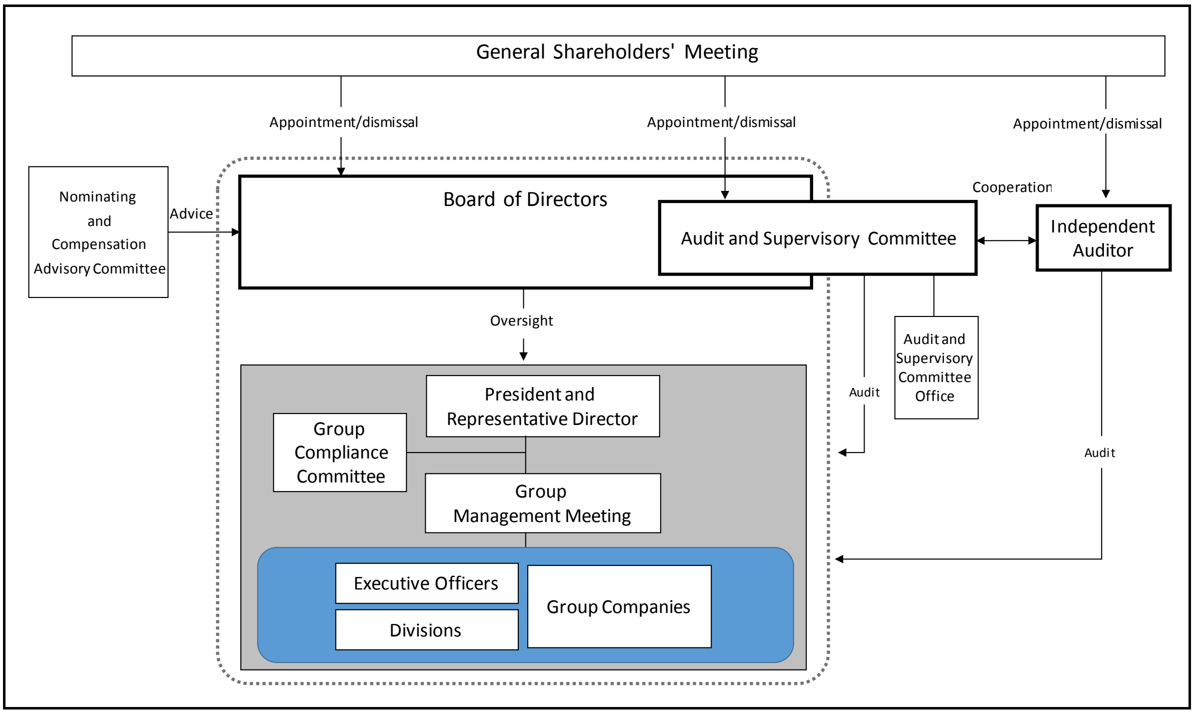
The Company's Board of Directors consists of 10 directors (four (4) directors are ASC members), including four (4) outside directors (three (3) outside directors are ASC members). Thus, more than one-third of directors on the Board of Directors will be outside directors. For names of the members, please see "(2) Status of Officers, (i) Officers." The Chairman of the Board of Directors is Mr. Atsushi Suzuki, President and Representative Director and the Chairman of the ASC is Mr. Toshimitsu Konishi, Director, full-time ASC member.

To ensure the fairness and transparency of the process of appointing directors and deciding compensation for directors, the Company will continue to have a voluntary Nominating and Compensation Advisory Committee (Note 1). Regarding the agenda on appointing candidates for directors or compensation for directors, in view of the basic principles stipulated by the Company, the Nominating and Compensation Advisory Committee considers the agenda and advises the Board of Directors before the Board of Directors makes a decision. As for the compensation for ASC members, decisions are made with prior consent by the ASC.

In addition, for quick decision making and efficient management of the Group, the Group Management meeting (Note 2) was established as the fronting body for the Board of Directors, making decisions on important matters for Group companies. Group companies, including H2O Retailing Corporation, have clearly defined business responsibilities established through the adoption of an executive officer system. The directors and the Board of Directors of each company have adopted this system for managing and overseeing the business execution of the executive officers.

The ASC audits the status of business execution by the directors, the Board of Directors and executive officers.

■Corporate Governance Framework



Note 1: Nominating and Compensation Advisory Committee

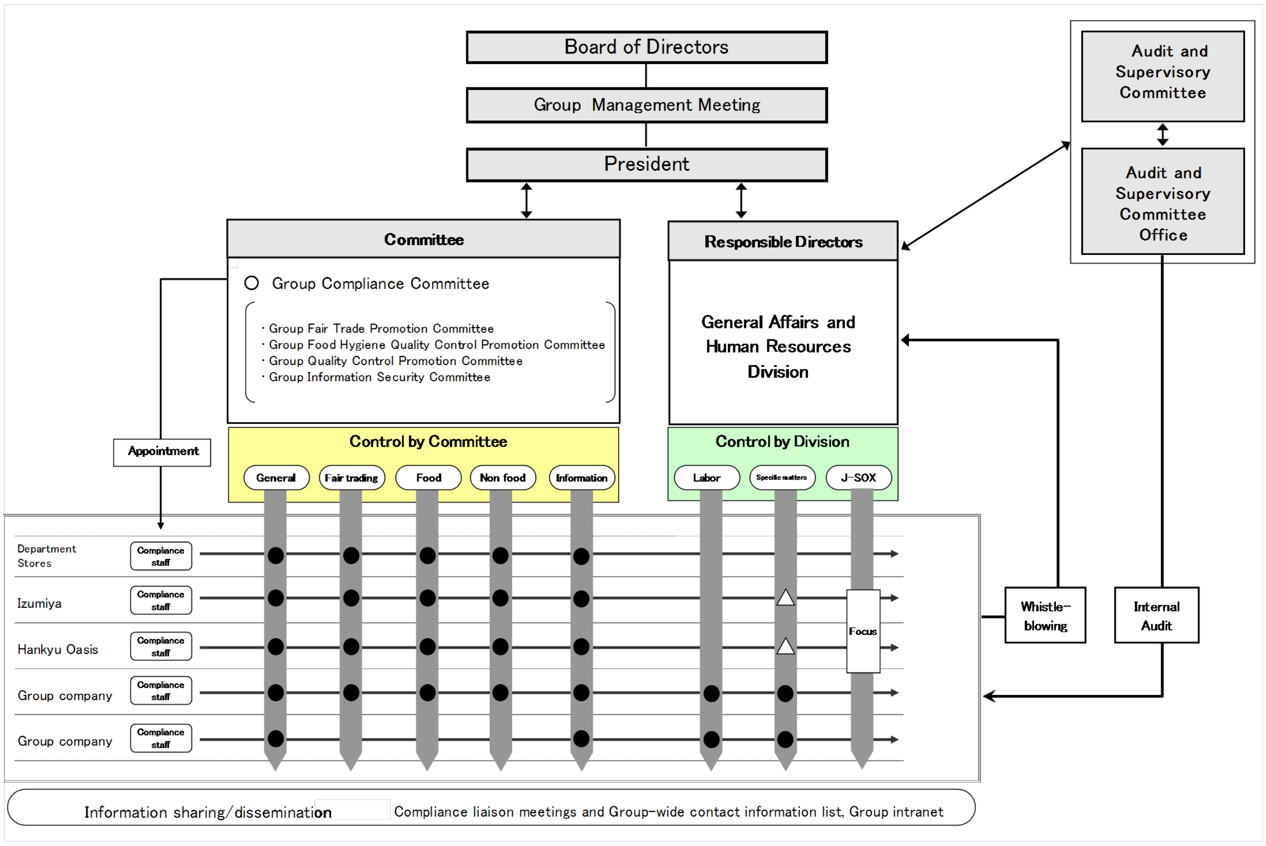
The committee consists of independent outside directors (Mr. Makoto Yagi and Mr. Naoshi Ban), which comprise the majority of the committee, and Mr. Atsushi Suzuki, President and Representative Director. The Chairman is Mr. Makoto Yagi, independent outside director.

Note 2: Group Management Meeting

The meeting consists of the Company's full-time directors (Mr. Atsushi Suzuki, Mr. Naoya Araki, Mr. Katsuhiro Hayashi and Mr. Tadatsugu Mori) and Audit and Supervisory Committee Member (Mr. Toshimitsu Konishi) and President and Representative Director of a major subsidiary (Mr. Haruya Shijo) and the Company's executive officer (Mr. Hiroyasu Kuromatsu). The Chairman is Mr. Atsushi Suzuki, President and Representative Director.

c. Internal control and risk management system

■Group Compliance and Risk Management System



The Company resolved the framework of its control system to ensure business appropriateness as follows:

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

Compliance

The H2O Retailing Group has a code of conduct stipulating basic principles so that executives and employees will act in accordance with the Companies' code of ethics, laws, rules and regulations. We have also compiled the Group Compliance Regulations, establishing basic policies and rules to ensure Group-wide compliance. In addition, we appoint outside directors with the necessary knowledge and experience to help the Group ensure full compliance.

In addition to establishing the Group Compliance Committee (Note 1) to take the lead in the creation of a system for ensuring compliance throughout the Group, the presidents of Group companies and executives in charge of general affairs for H2O Retailing Corporation, Hankyu Hanshin Department Stores, Inc., Izumiya Co., Ltd. and Hankyu Oasis Co., Ltd. have been appointed as compliance officers for each company. They carry out compliance policy and pool information.

In addition, the Group has set up a whistle-blowing system and established rules for disciplinary action in the case of legal and regulatory violations or instances of fraud committed by Group executives or employees.

The Company has an internal audit function and audits the status of compliance in accordance with the newly established “Internal Audit Policy.”

Ensuring the reliability of financial reporting

At each company in the Group, we have set up internal control systems to ensure the reliability of financial reporting. At the Company, we carry out appraisals of the implementation and operational status of internal controls related to financial reporting on a Group-wide basis in accordance with the Financial Instruments and Exchange Act and related laws and regulations.

Eliminating antisocial forces

The H2O Retailing Group code of conduct explicitly prohibits any accession by the Group to unacceptable demands made by antisocial elements that threaten public order and safety. We are also strengthening our partnerships with specialist external organisations such as the police and lawyers, and have created systems for insulating ourselves from all contact with antisocial elements.

Note 1: Group Compliance Committee

The committee consists of the Company’s President and Representative Director and officers in charge of general affairs of the Company and major subsidiaries (Mr. Katsuhiro Hayashi, Mr. Masaru Ikejima, Mr. Kenji Hiraki and Mr. Yasuto Nagata). The Chairman is Mr. Atsushi Suzuki, President and Representative Director.

B. Storage and management of information related to execution of duties by directors

Internal documentation related to the execution of duties by directors and executives and other information is stored and managed based on laws and regulations for archiving.

C. Regulations and other systems for management of risk of loss

Risk management systems

We have compiled a framework of risk management procedures which establishes principles for the prevention of risk events, reporting when risk events occur and dealing with the consequences of risk event occurrence. Basic policies and regulations for risk management enable Group companies to take precautionary measures against risk and to minimise losses when risk events occur. The Group Compliance Committee collates risk related information and prepares countermeasures while Group companies voluntarily create their own systematic measures to deal with risk based on individual Group company characteristics. Concurrently, a system for pooling information regarding risk faced by all companies in the Group is in place.

D. Ensuring effective performance of duties by Directors

In order to clarify the management supervisory responsibilities of directors and the responsibilities of executive officers and to promote more efficient performance of duties by directors, an executive officer system has been introduced at all Group companies, with the Group Management meeting responsible for effective business decision-making for the Company and the Group. This body manages business performance on a monthly and quarterly basis and assesses the progress of business plans at the Board of Directors meetings and Group Management meetings, making revisions to targets as necessary.

Authority and responsibility has also been clarified based on approval procedures for the issuing and acceptance of management instructions based on job grade.

E. Ensuring sound conduct of business in the Group companies

Based on Group company management protocol, business planning, marketing policies and other important operational matters at Group companies are taken up or reported at Group Management meetings and Board of Directors' meetings.

The Company's internal auditing, compliance and risk management systems apply to all companies in the Group.

F. Audit assistants and their independence from directors who are not ASC members and effectiveness of instruction by ASC in cases in which an ASC seeks help in performing auditing duties

At a request by the ASC, dedicated ASC staff members are selected to help the ASC carry out its duties. These assistants do not report to directors who are not ASC members.

G. Reporting to the ASC by directors who are not ASC members and employees, other reporting to the ASC and ensuring such reporting will not become the basis for any unfair treatment

ASC members regularly hold meetings with representative directors, dedicated ASC staff members, staff members of internal control divisions (Finance and Accounting Division, General Affairs and Human Resources Division and System Planning Division, etc.) and the Group Corporate Auditors Committee, attend important meetings such as Group Management meetings and review the approval documents and minutes of Group Management meetings and other committee meetings.

When requested by the ASC, the Group's directors and employees shall promptly report to the ASC regarding matters related to the administration of business. Upon discovering any issue such as the violation of laws and regulations which may cause significant loss to the Company or Group companies, the Group's directors and employees shall report to ASC members or corporate auditors of the respective companies of the Group who subsequently report to the Company's ASC.

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

All members of the Group are informed that it is strictly prohibited to treat any director, officer or employee unfairly on the grounds that they have provided a relevant report for the ASC or corporate auditors.

H. System to ensure that audits by ASC are executed effectively

Based on requests from the ASC, dedicated ASC staff members are designated as corporate auditors of each company of the Group. When the ASC requests the hiring of outside experts such as lawyers or certified public accountants as their advisors and when ASC members request relevant expenses to fulfil their roles in advance, the Company promptly bears such costs in accordance with applicable laws and regulations. The Company establishes an annual budget for such costs for ASC members.

The following summarises the status of operations for the year ended March 31, 2019.

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

In the fiscal year ended 31st March 2019, the content of “H2O Retailing Group Code of Conduct” was partially reviewed in light of changes in the social environment and others.

(2) As compliance and risk management initiatives, the Company has various committees in connection with fair trading, quality control and information security which promotes measures for each field and shares information. In the fiscal year ended 31st March 2019, with regard to the operation of the official account and the use of social media by the Group’s employees, the basic stance to be adhered to was established as the “H2O Retailing Group Social Media Policy” and the “Regulations on Operation and Management of Social Media” were set at Group companies in order to promote the appropriate use of social media.

Moreover, in an effort to build a structure in which Group companies voluntarily create their own systematic measures to deal with risk based on the business characteristics of individual Group company, the Company’s General Affairs and Human Resources Office and the Audit and Supervisory Committee Office jointly conducted verification of risks and hearing for each Group company and made each company’s priority challenges to work on more clear in the fiscal year ended 31st March 2019.

The Companies have a whistle-blower hotline named “Compliance Hotline,” and the Company and some major subsidiaries have divisions in charge of the Hotline. While the internal whistle-blowing system is in continuous operation, the Group worked to enhance the communication of Compliance Hotline to Group companies as part of strengthening of risk management in the fiscal year ended 31st March 2019. The status of whistle-blowing is regularly reported to Representative Directors and a full-time ASC member.

In order to ensure the reliability of financial reporting, we carried out assessments of group-wide controls and the implementation and operation status of the business processes mainly of Hankyu Hanshin Department Stores, Inc. and Izumiya Co., Ltd. The scope of the assessments encompassed the company-wide controls of F.G.J Co., Ltd. and newly involved an upgrading and assessment of its internal controls in line with expansion of the business scale.

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

(3) With respect to the audit system, the Company continues to assign ten (10) dedicated staff members who support the duties of the ASC as requested by the ASC and designate each staff member as a corporate auditor of the Group companies.

Additionally, ASC members periodically hold meetings with Representative Directors and staff members in the internal control divisions (Business Strategy Division, Management Planning Division, Finance Division, System Planning Division, General Affairs and Human Resources Division and J-SOX Division) while the full-time ASC member attends important meetings such as Group Management meetings.

(4) A subsidiary of the Company, Hankyu Hanshin Department Stores, Inc. received a cease and desist order and an order for payment of surcharge from the Japan Fair Trade Commission on October 3, 2018 for violation of the Antimonopoly Act with respect to raising the shipping charges on seasonal gifts paid by customers.

After receiving the order, Hankyu Hanshin Department Stores newly formulated a guideline for cartel prevention, implemented training for company officers and employees, and took other measures as part of efforts aimed to prevent recurrence of the incident mainly by striving to ensure thorough awareness of the details. At the Company, while providing advice as necessary and giving confirmation of the above efforts, a Group Compliance Contact Meeting was held, partial revisions were made to “H2O Retailing Group Code of Conduct,” and a thorough reinforcement of efforts was carried out to promote fair trading practices to the other group companies.

(ii) Outline of the Liability Limitation Agreements
As of 22nd June 2016, the Company entered into a liability agreement with each outside director in accordance with Article 427(1) of the Companies Act (“Act”) for the purpose of limiting liability as prescribed in Article 423(1) of the Act. Under the agreement, the maximum amount of liability of an outside director shall be limited to the amount prescribed in the Act.

(iii) Exemption from Liability of Directors
The Company provides in the Articles of Incorporation that, at a resolution of the Board of Directors’ meeting, the liability of directors (including former directors) who fail to perform their duties shall be exempt by a statutory limit based on Article 426(1) of the Act. This provision enables directors to perform their duties without the effects of anxiety and allows the Company to continue inviting outside directors with deep insights and a wealth of experience. The above

provision also applies to the corporate auditors (including former corporate auditors) before a resolution of the 97th Ordinary General Shareholders' Meeting held on 22nd June 2016.

(iv) Number of Directors as Provided in the Articles of Incorporation

The Company provides in the Articles of Incorporation that the number of directors excluding directors who are ASC members shall be ten (10) or less and that of directors who are ASC members shall be five (5) or less.

(v) Selection of Directors

The Company provides in the Articles of Incorporation that a resolution of a Shareholders' Meeting shall be made by a majority of the votes of the shareholders present at meetings where shareholders holding one third or more of the votes of the shareholders entitled to exercise voting rights are present. It is also provided in the Articles of Incorporation that directors shall not be appointed by cumulative voting.

(vi) Matters Regarding Dividends

For the purpose of implementing a dividend policy corresponding to the status of business operations, the Company provides in the Articles of Incorporation that matters regarding dividends, including matters prescribed in Article 459(1) of the Act, shall be resolved at a Board of Directors' meeting regardless of a resolution by a Shareholders' Meeting unless otherwise prescribed in the Act.

(vii) Requirement for Resolution of a Special Proposal at a Shareholders' Meeting

For the purpose of smooth deliberations regarding a special proposal at a Shareholders' Meeting, the Company provides in the Articles of Incorporation that a special proposal submitted at a Shareholders' Meeting as prescribed in Article 309(2) of the Act shall be resolved by a majority of two thirds or more of the votes of the shareholders present at meetings where the shareholders holding one third or more of the votes of the shareholders entitled to exercise voting rights are present.

(2) Status of Officers

(i) Officers

Male: 9; Female: 1 (The ratio of female officers is 10.0%)

Title	Name	Date of birth	Brief history		Term of office	Number of company shares held
President and Representative Director In charge of Supermarket Business and Business Creation Headquarters	Atsushi Suzuki	5 April 1956	Apr. 1980	Joined Hankyu Department Stores, Inc.	(Note) 2	20,100
			Oct. 2000	Executive Manager, SC Division, Hankyu Department Stores, Inc.		
			Apr. 2003	Representative Director and Senior Managing Executive Officer, Hankyu Shopping Center Development Co., Ltd.		
			Apr. 2006	Executive Officer, Hankyu Department Stores, Inc.		
			Mar. 2014	Director, H2O RETAILING CORPORATION		
			Apr. 2014	President and Representative Director, H2O RETAILING CORPORATION (present position)		
Representative Director In charge of the Department Store Business	Naoya Araki	14 May 1957	Apr. 1981	Joined Hankyu Department Stores, Inc.	(Note) 2	10,800
			Apr. 2003	General Manager, Suburban Store Development Office, Hankyu Department Stores, Inc.		
			Apr. 2004	Executive Officer, Hankyu Department Stores, Inc.		
			Mar. 2012	President and Representative Director, Hankyu Hanshin Department Stores, Inc. (present position)		
			Jun. 2012	Representative Director, H2O RETAILING CORPORATION (present position)		

Title	Name	Date of birth	Brief history		Term of office	Number of company shares held
Representative Director and Executive Vice President In charge of the General Affairs and Human Resources Office and the Public Relations Office	Katsuhiro Hayashi	20 January 1958	Apr. 1982	Joined Hankyu Department Stores, Inc.	(Note) 2	11,200
			Apr. 2002	General Manager, Public Relations Office, Hankyu Department Stores, Inc.		
			Apr. 2004	Executive Manager, Sales Promotion Dept., Hankyu Department Stores, Inc.		
			Apr. 2005	General Manager, Compliance Office, Hankyu Department Stores, Inc.		
			Apr. 2007	General Manager, General Affairs Office, Hankyu Department Stores, Inc.		
			Jun. 2009	Director and Executive Officer, H2O RETAILING CORPORATION		
			Apr. 2014	Director and Managing Executive Officer, H2O RETAILING CORPORATION		
			Apr. 2015	Representative Director and Senior Managing Executive Officer, H2O RETAILING CORPORATION		
			Apr. 2015	Representative Director and Senior Managing Executive Officer, Hankyu Hanshin Department Stores, Inc. (present position)		
			Apr. 2017	Representative Director and Executive Vice President, H2O RETAILING CORPORATION (present position)		
Director	Makoto Yagi	13 October 1949	Apr. 1972	Joined The Kansai Electric Power Company, Inc.	(Note) 2	2,300
			Jun. 2005	Director, The Kansai Electric Power Company, Inc.		
			Jun. 2006	Managing Director, The Kansai Electric Power Company, Inc.		
			Jun. 2009	Vice President and Representative Director, The Kansai Electric Power Company, Inc.		
			Jun. 2010	President and Representative Director, The Kansai Electric Power Company, Inc.		
			Jun. 2015	Director, H2O RETAILING CORPORATION (present position)		
			Jun. 2016	Chairman and Representative Director, The Kansai Electric Power Company, Inc. (present position)		

Title	Name	Date of birth	Brief history		Term of office	Number of company shares held
Director	Kazuo Sumi	19 April 1949	Apr. 1973	Joined Hankyu Corporation (currently Hankyu Hanshin Holdings, Inc.)	(Note) 2	22,200
			Jun. 2000	Director, Hankyu Corporation		
			Jun. 2002	Managing Director, Hankyu Corporation		
			Jun. 2003	President and Representative Director, Hankyu Corporation		
			Oct. 2007	Director, H2O RETAILING CORPORATION (present position)		
			Jun. 2017	Chairman and Representative Director, Group CEO, Hankyu Hanshin Holdings, Inc. (present position)		
Director and Managing Executive Officer General Manager, Management Planning Office, in charge of Finance Office and System Planning Office	Tadatsugu Mori	22 September 1963	Apr. 1987	Joined Hankyu Department Stores, Inc.	(Note) 2	6,400
			Apr. 2004	General Manager, Management Policy Office, Hankyu Department Stores, Inc.		
			Apr. 2006	Executive Officer, Hankyu Department Stores, Inc.		
			Jun. 2006	Director and Executive Officer, Hankyu Department Stores, Inc.		
			Mar. 2012	Director and Managing Executive Officer, H2O RETAILING CORPORATION (present position)		
Director (Standing Audit and Supervisory Committee Member)	Toshimitsu Konishi	17 April 1944	Apr. 1967	Joined Hankyu Department Stores, Inc.	(Note) 3	19,900
			Sep. 1988	General Manager, Accounting Department, Hankyu Department Stores, Inc.		
			Jun. 2000	Director, Hankyu Department Stores, Inc.		
			Apr. 2002	President and Representative Director, Hankyu Foods Co., Ltd.		
			Jun. 2002	Adviser, Hankyu Department Stores, Inc.		
			Jun. 2004	Standing Corporate Auditor, Hankyu Department Stores, Inc.		
			Jun. 2016	Director and Standing Audit and Supervisory Committee Member, H2O RETAILING CORPORATION (present position)		

<table>
<tr><th>Title</th><th>Name</th><th>Date of birth</th><th colspan="2">Brief history</th><th>Term of office</th><th>Number of company shares held</th></tr>
<tr><td rowspan="11">Director
(Audit and Supervisory Committee Member)</td><td rowspan="11">Naoshi Ban</td><td rowspan="11">30 September 1946</td><td>Apr. 1969</td><td>Joined Mitsubishi Warehouse Co., Ltd.</td><td rowspan="11">(Note) 3</td><td rowspan="11">8,000</td></tr>
<tr><td>Jun. 2000</td><td>Director, Mitsubishi Logistics Corporation</td></tr>
<tr><td>Jun. 2001</td><td>Managing Director, Mitsubishi Logistics Corporation</td></tr>
<tr><td>Jun. 2003</td><td>President and Representative Director, Mitsubishi Logistics Corporation</td></tr>
<tr><td>Jun. 2008</td><td>Representative Director and Chairman, Mitsubishi Logistics Corporation</td></tr>
<tr><td>Jun. 2010</td><td>Chairman of the Board, Mitsubishi Logistics Corporation</td></tr>
<tr><td>Apr. 2013</td><td>Director and Senior Corporate Advisor, Mitsubishi Logistics Corporation</td></tr>
<tr><td>Jun. 2013</td><td>Senior Corporate Advisor, Mitsubishi Logistics Corporation</td></tr>
<tr><td>Jun. 2015</td><td>Director, H2O RETAILING CORPORATION</td></tr>
<tr><td>Jun. 2016</td><td>Director and Audit and Supervisory Committee Member, H2O RETAILING CORPORATION
(present position)</td></tr>
<tr><td>Apr. 2018</td><td>Special Advisor, Mitsubishi Logistics Corporation (present position)</td></tr>
</table>

Title	Name	Date of birth	Brief history		Term of office	Number of company shares held
Director (Audit and Supervisory Committee Member)	Kenjiro Nakano	13 August 1947	Apr. 1971	Joined Sumitomo Bank, Ltd.	(Note) 3	1,600
			Apr. 1998	Director, Sumitomo Bank, Ltd.		
			Jun. 2002	Managing Executive Officer, Sumitomo Mitsui Banking Corporation		
			Jun. 2004	Managing Director cum Managing Executive Officer, Sumitomo Mitsui Banking Corporation		
			Jun. 2005	Senior Managing Director cum Senior Managing Executive Officer, Sumitomo Mitsui Banking Corporation		
			Apr. 2006	Representative Director cum Deputy President Executive Officer, Sumitomo Mitsui Banking Corporation		
			Apr. 2008	Representative Director cum Deputy Chairman, Sumitomo Mitsui Banking Corporation		
			Jun. 2010	President, Keihanshin Real Estate Co., Ltd. (currently Keihanshin Building Co., Ltd.)		
			Jun. 2016	Chairman, Keihanshin Building Co., Ltd. (present position)		
			Jun. 2016	Director and Audit and Supervisory Committee Member, H2O RETAILING CORPORATION (present position)		
Director (Audit and Supervisory Committee Member)	Mayumi Ishihara	3 May 1963	Apr. 1997	Registered as attorney with the Osaka Bar Association	(Note) 3	500
			Apr. 1997	Joined Oh-Ebashi LPC & Partners		
			Jun. 2016	Director and Audit and Supervisory Committee Member, H2O RETAILING CORPORATION (present position)		
Total						103,000

Notes:

1. Mr. Makoto Yagi, Mr. Naoshi Ban, Mr. Kenjiro Nakano and Ms. Mayumi Ishihara are outside directors.
2. One year from the conclusion of the Ordinary General Shareholders’ Meeting held on 20th June 2019.
3. Two years from the conclusion of the Ordinary General Shareholders’ Meeting held on 22nd June 2018.
4. The Chairman of the Board of Directors is Mr. Atsushi Suzuki.
5. The Company is a Company with an Audit and Supervisory Committee. The Chairman of the Audit and Supervisory Committee is Mr. Toshimitsu Konishi. The members of the Audit and Supervisory Committee are Mr. Naoshi Ban, Mr. Kenjiro Nakano and Ms. Mayumi Ishihara.

(ii) Outside Directors

The number of directors from outside the Company is four (4), of whom three (3) are ASC members.

a. Relationship with outside directors

Mr. Makoto Yagi had actively given advice and opinions at the Board of Directors' meetings based on his extensive management experience and his broad insights. The Company appointed Mr. Yagi again as an outside director, expecting that his skills would contribute to the supervision of the Company group. Furthermore, since he fulfils the requirements as prescribed in the below mentioned "Independence Criteria for Outside Directors," the Company appointed Mr. Yagi as an independent director. Mr. Yagi has no special interests in the Company. Mr. Yagi is a Chairman and Representative Director of The Kansai Electric Power Company, Incorporated. There is no particular conflict of interest between The Kansai Electric Power Company, Incorporated and the Company.

Mr. Naoshi Ban had actively given advice and opinions at the Board of Directors' meetings based on his extensive management experience and his broad insights. The Company appointed Mr. Ban again as an outside director and ASC member, expecting that his skills would contribute to the supervision and audit of the Company group. Furthermore, since he fulfils the requirements as prescribed in the below mentioned "Independence Criteria for Outside Directors," the Company appointed Mr. Ban as an independent director. Mr. Ban has no special interests in the Company. Mr. Ban is a Special Corporate Advisor of Mitsubishi Logistics Corporation, which owns 0.57% of all issued shares of the Company. The Company owns 0.63% of all issued shares of Mitsubishi Logistics Corporation. There are no particular conflicts of interest that require disclosure between Mitsubishi Logistics Corporation and the Company.

Mr. Kenjiro Nakano has been appointed as an outside director and ASC member based on his extensive management experience, accomplishments at a financial institution and his broad insights, expecting that his skills would contribute to the supervision and audit of the Company group. Mr. Nakano is a former director of Sumitomo Mitsui Banking Corporation, which is one of the main banks of the Company. However, he has never served with the bank, even as an advisor, since his retirement more than five years ago. Thus, he fulfils the requirements as prescribed in the below mentioned "Independence Criteria for Outside Directors," and the Company appointed Mr. Nakano as an independent director. Mr. Nakano has no special interests in the Company. Mr. Nakano is a Chairman and Director of Keihanshin Building Co., Ltd. There is no particular conflict of interest between Keihanshin Building Co., Ltd. and the Company.

Ms. Mayumi Ishihara has been appointed as an outside director and ASC member based on her professional knowledge and experience as an attorney-at-law, expecting that her skills would contribute to the supervision and audit of the Company group, although she has no experience in corporate management except as an outside director. Since she fulfils the requirements as prescribed in the below mentioned "Independence Criteria for Outside Directors," the Company appointed Ms. Ishihara as an independent director. Ms. Ishihara has no special interests in the Company.

The Company has established the independence criteria for outside directors as follows:

Independence Criteria for Outside Directors

To maintain their independence from the Company, outside directors of the Company shall not meet any of the following criteria.

(1) A person for whom the Company and its subsidiaries (collectively, "the Group") is a principal business partner (Note 1) or an executing person ("the executing person") of such party, including a managing director, an executive officer, a person who has similar authority, a manager or an employee.

(2) A principal business partner (Note 2) of the Group or the executing person of such party.

(3) An expert such as an attorney-at-law, a certified public accountant, a certified tax accountant or a consultant who receives a certain amount (Note 3) of money or other property from the Group in addition to compensation for being a director and/or corporate auditor.

(4) A person who belongs to the audit firm which is the statutory accounting auditor of the Group and conducts audit work for the Group.

(5) A major shareholder of the Company (directly or indirectly holding 10% or more of the total voting rights) or the executing person of such major shareholder.

(6) An executing person of a company of which the Group is the major shareholder.

(7) In cases in which the Group's executive director, a director who is a full-time ASC member or a full-time corporate auditor also holds the post of outside director or outside auditor of other companies, the executing person of such companies.

(8) The executing person of Hankyu Hanshin Toho Group (including the Group).

(9) A person receiving more than a defined amount (Note 4) of donations from the Group or, in cases in which the person is a corporation or an association, the executing person of the party.

(10) Any person identified in any of (1) to (9) above in the past five years or any executing person of the Group in the past ten years.

(11) Any person whose spouse or relatives within the second degree of kinship are identified in any of (1) to (10) above (limited to key persons (Note 5), excluding above (3) and (4)).

(12) Any person with whom any special circumstances exist that would result in a conflict of interest with the Company.

Notes:

1. "A person for whom the Group is a principal business partner" means a party offering products and/or services to the Group whose total amount of transactions with the Group in the previous fiscal year exceeds the greater of ¥100 million or 2% of the consolidated sales of the party.
2. "A principal business partner" means (a) a party to whom the Group offers products and/or services whose total

amount of transactions with the Group in the previous fiscal year exceeds 2% of the consolidated sales of the Company and (b) a party to whom the Group owes liabilities as loans of 2% or more of the consolidated total assets of the Company as of the previous fiscal year end.

3. “Certain amount” means (a) ¥10 million a year of compensation (except director’s remuneration) received from the Group in the previous fiscal year in cases in which the expert is an individual offering services to the Group or (b) the total amount of compensation received from the Group in the previous fiscal year reaches 2% of the total revenue of a party in cases in which the expert belongs to a party such as a corporation or association offering services to the Group.
4. “Defined amount” means ¥10 million a year in the previous fiscal year.
5. “Key person” means an executing person with relevant authority as a director, operating officer, executive officer and/or senior manager.

b. Main Activities of Outside Directors During the Reporting Period

Classification	Name	Main Activities
Director	Makoto Yagi	Attended 10 of 11 Board of Directors' meetings held during the reporting period, giving his opinions on measures and asking questions based on his extensive management experience. In addition, he chaired the Nominating and Compensation Advisory Committee, a voluntary committee, offering appropriate advice at the committee's meetings and striving to improve the transparency and objectivity for personnel affairs and compensation of the management.
Director who is an ASC member	Naoshi Ban	Attended all 11 Board of Directors' meetings and all 12 ASC meetings held during the reporting period, giving his opinions on measures and asking questions based on his extensive management experience. In addition, he served on the Nominating and Compensation Advisory Committee, a voluntary committee, offering appropriate advice at the committee's meetings and striving to improve the transparency and objectivity for personnel affairs and compensation of the management.
Director who is an ASC member	Kenjiro Nakano	Attended 10 of 11 Board of Directors' meetings and 11 of 12 ASC meetings held during the reporting period, giving his opinions on measures and asking questions based on his extensive management experience.
Director who is an ASC member	Mayumi Ishihara	Attended 10 of 11 Board of Directors' meetings and all 12 ASC meetings held during the reporting period, giving her opinions on measures and asking questions based primarily on her specialised knowledge as an attorney.

(3) Status of Audits

(i) Internal Audits, ASC's Audits and Accounting Audits, and Evaluation of Auditing Firm by ASC

The Company has four (4) ASC members, consisting of three (3) outside directors and one (1) director (full-time ASC member). The Company assigns professionals with corporate management experience and specialised knowledge of law and other subjects as outside directors. A professional from within the Company with substantial knowledge of finance and accounting who has served as an accounting manager in the Company for approximately 30 years has been assigned as the full-time ASC member. The full-time ASC member is assigned as an ASC member with the authority to be reported to and to investigate. In addition, 12 assistant employees, consisting of seven (7) dedicated auditors, each of whom serves as corporate auditor of four (4) to five (5) subsidiaries besides administrative operation of the ASC, and five (5) persons taking responsibility of internal audit function, assist the full-time ASC member at the ASC Office.

The office in charge of financial reporting, as stipulated in the Financial Instruments and Exchange Act (J-SOX) (seven (7) members), is established to secure the reliability of financial reporting. They work to strengthen the audit function by making proposals for improvements based on regular interviews and on-site audits and assessing internal controls in financial reporting and in business processes.

With regard to activities of the ASC, the ASC developed audit plans and implemented focused audits and ordinary audits in accordance with the standards for ASC's audits, etc., the standards for audits of internal control system and others. Outside directors who are ASC members attended Board of Directors' meetings and regular meetings with representative directors, and gave their opinions and asked questions as necessary from the standpoint of attorneys and specialists with extensive business management experience. A full-time ASC member attends the monthly "Group Management meeting" and the "Group Compliance Committee meeting," which are held as needed. The full-time ASC member expressed his opinions at these meetings as necessary and inspected final decision reports on key matters as well as the minutes of the meetings, and heard reports regarding the execution of operations directly from internal control divisions.

At the ASC meeting, which was held 12 times during the reporting period, the full-time ASC member spends approximately two (2) hours making an explanation on the content of agendas for the Board of Directors' meeting and a detailed report on the status of audits. Concurrently, a consensus on the ASC's opinion in consideration of the supervisory function over the executing person is formed through discussions about business issues, and the full-time ASC member provides advice and recommendations on the role of the holding company to representative directors for embodiment of the management philosophy as necessary.

In addition, one (1) outside director who is an ASC member has become a member of the voluntary Nominating and Compensation Advisory Committee, and at ASC meetings, confirms the way of operating this committee and others as well as discusses an ideal organisational structure that enables practice of aggressive governance, and provides advice and recommendations to representative directors as necessary.

Regarding the auditing of subsidiaries, the full-time ASC member concurrently serves as a corporate auditor of Hankyu Hanshin Department Stores, Inc. and Izumiya Co., Ltd., the core subsidiaries, while the standing corporate auditor or dedicated staff members who are assistant employees assume the position of corporate auditors of other subsidiaries, leading to augmentation of the reporting system to the full-time ASC member by closely monitoring the site through auditing visits. At the same time, these corporate auditors work to perform more effective audits by holding Group Board of Corporate Auditors' meetings where appropriate and verifying the progress of audit plans through individual opinion exchanges with the full-time ASC member and corporate auditors of subsidiaries.

Regarding the coordination with the internal audit division, the full-time ASC member monthly receives a report on assessment of internal control concerning financial reporting and internal control concerning business processes from the function in charge of J-SOX, which was established to secure the reliability of financial reporting, and a report on the method and results of business audits from an assistant employee in charge of internal audits who coordinates with the internal audit function of major companies while conducting activities centred on business audits of Hankyu Hanshin Department Stores.

In addition, regarding the coordination with independent auditors, in appointing independent auditors, the ASC, centred around the full-time ASC member, ensures close coordination with KPMG AZSA LLC. throughout the fiscal year, and proactively understands the independence of the independent auditors, status of quality control, appropriateness of the structure of execution of duties, status of implementation of accounting audits for the current fiscal year and others. The Company has judged that it is appropriate to appoint KPMG AZSA LLC. as its independent auditors, as a result of deliberations on reasonableness of the independent auditors in view of the number of years of continuous audits and the fee amount based on assessment using a scoring for 20 assessment items in accordance with the "Practical Guide for Development of Criteria for Assessment and Appointment of Accounting Auditors for Audit & Supervisory Board Members" issued by the Japan Audit & Supervisory Board Members Association. In drafting the accounting audit plan, ASC members and the independent auditors exchange opinions about key audit matters, while the full-time ASC member confirms the progress of the audit procedures and exchanges opinions on issues in audits once a month in principle. At ASC meetings, close coordination is maintained through discussion about major issues in auditing and the audit procedures on a quarterly basis.

(ii) Name of the Auditing Firm, Composition of Certified Public Accountants Who Executed the Audits and Assistants with the Audits, and Policy and Reason for Appointing the Auditing Firm

The Company has designated KPMG AZSA LLC. as its independent auditing firm. The certified public accountants who executed the accounting audit were Mr. Motoharu Iyomasa, Mr. Naoki Sugita and Ms. Aki Yuge. Assisting them with the audit were 13 other certified public accountants and 12 other staff members.

In appointing an auditing firm, the Company takes into account quality of audits, ample auditing experience in other industries and companies, enriched relevant services, appropriateness of audit fees, and others. Since the Company has determined, as a result of taking into consideration these matters, that this firm has abilities to implement its accounting audits, it has appointed KPMG AZSA LLC. as its independent auditors.

(iii) Policy on Dismissal or Non-Reappointment of Independent Auditors

If the independent auditors falls under any of the matter set forth in each item of Article 340 (1) of the Companies Act, the ASC dismisses the independent auditors.

In addition, if quality and efficiency of audits might be lowered and there is no prospect for improvement in consideration of the independent audit's number of years of continuous audits, audit fees and others, or if the ASC judges, in light of assessment of the independent auditors, that a change of the independent audit is reasonable to further increase the appropriateness of audits, the ASC determines the content of proposal for dismissal or non-reappointment of the independent auditors to be submitted to a General Shareholders' Meeting.

(iv) Fees Paid to Independent Auditors

For the provisions of Form 2, precautions for recording (56) d (f) i to iii in the amended "Cabinet Office Order on Disclosure of Corporate Affairs" in accordance with "Cabinet Office Order for Partial Amendment of the Cabinet Office Order on Disclosure of Corporate Affairs" (Cabinet Office Order No. 3, 31st January 2019), the Company has applied the transitional measure.

Details of fees paid to certified public accountants, etc.

Classification	For the year ended 31st March 2018		For the year ended 31st March 2019	
	Audit fees (millions of yen)	Fees for non-audit services (millions of yen)	Audit fees (millions of yen)	Fees for non-audit services (millions of yen)
The Company	65	6	67	3
Consolidated subsidiaries	144	—	158	—
Total	210	6	226	3

Details of Non-Audit Services

For the year ended 31st March 2018

The details of non-audit services for which the Company paid fees to certified public accountants consisted of "financial due diligence services."

For the year ended 31st March 2019

The details of non-audit services for which the Company paid fees to certified public accountants consisted of "comfort letter services accompanying the issuance of bonds."

Other Significant Fees Paid

For the year ended 31st March 2018

Suzhou Izumiya Co., Ltd., H2O (China) Investment Co., Ltd. and Suzhou Izumiya Supermarkets Co., Ltd., consolidated subsidiaries of the Company, paid ¥3 million in fees to a member firm of KPMG to which certified public accountants acting as the Company’s independent auditors belong.

For the year ended 31st March 2019

Suzhou Izumiya Co., Ltd., H2O (China) Investment Co., Ltd. and Suzhou Izumiya Supermarkets Co., Ltd., consolidated subsidiaries of the Company, paid ¥11 million in fees to a member firm of KPMG to which certified public accountants acting as the Company’s independent auditors belong.

Policy to Determine Audit Fees

Audit fees to independent auditors are determined based on the items to be audited, the contents and procedures of the audits, the number of days required for audits and the appropriateness of the audit fees considering the scale and characteristics of the business of the Company.

Reasons for Consent to the Independent Auditors’ Remuneration by the ASC

In accordance with the “Practical Guide for Cooperation with Accounting Auditors” issued by the Japan Audit & Supervisory Board Members Association, the Company’s ASC examined the number of hours required for audits in the past, evaluated audit results, reviewed fee trends in the past and compared the fees with those paid by other companies in the same business. The ASC also had an interview with the independent auditors to evaluate their credentials and examined the appropriateness and reasonableness of fee calculations and the basis of estimates, including the number of hours and staff estimated in the audit planning and audit procedures for significant audit issues. As a result, the Company’s ASC agreed to the amounts of fees to the independent auditors.

(4) Compensation for Directors

(i) Compensation Paid to Directors

Classification	Total compensation (millions of yen)	Total compensation by type (millions of yen)			Number of directors
		Basic compensation (fixed compensation)	Stock option based compensation (stock price-linked compensation)	Bonus (performance-based compensation)	
Directors (excluding ASC members) (excluding outside directors)	183	116	30	37	6
Directors (ASC members) (excluding outside directors)	26	26	—	—	1
Outside directors	35	35	—	—	4

(ii) Matters regarding Policy on Determining Compensation for Directors

Policy as of 31st March 2019 and activities involved in the decision making process

For executive directors, we instituted a system of compensation that allows for higher incentives for improving short- and medium- to long-term performance. Specifically, it consists of the following three components: 1) a monthly basic compensation which is linked to the position of director and not directly linked to the performance of the Group, 2) an annual bonus that reflects single-year performance and other factors and 3) stock option based compensation that is linked to stock price. However, the compensation for non-executive directors, including directors who are ASC members, is dependent on the role expected to be performed and consists only of monthly compensation.

As for compensation for directors, the Board of Directors decides the agenda for the General Shareholders' Meeting and individual amounts of compensation after consideration by the Nominating and Compensation Advisory Committee. As for compensation for directors who are ASC members, individual amounts are determined through discussion by directors who are ASC members.

In deliberating the individual amounts of compensation for directors, the Nominating and Compensation Advisory Committee considers the type of business, the level of compensation offered by comparable companies and the level of compensation of other officers in the Company.

In the fiscal year ended 31st March 2019, activities were conducted as per the above policy at meetings of the Nominating and Compensation Advisory Committee and the Board of Directors.

Performance-based compensation (bonus) above in the fiscal year ended 31st March 2019 was determined in accordance with position and assessment of performance, mainly taking into account achievement of consolidated operating income, profit attributable to owners of parent and others. Targeted operating income was ¥20,800 million, actual operating income was ¥20,422 million, and actual profit attributable to owners of parent was ¥2,162 million, a decrease of 85.2% compared with the previous fiscal year.

Regarding compensation for executive directors, 50% is basic compensation and 50% is based on performance and stock price.
The outline of each component of compensation is as follows:

The maximum compensation based on a resolution of the General Shareholders' Meeting is outlined below.

a. At the 97th Ordinary General Shareholders' Meeting held on 22nd June 2016, the total amount of basic compensation for directors excluding directors who are ASC members was set at a maximum of ¥300 million per year (of which, a maximum of ¥50 million is for outside directors), and basic compensation for directors who are ASC members was set at a maximum of ¥90 million per year.

b. Bonus amounts are decided at a Shareholders' Meeting each time they are paid.

c. At the 97th Ordinary General Shareholders' Meeting held on 22nd June 2016, it was resolved that stock option based compensation for directors excluding directors who are ASC members and outside directors would be based on a different framework from the monthly compensation described above and was set at a maximum annual compensation of ¥120 million.

Policy as of 20th June 2019
In order to provide higher incentives to improve short- and medium- to long-term performance, the compensation of the Company's executive directors and executive officers ("executive directors") combine monthly basic compensation with annual bonus that reflects single-year performance and other factors and stock option based compensation that is linked to stock price, and the compensation of outside directors and directors who are ASC members ("non-executive directors") was monthly basic compensation only. We decided to take advantage of the formulation of a new mid-term plan that starts in fiscal 2019 to review the new stock compensation plan and its recipients based on the following policies:

- The plan should contribute to the sustainable growth and to the improvement of medium- to long-term corporate value of the Company group.
- The plan should motivate the executive directors to achieve the objectives of the mid-term plan.
- The plan should help the Company group secure human resources who are capable of carrying out its mission and of achieving sustainable growth.
- The plan should facilitate shared awareness with shareholders as well as an outlook that gives weight to the shareholder.

As for compensation for directors, etc., the Board of Directors decides the agenda for the General Shareholders'

Meeting and individual amounts of compensation after consideration by the Nominating and Compensation Advisory Committee. As for compensation for directors who are ASC members, individual amounts are determined through discussion by directors who are ASC members.

In deliberating the individual amounts of compensation for directors, the Nominating and Compensation Advisory Committee considers the type of business, the level of compensation offered by comparable companies and the level of compensation of other officers in the Company.

Regarding compensation for executive directors, 50% is monthly basic compensation and 50% is annual bonus and stock compensation.
The outline of each component of compensation and recipients is as follows:

Types of compensation and recipients

		Executive directors	Non-executive directors
Stock compensation	Performance-based stock options	○	–
	Continuous service-based stock options	○	○
Cash compensation	Bonus (performance-based compensation)	○	–
	Basic compensation (fixed compensation)	○	○

Basic compensation
Monthly basic compensation is set in accordance with individual job responsibility and position. For executive directors, monthly basic compensation is revised every April in accordance with an assessment for the previous year on the basis of the compensation table according to stages of the amount of consolidated operating income.
To non-executive directors, compensation is paid in accordance with individual role.

Bonus
Bonuses shall be compensation paid according to consolidated operating results for one fiscal year, principally linked to achievement levels of consolidated operating income, and determined in accordance with position and assessment in consideration of profit attributable to owners of parent and others. For bonuses, approval shall be obtained at a General Shareholders' Meeting. Because consolidated operating income and profit attributable to owners of parent are target indicators for single-year performance, they have been chosen as indicator for performance-based compensation.

Stock compensation
Stock compensation shall be the following two (2) types of stock options:

- Stock option based compensation with continuous service conditions
  Subscription rights to shares, which can be exercised by any eligible person for allotment of the subscription rights to shares after losing any position as officer, such as director (including ASC member), corporate auditor and

executive officer of the Company and its subsidiaries (but provided that the loss is for retirement due to expiration of the terms of office or any other valid reason accepted by the Company), are granted in accordance with the position each year.

・ Stock option based compensation with performance-based conditions

In terms of management indicators targeted in the mid-term plan and other indicators predetermined by the Company's Board of Directors (such as consolidated net sales, each stage of income, ROE and ROIC), the number of exercisable units is determined within the range of 0 to 100% of allotted subscription rights to shares in accordance with achievement levels of the indicators in the final fiscal year for the mid-term plan, and subscription rights to shares, which can be exercised after losing any position as officer, such as director (including ASC member), corporate auditor and executive officer of the Company and its subsidiaries, are granted in accordance with the position each year.

The performance-based indicators for allotment in June 2019 shall be as follows, and will be determined based on results in the fiscal year ending 31st March 2022, the final year for Phase 2 of Stage II in the GP10 Plan. Consolidated ordinary income is one of the target income indicators of the mid-term plan, and consolidated ROIC is an indicator of capital efficiency. Accordingly, these two indicators have been chosen as the indicators for performance-based compensation.

Performance-based criteria for fiscal 2019 to 2021

Indicator	Target for fiscal 2021	Weight
(i) Consolidated ordinary income	¥25.0 billion	50%
(ii) Consolidated ROIC	4.0%	50%

The maximum compensation based on a resolution of the General Shareholders' Meeting is outlined below.

a. At the 97th Ordinary General Shareholders' Meeting held on 22nd June 2016, the total amount of basic compensation for directors excluding directors who are ASC members was set at a maximum of ¥300 million per year (of which a maximum of ¥50 million is for outside directors), and basic compensation for directors who are ASC members was set at a maximum of ¥90 million per year.

b. Bonus amounts are decided at a Shareholders' Meeting each time they are paid.

c. At the 100th Ordinary General Shareholders' Meeting held on 20th June 2019, it was resolved as described below that stock option based compensation would be based on a different framework from the monthly compensation described above.

・ Total amount of compensation for directors (excluding directors who are ASC members)

It was resolved that the upper limit will be set at ¥129 million per year (including ¥9 million for outside directors). Of the amount, the upper limit of ¥93 million per year will be set for continuous service-based stock options (including ¥9 million for outside directors) and the upper limit of ¥36 million per year will be set for performance-based stock options.

- Total amount of compensation for directors who are ASC members

  It was resolved that the upper limit will be set at ¥22.5 million per year.

(5) Holding Status

(i) Criteria and idea for division of investment securities

With regard to division of investment securities held for portfolio investment purposes and those held for other than portfolio investment purposes, the Company classifies investment securities which are held for the purpose of gain on sale as portfolio investment purposes and those which are held for the purpose of building good relationships with business partners and related parties such as business alliance partners and contributing to smooth promotion of the Company group's businesses and improvement of corporate value over the medium to long term as purposes other than portfolio investment purposes.

In principle, as its policy, the Company does not hold investment securities which are held for portfolio investment purposes.

(ii) Investment securities which are held for other than portfolio investment purposes

a. Holding policy and method for verification of reasonableness of holdings as well as details of verification by the Board of Directors, etc., in relation to whether or not the holding of individual stock is appropriate

- When the Company considers that holding the stock helps build a good relationship with business partners and related parties such as business alliance partners and contributes to smooth promotion of the Company group's businesses and improvement of corporate value over the medium to long term, it may hold the stock of the business partner, etc., on a cross-shareholding basis.
- The Company judges whether or not to exercise voting rights for stocks held on a cross-shareholding basis, for each proposal from a viewpoint of whether doing so contributes to improvement of the Company group's corporate value over the medium to long term, also taking into account the holding purpose.
- If a company that holds stock of the Company on a cross-shareholding basis (hereinafter, the "cross-shareholder") expresses its intention to sell that stock, the Company shall not perform actions such as indicating a reduction in transactions with this company as a means for preventing the sale.
- For transactions with cross-shareholders, economic reasonableness of the transactions is fully verified so that any transactions that may harm the common interests of the company and shareholders are not conducted.
- The Company has been pushing forward reduction in stocks of which the holding necessity is considered low. The Board of Directors will continue to verify holding purposes, details of transactions, dividend yields, holding risks and other matters, and consider selling stocks of which the holding necessity is considered low in view of market trends and other factors, also taking into account the Company's capital cost.

b. Number of investment securities and balance sheet value

	Number of different stocks (stock)	Total amount of balance sheet value (millions of yen)
Unlisted shares	27	5,929
Shares other than unlisted shares	16	85,552

Stocks of which the number of shares increased in the fiscal year ended 31st March 2019.

	Number of different stocks (stock)	Total amount of acquisition cost related to the increase in the number of shares (millions of yen)	Reason for the increase in the number of shares
Unlisted shares	1	29	To strengthen business management relationship
Shares other than unlisted shares	1	8	To strengthen business management relationship

Stocks of which the number of shares decreased in the fiscal year ended 31st March 2019.

	Number of different stocks (stock)	Total amount of sale value related to the decrease in the number of shares (millions of yen)
Unlisted shares	3	0

c. Information on the number of shares, balance sheet value, etc., of specified investment securities and shares deemed held by stock

Specified investment securities

Stock	For the year ended 31st March 2019	For the year ended 31st March 2018	Purpose of holding, quantitative effects of holding, and reason for the increase in the number of shares	Whether or not the stock of the Company is held
	Number of shares	Number of shares		
	Balance sheet value (millions of yen)	Balance sheet value (millions of yen)		
Toho Co., Ltd.	13,664,280	13,664,280	(Purpose of holding) To strengthen relationship with the Hankyu Hanshin Toho Group (Method of verifying reasonableness of holding) Based on the relationship of the Hankyu Hanshin Toho Group, the Company has judged that there are positive effects of holding the stock.	None
	60,737	48,234		

Stock	For the year ended 31st March 2019	For the year ended 31st March 2018	Purpose of holding, quantitative effects of holding, and reason for the increase in the number of shares	Whether or not the stock of the Company is held
	Number of shares	Number of shares		
	Balance sheet value (millions of yen)	Balance sheet value (millions of yen)		
Takashimaya Co., Ltd.	8,887,000	17,774,000	(Purpose of holding) To strengthen relationship between both companies through business partnership (Method of verifying reasonableness of holding) The Company has determined that there are certain positive effects on promotion of businesses, such as a joint effort for products in the business alliance. * The number of shares decreased as a result of consolidation of shares (consolidation at a ratio of one (1) share for two (2) shares) in September 2018.	Yes
	13,099	18,147		
Kansai Super Market Ltd.	3,200,000	3,200,000	(Purpose of holding) To strengthen relationship between both companies through business partnership (Method of verifying reasonableness of holding) The Company has considered that there are positive effects of holding in promotion of the Company group's business strategy, such as introduction of the Company group's joint point system, sale of the Company group's products, etc., through the business alliance.	Yes
	3,299	3,612		
Mitsubishi Logistics Corporation	554,500	554,500	(Purpose of holding) To strengthen business management relationship (Method of verifying reasonableness of holding) As a result of taking into account the business relationship with this company, the Company has considered that there are positive effects of holding the stock.	Yes
	1,713	1,253		
Mitsubishi UFJ Financial Group, Inc.	3,012,740	3,012,740	(Purpose of holding) For financial policy reasons (Method of verifying reasonableness of holding) As a result of taking into account the business relationship with this company (borrowing transaction), the Company has considered that there are positive effects of holding the stock.	None (Note)
	1,657	2,099		
Kato Sangyo Co., Ltd.	363,300	363,300	(Purpose of holding) To strengthen business management relationship (Method of verifying reasonableness of holding) As a result of taking into account the business relationship with this company (transaction for purchase of goods), the Company has considered that there are positive effects of holding the stock.	Yes
	1,326	1,353		

Stock	For the year ended 31st March 2019 Number of shares Balance sheet value (millions of yen)	For the year ended 31st March 2018 Number of shares Balance sheet value (millions of yen)	Purpose of holding, quantitative effects of holding, and reason for the increase in the number of shares	Whether or not the stock of the Company is held
Asahi Group Holdings, Ltd.	217,360 1,071	217,360 1,231	(Purpose of holding) To strengthen business management relationship (Method of verifying reasonableness of holding) As a result of taking into account the business relationship with this company (transaction for purchase of goods), the Company has considered that there are positive effects of holding the stock.	None (Note)
Umenohana Co., Ltd.	374,500 1,011	374,500 1,082	(Purpose of holding) To strengthen relationship between both companies through business partnership (Method of verifying reasonableness of holding) As a result of taking into account the business relationship with this company (transaction for purchase of goods), the Company has considered that there are positive effects of holding the stock.	None
Wacoal Holdings Corp.	267,000 734	267,000 822	(Purpose of holding) To strengthen business management relationship (Method of verifying reasonableness of holding) As a result of taking into account the business relationship with this company (transaction for purchase of goods), the Company has considered that there are positive effects of holding the stock.	None (Note)
Sumitomo Mitsui Financial Group, Inc.	120,528 467	120,528 537	(Purpose of holding) For financial policy reasons (Method of verifying reasonableness of holding) As a result of taking into account the business relationship with this company (borrowing transaction), the Company has considered that there are positive effects of holding the stock.	None (Note)

Stock	For the year ended 31st March 2019 Number of shares Balance sheet value (millions of yen)	For the year ended 31st March 2018 Number of shares Balance sheet value (millions of yen)	Purpose of holding, quantitative effects of holding, and reason for the increase in the number of shares	Whether or not the stock of the Company is held
Joshin Denki Co., Ltd.	56,000 142	56,000 217	(Purpose of holding) To strengthen business management relationship (Method of verifying reasonableness of holding) As a result of taking into account the business relationship with this company, the Company has considered that there are positive effects of holding the stock.	Yes
Sumitomo Mitsui Trust Holdings, Inc.	25,370 100	25,370 109	(Purpose of holding) For financial policy reasons (Method of verifying reasonableness of holding) As a result of taking into account the business relationship with this company (borrowing transaction), the Company has considered that there are positive effects of holding the stock.	None (Note)
Onward Holdings Co., Ltd.	150,252 87	139,291 128	(Purpose of holding) To strengthen business management relationship (Method of verifying reasonableness of holding) As a result of taking into account the business relationship with this company (transaction for purchase of goods), the Company has considered that there are positive effects of holding the stock. (Reason for the increase in shares) This is because the Company has participated in the business partners shareholding association and additionally acquires shares on a regular basis.	Yes
Toyo Seikan Group Holdings, Ltd.	33,000 74	33,000 52	(Purpose of holding) To facilitate business activity (Method of verifying reasonableness of holding) As a result of taking into account the business relationship with this company, the Company has considered that there are positive effects of holding the stock.	None
Tokyo Rakutenchi Co., Ltd.	5,500 27	5,500 28	(Purpose of holding) To strengthen relationship with the Hankyu Hanshin Toho Group (Method of verifying reasonableness of holding) Based on the relationship of the Hankyu Hanshin Toho Group, the Company has judged that there are positive effects of holding the stock.	None

<table>
<tr><td rowspan="3">Stock</td><td>For the year ended 31st March 2019</td><td>For the year ended 31st March 2018</td><td rowspan="3">Purpose of holding, quantitative effects of holding, and reason for the increase in the number of shares</td><td rowspan="3">Whether or not the stock of the Company is held</td></tr>
<tr><td>Number of shares</td><td>Number of shares</td></tr>
<tr><td>Balance sheet value (millions of yen)</td><td>Balance sheet value (millions of yen)</td></tr>
<tr><td rowspan="2">Isetan Mitsukoshi Holdings Ltd.</td><td>1,437</td><td>1,437</td><td rowspan="2">(Purpose of holding) To facilitate business activity
(Method of verifying reasonableness of holding) No significant unreasonableness has been found in the holding, as a result of examining the importance in terms of the amount.</td><td rowspan="2">None</td></tr>
<tr><td>1</td><td>1</td></tr>
</table>

* For stocks for which it is difficult to describe quantitative effects of holding, the method of verifying reasonableness of holding has been provided.

Note: A Group company holds stock of the Company

(iii) Investment securities which are held for portfolio investment purposes

None

(iv) Investment securities whose purpose for holding was changed from portfolio investment purposes to purposes other than portfolio investment purposes during the fiscal year ended 31st March 2019

None

(v) Investment securities whose purpose for holding was changed from purposes other than portfolio investment purposes to portfolio investment purposes during the fiscal year ended 31st March 2019

None

Five-Year Summary

	Millions of yen					Thousands of U.S. dollars (Note 1)
Years ended 31st March	2015	2016	2017	2018	2019	2019
For the year:						
Net sales	¥844,819	¥915,690	¥901,221	¥921,871	¥926,872	$8,350,198
Cost of sales	603,401	649,326	637,837	655,646	660,636	5,951,675
Gross profit	241,417	266,363	263,384	266,224	266,235	2,398,513
Selling, general and administrative expenses	220,059	242,538	240,841	243,459	245,813	2,214,531
Interest expenses	1,201	1,244	1,081	1,003	728	6,558
Profit before income taxes	17,582	24,374	20,005	23,219	8,050	72,522
Profit attributable to owners of parent	11,586	14,053	14,298	14,636	2,162	19,477
Comprehensive income	31,600	4,966	16,192	21,380	3,592	32,360
Per share information (in yen and U.S. dollars)						
Basic profit per share	98.06	113.93	115.84	118.54	118.54	1.06
Diluted profit per share	97.64	113.39	115.28	117.90	117.90	1.06
Cash dividends	25.00	35.00	40.00	40.00	40.00	0.36
At year-end:						
Inventories	¥37,025	¥35,507	¥35,292	¥35,295	¥33,919	$305,576
Property, plant and equipment (book value)	255,093	253,461	258,961	280,661	284,860	2,566,306
Total assets	630,017	595,247	639,305	659,582	663,335	5,975,990
Long-term debt	129,696	117,479	118,593	106,931	136,718	1,231,693
Shareholders' equity	213,134	223,013	232,786	242,390	239,755	2,159,954
Ratio analysis:						
Gross profit / Net sales (%)	28.58	29.09	29.23	28.88	28.72	
Profit before income taxes / Net sales (%)	2.08	2.66	2.22	2.52	0.87	
Profit attributable to owners of parent / Net sales (%)	1.37	1.53	1.59	1.59	0.23	
Profit attributable to owners of parent / Total assets (%)	2.30	2.29	2.32	2.25	0.33	
Profit attributable to owners of parent / Shareholders' equity (%)	6.16	6.44	6.27	6.16	0.90	
Shareholders' equity / Total assets (%)	33.83	37.47	36.41	36.75	36.14	
Long-term debt / Shareholders' equity (times)	0.61	0.53	0.51	0.44	0.57	
Net sales / Inventories (times)	22.82	25.79	25.54	26.12	27.33	
Net sales / Total assets (times)	1.34	1.54	1.41	1.40	1.40	

Note 1. U.S. dollar amounts represent translations of yen amounts at the rate of ¥111 to U.S.$1.00.

2. Amounts less than one million yen and one thousand dollars are rounded down.

3. As for "Profit attributable to owners of parent / Total assets," the Company uses the average of total assets at the beginning and end of the year.

4. As for "Profit attributable to owners of parent / Shareholders' equity," the Company uses the average of shareholders' equity at the beginning and end of the year.

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

6. The “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, issued on 16th February 2018, “Partial Amendments”) have been applied from the beginning of the fiscal year ended 31st March 2019.
The respective amount for the previous year was reclassified to conform to the current year’s presentation.

Consolidated Balance Sheets

H2O RETAILING CORPORATION and Consolidated Subsidiaries

As of 31st March, 2018 and 2019	Millions of yen 2018	Millions of yen 2019	Thousands of U.S. dollars (Note 1) 2019
Assets			
Current assets			
Cash and deposits (Notes 9 and 11)	¥ 67,150	¥ 55,229	$ 497,558
Notes and accounts receivable - trade (Note 11)	46,939	49,886	449,423
Merchandise and finished goods	32,798	31,600	284,684
Work in process	322	329	2,963
Raw materials and supplies	2,175	1,990	17,927
Accounts receivable - other (Note 11)	5,984	6,778	61,063
Other (Note 5)	5,210	4,643	41,828
Allowance for doubtful accounts (Note 11)	(413)	(454)	(4,090)
Total current assets	160,167	150,003	1,351,378
Non-current assets			
Property, plant and equipment (Note 5)			
Buildings and structures	317,072	319,564	2,878,954
Accumulated depreciation	(208,379)	(203,956)	(1,837,441)
Buildings and structures, net	108,692	115,608	1,041,513
Machinery, equipment and vehicles	8,103	8,221	74,063
Accumulated depreciation	(4,445)	(4,801)	(43,252)
Machinery, equipment and vehicles, net	3,657	3,420	30,810
Land	149,550	147,281	1,326,855
Construction in progress	8,839	7,666	69,063
Other	46,131	46,820	421,801
Accumulated depreciation	(36,210)	(35,937)	(323,756)
Other, net	9,921	10,882	98,036
Property, plant and equipment, net	280,661	284,860	2,566,306
Intangible assets			
Goodwill	4,647	4,076	36,720
Other	13,223	14,685	132,297
Total intangible assets	17,870	18,762	169,027
Investments and other assets			
Investment securities (Notes 5, 11 and 12)	114,544	121,149	1,091,432
Long-term loans receivable	3,986	4,571	41,180
Guarantee deposits (Notes 5 and 22)	70,079	72,290	651,261
Net defined benefit asset	240	-	-
Deferred tax assets (Note 16)	12,649	11,942	107,585
Other (Note 5)	2,306	2,683	24,171
Allowance for doubtful accounts	(2,922)	(2,928)	(26,378)
Total investments and other assets	200,884	209,709	1,889,270
Total non-current assets	499,415	513,331	4,624,603
Total assets	¥ 659,582	¥ 663,335	$ 5,975,990

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
Liabilities			
Current liabilities			
Notes and accounts payable - trade (Notes 5 and 11)	¥ 62,794	¥ 59,732	$ 538,126
Short-term loans payable (Notes 5, 11 and 23)	-	8,000	72,072
Current portion of long-term loans payable (Notes 5, 11 and 23)	42,561	20,201	181,990
Accounts payable - other (Note 11)	19,162	19,655	177,072
Lease obligations (Notes 10 and 23)	764	749	6,747
Income taxes payable (Note 16)	6,324	4,151	37,396
Gift certificates	33,881	29,676	267,351
Provision for bonuses	5,095	5,018	45,207
Provision for directors' bonuses	160	156	1,405
Provision for loss on store closings	116	967	8,711
Provision for point card certificates	1,959	1,823	16,423
Asset retirement obligations (Note 18)	600	68	612
Other (Note 5)	28,147	23,888	215,207
Total current liabilities	201,569	174,092	1,568,396
Non-current liabilities			
Bonds payable (Notes 11 and 23)	10,000	20,000	180,180
Long-term loans payable (Notes 5, 11 and 23)	96,931	116,718	1,051,513
Deferred tax liabilities (Note 16)	24,733	26,152	235,603
Deferred tax liabilities for land revaluation (Note 5)	266	266	2,396
Provision for directors' retirement benefits	228	221	1,990
Provision for redemption of gift certificates	3,727	4,020	36,216
Net defined benefit liability (Note 14)	14,923	16,827	151,594
Long-term accounts payable - other	720	621	5,594
Lease obligations (Notes 10 and 23)	9,175	8,686	78,252
Long-term guarantee deposited	9,911	9,820	88,468
Asset retirement obligations (Note 18)	2,727	2,755	24,819
Other (Note 5)	3,861	3,548	31,963
Total non-current liabilities	177,205	209,639	1,888,639
Total liabilities	378,774	383,731	3,457,036
Net assets (Note 8)			
Shareholders' equity			
Capital stock:	17,796	17,796	160,324
Common stock, Authorised - 150,000,000 shares, Issued - 125,201,396 shares in 2018 and 2019			
Capital surplus	92,726	92,675	834,909
Retained earnings	135,057	132,278	1,191,693
Treasury shares - 1,713,817 shares in 2018 - 1,609,297 shares in 2019	(3,190)	(2,995)	(26,981)
Total shareholders' equity	242,390	239,755	2,159,954
Accumulated other comprehensive income (Note 7)			
Valuation difference on available-for-sale securities	37,662	42,864	386,162
Deferred gains or losses on hedges	59	-	-
Revaluation reserve for land (Note 5)	124	124	1,117
Foreign currency translation adjustment	(8)	(788)	(7,099)
Remeasurements of defined benefit plans	(658)	(3,591)	(32,351)
Total accumulated other comprehensive income	37,178	38,608	347,819
Subscription rights to shares	1,234	1,235	11,126
Non-controlling interests	3	4	36
Total net assets	280,807	279,603	2,518,945
Total liabilities and nets assets	¥ 659,582	¥ 663,335	$ 5,975,990

See accompanying notes.

Consolidated Statements of Income

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Years ended 31st March, 2018 and 2019	Millions of yen 2018	Millions of yen 2019	Thousands of U.S. dollars (Note 1) 2019
Net sales	¥ 921,871	¥ 926,872	$ 8,350,198
Cost of sales (Note 6)	655,646	660,636	5,951,675
Gross profit	266,224	266,235	2,398,513
Selling, general and administrative expenses			
Salaries and allowances	78,039	77,059	694,225
Rent expenses	38,210	39,306	354,108
Other	127,209	129,448	1,166,198
Total selling, general and administrative expenses	243,459	245,813	2,214,531
Operating income	22,765	20,422	183,981
Non-operating income			
Interest income	198	80	720
Dividend income	1,230	1,326	11,945
Gain on debt settlement	1,256	1,429	12,873
Share of profit of entities accounted for using equity method	195	-	-
Foreign exchange gains	485	-	-
Other	1,141	1,051	9,468
Total non-operating income	4,508	3,887	35,018
Non-operating expenses			
Interest expenses	1,003	728	6,558
Provision for redemption of gift certificates	913	1,066	9,603
Share of loss of entities accounted for using equity method	-	179	1,612
Other	1,082	958	8,630
Total non-operating expenses	3,000	2,932	26,414
Ordinary income	24,272	21,376	192,576
Extraordinary income (Note 6)			
Insurance income	-	895	8,063
Gain on bargain purchase	2,010	-	-
Gain on sales of non-current assets	1,787	-	-
Gain on revision of retirement benefit plan	1,445	-	-
Total extraordinary income	5,243	895	8,063
Extraordinary losses (Note 6)			
Loss on store closings	1,639	7,228	65,117
Impairment loss	3,479	2,592	23,351
Loss on disaster	-	1,402	12,630
Loss on retirement of non-current assets	1,177	1,266	11,405
Outplacement expenses	-	672	6,054
Loss on transfer of business	-	546	4,918
Expenses for store openings	-	514	4,630
Total extraordinary losses	6,296	14,221	128,117
Profit before income taxes	23,219	8,050	72,522
Income taxes - current (Note 16)	7,780	4,696	42,306
Income taxes - deferred (Note 16)	803	1,192	10,738
Total income taxes	8,583	5,888	53,045
Profit for the year	14,636	2,162	19,477
Profit attributable to non-controlling interests	0	0	0
Profit attributable to owners of parent	¥ 14,636	¥ 2,162	$ 19,477

See accompanying notes.

Consolidated Statements of Comprehensive Income

H2O RETAILING CORPORATION and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended 31st March, 2018 and 2019	2018	2019	2019
Profit for the year	¥ 14,636	¥ 2,162	$ 19,477
Other comprehensive income (Note 7)			
Valuation difference on available-for-sale securities	6,435	5,201	46,855
Deferred gains or losses on hedges	37	(59)	(531)
Revaluation reserve for land	(1)	-	-
Foreign currency translation adjustment	(15)	(110)	(990)
Remeasurements of defined benefit plans, net of tax	(29)	(2,932)	(26,414)
Share of other comprehensive income of entities accounted for using equity method	316	(669)	(6,027)
Total other comprehensive income	6,743	1,429	12,873
Comprehensive income	¥ 21,380	¥ 3,592	$ 32,360
Comprehensive income attributable to:			
Owners of parent	¥ 21,380	¥ 3,592	$ 32,360
Non-controlling interests	0	0	0

See accompanying notes.

Consolidated Statements of Changes in Net Assets
H2O RETAILING CORPORATION and Consolidated Subsidiaries

	Millions of yen				
	Shareholders' equity				
Years ended 31st March 2018 and 2019	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at 1st April 2017	¥17,796	¥92,732	¥125,490	¥(3,234)	¥232,786
Cumulative effects of changes in accounting policies			(130)		(130)
Restated balance	17,796	92,732	125,360	(3,234)	232,655
Changes of items during period					
Dividends of surplus			(4,938)		(4,938)
Profit attributable to owners of parent			14,636		14,636
Purchase and disposal of treasury shares		(6)		43	37
Net changes of items other than shareholders' equity					
Total changes of items during period	-	(6)	9,697	43	9,734
Balance at 31st March 2018	¥17,796	¥92,726	¥135,057	¥(3,190)	¥242,390
Balance at 1st April 2018	¥17,796	¥92,726	¥135,057	¥(3,190)	¥242,390
Changes of items during period					
Dividends of surplus			(4,941)		(4,941)
Profit attributable to owners of parent			2,162		2,162
Purchase and disposal of treasury shares		(40)		194	154
Change in ownership interest of parent due to transactions with non-controlling interests		(10)			(10)
Purchase of shares of consolidated subsidiaries		(0)			(0)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	(50)	(2,778)	194	(2,634)
Balance at 31st March 2019	¥17,796	¥92,675	¥132,278	¥(2,995)	¥239,755

	Millions of yen								
	Accumulated other comprehensive income								
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehen-sive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at 1st April 2017	¥31,227	¥21	¥125	¥(309)	¥(629)	¥30,434	¥1,098	¥3	¥264,323
Cumulative effects of changes in accounting policies									(130)
Restated balance	31,227	21	125	(309)	(629)	30,434	1,098	3	264,192
Changes of items during period									
Dividends of surplus									(4,938)
Profit attributable to owners of parent									14,636
Purchase and disposal of treasury shares									37
Net changes of items other than shareholders' equity	6,435	37	(1)	300	(29)	6,743	136	0	6,880
Total changes of items during period	6,435	37	(1)	300	(29)	6,743	136	0	16,615
Balance at 31st March 2018	¥37,662	¥59	¥124	¥(8)	¥(658)	¥37,178	¥1,234	¥3	¥280,807
Balance at 1st April 2018	¥37,662	¥59	¥124	¥(8)	¥(658)	¥37,178	¥1,234	¥3	¥280,807
Changes of items during period									
Dividends of surplus									(4,941)
Profit attributable to owners of parent									2,162
Purchase and disposal of treasury shares									154
Change in ownership interest of parent due to transactions with non-controlling interests									(10)
Purchase of shares of consolidated subsidiaries									(0)
Net changes of items other than shareholders' equity	5,201	(59)	-	(779)	(2,932)	1,429	1	0	1,430
Total changes of items during period	5,201	(59)	-	(779)	(2,932)	1,429	1	0	(1,204)
Balance at 31st March 2019	¥42,864	-	¥124	¥(788)	¥(3,591)	¥38,608	¥1,235	¥4	¥279,603

Year ended 31st March 2019	Thousands of U.S. dollars (Note 1) Shareholders' equity: Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at 1st April 2018	$160,324	$835,369	$1,216,729	$(28,738)	$2,183,693
Changes of items during period					
Dividends of surplus			(44,513)		(44,513)
Profit attributable to owners of parent			19,477		19,477
Purchase and disposal of treasury shares		(360)		1,747	1,387
Change in ownership interest of parent due to transactions with non-controlling interests		(90)			(90)
Purchase of shares of consolidated subsidiaries		(0)			(0)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	(450)	(25,027)	1,747	(23,729)
Balance at 31st March 2019	$160,324	$834,909	$1,191,693	$(26,981)	$2,159,954

	Thousands of U.S. dollars (Note 1) Accumulated other comprehensive income: Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at 1st April 2018	$339,297	$531	$1,117	$(72)	$(5,927)	$334,936	$11,117	$27	$2,529,792
Changes of items during period									
Dividends of surplus									(44,513)
Profit attributable to owners of parent									19,477
Purchase and disposal of treasury shares									1,387
Change in ownership interest of parent due to transactions with non-controlling interests									(90)
Purchase of shares of consolidated subsidiaries									(0)
Net changes of items other than shareholders' equity	46,855	(531)	-	(7,018)	(26,414)	12,873	9	0	12,882
Total changes of items during period	46,855	(531)	-	(7,018)	(26,414)	12,873	9	0	(10,846)
Balance at 31st March 2019	$386,162	$-	$1,117	$(7,099)	$(32,351)	$347,819	$11,126	$36	$2,518,945

See accompanying notes.

Consolidated Statements of Cash Flows

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Years ended 31st March 2018 and 2019	Millions of yen 2018	Millions of yen 2019	Thousands of U.S. dollars (Note 1) 2019
Cash flows from operating activities			
Profit before income taxes	¥ 23,219	¥ 8,050	$ 72,522
Depreciation	16,223	17,399	156,747
Impairment loss	3,479	2,592	23,351
Loss on store closings	993	4,398	39,621
Amortisation of goodwill	570	570	5,135
Gain on bargain purchase	(2,010)	-	-
Gain on revision of retirement benefit plan	(1,445)	-	-
Loss (gain) on transfer of business	-	546	4,918
Increase (decrease) in allowance for doubtful accounts	(44)	46	414
Increase (decrease) in provision for bonuses	58	(74)	(666)
Increase (decrease) in provision for directors' bonuses	(17)	(3)	(27)
Increase (decrease) in net defined benefit liability	(1,840)	2,001	18,027
Increase (decrease) in remeasurements of defined benefit plans	(29)	(2,932)	(26,414)
Increase (decrease) in provision for directors' retirement benefits	(17)	(6)	(54)
Increase (decrease) in provision for redemption of gift certificates	169	292	2,630
Increase (decrease) in provision for loss on store closings	(324)	851	7,666
Increase (decrease) in provision for point card certificates	208	(135)	(1,216)
Interest and dividend income	(1,428)	(1,406)	(12,666)
Interest expenses	1,003	728	6,558
Insurance income	-	(895)	(8,063)
Loss on disaster	-	1,402	12,630
Share of (profit) loss of entities accounted for using equity method	(195)	179	1,612
Loss (gain) on sales of non-current assets	(1,787)	-	-
Loss on retirement of non-current assets	600	343	3,090
Decrease (increase) in notes and accounts receivable - trade	(2,248)	(3,017)	(27,180)
Decrease (increase) in inventories	1,796	968	8,720
Increase (decrease) in notes and accounts payable - trade	833	(2,249)	(20,261)
Increase (decrease) in accrued consumption taxes	(2,481)	(429)	(3,864)
Increase (decrease) in gift certificates	10,030	(4,193)	(37,774)
Increase (decrease) in advances received	(11,247)	(3,316)	(29,873)
Other	4,028	762	6,864
Subtotal	38,098	22,473	202,459
Interest and dividend income received	1,369	1,401	12,621
Interest expenses paid	(1,006)	(730)	(6,576)
Income taxes paid	(5,721)	(7,304)	(65,801)
Proceeds from insurance income	-	895	8,063
Payments for loss on disaster	-	(1,343)	(12,099)
Cash flows from operating activities	32,739	15,392	138,666
Cash flows from investing activities			
Decrease (increase) in time deposits	19	-	-
Purchase of property, plant and equipment	(19,197)	(30,289)	(272,873)
Proceeds from sales of property, plant and equipment	3,259	1,412	12,720
Purchase of intangible assets	(4,009)	(3,713)	(33,450)
Proceeds from sales of intangible assets	1,501	-	-
Payments for asset retirement obligations	(973)	(374)	(3,369)
Purchase of investment securities	(53)	(37)	(333)
Proceeds from sales and redemption of short-term and long-term investment securities	1	0	0
Payments for transfer of business	-	(45)	(405)
Payments for transfer of business (Note 9)	(14,536)	-	-
Payments of long-term loans receivable	(435)	(696)	(6,270)
Collection of long-term loans receivable	190	147	1,324
Payments for guarantee deposits	(2,756)	(6,335)	(57,072)
Proceeds from collection of guarantee deposits	1,499	3,712	33,441
Other	-	(463)	(4,171)
Cash flows from investing activities	(35,492)	(36,682)	(330,468)
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	(2,000)	8,000	72,072
Proceeds from long-term loans payable	30,150	20,040	180,540
Repayments of long-term loans payable	(29,578)	(22,624)	(203,819)
Proceeds from issuance of bonds	-	9,946	89,603
Redemption of bonds	(6,600)	-	-
Proceeds from sales of treasury shares	0	0	0
Purchase of treasury shares	(6)	(3)	(27)
Cash dividends paid	(4,938)	(4,941)	(44,513)
Repayments of lease obligations	(839)	(836)	(7,531)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	(0)	(0)
Cash flows from financing activities	(13,812)	9,581	86,315
Effect of exchange rate change on cash and cash equivalents	253	(213)	(1,918)
Net increase (decrease) in cash and cash equivalents	(16,311)	(11,921)	(107,396)
Cash and cash equivalents at beginning of year	83,462	67,150	604,954
Cash and cash equivalents at end of year (Note 9)	¥ 67,150	¥ 55,229	$ 497,558

See accompanying notes.

1. Basis of Presenting Consolidated Financial Statements

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

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

As permitted by the regulations under the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements in yen do not necessarily agree with the sums of the individual amounts.

The U.S. dollar amounts shown in the accompanying consolidated financial statements and notes thereto were translated from the presented Japanese yen amounts into U.S. dollar amounts at the rate of ¥111 to U.S. $1.00, using the prevailing exchange rate at 31st March 2019, and were then rounded down. As a result, the totals shown in the accompanying consolidated financial statements in U.S. dollars do not necessarily agree with the sums of the individual amounts. The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

Consolidation and investments in associates

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

The consolidated financial statements include the accounts of the Company and its 55 (55 in 2018) majority owned subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation. The principal subsidiaries are Hankyu Hanshin Department Stores, Inc., Izumiya Co., Ltd. and Hankyu Oasis Co., Ltd.

In the year ended 31st March 2019, Hankyu Freds Co., Ltd. was included in the scope of consolidation due to new establishment, while Hankyu Hanshin Department Stores Insurance, Inc. was excluded from the scope of consolidation due to merger with the consolidated subsidiary, Persona Co., Ltd.

The equity method was applied to 5 (5 in 2018) associates for the year ended 31st March 2019. The principal associates were Ningbo Development Co., Ltd. and Hankyu Hanshin Point Co., Ltd.

In the year ended 31st March 2019, 4 (4 in 2018) consolidated subsidiaries had a financial year ending on 31st December. With respect to the period from the subsidiary's year-end to 31st March, necessary adjustments were made for significant transactions to reflect them appropriately in the consolidated financial statements.

Securities

Investment securities consist principally of marketable and nonmarketable equity securities. The Companies categorise the securities as "available-for-sale." Available-for-sale securities with fair market values are stated at fair value. Unrealised holding gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realised gains and losses on sales of such securities are determined principally by the average cost method. Available-for-sale securities with no fair market value are stated at average cost.

If the fair market value of available-for-sale securities declines significantly, the securities are stated at fair market value, and the difference between fair market value and the carrying amount is recognised as loss in the period of decline. If the net asset value of available-for-sale securities with no available fair market value declines significantly, the securities are written down to the net asset value and charged to income. In these cases, the fair market value or the net asset value will be carried forward as book value to the next year.

Inventories

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

Property, plant and equipment

Property, plant and equipment, excluding lease assets, are carried at cost. Depreciation is computed principally by the straight-line method at rates based on the estimated useful life of the asset. Expenditures for maintenance and repairs, including minor replacements and betterments, are charged to income as incurred. The estimated useful life of buildings and structures is 1 to 60 years. The estimated useful life of machinery, equipment and vehicles is 2 to 17 years, and the estimated useful life of other assets is 1 to 20 years.

Software

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

Leased assets

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

Allowance for doubtful accounts

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

Provision for bonuses

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

Provision for directors' bonuses

The Companies accrue bonuses for directors based on estimated payments to be made after the end of the year.

Provision for loss on store closings

The Companies provide provision for loss on the closing of stores based on the estimated amount to be incurred in the future.

Provision for point card certificates

The Companies provide provision for point card certificates based on the estimated amount to be incurred for sales promotion expenses from the use of points given to customers.

Provision for directors' retirement benefits

With regard to retirement benefits for directors of some consolidated subsidiaries, the liability for lump-sum payments is stated at the amount which would be required to be paid if they retired as of the balance sheet date. The amount of provision for executive officers' severance and retirement benefits as of 31st March 2018 and 2019 was ¥25 million and ¥15 million ($135 thousand), respectively.

Provision for redemption of gift certificates

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

Retirement benefits

The Companies apply the benefit formula to attribute the estimated amount of retirement benefits to the fiscal year upon calculation of projected benefit obligation. Prior service cost is recognised in expenses in equal amounts within the average of the estimated remaining service years. Actuarial gains and losses are recognised in expenses in equal amounts within the average of the estimated remaining service years commencing with the following period.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currency are translated into Japanese yen at the rates prevailing at each balance sheet date, and the resulting translation gains and losses are charged to income. In the translation of the financial statements of the overseas subsidiary, assets and liabilities are translated at the rates prevailing at the subsidiary's balance sheet date, revenue and expenses are translated using the average exchange rate for the fiscal year, and shareholders' equity accounts are translated at historical rates. The resulting foreign currency translation adjustment is shown as a separate component of net assets.

Hedge accounting

(a) Accounting method

Deferral hedge accounting is adopted for hedge transactions. The Company applies the designation method for foreign exchange forward contracts and for currency swaps in cases in which the specific requirements for this treatment are fulfilled. The Company applies the special accounting treatment for interest rate swaps in cases in which the specific requirements for this treatment are fulfilled.

(b) Hedging instruments and hedged items

(1) Hedging instruments: Interest rate swaps, currency swaps
Hedged items: Loans payable

(2) Hedging instruments: Foreign exchange forward contracts
Hedged items: Monetary assets and liabilities denominated in foreign currency

(c) Policies on hedges

As for interest related derivatives, interest rate swaps are used to exchange floating rates to fixed rates. In addition, foreign exchange forward contracts and currency swaps are used to avoid losses from foreign exchange market fluctuation. As a policy, the Company does not enter derivatives for speculative purpose or with a high leverage effect.

(d) Evaluation of hedge effectiveness

The Companies assess hedge effectiveness by comparing the cumulative variation in cash flows of hedged items and the cumulative variation in cash flows of the hedging instruments. The Companies do not evaluate the effectiveness of hedges for interest rate swaps under special accounting treatment since the interest payments and terms of the swaps are consistent with those of the hedged items.

Goodwill

The difference between the cost of investments in consolidated subsidiaries and the equity in their net assets at the date of acquisition is generally amortised over 10 to 20 years. However, if the amount is insignificant, it is charged as expense as incurred.

Cash flow statements

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

Consumption taxes

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

Per share information

Computations of basic profit per share are based on the weighted average number of shares outstanding during each period. For diluted profit per share for the years ended 31st March 2018 and 2019, see Note 21.

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

3. Accounting Standards not yet Applied

"Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan ("ASBJ") Statement No. 29, 30th March 2018)
"Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, 30th March 2018)

(Overview)

This is a comprehensive accounting standard for revenue recognition. Revenue is recognised by applying the following five steps:

Step 1: Identify the contract with customers.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognise revenue when (or as) the entity satisfies performance obligations.

(Date of Application)

The Company will apply the accounting standard and the implementation guidance from the beginning of the year ending 31st March 2022.

(Effect of Application)

The Company is in the process of determining the effect of the application.

4. Changes in Presentation

Application of “Partial Amendments to Accounting Standard for Tax Effect Accounting”

The “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, issued on 16th February 2018, “Partial Amendments”) have been applied from the beginning of the fiscal year ended 31st March 2019. Accordingly, “Deferred tax assets” are presented under “Investments and other assets,” “Deferred tax liabilities” are presented under “Non-current liabilities,” and the respective notes were changed.

As a result of this change, “Deferred tax assets” under “Current assets” in the amount of ¥6,210 million and “Deferred tax liabilities” under “Current liabilities” in the amount of ¥0 million were reclassified, and “Deferred tax assets” under “Investments and other assets” increased by ¥3,919 million and “Deferred tax liabilities” under “Non-current liabilities” decreased by ¥2,290 million in the previous year’s presentation.

In addition, because “Deferred tax assets” and “Deferred tax liabilities” were offset if they relate to the same taxable entity, the total amount of “Total assets” and “Total liabilities” each decreased by ¥2,290 million.

Furthermore, the contents of Note 8 (excluding the total amount of valuation allowance) and Note 9 on the “Accounting Standard for Tax Effect Accounting” set forth in Paragraphs 3 to 5 of the “Partial Amendments” were added to Note 16, Income Taxes. The respective contents related to the previous fiscal year, however, were not disclosed in accordance with the transitional treatments prescribed in Paragraph 7 of the “Partial Amendments.”

Consolidated statements of cash flows

“Increase (decrease) in remeasurements of defined benefit plans” which was previously included in “Other” of “Cash flows from operating activities” in the previous fiscal year was reclassified as a separate line item effective from the fiscal year ended 31st March 2019 due to the increase in its materiality. The respective amount for the previous year was reclassified to conform to the current year’s presentation.

As a result of this change, “Other” of “Cash flows from operating activities” in the amount of ¥3,999 million for the previous fiscal year was reclassified to “Increase (decrease) in remeasurements of defined benefit plans” in the amount of ¥(29) million and “Other” in the amount of ¥4,028 million.

5. Matters Related to Consolidated Balance Sheets

1. Due to the acceptance of national subsidies, the following reduction entry amount was deducted from the acquisition cost of relevant assets.

	Millions of yen		*Thousands of U.S. dollars*
	2018	**2019**	**2019**
Reduction entry amount:	¥ 404	¥ 490	$ 4,414
Buildings and structures	267	296	2,666
Machinery, equipment and vehicles	57	59	531
Land	44	44	396
Construction in progress	–	52	468
Other	34	37	333

2. Assets related to associates were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2018	**2019**	**2019**
Investment securities (stocks)	¥ 11,346	¥ 10,439	$ 94,045
[Investments in entities under common control]	[10,715]	[9,898]	[89,171]

3. Pledged assets

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

	Millions of yen		*Thousands of U.S. dollars*
	2018	**2019**	**2019**
Buildings and structures	¥ 5,063	¥ 1,960	$ 17,657
Land	16,990	16,990	153,063
Other	15	0	0
	¥ 22,069	¥ 18,951	$ 170,729
Current portion of long-term loans payable	¥ 20,211	¥ 20,201	$ 181,990
Long-term loans payable	2,101	1,900	17,117
	¥ 22,313	¥ 22,101	$ 199,108

Deposits under the Installment Sales Act were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2018	**2019**	**2019**
Guarantee deposits	¥ 192	¥ 152	$ 1,369

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

	Millions of yen		*Thousands of U.S. dollars*
	2018	**2019**	**2019**
Guarantee deposits	¥ 10	¥ 10	$ 90

Deposits under the Real Estate Brokerage Act were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2018	**2019**	**2019**
Guarantee deposits	¥ 10	¥ 10	$ 90

4. Land revaluation

In accordance with the Act on Revaluation of Land and Act on Partial Amendment to the Act on Revaluation of Land, land used for business owned by the Company and some consolidated subsidiaries was revaluated. The unrealised gains and losses, net of deferred taxes, were excluded from the statement of income and reported as "Revaluation reserve for land" in net assets, and the relevant deferred taxes were shown as "Deferred tax liabilities for land revaluation" in liabilities at 31st March 2018 and 2019.

Related information was as follows:

	Millions of yen		*Thousands of U.S. dollars*
Date of revaluations: 28th February 2002 and 31st March 2002	2018	**2019**	**2019**
Difference between book value of land after revaluation and market value of land	¥ (826)	¥ (826)	$ (7,441)

5. Commitment agreements

In order to obtain working funds efficiently, the Company had loan commitment agreements with 2 financial institutions in 2018 and 2019. The loan commitment facilities and unused balances as of 31st March 2018 and 2019 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2018	**2019**	**2019**
Total loan commitment facilities	¥ 20,000	¥ 20,000	$ 180,180
Outstanding balances	–	8,000	72,072
Unused balances	¥ 20,000	¥ 12,000	$ 108,108

Some consolidated subsidiaries provide financial services using card loans and credit cards. The overdraft commitment facilities and unused balances as of 31st March 2018 and 2019 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2018	**2019**	**2019**
Total overdraft commitment facilities	¥ 3,918	¥ 4,472	$ 40,288
Outstanding balances	399	378	3,405
Unused balances	¥ 3,518	¥ 4,094	$ 36,882

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

6. Specified accounts pertaining to business combination

For the fiscal year ended 31st March 2018, due to the business transfer from Sogo & Seibu Co., Ltd. effective on 1st October 2017, specified accounts pertaining to business combination were recorded for expenses necessary for replacing customer credit cards (new issuance) and real estate acquisition tax in the amount of ¥1,500 million and ¥116 million, respectively. In the consolidated balance sheets, they were recorded in "Other" under "Non-current liabilities" and "Other" under "Current liabilities" in the amount of ¥1,500 million and ¥116 million, respectively.

For the fiscal year ended 31st March 2019, due to the business transfer from Sogo & Seibu Co., Ltd. effective on 1st October 2017, specified accounts pertaining to business combination were recorded for expenses necessary for replacing customer credit cards (new issuance) in the amount of ¥1,357 million ($12,225 thousand). In the consolidated balance sheets, they were recorded in "Other" under "Non-current liabilities."

6. Matters Related to Consolidated Statements of Income

1. Reduction in the book value of inventories

Reduction in book value of inventories held for ordinary sale due to a decline in profitability for the years ended 31st March 2018 and 2019 was as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2018	**2019**	**2019**
Cost of sales	¥ 490	¥ 422	$ 3,801

2. Insurance income

Insurance income for the year ended 31st March 2019 consisted mainly of insurance income received for damages in merchandise, buildings, etc., caused by disasters such as the Osaka Earthquake and the Typhoon JEBI.

3. Gain on bargain purchase

Gain on bargain purchase for the year ended 31st March 2018 consisted of the gain on bargain purchase due to a business transfer from Sogo & Seibu Co., Ltd.

4. Gain on sales of non-current assets

Gain on sales of non-current assets consisted mainly of gains on the sale of buildings and structures, as well as land of H2O Asset Management Co., Ltd. for the year ended 31st March 2018.

5. Gain on revision of retirement benefit plan

Gain on revision of retirement benefit plan for the year ended 31st March 2018 consisted of the gain due to a transition of a portion of the defined benefit pension plans and unfunded lump-sum payment plans to the defined contribution plans of Izumiya Co., Ltd. in April 2017.

6. Loss on store closings

Loss on store closings for the years ended 31st March 2018 and 2019 is summarised below:

	Millions of yen		*Thousands of U.S. dollars*
	2018	**2019**	**2019**
SELCY	¥ —	¥ 3,728	$ 33,585
Izumiya Ushiku	52	1,185	10,675
Izumiya Izumifuchu	187	403	3,630
Izumiya Shonai	114	327	2,945
Izumiya Wakaeiwata	—	286	2,576
Izumiya Hanazono	240	269	2,423
Izumiya Fushimi	—	174	1,567
Hankyu Oasis Yamashita	—	165	1,486
Izumiya Higashineyagawa	—	165	1,486
Izumiya Imafuku	113	104	936
Izumiya Suminodo	226	31	279
Izumiya Saikudani	367	—	—
Izumiya Abiko	116	—	—
Izumiya Koya	89	—	—
Izumiya Kitasukematsu	75	—	—
Other	57	385	3,468
Total	¥ (*1) 1,639	¥ (*2) 7,228	$ 65,117

*1. The amount included an impairment loss of ¥731 million and a loss on retirement of non-current assets of ¥153 million in connection with store closings for the year ended 31st March 2018.

*2. The amount included an impairment loss of ¥4,398 million ($39,621 thousand), expenses for store closings of ¥1,397 million ($12,585 thousand) and a loss on retirement of non-current assets of ¥932 million ($8,396 thousand) in connection with store closings for the year ended 31st March 2019.

7. Impairment loss

The Companies recognise asset groups based on certain rules. As for stores and others, asset groups are based on the management unit of performance. As for the idle assets and the assets to be sold, each individual asset constitutes an asset group.

The Companies recorded impairment loss for the year ended 31st March 2018 as follows:

Company	Asset Group	Use	Location	Type of Assets	*Millions of yen*
Izumiya Co., Ltd.	Hanazono store and other	Store	Nishinari-ku, Osaka City and other	Buildings and structures	¥1,318
				Machinery, equipment and vehicles	21
				Other	217
Hankyu Oasis Co., Ltd.	Nishinokyo store and other	Store	Nakagyo-ku, Kyoto City and other	Buildings and structures	¥1,880
				Machinery, equipment and vehicles	161
				Land	20
				Other	156
Qanat Co., Ltd. and other	Yao Mall store and other	Store and other	Yao City, Osaka and other	Buildings and structures	¥177
				Machinery, equipment and vehicles	3
				Land	24
				Construction in progress	13
				Other	214

For Izumiya Co., Ltd., impairment loss was recognised for asset groups in stores with continuous negative cash flows from operating activities and asset groups in stores closed or decided to be closed.

For Hankyu Oasis Co., Ltd., Qanat Co., Ltd. and other companies, impairment loss was recognised for certain stores and facilities resulting from increased competition.

The recoverable amounts of assets were principally the present value of expected cash flows from on-going use and subsequent disposal of the assets based on a discount rate of 4.0%. For some asset groups, the recoverable amounts were the net saleable values based on the expected sales amounts.

As a result, the Group recognised a total of ¥4,210 million of impairment loss, of which, ¥731 million in connection with the closing of the Hanazono store of Izumiya Co., Ltd. and other stores was included in "Loss on store closings" and ¥3,479 million was included in "Impairment loss" under "Extraordinary losses" in the consolidated statement of income.

The Companies recorded impairment loss for the year ended 31st March 2019 as follows:

Company	Asset Group	Use	Location	Type of Assets	*Millions of yen*	*Thousands of U.S. dollars*
Centre LLC	SELCY	Store	Toyonaka City, Osaka	Buildings and structures	¥2,465	$22,207
				Other	11	99
Izumiya Co., Ltd.	Senbon-Kitaoji store, Senbon-Nakadachiuri store, Kii-Kawanabe store and other	Store	Kita-ku, Kyoto City and other	Buildings and structures	¥907	$8,171
				Machinery, equipment and vehicles	19	171
				Other	507	4,567
H2O Asset Management Co., Ltd.	Ushiku store and other	Store	Ushiku City, Ibaraki	Buildings and structures	¥658	$5,927
				Land	672	6,054
				Other	61	549
Hankyu Oasis Co., Ltd.	Enmachi store, Suitahonami store, Takadono store and other	Store	Nakagyo-ku, Kyoto City and other	Buildings and structures	¥814	$7,333
				Machinery, equipment and vehicles	82	738
				Other	117	1,054
Qanat Co., Ltd. and other	Sumiyoshi store and other	Store and other	Sumiyoshi-ku, Osaka City and other	Buildings and structures	¥165	$1,486
				Machinery, equipment and vehicles	13	117
				Other	170	1,531
H2O Retailing Corporation (The Company)	Higashiyodogawa-ku, Land	Land for rent	Higashiyodogawa-ku, Osaka City	Land	¥323	$2,909

For Izumiya Co., Ltd., impairment loss was recognised for asset groups in stores with continuous negative cash flows from operating activities and asset groups in stores closed or decided to be closed.

For Centre LLC and H2O Asset Management Co., Ltd., impairment loss was recognised for asset groups in closed stores.

For Hankyu Oasis Co., Ltd., Qanat Co., Ltd. and other companies, impairment loss was recognised for certain stores and facilities resulting from increased competition. For the Company, impairment loss was recognised for certain land resulting from a decline in market value.

The recoverable amounts of assets were principally the present value of expected cash flows from on-going use and subsequent disposal of the assets based on a discount rate of 4.4%. For some asset groups, the recoverable amounts were the net saleable values based on the expected sales amounts.

As a result, the Group recognised a total of ¥6,990 million ($62,972 thousand) of impairment loss, of which, ¥4,398 million ($39,621 thousand) in connection with the closing of SELCY of Centre LLC and other stores was included in "Loss on store closings" and ¥2,592 million ($23,351 thousand) was included in "Impairment loss" under "Extraordinary losses" in the consolidated statement of income.

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

	Millions of yen						Thousands of U.S. dollars	
	2018			**2019**			**2019**	
Buildings and structures	¥	(*1)	425	¥		255	$	2,297
Machinery, equipment and vehicles			15			16		144
Removal cost		(*1)	715		(*2)	1,783		16,063
Other		(*1)	174			143		1,288
Total	¥	(*1)	1,331	¥	(*2)	2,199	$	19,810

*1. The amounts included a loss on retirement of non-current assets for Izumiya Kitasukematsu store and other of ¥153 million for the year ended 31st March 2018, which is presented in "Loss on store closings" under "Extraordinary losses."

*2. The amounts included a loss on retirement of non-current assets for Izumiya Izumifuchu store and other of ¥932 million ($8,396 thousand) for the year ended 31st March 2019, which is presented in "Loss on store closings" under "Extraordinary losses."

9. Loss on disaster

For the year ended 31st March 2019, the amount of loss on disaster consisted of losses from damages caused by disasters such as the Osaka Earthquake and the Typhoon JEBI.

10. Outplacement expenses

Outplacement expenses are additional retirement bonuses and support fees for employees' new careers based on the special career planning support scheme for the year ended 31st March 2019.

11. Loss on transfer of business

For the year ended 31st March 2019, the amount of loss on transfer of business related to the transfer of apparel and sportswear business of Be-U Co., Ltd.

12. Expenses for store opening

For the year ended 31st March 2019, the amount of expenses for store opening related to the store re-opening of the first part of the remodelling of Hanshin Umeda Main Store.

7. Matters Related to Consolidated Statements of Comprehensive Income

The recycling and effect of deferred income taxes on other comprehensive income for the years ended 31st March 2018 and 2019 is summarised as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2018	**2019**	**2019**
Other comprehensive income			
Valuation difference on available-for-sale securities			
Amount arising for the year	¥ 9,282	¥ 7,494	$ 67,513
Reclassification adjustments	—	—	—
Amount before the effect of deferred income tax	9,282	7,494	67,513
Effect of deferred income tax	(2,846)	(2,293)	(20,657)
Valuation difference on available-for-sale securities	6,435	5,201	46,855
Deferred gains or losses on hedges			
Amount arising for the year	57	(90)	(810)
Effect of deferred income tax	(20)	31	279
Deferred gains or losses on hedges	37	(59)	(531)
Revaluation reserve for land			
Amount arising for the year	—	—	—
Reclassification adjustments	—	—	—
Amount before the effect of deferred income tax	—	—	—
Effect of deferred income tax	(1)	—	—
Revaluation reserve for land	(1)	—	—
Foreign currency translation adjustment			
Amount arising for the year	(15)	(110)	(990)
Reclassification adjustments	—	—	—
Amount before the effect of deferred income tax	(15)	(110)	(990)
Effect of deferred income tax	—	—	—
Foreign currency translation adjustment	(15)	(110)	(990)
Remeasurements of defined benefit plans, net of tax			
Amount arising for the year	377	(4,621)	(41,630)
Reclassification adjustments	(487)	351	3,162
Amount before the effect of deferred income tax	(110)	(4,270)	(38,468)
Effect of deferred income tax	81	1,337	12,045
Remeasurements of defined benefit plans, net of tax	(29)	(2,932)	(26,414)
Share of other comprehensive income of entities accounted for using equity method			
Amount arising for the year	316	(669)	(6,027)
Total other comprehensive income	¥ 6,743	¥ 1,429	$ 12,873

8. Matters Related to Consolidated Statements of Changes in Net Assets

1. Changes in number of shares issued and outstanding during the years ended 31st March 2018 and 2019 were as follows:

Common stock outstanding	*Number of shares*	
	2018	**2019**
Balance at beginning of year	125,201,396	125,201,396
Increase	–	–
Decrease	–	–
Balance at end of year	125,201,396	125,201,396

Treasury shares outstanding	*Number of shares*	
	2018	**2019**
Balance at beginning of year	1,737,627	1,713,817
Increase due to purchase of odd-lot shares	3,292	2,117
Decrease due to sales of odd-lot shares	(102)	(137)
Decrease due to exercise of stock options	(27,000)	(106,500)
Balance at end of year	1,713,817	1,609,297

2. Subscription rights to shares

	Millions of yen		*Thousands of U.S. dollars*
	2018	**2019**	**2019**
H2O Retailing Corporation:			
March 2009 stock options	¥ 20	¥ 14	$ 126
March 2010 stock options	43	30	270
March 2011 stock options	52	38	342
February 2012 stock options	63	46	414
March 2013 stock options	130	104	936
March 2014 stock options	138	104	936
March 2015 stock options	233	204	1,837
March 2016 stock options	197	186	1,675
March 2017 stock options	175	165	1,486
March 2018 stock options	179	179	1,612
June 2018 stock options	–	159	1,432
Total	¥ 1,234	¥ 1,235	$ 11,126

3. Dividends

Dividends paid in the year ended 31st March 2018

Resolution	Class of shares	*Millions of yen* Total dividends	*Yen* Dividend per share	Record date	Effective date
11th May 2017 Board of Directors' meeting	Common stock	¥2,469	¥20.00	31st March 2017	31st May 2017
31st October 2017 Board of Directors' meeting	Common stock	¥2,469	¥20.00	30th September 2017	30th November 2017

Dividends with a record date in the year ended 31st March 2018 but an effective date in the year ended 31st March 2019

Resolution	Class of shares	Source	*Millions of yen* Total dividends	*Yen* Dividend per share	Record date	Effective date
15th May 2018 Board of Directors' meeting	Common stock	Retained earnings	¥2,469	¥20.00	31st March 2018	1st June 2018

Dividends paid in the year ended 31st March 2019

Resolution	Class of shares	Total dividends		Dividend per share		Record date	Effective date
		Millions of yen	*Thousands of U.S. dollars*	*Yen*	*U.S. dollars*		
15th May 2018 Board of Directors' meeting	Common stock	¥2,469	$22,243	¥20.00	$0.18	31st March 2018	1st June 2018
30th October 2018 Board of Directors' meeting	Common stock	¥2,471	$22,261	¥20.00	$0.18	30th September 2018	30th November 2018

Dividends with a record date in the year ended 31st March 2019 but an effective date in the year ending 31st March 2020

Resolution	Class of shares	Source	Total dividends		Dividend per share		Record date	Effective date
			Millions of yen	*Thousands of U.S. dollars*	*Yen*	*U.S. dollars*		
14th May 2019 Board of Directors' meeting	Common stock	Retained earnings	¥2,471	$22,261	¥20.00	$0.18	31st March 2019	30th May 2019

4. Net assets

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

Under the Japanese Companies Act (the "Act"), in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividends or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Act, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit or could be capitalised generally by a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Act, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with the Act.

9. Cash Flows Information

1. The reconciliation of cash and deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of 31st March 2018 and 2019 was as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2018	**2019**	**2019**
Cash and deposits	¥ 67,150	¥ 55,229	$ 497,558
Time deposits with maturities exceeding three months	–	–	–
Cash and cash equivalents	¥ 67,150	¥ 55,229	$ 497,558

2. Major components of the assets and liabilities related to a business transfer in consideration of cash and cash equivalents

The following is a summary of assets and liabilities related to a transfer of the apparel and sportswear businesses of Be-U Co., Ltd., the amount of business transferred and the payments for the business transfer:

	Millions of yen	*Thousands of U.S. dollars*
	2019	**2019**
Current assets	¥ 507	$ 4,567
Non-current assets	161	1,450
Non-current liabilities	(124)	(1,117)
Other	1	9
Loss on transfer of business	(546)	(4,918)
Amount of business transferred	0	0
Cash and cash equivalents	44	396
Expenses for transfer of business	1	9
Diff: Payments for transfer of business	¥ 45	$ 405

3. Major components of the assets and liabilities related to a business transfer (acquisition) in consideration of cash and cash equivalents

The following is a summary of assets and liabilities increased due to a business transfer (acquisition) from Sogo & Seibu Co., Ltd., the amount of business acquired and the payments for the business transfer:

	Millions of yen
	2018
Current assets	¥ 3,847
Non-current assets	22,292
Current liabilities	(3,469)
Non-current liabilities	(5,534)
Gain on bargain purchase	(2,010)
Amount of business acquired	15,125
Cash and cash equivalents	(588)
Diff: Payments for transfer of business	¥ 14,536

4. Significant noncash transactions were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2018	**2019**	**2019**
Assets and liabilities in connection with finance lease transactions	¥ 611	¥ 39	$ 351
Asset retirement obligations	786	144	1,297

10. Lease Transactions

Finance lease transactions

The Group as lessee

Finance leases that are not deemed to transfer ownership of the lease property to the lessee

(1) Breakdown of lease investment assets

Property, plant and equipment

Store facilities (buildings and structures) and merchandise display shelves and computers (other) in the supermarket business are included in property, plant and equipment.

(2) Method of depreciation of leased assets

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

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

Information, as lessee, about non-capitalised finance leases at 31st March 2018 and 2019 was as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2018	**2019**	**2019**
Original lease obligations (including finance charges)	¥ 1,203	¥ 1,203	$ 10,837
Payments remaining:			
Payments due within one year	7	–	–
Payments due after one year	–	–	–
Total	¥ 7	¥ –	$ –

Rental expenses under such non-capitalised finance leases for the years ended 31st March 2018 and 2019 were ¥120 million and ¥7 million ($63 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*
	2018	**2019**	**2019**
Payments due within one year	¥ 12,292	¥ 14,207	$ 127,990
Payments due after one year	57,246	53,668	483,495
Total	¥ 69,539	¥ 67,876	$ 611,495

The Group as lessor

	Millions of yen				Thousands of U.S. dollars	
	2018		**2019**		**2019**	
Payments due within one year	¥	2,330	¥	2,456	$	22,126
Payments due after one year		10,301		11,108		100,072
Total	¥	12,632	¥	13,564	$	122,198

11. Financial Instruments

1. Matters related to financial instruments

(1) Policies for financial instruments

In accordance with its capital investment plan, the Group procures needed funds primarily through loans from banks, commercial papers and the issuance of bonds. Temporary surplus funds are invested in highly secure financial assets. Derivative transactions are carried out within the confines of real demand according to internal control regulations, and no speculative transactions are performed.

(2) Financial instruments and their risks

Notes and accounts receivable - trade, which are operating receivables, and accounts receivable - other are subject to credit risk. Investment securities are subject to market price volatility risk.

Notes and accounts payable - trade, which are operating payables, and accounts payable - other are almost all subject to payment deadlines of one year or less. Commercial papers are used to procure necessary funds mainly for short-term operations. Long-term loans payable and bonds payable are mainly for capital investment. Repayment deadlines are at most 17 years and 11 months after the closing of accounts. Some are subject to interest rate risk because of floating interest rates. Moreover, notes and accounts payable - trade, accounts payable - other, long-term loans payable and bonds payable are subject to the liquidity risk of the inability to make payment by the payment due date.

The Company enters interest rate swap transactions to hedge the fluctuation risk of interests on loans. The Company also enters foreign exchange forward contracts, currency option contracts and currency swap transactions to hedge foreign exchange market fluctuation risk of monetary assets and liabilities denominated in foreign currency. Hedging instruments and hedged items, policies on hedges and the evaluation of hedge effectiveness are stated in Note 2, “Summary of Significant Accounting Policies.”

(3) Risk management system for financial instruments

Management of credit risk (risk of customer default on contract)

At Hankyu Hanshin Department Stores, Inc., a consolidated subsidiary, the management of customer service units cooperates with the accounting office concerning notes and accounts receivable - trade arising from sales activities according to sales management guidelines and credit management guidelines and routinely monitors the status of key customers by managing due dates and balances for each. At the same time, the Company attempts to quickly determine if there are concerns about the collection of payment from particular customers due to worsening financial conditions. Other consolidated subsidiaries also manage credit risk in the same way.

Management of market risk (risk of fluctuation in interest rates and foreign exchange markets)
To limit the risk of fluctuation in interest rate payments for long-term loans payable and bonds payable and to limit the risk of foreign exchange market fluctuation of monetary assets and liabilities denominated in foreign currency, the Company conducts derivative transactions only with major and highly trusted financial institutions according to derivative management guidance.

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

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

2. Matters related to fair value of financial instruments

The book values recorded in the consolidated balance sheets for the fiscal years ended 31st March 2018 and 2019 (the consolidated closing date for the reporting term) and fair values and differences between them are set forth in the table below. Figures for which fair value was not readily determinable were not included in the chart (See "2. Financial instruments whose fair value is not readily determinable" shown below).

Millions of yen

	2018		
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 67,150	¥ 67,150	¥ –
(2) Notes and accounts receivable - trade	46,939		
Allowance for doubtful accounts	(355)		
	46,584	46,584	–
(3) Accounts receivable - other	5,984		
Allowance for doubtful accounts	(3)		
	5,980	5,980	–
(4) Investment securities			
Available-for-sale securities	95,510	95,510	–
Total assets	¥ 215,226	¥ 215,226	¥ –
(1) Notes and accounts payable - trade	¥ 62,794	¥ 62,794	¥ –
(2) Accounts payable - other	19,162	19,162	–
(3) Short-term loans payable	–	–	–
(4) Bonds payable	10,000	10,207	(207)
(5) Long-term loans payable (*1)	139,493	139,184	309
Total liabilities	¥ 231,450	¥ 231,349	¥ 101
Derivative transactions (*2)			
Hedge accounting is applied	¥ (48)	¥ (48)	¥ –
Total derivative transactions	¥ (48)	¥ (48)	¥ –

	Millions of yen			Thousands of U.S. dollars		
	2019			**2019**		
	Book value	Fair value	Difference	Book value	Fair value	Difference
(1) Cash and deposits	¥ 55,229	¥ 55,229	¥ –	$ 497,558	$ 497,558	$ –
(2) Notes and accounts receivable - trade	49,886			449,423		
Allowance for doubtful accounts	(255)			(2,297)		
	49,631	49,631	–	447,126	447,126	–
(3) Accounts receivable - other	6,778			61,063		
Allowance for doubtful accounts	(160)			(1,441)		
	6,617	6,617	–	59,612	59,612	–
(4) Investment securities						
Available-for-sale securities	103,013	103,013	–	928,045	928,045	–
Total assets	¥ 214,491	¥ 214,491	¥ –	$ 1,932,351	$ 1,932,351	$ –
(1) Notes and accounts payable - trade	¥ 59,732	¥ 59,732	¥ –	$ 538,126	$ 538,126	$ –
(2) Accounts payable - other	19,655	19,655	–	177,072	177,072	–
(3) Short-term loans payable	8,000	8,000	–	72,072	72,072	–
(4) Bonds payable	20,000	20,170	(170)	180,180	181,711	(1,531)
(5) Long-term loans payable (*1)	136,920	136,670	249	1,233,513	1,231,261	2,243
Total liabilities	¥ 244,308	¥ 244,229	¥ 78	$ 2,200,972	$ 2,200,261	$ 702
Derivative transactions:						
Hedge accounting is applied	¥ –	¥ –	¥ –	$ –	$ –	$ –
Total derivative transactions	¥ –	¥ –	¥ –	$ –	$ –	$ –

*1. Figures shown include current portion of long-term loans payable.

*2. Receivables and payables arising from derivative transactions are shown in net. Net payable is shown in parentheses.

Notes: 1. Matters related to the methods used to calculate fair value of financial instruments

Assets

(1) Cash and deposits, (2) Notes and accounts receivable - trade and (3) Accounts receivable - other

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

(4) Investment securities

The fair value of these securities depends on their stock market price, while the fair value of bonds depends on their stock market price or the price submitted by the correspondent financial institution.

Liabilities

(1) Notes and accounts payable - trade, (2) Accounts payable - other and (3) Short-term loans payable

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

(4) Bonds payable and (5) Long-term loans payable

The fair value of bonds payable and long-term loans payable is determined by discounting the current value at the assumed applicable interest rates should new bonds or loans be taken with the same total principal and interest. Bonds and long-term loans that are based on floating interest rates reflect market interest rates over the short term. In addition, because the Company's credit status has not changed substantially since taking on these loans and as the fair value approximates book value, the book value is deemed to be the fair value.

Derivative transactions

Fair value of derivative transactions is determined by quotes provided by counterparty financial institutions.

Interest rate swaps under the exceptional method are accounted for as an integral part of long-term loans payable, hedged items. Thus, their fair value is included in that of long-term loans payable (See (5) above).

Currency swaps under the designation method are accounted for as an integral part of long-term loans payable, hedged items. Thus, their fair value is included in that of long-term loans payable (See (5) above).

Foreign exchange forward contracts under the designation method are accounted for as an integral part of accounts payable - other, hedged items. Thus, their fair value is included in that of accounts payable - other.

2. Financial instruments whose fair value is not readily determinable

These financial instruments have no market price and their future cash flow cannot be estimated. Because the fair value is not readily determinable, they have not been included in the above table.

	Millions of yen		*Thousands of U.S. dollars*
	2018	**2019**	**2019**
	Book value	Book value	Book value
Unlisted shares	¥ 19,033	¥ 18,136	$ 163,387
Guarantee deposits	70,079	72,290	651,261
Long-term guarantee deposited	9,911	9,820	88,468

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

2018	Within 1 year (Millions of yen)	Over 1 year but within 5 years (Millions of yen)	Over 5 years but within 10 years (Millions of yen)	Over 10 years (Millions of yen)
Cash and deposits	¥ 67,150	¥ –	¥ –	¥ –
Notes and accounts receivable - trade	46,939	–	–	–
Accounts receivable - other	5,984	–	–	–
Total	¥ 120,074	¥ –	¥ –	¥ –

2019	Within 1 year (Millions of yen)	Over 1 year but within 5 years (Millions of yen)	Over 5 years but within 10 years (Millions of yen)	Over 10 years (Millions of yen)
Cash and deposits	¥ 55,229	¥ –	¥ –	¥ –
Notes and accounts receivable - trade	49,886	–	–	–
Accounts receivable - other	6,778	–	–	–
Total	¥ 111,893	¥ –	¥ –	¥ –

2019	Within 1 year (Thousands of U.S. dollars)	Over 1 year but within 5 years (Thousands of U.S. dollars)	Over 5 years but within 10 years (Thousands of U.S. dollars)	Over 10 years (Thousands of U.S. dollars)
Cash and deposits	$ 497,558	$ –	$ –	$ –
Notes and accounts receivable - trade	449,423	–	–	–
Accounts receivable - other	61,063	–	–	–
Total	$ 1,008,045	$ –	$ –	$ –

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

2018	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
	Millions of yen					
Bonds payable	¥ –	¥ –	¥ –	¥ –	¥ –	¥ 10,000
Long-term loans payable	42,561	326	16,262	48,262	62	32,106
Lease obligations	764	704	630	600	565	6,673
Total	¥ 43,326	¥ 1,031	¥ 16,892	¥ 48,863	¥ 628	¥ 48,780

2019	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
	Millions of yen					
Short-term loans payable	¥ 8,000	¥ –	¥ –	¥ –	¥ –	¥ –
Bonds payable	–	–	–	–	–	20,000
Long-term loans payable	20,201	18,329	46,265	65	15,065	37,048
Lease obligations	749	738	689	666	1,502	5,090
Total	¥ 28,951	¥ 19,068	¥ 46,954	¥ 731	¥ 16,567	¥ 62,139

2019	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
	Thousands of U.S. dollars					
Short-term loans payable	$ 72,072	$ –	$ –	$ –	$ –	$ –
Bonds payable	–	–	–	–	–	180,180
Long-term loans payable	181,990	165,126	416,801	585	135,720	333,765
Lease obligations	6,747	6,648	6,207	6,000	13,531	45,855
Total	$ 260,819	$ 171,783	$ 423,009	$ 6,585	$ 149,252	$ 559,810

12. Investment Securities

The following tables summarise acquisition cost and book value (fair value) of available-for-sale securities with available fair values as of 31st March 2018 and 2019.

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

	Millions of yen						*Thousands of U.S. dollars*		
	2018			**2019**			**2019**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥36,096	¥ 91,898	¥ 55,801	¥ 35,988	¥99,626	¥ 63,638	$ 324,216	$897,531	$ 573,315
Total	¥36,096	¥ 91,898	¥ 55,801	¥ 35,988	¥99,626	¥ 63,638	$ 324,216	$897,531	$ 573,315

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

	Millions of yen						*Thousands of U.S. dollars*		
	2018			**2019**			**2019**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 5,171	¥ 3,612	¥(1,558)	¥ 5,287	¥ 3,387	¥(1,900)	$ 47,630	$ 30,513	$ (17,117)
Total	¥ 5,171	¥ 3,612	¥(1,558)	¥ 5,287	¥ 3,387	¥(1,900)	$ 47,630	$ 30,513	$ (17,117)

Unlisted securities (¥7,687 million in 2018 and ¥7,696 million ($69,333 thousand) in 2019) are not included in the above tables since they do not have available fair values and it is extremely difficult to determine fair values.

The following table summarises sales of available-for-sale securities for the years ended 31st March 2018 and 2019:

	Millions of yen						*Thousands of U.S. dollars*		
	2018			**2019**			**2019**		
	Sales	Gains of sales	Losses on sales	Sales	Gains of sales	Losses on sales	Sales	Gains of sales	Losses on sales
Equity securities	¥ 1	¥ 0	¥ –	¥ 0	¥ 0	¥ –	$ 0	$ 0	$ –

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

The "acquisition cost" which appears in the tables above is the book value after impairment loss. Impairment loss for the years ended 31st March 2018 and 2019 was insignificant and its disclosure was omitted.

13. Derivative Transactions

Derivatives for which hedge accounting is applied

(1) Currency related

For the year ended 31st March 2018

Method of hedge accounting	Type of derivative transactions	Hedged items	Millions of yen 2018 Contract amount	Due after one year	Fair value
Designation method for foreign exchange forward contract	Currency swaps Receive USD/ Pay JPY	Long-term loans	¥ 3,500	¥ 3,500	(Note)

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

For the year ended 31st March 2019

Method of hedge accounting	Type of derivative transactions	Hedged items	Millions of yen 2019 Contract amount	Due after one year	Fair value	Thousands of U.S. dollars 2019 Contract amount	Due after one year	Fair value
Designation method for foreign exchange forward contract	Currency swaps Receive USD/ Pay JPY	Long-term loans	¥ 3,500	¥ 3,500	(Note)	$ 31,531	$ 31,531	(Note)

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

(2) Interest related

For the year ended 31st March 2018

Method of hedge accounting	Type of derivative transactions	Hedged items	Millions of yen 2018 Contract amount	Due after one year	Fair value
Deferral method	Interest rate swaps Pay fixed/ Receive floating	Long-term loans	¥ 10,480	¥ –	¥ (48) (Note 1)
Exceptional method for interest rate swaps	Interest rate swaps Pay fixed/ Receive floating	Long-term loans	4,808	3,501	(Note 2)
	Total		¥ 15,288	¥ 3,501	¥ (48)

(Note 1) Fair value is determined by quotes provided by counterparty financial institutions.

(Note 2) Interest rate swaps under the exceptional method are accounted for as an integral part of long-term loans payable, hedged items. Thus, their fair value is included in that of long-term loans payable.

For the year ended 31st March 2019

Method of hedge accounting	Type of derivative transactions	Hedged items	Millions of yen			Thousands of U.S. dollars		
			2019			2019		
			Contract amount	Due after one year	Fair value	Contract amount	Due after one year	Fair value
Exceptional method for interest rate swaps	Interest rate swaps Pay fixed/ Receive floating	Long-term loans	¥ 3,501	¥ 3,501	(Note)	$ 31,540	$ 31,540	(Note)

(Note) Interest rate swaps under the exceptional method are accounted for as an integral part of long-term loans payable, hedged items. Thus, their fair value is included in that of long-term loans payable.

14. Employees' Severance and Retirement Benefits

The Companies provide three types of retirement benefit plans, unfunded lump-sum payment plans, defined benefit pension plans and defined contribution pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salary at the time of retirement or termination, length of service and certain other factors.

Hankyu Hanshin Department Stores, Inc. has retirement benefits plans which consist of unfunded lump-sum payment plans, defined benefit pension plans and defined contribution pension plans. Izumiya Co., Ltd. has unfunded lump-sum payment plans, defined benefit pension plans and defined contribution pension plans. In April 2017, Izumiya Co., Ltd. transferred a portion of the defined benefit pension plans and unfunded lump-sum payment plans to defined contribution plans. Other subsidiaries also have unfunded lump-sum payment plans, defined benefit pension plans or defined contribution pension plans. Hankyu Hanshin Department Stores, Inc. and Izumiya Co., Ltd. each have a retirement benefit trust in their retirement benefit plans. Additional retirement benefits may be provided upon the retirement of employees, where those benefits are not considered to be retirement benefit obligations as calculated under actuarial methods in accordance with the accounting standard for retirement benefits. The employees of the Company are all seconded from Hankyu Hanshin Department Stores, Inc., Izumiya Co., Ltd., Hankyu Act For, Persona Co., Ltd. or Izumiya Card Co., Ltd. and are provided with the respective subsidiaries' retirement benefit plans. Some subsidiaries which have unfunded lump-sum payment plans, calculate net defined benefit liability and retirement benefit cost by the simplified method.

1. Defined benefit plans (excluding plans under the simplified method)

(1) Changes in projected benefit obligation were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2018	**2019**	**2019**
Projected benefit obligation - beginning balance	¥ 52,620	¥ 48,059	$ 432,963
Service cost	1,829	1,772	15,963
Interest cost	388	382	3,441
Changes in actuarial differences	(335)	3,528	31,783
Past service cost	16	—	—
Retirement benefits paid	(2,742)	(2,988)	(26,918)
Decrease due to the transfer to defined contribution plans	(3,717)	—	—
Projected benefit obligation - ending balance	¥ 48,059	¥ 50,754	$ 457,243

(2) Changes in plan assets were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2018	**2019**	**2019**
Plan assets - beginning balance	¥ 36,986	¥ 35,331	$ 318,297
Expected return on plan assets	1,086	1,120	10,090
Changes in actuarial differences	42	(1,093)	(9,846)
Employers' contributions	1,888	2,614	23,549
Retirement benefits paid	(1,883)	(2,129)	(19,180)
Decrease due to the transfer to defined contribution plans	(2,789)	—	—
Plan assets - ending balance	¥ 35,331	¥ 35,843	$ 322,909

(3) Ending balances of projected benefit obligation and plan assets and amounts included in the consolidated balance sheets as of 31st March 2018 and 2019 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2018		**2019**		**2019**	
Projected benefit obligation under funded plans	¥	39,666	¥	41,849	$	377,018
Plan assets		(35,331)		(35,843)		(322,909)
		4,335		6,006		54,108
Projected benefit obligation under non-funded plans		8,393		8,904		80,216
Net balance in the consolidated balance sheet	¥	12,728	¥	14,910	$	134,324
Net defined benefit liability	¥	12,968	¥	14,910	$	134,324
Net defined benefit asset		(240)		—		—
Net balance in the consolidated balance sheet	¥	12,728	¥	14,910	$	134,324

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

	Millions of yen				Thousands of U.S. dollars	
	2018		**2019**		**2019**	
Service cost	¥	1,829	¥	1,772	$	15,963
Interest cost		388		382		3,441
Expected return on plan assets		(1,086)		(1,120)		(10,090)
Amortisation of actuarial differences		485		420		3,783
Amortisation of past service cost		(52)		(68)		(612)
Other		61		33		297
Retirement benefit cost	¥	1,627	¥	1,419	$	12,783
Gain on transfer to defined contribution plans (Note 1)	¥	(1,445)	¥	—	$	—
Additional retirement bonuses based on the special career planning support scheme (Note 2)		—		656		5,909

Notes 1. Gain on transfer to defined contribution plans was included in “Extraordinary income.”

2. Additional retirement bonuses based on the special career planning support scheme was included in “Extraordinary losses.”

(5) Remeasurements of defined benefit plans in other comprehensive income before the effect of deferred income tax were as follows:

	Millions of yen				*Thousands of U.S. dollars*	
	2018		**2019**		**2019**	
Past service cost	¥	(483)	¥	(68)	$	(612)
Actuarial differences		372		(4,201)		(37,846)
Total	¥	(110)	¥	(4,270)	$	(38,468)

Note: Past service cost and actuarial differences for the year ended 31st March 2018 included a reclassification in the amount of ¥(414) million for past service cost and ¥(490) million for actuarial differences due to the transfer of a portion of the defined benefit pension plans and unfunded lump-sum payment plans to defined contribution plans.

(6) Remeasurements of defined benefit plans in accumulated comprehensive income before the effect of deferred income tax were as follows:

	Millions of yen				*Thousands of U.S. dollars*	
	2018		**2019**		**2019**	
Unrecognised past service cost	¥	(734)	¥	(665)	$	(5,990)
Unrecognised actuarial differences		1,589		5,790		52,162
Total	¥	854	¥	5,125	$	46,171

(7) Information on plan assets was as follows:

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

	2018	**2019**
General account of life insurance	44%	43%
Debt securities	33%	24%
Real estate investment funds	13%	11%
Cash and deposits	6%	17%
Equity securities	2%	2%
Other	2%	2%
Total	100%	100%

Total plan assets include 3% contribution to the retirement benefit trust in the retirement benefit plans for the years ended 31st March 2018 and 2019.

(ii) Long-term expected rate of return on plan assets is determined based on the current and future allocation of plan assets and the current and long-term return on various components of the assets.

(8) Actuarial assumptions (weighted-average rate) were as follows:

	2018	**2019**
Discount rate	0.80%	0.27%
Long-term expected rate of return	3.17%	3.17%
Estimated rate of salary increase	1.13%	1.10%

Note: Estimated rate of salary increase is an expected rate of increase in retirement benefit points.

2. Defined benefit plans under the simplified method

(1) Changes in projected benefit obligation for the defined benefit plans under the simplified method were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2018	**2019**	**2019**
Projected benefit obligation - beginning balance	¥ 1,892	¥ 1,954	$ 17,603
Defined benefit cost	287	281	2,531
Retirement benefits paid	(214)	(203)	(1,828)
Decrease due to business divestiture	—	(97)	(873)
Other	(11)	(18)	(162)
Projected benefit obligation - ending balance	¥ 1,954	¥ 1,916	$ 17,261

(2) Ending balances of projected benefit obligation and plan assets and amounts included in the consolidated balance sheets as of 31st March 2018 and 2019 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2018	**2019**	**2019**
Projected benefit obligation under funded plans	¥ —	¥ —	$ —
Plan assets	—	—	—
	—	—	—
Projected benefit obligation under non-funded plans	1,954	1,916	17,261
Net balance in the consolidated balance sheet	1,954	1,916	17,261
Net defined benefit liability	1,954	1,916	17,261
Net balance in the consolidated balance sheet	¥ 1,954	¥ 1,916	$ 17,261

(3) Retirement benefit cost calculated by the simplified method was ¥287 million and ¥281 million ($2,531 thousand) for the years ended 31st March 2018 and 2019, respectively.

3. The amount required for contributions to the defined contribution plans of the Company and its consolidated subsidiaries was ¥623 million and ¥715 million ($6,441 thousand) for the years ended 31st March 2018 and 2019, respectively.

4. With the transfer of a portion of the defined benefit pension plans to defined contribution plans, the plan assets to be transferred to the defined contribution plans amounted to ¥2,789 million, the total amount of which was transferred in the fiscal year ended 31st March 2018. With the transfer of a portion of the unfunded lump-sum payment plans to defined contribution plans, the plan assets to be transferred to the defined contribution plans amounted to ¥387 million and are planned to be transferred over 8 years beginning from the fiscal year ended 31st March 2018. The plan assets not yet transferred amounted to ¥332 million and ¥279 million ($2,513 thousand) as of 31st March 2018 and 2019, respectively, and were recorded under "Long-term accounts payable - other."

15. Stock Options

1. The amount of cost and its presentation in the consolidated statements of income

	Millions of yen		*Thousands of U.S. dollars*
	2018	**2019**	**2019**
Selling, general and administrative expenses	179	159	1,432

2. Outline of stock options

	Subscription rights to shares issued on March 2009 as stock options
Title and number of grantees	5 directors, 1 executive officer of the Company and 4 directors, 8 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (a)	46,000 common shares
Date of issue	31st March 2009
Exercise conditions	No provisions
Intended service period	No provisions
Exercise period	From 1st April 2009 to 31st March 2039

	Subscription rights to shares issued on March 2010 as stock options
Title and number of grantees	6 directors, 1 executive officer of the Company and 4 directors, 16 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (a)	82,500 common shares
Date of issue	31st March 2010
Exercise conditions	No provisions
Intended service period	No provisions
Exercise period	From 1st April 2010 to 31st March 2040

	Subscription rights to shares issued on March 2011 as stock options
Title and number of grantees	6 directors of the Company and 10 directors, 7 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (a)	97,000 common shares
Date of issue	31st March 2011
Exercise conditions	No provisions
Intended service period	No provisions
Exercise period	From 1st April 2011 to 31st March 2041

	Subscription rights to shares issued on February 2012 as stock options
Title and number of grantees	6 directors, 1 executive officer of the Company and 9 directors, 8 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (a)	99,500 common shares
Date of issue	29th February 2012
Exercise conditions	No provisions
Intended service period	No provisions
Exercise period	From 1st March 2012 to 28th February 2042

	Subscription rights to shares issued on March 2013 as stock options
Title and number of grantees	6 directors of the Company and 8 directors, 9 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (a)	99,000 common shares
Date of issue	31st March 2013
Exercise conditions	No provisions
Intended service period	No provisions
Exercise period	From 1st April 2013 to 31st March 2043

	Subscription rights to shares issued on March 2014 as stock options
Title and number of grantees	6 directors of the Company and 10 directors, 7 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (a)	101,000 common shares
Date of issue	31st March 2014
Exercise conditions	No provisions
Intended service period	No provisions
Exercise period	From 1st April 2014 to 31st March 2044

	Subscription rights to shares issued on March 2015 as stock options
Title and number of grantees	6 directors of the Company and 9 directors, 11 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (a)	109,000 common shares
Date of issue	31st March 2015
Exercise conditions	No provisions
Intended service period	No provisions
Exercise period	From 1st April 2015 to 31st March 2045

	Subscription rights to shares issued on March 2016 as stock options
Title and number of grantees	5 directors, 1 executive officer of the Company and 7 directors, 14 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (a)	110,000 common shares
Date of issue	31st March 2016
Exercise conditions	No provisions
Intended service period	No provisions
Exercise period	From 1st April 2016 to 31st March 2046

	Subscription rights to shares issued on March 2017 as stock options
Title and number of grantees	4 directors, 2 executive officers of the Company and 7 directors, 13 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (a)	106,500 common shares
Date of issue	31st March 2017
Exercise conditions	No provisions
Intended service period	No provisions
Exercise period	From 1st April 2017 to 31st March 2047

	Subscription rights to shares issued on March 2018 as stock options
Title and number of grantees	3 directors, 3 executive officers of the Company and 7 directors, 12 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (a)	100,500 common shares
Date of issue	31st March 2018
Exercise conditions	No provisions
Intended service period	No provisions
Exercise period	From 1st April 2018 to 31st March 2048

	Subscription rights to shares issued on June 2018 as stock options
Title and number of grantees	3 directors, 3 executive officers of the Company and 8 directors, 10 executive officers of Hankyu Hanshin Department Stores, Inc.
Number of stock options (a)	98,500 common shares
Date of issue	30th June 2018
Exercise conditions	No provisions
Intended service period	No provisions
Exercise period	From 1st July 2018 to 30th June 2048

Note: (a) Number of shares means total shares to be issued upon exercise of subscription rights to shares and is adjusted for the reverse stock split (two-to-one share) executed on 1st September 2014.

3. Scale and changes in stock options

The following table describes the scale and changes in stock options that existed during the fiscal year ended 31st March 2019. The number of stock options has been translated into number of shares and is adjusted for the reverse stock split (two-to-one share) executed on 1st September 2014.

	Subscription rights to shares issued on										
In the year ended 31st March 2019:	March 2009 stock options	March 2010 stock options	March 2011 stock options	February 2012 stock options	March 2013 stock options	March 2014 stock options	March 2015 stock options	March 2016 stock options	March 2017 stock options	March 2018 stock options	June 2018 stock options
Before vested											
As of 31st March 2018	—	—	—	—	—	—	—	—	—		—
Granted	—	—	—	—	—	—	—	—	—		98,500
Forfeited	—	—	—	—	—	—	—	—	—		—
Vested	—	—	—	—	—	—	—	—	—		98,500
Outstanding	—	—	—	—	—	—	—	—	—		—
After vested											
As of 31st March 2018	20,500	38,000	53,000	58,000	67,500	88,500	109,000	110,000	106,500	100,500	—
Vested	—	—	—	—	—	—	—	—	—	—	98,500
Exercised	6,000	11,000	13,500	15,500	13,500	21,500	13,500	6,000	6,000	—	—
Forfeited	—	—	—	—	—	—	—	—	—	—	—
Outstanding	14,500	27,000	39,500	42,500	54,000	67,000	95,500	104,000	100,500	100,500	98,500

Price information

	Yen										
	Subscription rights to shares issued on										
In the year ended 31st March 2019:	March 2009 stock options	March 2010 stock options	March 2011 stock options	February 2012 stock options	March 2013 stock options	March 2014 stock options	March 2015 stock options	March 2016 stock options	March 2017 stock options	March 2018 stock options	June 2018 stock options
Exercise price	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1
Average exercise price	¥1,762	¥1,833	¥1,842	¥1,721	¥1,693	¥1,645	¥1,681	¥1,762	¥1,762	¥—	¥—
Fair value at the grant date	¥986	¥1,136	¥984	¥1,100	¥1,932	¥1,566	¥2,141	¥1,798	¥1,645	¥1,791	¥1,615

	U.S. dollars										
	Subscription rights to shares issued on										
In the year ended 31st March 2019:	March 2009 stock options	March 2010 stock options	March 2011 stock options	February 2012 stock options	March 2013 stock options	March 2014 stock options	March 2015 stock options	March 2016 stock options	March 2017 stock options	March 2018 stock options	June 2018 stock options
Exercise price	$0.009	$0.009	$0.009	$0.009	$0.009	$0.009	$0.009	$0.009	$0.009	$0.009	$0.009
Average exercise price	$15	$16	$16	$15	$15	$14	$15	$15	$15	$–	$–
Fair value at the grant date	$8	$10	$8	$9	$17	$14	$19	$16	$14	$16	$14

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

Valuation technique used for valuating fair value of subscription rights to shares issued on each fiscal year of 31st March 2019 as stock options was as follows:

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

Principal parameters and estimation method

	June 2018 stock options
Expected volatility of the underlying stock (Note 1)	29.16%
Remaining expected life of the option (Note 2)	4 years
Expected dividends on the stock (Note 3)	¥40.0 per share
Risk-free interest rate during the expected option term (Note 4)	(0.125)%

Notes 1. In the fiscal year ended 31st March 2019, the fair value of stock options was calculated on the basis of the Company's weekly share price movements over 4 years from June 2014 to June 2018.

Due to the reverse stock split (two-to-one share) executed on 1st September 2014, the weekly share price information from 25th August 2014 to 5th September 2014 was excluded.

2. This period has been calculated using the average period of service for directors (or executive officers) of the Company and the average period from appointment as director (or executive officer) to the issuing date of the stock options.

3. In the fiscal year ended 31st March 2019, the amount of expected dividends was calculated based on the actual dividends paid as the interim dividend and the final dividend for the year ended 31st March 2018.

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

5. Method used to estimate the number of vested share subscription rights

All of the share subscription rights were vested when granted.

16. Income Taxes

Income taxes consist of corporation, inhabitants and enterprise taxes.

Significant components of the Companies' deferred tax assets and liabilities as of 31st March 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	**2019**	**2019**
Deferred tax assets:			
Tax loss carryforwards (Note 2)	¥ 10,004	¥ 12,623	$ 113,720
Provision for redemption of gift certificates	1,191	1,286	11,585
Provision for bonuses	1,635	1,606	14,468
Net defined benefit liability	4,706	6,056	54,558
Depreciation	695	542	4,882
Impairment loss	10,500	9,992	90,018
Retirement benefit trust assets	727	81	729
Provision for loss on store closings	40	308	2,774
Asset retirement obligations	1,250	1,061	9,558
Shares in subsidiaries	1,550	1,357	12,225
Valuation on the consolidation	1,538	1,267	11,414
Provision for point card certificates	609	560	5,045
Allowance for doubtful accounts	1,127	1,135	10,225
Deferred loss on sales of shares of subsidiaries and associates based on Group Taxation Rule	10,294	10,294	92,738
Specified accounts pertaining to business combination	596	470	4,234
Other	4,883	4,547	40,963
	51,354	53,193	479,216
Valuation allowance pertaining to tax loss carryforwards (Note 2)	–	(10,081)	(90,819)
Valuation allowance pertaining to total amount of temporary deductible differences	–	(21,166)	(190,684)
Valuation allowance (Note 1)	(29,153)	(31,248)	(281,513)
Total deferred tax assets	22,200	21,945	197,702
Deferred tax liabilities:			
Reserve for advanced depreciation of non-current assets	(5,039)	(4,981)	(44,873)
Land revaluation of consolidated subsidiaries	(6,320)	(6,038)	(54,396)
Valuation gain on investment securities resulting from conversion of retirement benefit trust assets (equity securities)	(3,511)	(3,511)	(31,630)
Valuation difference on available-for-sale securities	(16,681)	(18,969)	(170,891)
Deferred gain on sales of shares of subsidiaries and associates based on Group Taxation Rule	(1,036)	(1,036)	(9,333)
Other	(1,692)	(1,617)	(14,567)
Total deferred tax liabilities	(34,283)	(36,156)	(325,729)
Net deferred tax assets (liabilities)	¥ (12,083)	¥ (14,210)	$ (128,018)

Notes 1. Valuation allowance increased by ¥2,094 million ($18,864 thousand) mainly due to the valuation allowance pertaining to tax loss carryforwards in the amount of ¥3,391 million ($30,549 thousand) recognised by the consolidated subsidiaries and pertaining to decrease of impairment loss in the amount of ¥1,066 million ($9,603 thousand).

2. Expected maturity of the deferred tax assets after the balance sheet date for tax loss carryforwards

	Millions of yen						
2019	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	Total
Tax loss carryforwards (*1)	¥ 200	¥ 59	¥ 263	¥ 773	¥ 1,334	¥ 9,992	¥ 12,623
Valuation allowance	(200)	(45)	(262)	(588)	(1,104)	(7,881)	(10,081)
Deferred tax assets	–	13	1	185	229	2,110	(*2) 2,541

	Thousands of U.S. dollars						
2019	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	Total
Tax loss carryforwards (*1)	$ 1,801	$ 531	$ 2,369	$ 6,963	$ 12,018	$ 90,018	$ 113,720
Valuation allowance	(1,801)	(405)	(2,360)	(5,297)	(9,945)	(71,000)	(90,819)
Deferred tax assets	–	117	9	1,666	2,063	19,009	(*2) 22,891

*1. The amount of tax loss carryforwards was calculated by using the statutory tax rate.

*2. For tax loss carryforwards of ¥12,623 million ($113,720 thousand) (applying the statutory tax rate), deferred tax assets of ¥2,541 million ($22,891 thousand) were recorded which mainly consisted of deferred tax assets related to tax loss carryforwards of ¥1,912 million ($17,225 thousand) recognised by H2O Asset Management Co., Ltd. The tax loss carryforwards incurred because impairment losses, etc., which were previously not allowed to be deducted for tax purposes were permitted to be deducted from the fiscal year ended 31st March 2016 at H2O Asset Management Co., Ltd. The Company judged the respective deferred tax assets related to tax loss carryforwards as recoverable based on the estimated future taxable income.

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

	2018	**2019**
Aggregate statutory income tax rate	30.9%	30.6%
Increase (reduction) in taxes resulting from:		
Non-deductible expenses	0.6	1.7
Permanent differences (including dividends)	(0.5)	(2.5)
Tax on inhabitants per capita	1.9	5.5
Amortisation of goodwill	0.8	2.3
Changes in valuation allowances	10.5	37.8
Gain on bargain purchase	(2.8)	–
Others	(4.5)	(2.3)
Effective income tax rate	37.0%	73.1%

17. Business Combination

Business divestiture

(1) Overview of the business divestiture

(a) Corporate name of the counterparty of the business divestiture

MISUZU Co., Ltd.

(b) Lines of business divested

Apparel and sportswear businesses ("applicable businesses") of Be-U Co., Ltd., a wholly owned subsidiary of the Company

(c) Primary reason for business divestiture

Considering the low profitability and the environment with intense competition of the applicable businesses, the Company came to a conclusion that the transfer of the respective businesses would lead to the improvement of the Group's enterprise value and management efficiency.

(d) Date of business divestiture

30th September 2018

(e) Legal form of business divestiture

Applicable businesses were transferred through an absorption type of company split, with Be-U Co., Ltd. as the splitting company and Act Co., Ltd., newly established by the Company's wholly owned subsidiary H2O Asset Management Co., Ltd., as the succeeding company. All of the issued shares of Act Co., Ltd. were transferred to MISUZU Co., Ltd. via H2O Asset Management in consideration of cash after conducting the absorption-type company split.

(2) Overview of accounting treatment

(a) Gain/loss on transfer of business

	Millions of yen	Thousands of U.S. dollars
Loss on transfer of business	¥ 546	$ 4,918

(b) Appropriate book value and breakdown of assets and liabilities of divested business

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 507	$ 4,567
Non-current assets	161	1,450
Total assets	668	6,018
Non-current liabilities	124	1,117
Total liabilities	124	1,117

(c) Accounting treatment

Accounting Standard for Business Divestitures (ASBJ Statement No. 7, issued on 13th September 2013) and Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, issued on 13th September 2013) were applied for the accounting treatment of this business divesture.

(3) Reportable segment of divested business

Other businesses

(4) Gain/loss of the business divesture recorded on the consolidated statement of income for the fiscal year ended 31st March 2019

	Millions of yen	Thousands of U.S. dollars
Net sales	¥ 999	$ 9,000
Operating loss	(111)	(1,000)

18. Asset Retirement Obligations

1. Asset retirement obligations recorded on the consolidated balance sheets

(1) Outline of the asset retirement obligations

The obligation to restore properties to their original state pursuant to real estate lease agreements for store properties, etc.

(2) Calculation method for asset retirement obligations

For the fiscal years ended 31st March 2018 and 2019, an estimated usage period of 1 to 47 years and a discount rate of 0.0% to 2.65% were used to calculate the amount of asset retirement obligations.

(3) Changes in the total amount of asset retirement obligations

For the fiscal year ended 31st March 2018, asset retirement obligations increased by ¥604 million since it became possible to estimate the costs for asbestos removal related to the stores of Izumiya Co., Ltd. to be rebuilt. In addition, the acquisition of fixed assets for the opening of branch shops by Hankyu Oasis Co., Ltd. also resulted in a ¥58 million increase in asset retirement obligations.

Decrease due to fulfillment of asset retirement obligations is related mainly to Hankyu Hanshin Department Stores, Inc. and Izumiya Co., Ltd.

For the fiscal year ended 31st March 2019, asset retirement obligations increased by ¥66 million ($594 thousand) since it became possible to estimate the restoration costs for closed parking areas of Izumiya Co., Ltd located on separate sites. In addition, the acquisition of fixed assets for the opening of branch shops by Kazokutei Co., Ltd. also resulted in a ¥28 million ($252 thousand) increase in asset retirement obligations.

Decrease due to fulfillment of asset retirement obligations is related mainly to Izumiya Co., Ltd.

Changes in the balances were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2018	**2019**	**2019**
Balance at beginning of year	¥ 3,657	¥ 3,327	$ 29,972
Increase due to estimate changes	686	85	765
Increase due to acquisition of property, plant and equipment	100	59	531
Adjustments with passage of time	48	46	414
Decrease due to fulfilment of asset retirement obligations	(1,171)	(667)	(6,009)
Other	7	(26)	(234)
Balance at end of year	¥ 3,327	¥ 2,824	$ 25,441

2. Asset retirement obligations not recorded on the consolidated balance sheets

The Companies are obligated to restore properties to their original state upon leaving based on the real estate leasing agreements for stores, offices, etc. However, when the leasing period of leased assets is unclear and the future leaving is not yet planned, asset retirement obligations are not recorded as it is not possible to reasonably estimate the asset retirement obligations.

19. Segment Information

1. General information about reportable segments

The Companies' reportable segments are components of the Group whose operating results are regularly reviewed by the Board of Directors when making resource allocation and performance assessment decisions and for which discrete financial information is available. The Company Group is expanding its business activities primarily in the department store business, but also in the supermarket business, the shopping centre business and other businesses. Accordingly, "Department Store Business," "Kobe Takatsuki Business," "Supermarket Business," "Shopping Centre Business" and "Other Businesses" have been designated as reportable segments.

The "Department Store Business" segment is primarily engaged in the sale of clothing, accessories, home furnishings, foods and others. The "Kobe Takatsuki Business" segment is engaged in the department stores of Sogo Kobe and Seibu Takatsuki. The "Supermarket Business" segment is engaged in general merchandise stores, supermarkets and food production, etc. The "Shopping Centre Business" segment is engaged in rental management of commercial facilities and building maintenance. The "Other Businesses" segment is engaged in hotels, remodelling, home delivery, membership management, temporary staffing, eating and drinking establishments, information processing and others.

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

The accounting policies for the reportable segments are basically the same as those described in Note 2, "Summary of Significant Accounting Policies." Income by reportable segment is presented on an operating income basis. Intersegment sales and transfers are recognised based on current market prices.

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

Millions of yen

As of and for the year ended 31st March 2018	Department Store Business	Kobe Takatsuki Business	Supermarket Business	Shopping Centre Business	Other Businesses	Adjustments	Total
Net sales							
External customers	¥ 446,225	¥ 23,379	¥ 386,552	¥ 10,367	¥ 55,346	¥ –	¥ 921,871
Intersegment	533	–	5,013	17,761	24,645	(47,953)	–
Total net sales	¥ 446,759	¥ 23,379	¥ 391,565	¥ 28,128	¥ 79,991	¥ (47,953)	¥ 921,871
Segment income	¥ 18,020	¥ 603	¥ 1,104	¥ 4,985	¥ 3,098	¥ (5,047)	¥ 22,765
Segment assets	¥ 170,690	¥ 29,281	¥ 144,303	¥ 152,696	¥ 488,001	¥ (325,390)	¥ 659,582
Other items							
Depreciation	¥ 4,227	¥ 159	¥ 5,746	¥ 2,254	¥ 3,903	¥ (67)	¥ 16,223
Amortisation of goodwill	–	–	507	–	62	–	570
Investment in associated companies accounted for by the equity method	–	238	–	–	11,107	–	11,346
Impairment loss	–	–	3,877	25	307	–	4,210
Increase in property, plant and equipment and intangible assets	¥ 9,618	¥ 260	¥ 9,226	¥ 1,558	¥ 5,873	¥ (95)	¥ 26,443

Notes 1. Adjustments are as follows:

Adjustment of segment income was ¥(5,047) million for the year ended 31st March 2018 and comprised the elimination of intersegment transactions.

For the year ended 31st March 2018, adjustment of assets was ¥(325,390) million and included ¥(163,401) million offset elimination of investments and capital, ¥(160,134) million offset elimination of debts and credits and ¥(2,742) million adjustment for unrealised gains and losses on fixed assets.

Adjustment of depreciation amounting to ¥(67) million and adjustment of increase in property, plant and equipment and intangible assets amounting to ¥(95) million consisted of the elimination of intersegment transactions for the year ended 31st March 2018.

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

Millions of yen

As of and for the year ended 31st March 2019	Department Store Business	Kobe Takatsuki Business	Supermarket Business	Shopping Centre Business	Other Businesses	Adjustments	Total
Net sales							
External customers	¥ 451,840	¥ 42,767	¥ 367,580	¥ 8,736	¥ 55,948	¥ –	¥ 926,872
Intersegment	293	36	5,034	17,562	26,295	(49,221)	–
Total net sales	¥ 452,134	¥ 42,803	¥ 372,614	¥ 26,298	¥ 82,243	¥ (49,221)	¥ 926,872
Segment income	¥ 17,582	¥ 301	¥ (438)	¥ 4,281	¥ 5,030	¥ (6,335)	¥ 20,422
Segment assets	¥ 174,698	¥ 29,687	¥ 142,867	¥ 174,503	¥ 518,232	¥ (376,654)	¥ 663,335
Other items							
Depreciation	¥ 5,138	¥ 339	¥ 5,600	¥ 2,274	¥ 4,118	¥ (71)	¥ 17,399
Amortisation of goodwill	–	–	507	–	62	–	570
Investment in associated companies accounted for by the equity method	–	243	–	–	10,195	–	10,439
Impairment loss	75	–	2,542	3,876	496	–	6,990
Increase in property, plant and equipment and intangible assets	¥ 10,866	¥ 665	¥ 9,048	¥ 6,727	¥ 4,857	¥ (125)	¥ 32,039

Thousands of U.S. dollars

As of and for the year ended 31st March 2019	Department Store Business	Kobe Takatsuki Business	Supermarket Business	Shopping Centre Business	Other Businesses	Adjustments	Total
Net sales							
External customers	$ 4,070,630	$ 385,288	$ 3,311,531	$ 78,702	$ 504,036	$ –	$ 8,350,198
Intersegment	2,639	324	45,351	158,216	236,891	(443,432)	–
Total net sales	$ 4,073,279	$ 385,612	$ 3,356,882	$ 236,918	$ 740,927	$ (443,432)	$ 8,350,198
Segment income	$ 158,396	$ 2,711	$ (3,945)	$ 38,567	$ 45,315	$ (57,072)	$ 183,981
Segment assets	$ 1,573,855	$ 267,450	$ 1,287,090	$ 1,572,099	$ 4,668,756	$ (3,393,279)	$ 5,975,990
Other items							
Depreciation	$ 46,288	$ 3,054	$ 50,450	$ 20,486	$ 37,099	$ (639)	$ 156,747
Amortisation of goodwill	–	–	4,567	–	558	–	5,135
Investment in associated companies accounted for by the equity method	–	2,189	–	–	91,846	–	94,045
Impairment loss	675	–	22,900	34,918	4,468	–	62,972
Increase in property, plant and equipment and intangible assets	$ 97,891	$ 5,990	$ 81,513	$ 60,603	$ 43,756	$ (1,126)	$ 288,639

Notes 1. Adjustments are as follows:

Adjustment of segment income was ¥(6,335) million ($(57,072) thousand) for the year ended 31st March 2019 and comprised the elimination of intersegment transactions.

For the year ended 31st March 2019, adjustment of assets was ¥(376,654) million ($(3,393,279) thousand) and included ¥(183,038) million ($(1,648,990) thousand) offset elimination of investments and capital, ¥(191,144) million ($(1,722,018) thousand) offset elimination of debts and credits and ¥(2,740) million ($(24,684) thousand) adjustment for unrealised gains and losses on fixed assets.

Adjustment of depreciation amounting to ¥(71) million ($(639) thousand) and adjustment of increase in property, plant and equipment and intangible assets amounting to ¥(125) million ($(1,126) thousand) consisted of the elimination of intersegment transactions for the year ended 31st March 2019.

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

3. The "Partial Amendments to the Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, issued on 16th February 2018), etc., have been applied from the beginning of the fiscal year ended 31st March 2019. Accordingly, segment assets as of 31st March 2018 are those after retrospective application.

(Related Information)

Amortisation of goodwill and unamortised balance by reportable segments

Millions of yen

As of and for the year ended 31st March 2018	Department Store Business	Kobe Takatsuki Business	Supermarket Business	Shopping Centre Business	Other Businesses	Adjustments	Total
Goodwill							
Amortisation	¥ –	¥ –	¥ 507	¥ –	¥ 62	¥ –	¥ 570
Impairment	¥ –	¥ –	¥ –	¥ –	¥ –	¥ –	¥ –
Unamortised balance	¥ –	¥ –	¥ 4,226	¥ –	¥ 420	¥ –	¥ 4,647

Millions of yen

As of and for the year ended 31st March 2019	Department Store Business	Kobe Takatsuki Business	Supermarket Business	Shopping Centre Business	Other Businesses	Adjustments	Total
Goodwill							
Amortisation	¥ –	¥ –	¥ 507	¥ –	¥ 62	¥ –	¥ 570
Impairment	¥ –	¥ –	¥ –	¥ –	¥ –	¥ –	¥ –
Unamortised balance	¥ –	¥ –	¥ 3,719	¥ –	¥ 357	¥ –	¥ 4,076

Thousands of U.S. dollars

As of and for the year ended 31st March 2019	Department Store Business	Kobe Takatsuki Business	Supermarket Business	Shopping Centre Business	Other Businesses	Adjustments	Total
Goodwill							
Amortisation	$ –	$ –	$ 4,567	$ –	$ 558	$ –	$ 5,135
Impairment	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Unamortised balance	$ –	$ –	$ 33,504	$ –	$ 3,216	$ –	$ 36,720

Gain on bargain purchase by reportable segments

Gain on bargain purchase in the amount of ¥2,010 million was recognised in the segment "Kobe Takatsuki Business" for the year ended 31st March 2018 due to the business transfer from Sogo & Seibu Co., Ltd. effective on 1st October 2017.

20. Related Party Transactions

For the year ended 31st March 2018

Transactions with related parties

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

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

(a) Directors, corporate auditors and major individual shareholders of the reporting entity of the consolidated financial statements: None

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

<table>
<tr><th>Classification</th><th>Name of company or individual</th><th>Location</th><th>Capital or investment</th><th>Occupation or business lines</th><th>Ownership of voting rights (%)</th><th>Nature of relationship</th><th>Nature of transactions</th><th>Value of transactions</th><th>Accounting designation</th><th>Ending balance</th></tr>
<tr><td rowspan="12">Subsidiaries of companies that have significant stakes in the reporting entity</td><td rowspan="6">Hankyu Corporation</td><td rowspan="6">Kita-ku, Osaka City</td><td rowspan="6">¥100 million</td><td rowspan="6">Railway operations, real estate rental and dealership operations, stage revues, retailing</td><td rowspan="6">–</td><td rowspan="6">Same person serving concurrently as director or corporate auditor for both parties,

Rental of real estate</td><td rowspan="3">Rental expenses</td><td rowspan="3">¥8,831 million</td><td>Prepaid expenses</td><td>¥218 million</td></tr>
<tr><td>Accounts payable - other</td><td>¥12 million</td></tr>
<tr><td>Accrued expenses</td><td>¥82 million</td></tr>
<tr><td>Fees for display of signs, etc.</td><td>¥8 million</td><td>Prepaid expenses</td><td>¥0 million</td></tr>
<tr><td>Deposits of guarantee money</td><td>¥59 million</td><td rowspan="2">Guarantee deposits</td><td rowspan="2">¥21,881 million</td></tr>
<tr><td>Return of guarantee money</td><td>¥1 million</td></tr>
<tr><td rowspan="6">HANSHIN ELECTRIC RAILWAY CO., LTD.</td><td rowspan="6">Fukushima -ku, Osaka City</td><td rowspan="6">¥29,384 million</td><td rowspan="6">Railway operations, real estate rental and dealership operations, sports business, travel business</td><td rowspan="6">11.98% shares of the Company directly held</td><td rowspan="6">Same person serving concurrently as director or corporate auditor for both parties,

Rental of real estate</td><td rowspan="2">Rental expenses</td><td rowspan="2">¥3,844 million</td><td>Prepaid expenses</td><td>¥65 million</td></tr>
<tr><td>Accrued expenses</td><td>¥33 million</td></tr>
<tr><td>Fees for display of signs, etc.</td><td>¥6 million</td><td>Prepaid expenses</td><td>¥0 million</td></tr>
<tr><td>Deposits of guarantee money</td><td>¥90 million</td><td rowspan="3">Guarantee deposits</td><td rowspan="3">¥8,210 million</td></tr>
<tr><td>Return of guarantee money</td><td>–</td></tr>
<tr><td>Increase due to business transfer</td><td>¥491 million</td></tr>
</table>

Business terms and policies for determination of business terms

Notes 1. Transaction amounts are exclusive of consumption taxes; ending balances (exclusive of guarantee deposits) include consumption taxes.

2. Rent expenses for buildings are determined by current market rates.

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

For the year ended 31st March 2019

Transactions with related parties

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

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

(a) Directors, corporate auditors and major individual shareholders of the reporting entity of the consolidated financial statements: None

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

Classification	Name of company or individual	Location	Capital or investment	Occupation or business lines	Ownership of voting rights (%)	Nature of relationship	Nature of transactions	Value of transactions	Accounting designation	Ending balance
Subsidiaries of companies that have significant stakes in the reporting entity	Hankyu Corporation	Kita-ku, Osaka City	¥100 million ($900 thousand)	Railway operations, real estate rental and dealership operations, stage revues, retailing	–	Same person serving concurrently as director or corporate auditor for both parties, Rental of real estate	Rental expenses	¥9,661 million ($87,036 thousand)	Accounts receivable - other	¥19 million ($171 thousand)
									Prepaid expenses	¥214 million ($1,927 thousand)
									Accounts payable - other	¥102 million ($918 thousand)
									Accrued expenses	¥2 million ($18 thousand)
							Fees for display of signs, etc.	¥9 million ($81 thousand)	Prepaid expenses	¥0 million ($0 thousand)
							Deposits of guarantee money	¥1,579 million ($14,225 thousand)	Guarantee deposits	¥24,884 million ($224,180 thousand)
							Return of guarantee money	¥76 million ($684 thousand)		
	HANSHIN ELECTRIC RAILWAY CO., LTD.	Fukushima -ku, Osaka City	¥29,384 million ($264,720 thousand)	Railway operations, real estate rental and dealership operations, sports business, travel business	11.97% shares of the Company directly held	Same person serving concurrently as director or corporate auditor for both parties, Rental of real estate	Rental expenses	¥3,061 million ($27,576 thousand)	Prepaid expenses	¥64 million ($576 thousand)
									Accounts payable - other	¥210 million ($1,891 thousand)
									Accrued expenses	¥40 million ($360 thousand)
							Fees for display of signs, etc.	¥1 million ($9 thousand)	Prepaid expenses	¥– million ($– thousand)
							Deposits of guarantee money	¥3,505 million ($31,576 thousand)	Guarantee deposits	¥8,509 million ($76,657 thousand)
							Return of guarantee money	¥1,705 million ($15,360 thousand)		

Business terms and policies for determination of business terms

Notes 1. Transaction amounts are exclusive of consumption taxes; ending balances (exclusive of guarantee deposits) include consumption taxes.

2. Rent expenses for buildings are determined by current market rates.
3. All other matters are determined according to general terms and conditions.
4. The lease agreement regarding the Osaka Umeda Twin Towers South, where the first part of the remodelling of Hanshin Umeda Main Store was located and re-opened in June 2018, was concluded by three parties; Hanshin Electric Railway Co., Ltd. and Hankyu Corporation as lessor, and Hankyu Hanshin Department Stores, Inc., a subsidiary of the Company, as lessee. Since the deposits of guarantee money, etc., are contractually to be paid to Hanshin Electric Railway Co., Ltd. in a lump sum, the balance of guarantee deposits as of 31st March 2018 was disclosed as transaction with Hanshin Electric Railway Co., Ltd. From the fiscal year ended 31st March 2019, the lump sum payments of rental fees and deposits of guarantee money from lessee were separately disclosed in two lessors as confirmed by the lessors.

21. Per Share Information

Reconciliation of the difference between basic and diluted profit per share (Earnings Per Share "EPS") for the years ended 31st March 2018 and 2019 was as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2018	**2019**	**2019**
Basic profit per share calculation:			
Profit (numerator):			
Profit attributable to owners of parent	¥ 14,636	¥ 2,162	$ 19,477
Amounts not belonging to common stockholders	–	–	–
Profit attributable to owners of parent concerning common stock	14,636	2,162	19,477
Shares (denominator):			
Weighted average number of shares	123,473,119	123,538,732	
Basic EPS (yen and U.S. dollars)	¥ 118.54	¥ 17.50	$ 0.157
Diluted profit per share calculation:			
Profit (numerator):			
Profit attributable to owners of parent	¥ 14,636	¥ 2,162	$ 19,477
Amounts not belonging to common stockholders	–	–	–
Profit attributable to owners of parent concerning common stock	14,636	2,162	19,477
Effect of dilutive securities - convertible bonds	–	–	–
Adjusted profit	14,636	2,162	19,477
Shares (denominator):			
Weighted average number of shares	123,473,119	123,538,732	
Assumed exercise of subscription rights to shares	667,561	772,639	
Adjusted weighted average number of shares	124,140,680	124,311,371	
Diluted EPS (yen and U.S. dollars)	¥ 117.90	¥ 17.39	$ 0.156

Net assets per share (Book value Per Share "BPS") calculation for the years ended 31st March 2018 and 2019 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	**2019**	**2019**
Net assets per share calculation:			
Net assets	¥ 280,807	¥ 279,603	$ 2,518,945
Deduction from net assets	1,238	1,239	11,162
(Subscription rights to shares)	(1,234)	(1,235)	(11,126)
(Non-controlling interests)	(3)	(4)	(36)
Net assets concerning common stock	279,569	278,364	2,507,783
Number of shares used for the calculation of net assets per share	123,487,579	123,592,099	
BPS (yen and U.S. dollars)	2,263.95	2,252.28	20.290

22. Guarantee Deposits

In connection with its department store business, the Company has entered into long-term lease agreements for store sites and other premises. Under such agreements, lessors in Japan generally require the lessee to make substantial deposits in addition to monthly rental payments. A large portion of such deposits is generally refundable only on termination of the lease. The deposits bear no interest or bear interest only at a nominal rate.

23. Short-term and Long-term Loans, Bonds Payable and Lease Obligations

Short-term loans and long-term debt, including finance lease obligations, at 31st March 2018 and 2019 consisted of the following.

	Millions of yen		Thousands of U.S. dollars
	2018	**2019**	**2019**
Short-term loans payable (0.145% in 2019)	¥ –	¥ 8,000	$ 72,072
Current portion of long-term loans payable (0.558% in 2018 and 0.308% in 2019)	42,561	20,201	181,990
Lease obligations, current portion	764	749	6,747
Long-term loans payable (0.129% in 2018 and 0.141% in 2019), excluding current portion, due through 2037	96,931	116,718	1,051,513
Lease obligations, excluding current portion, due through 2037	9,175	8,686	78,252
0.706% H2O Retailing unsecured bonds, due 2024	10,000	10,000	90,090
0.480% H2O Retailing unsecured bonds, due 2028	–	10,000	90,090

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

Annual maturities of long-term debt including loans payable, long-term bonds payable and lease obligations as at 31st March 2019 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2019	2019
2021	¥ 19,068	$ 171,783
2022	46,954	423,009
2023	731	6,585
2024	16,567	149,252

24. Subsequent Events

Grant of subscription rights to shares as stock option based compensation

For directors (including directors who serve as ASC members), corporate auditors and executive officers of the Company and the subsidiaries of the Company, the Company maintains two systems of stock options based compensation with seniority-based and performance-based vesting conditions depending on their roles required.

At the Board of Directors' meeting held on 26th June 2019, the Company resolved the grant of subscription rights to shares as follows in order to grant the stock option based compensation for the year ending 31st March 2020. The Company granted above mentioned directors and officers subscription rights to shares on 15th July 2019.

[Stock option based compensation with seniority-based vesting conditions]

1. Grant date
   15th July 2019
2. Number of subscription rights to shares issued
   1,125 units
3. Type and number of shares subject to subscription rights to shares
   112,500 shares of common stock of the Company
4. Exercise price
   ¥1 per share
5. Exercise period
   From 16th July 2019 to 15th July 2049
6. Title and number of grantees
   5 directors (excluding ASC members), 4 directors serving as ASC members, and 4 executive officers of the Company
   9 directors, 1 corporate auditor and 11 executive officers of the subsidiaries of the Company
7. Increase in shareholders' equity as a result of the issuance of shares upon the exercise of subscription rights to shares
   (1) The amount of capital stock to be increased as the result of the issuance of shares upon the exercise of subscription rights to shares shall be one half of the maximum amount of capital stock increase calculated in accordance with Article 17, Paragraph 1 of the Regulations on Accounting of Companies, and any amounts of less than ¥1 shall be rounded up.
   (2) The amount of capital surplus to be increased as the result of the issuance of shares upon the exercise of subscription rights to shares shall be calculated as the maximum amount of the capital stock increase provided

in paragraph (1) above, minus the amount of capital stock to be increased pursuant to paragraph (1) above.

8. Calculation of payment price of subscription rights to shares

   The payment price shall be the fair market value calculated in accordance with the Black-Scholes model as of the grant date of the subscription rights to shares.

   For the grantees who are directors or executive officers of the Company ("Officers of the Company"), the payable amount for subscription rights to shares shall be offset by the remuneration of Officers of the Company. For the grantees who are directors, corporate auditors or executive officers of the subsidiaries of the Company ("Officers of the Subsidiaries"), the payable amount of the subsidiaries of the Company for the remuneration shall be assumed by the Company and the payable amount for subscription rights to shares shall be offset by the remuneration of the Officers of the Subsidiaries.

[Stock option based compensation with performance-based vesting conditions]

1. Grant date

   15th July 2019

2. Number of subscription rights to shares issued

   410 units

3. Type and number of shares subject to subscription rights to shares

   41,000 shares of common stock of the Company

4. Exercise price

   ¥1 per share

5. Exercise period

   From 16th July 2019 to 15th July 2049

6. Title and number of grantees

   3 directors (excluding non-executive directors) and 4 executive officers of the Company

   8 directors (excluding non-executive directors) and 11 executive officers of the subsidiaries of the Company

7. Increase in shareholders' equity as a result of the issuance of shares upon the exercise of subscription rights to shares

   (1) The amount of capital stock to be increased as the result of the issuance of shares upon the exercise of subscription rights to shares shall be one half of the maximum amount of capital stock increase calculated in accordance with Article 17, Paragraph 1 of the Regulations on Accounting of Companies, and any amounts of less than ¥1 shall be rounded up.

   (2) The amount of capital surplus to be increased as the result of the issuance of shares upon the exercise of subscription rights to shares shall be calculated as the maximum amount of the capital stock increase provided in paragraph (1) above, minus the amount of capital stock to be increased pursuant to paragraph (1) above.

8. Calculation of payment price of subscription rights to shares

   The payment price shall be the fair market value calculated in accordance with the Black-Scholes model as of the grant date of the subscription rights to shares.

   For the grantees who are directors or executive officers of the Company ("Officers of the Company"), the payable amount for subscription rights to shares shall be offset by the remuneration of Officers of the Company. For the grantees who are directors or executive officers of the subsidiaries of the Company ("Officers of the Subsidiaries"), the payable amount of the subsidiaries of the Company for the remuneration shall be assumed by the Company and the payable amount for subscription rights to shares shall be offset by the remuneration of the Officers of the Subsidiaries.

Independent Auditor's Report

To the Board of Directors of H2O RETAILING CORPORATION:

We have audited the accompanying consolidated financial statements of H2O RETAILING CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018 and 2019, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of H2O RETAILING CORPORATION and its consolidated subsidiaries as at March 31, 2018 and 2019, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2019 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

July 30th, 2019
Osaka, Japan

Corporate Data

H2O RETAILING CORPORATION and Consolidated Subsidiaries

Outline of the Company (as of 31st March 2019)

Date of Establishment	March 1947
Stated Capital	¥17,796 million
Authorised Shares	150,000,000
Issued and Outstanding Shares	125,201,396
Shareholders	29,505
Employees	82 (H2O Retailing Corporation) 8,793 (Consolidated basis)

Principal Shareholders (as of 31st March 2019)

Shareholders	Number of shares (thousands of shares)	Ratio of shareholdings
Hanshin Electric Railway Co., Ltd.	14,749	11.9%
Hankyu Hanshin Holdings, Inc.	10,336	8.4%
Takashimaya Co., Ltd.	6,259	5.1%
The Master of Trust Bank of Japan, Ltd. (Trust account)	5,489	4.4%
Japan Trustee Service Bank, Ltd. (Trust account)	4,565	3.7%
Japan Trustee Service Bank, Ltd. (Trust account 9)	3,236	2.6%
Izumiya Kyowakai Assn.	2,623	2.1%
JP MORGAN CHASE BANK 380684 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	2,244	1.8%
Japan Trustee Service Bank, Ltd. (Trust account 5)	1,981	1.6%
H2O Retailing Group Employees' Shareholding Association	1,669	1.4%

Principal Consolidated Subsidiaries

Subsidiary	Primary business activities
Department Store Business	
Hankyu Hanshin Department Stores, Inc.	Department Stores
Kobe Takatsuki Business	
H2O Asset Management Co., Ltd.	Management of department stores
Shinko Management, Inc.	Management of property
Supermarket Business	
H2O Foods Group Co.,Ltd.	Management planning and administration of the food business
Hankyu Oasis Co., Ltd.	Supermarkets
Izumiya Co., Ltd.	General merchandise stores, supermarkets and supercentres
Hankyu Foods, Inc.	Manufacture and sale of laver seaweed and dried foods
Hankyu Bakery Co., Ltd.	Manufacture and sale of bread
Hankyu delica i, Inc.	Manufacture and sale of prepared food
Hankyu Food process Co., Ltd.	Process and sales of fresh food
Qanat Co., Ltd.	Supermarkets
Sun Laurie Co., Ltd.	Restaurants
Shopping Centre Business	
H2O Asset Management Co., Ltd.	Management and development of property
Hankyu Maintenance Service Co., Ltd.	General building maintenance
Hankyu Shopping Center Development Co., Ltd.	Operational management of commercial facilities
Kanso Co., Ltd.	General building maintenance
Other Businesses	
Be-U Co., Ltd.	Sales of toys
CARNET CO., LTD.	Sales of ladies shoes and accessories
EveryD.com, Inc.	Supply of the system and the know-how of home-delivery service
F.G.J Co.,Ltd.	Sales of personal care products
H.D. Base Mode Ltd.	Product planning, production management and sales operation of women's apparel

H2O Smile Co.,Ltd.	Contractor engaged in office work and light work for the company
H2O STYLE NET Co., Ltd.	Operational management of internet shopping site
H2O System Co., Ltd.	Data processing and systems development
Hankyu Act For	Contractor engaged in bookkeeping and payroll calculation
Hankyu B&C Planning	Sales of bread and management of cafe
Hankyu Department Stores Uniform	Sales of uniforms
Hankyu Design Systems Co., Ltd.	Commercial design, web design and production, photographing & printing
Hankyu Freds Co.,Ltd.	Sales of bread and management of cafes
Hankyu Hanshin Department Stores Tomonokai, Inc.	Membership organisation for customer service
Hankyu Hello Dog Co., Ltd.	Sales of pet-accessories
Hankyu Home Styling Co., Ltd.	Sales of furniture and interior goods
Hankyu Job Yell Co., Ltd.	Manpower dispatching and fee-charging employment agency
Hankyu Kensou Co., Ltd.	Manufacture and sales of furniture and furnishings
Hankyu Kitchen Yell Kansai, Inc.	Membership-based home-delivery service providing groceries and commodities in Kansai Area
Hankyu Kitchen Yell Kyushu, Inc.	Membership-based home-delivery service providing groceries and commodities in Kyushu Area
Hankyu Quality Support	Quality testing and consulting service
Hankyu Sennan Green Farm	Production of organic farm products
Hankyu Trading Services Co., Ltd.	Foreign trade business
Hankyu Wedding	Costume salon for bridal use
Heart Dining, Inc.	Management of cafe, restaurants and company cafeteria
KAETOKU SERVICE Co., Ltd.	Sales of electronic gift certificates
KAZOKUTEI CO., LTD.	Restaurants mainly serving "Soba/Udon"
Oi Development Co., Ltd.	Operational management of a hotel
Persona Co., Ltd.	Management of services for members of Persona card
Souq Company Co., Ltd.	Product planning/manufacture/wholesaling, event planning and Internet sales, etc.
Suzhou Izumiya Co., Ltd.	A department store in Suzhou, China

H2O RETAILING CORPORATION

2-6-27, Shibata, Kita-ku, Osaka 530-0012

Telephone: +81 (0) 6 - 6365 - 8120

Facsimile: +81 (0) 6 - 6486 - 8320

URL: http://www.h2o-retailing.co.jp/