

Corporate Data

Corporate Headquarters

HARASHIN NARUS Holdings Co., Ltd.
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Date of Establishment

August 1967

Number of Employees

1,412

Chairman and Representative Director

Guntaro Yamazaki

President and Representative Director

Kazuhiko Hara

Vice President and Director

Yasuo Igarashi

Managing Directors

Akira Koide
Bungo Yamagishi

Director

Hitoshi Moriyama

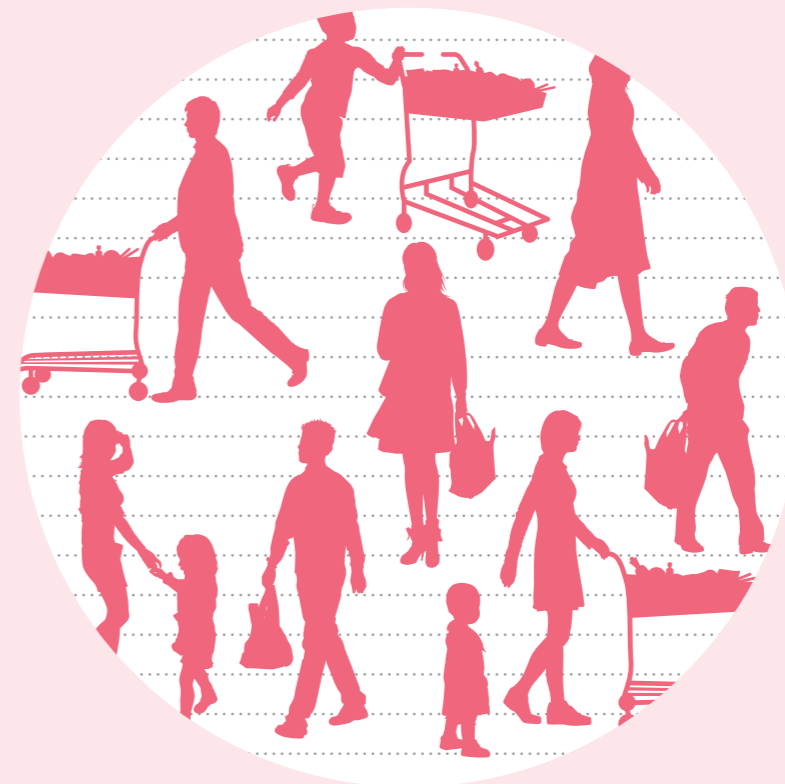
Standing Corporate Auditors

Koichi Takahashi
Kazuhiro Masuda

Corporate Auditors

Kenzo Kaneko
Iwao Hosokai

(As of June 23, 2011)



The Finest Service in Japan

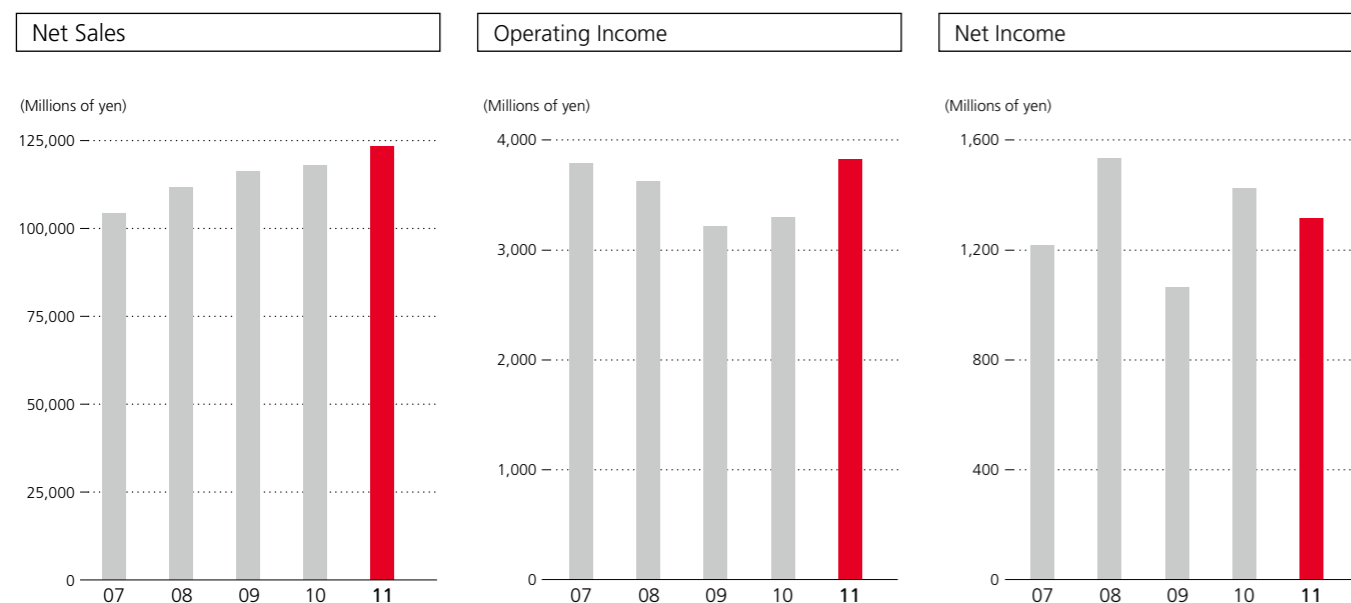
ANNUAL REVIEW 2011 Year ended March 31, 2011

Financial Highlights

Years ended March 31

	Millions of Yen					Thousands of U.S. Dollars
	2011	2010	2009	2008	2007	2011
For the Period:						
Net sales	¥123,361	¥118,070	¥116,220	¥111,538	¥104,326	\$1,483,594
Operating income	3,824	3,296	3,220	3,630	3,795	45,994
Net income	1,348	1,426	1,065	1,535	1,218	16,208
At Year-End:						
Total assets	¥ 54,126	¥ 51,139	¥ 52,052	¥ 48,664	¥ 47,627	\$ 650,942
Total net assets	22,937	22,866	21,745	21,243	20,190	275,854
Per Common Share:						
Basic net income	¥75.17	¥79.19	¥59.14	¥85.27	¥67.65	\$0.90
Cash dividends	22.00	24.00	22.00	26.00	23.00	0.26

Notes: The U.S. dollar amounts are provided, for convenience only, at ¥83.15 to \$1, the approximate rate of exchange at March 31, 2011.



Performance

During fiscal 2011, the year ended March 31, 2011, the Japanese economy showed signs of gradual recovery from the middle of the year, mainly in the export industry. However, the entire Japanese economy is expected to feel the negative influence of the Great East Japan Earthquake, which struck in March 2011, for some time.

In the supermarket industry, product sales prices and volume were largely affected by a number of factors during fiscal 2011, including unusual weather patterns throughout the year—from long spells of rain and low temperatures in spring to extreme heat in summer and heavy snowfalls in winter—and issues related to avian flu and foot-and-mouth disease. Furthermore, Harashin Narus Group's rivals opened six new stores in the Group's business area, drastically changing the competitive structure of the market.

The Harashin Narus Group has been responding to the changing market environment by carrying out its medium-term management plan based on the long-term vision "Advanced Regional Chain," which was revised in the previous fiscal year. In doing so, the Group aims to develop as an excellent regional store chain with a solid platform, a chain that is always the "customer's choice."

In particular, the Group saw steady progress in its initiatives to control sales and gross profit on a weekly basis, a system it introduced in the previous fiscal year, and further enforced a product policy based on the New Concept Part II, reflecting this policy in the existing product lineup/store format.

As a result, consolidated net sales during fiscal 2011 grew 4.5% year on year to ¥123,361 million and operating income rose 16.0% to ¥3,824 million. However, net income fell 5.5%

to ¥1,348 million and net income per share declined ¥4.2 from the previous fiscal year to ¥75.17.

The decrease in net income was largely attributable to the posting of a ¥1,361 million loss incurred with the application of the Accounting Standard for Asset Retirement Obligations during the fiscal year under review.

With regard to its capital management policy, Harashin Narus has set the limit for the holding of treasury stock at 500,000 shares, or ¥600 million. In the fiscal year under review, the Company purchased 401,300 shares of treasury stock in order to secure shareholder returns.

During the fiscal year under review, we opened Narus Joetsu Inter store (September; Joetsu, Niigata Prefecture; Floor space: 2,111m²) and Harashin Murakami Inter store (October; Murakami Niigata Prefecture; Floor space: 2,098m²) while closing Narus Tonome store (August; Joetsu, Niigata Prefecture; Floor space: 1,574m²).

The Group's employees and equipment suffered no damage in the Great East Japan Earthquake. However, a number of our suppliers and customers were affected in various ways. Drawing on its experience of the Niigataken Chuetsu Earthquake in 2004 and the Niigataken Chuetsu-oki Earthquake in 2007, the Group set up a disaster headquarters immediately after the earthquake to assess the situation. Simultaneously, the Group provided support for those in the disaster areas in the form of donated relief supplies, including rice balls and water, while starting a storefront fund-raising campaign that raised ¥53 million. Furthermore, the Group started the "Magokoro ¥1 Program" in April 2011, in which the Group donates ¥1 for every sale of a private-brand product.

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Interview with President Hara:
Aiming to Offer Top-Quality Services in Japan to Please Customers



Kazuhiko Hara
President and Representative Director

Q1 *When the Great East Japan Earthquake struck on March 11, 2011, the speed of Harashin Narus's assistance to disaster areas drew public attention. Please tell us how you were able to so quickly make the right decisions and act so quickly.*

First of all, we extend our heartfelt sympathy and deepest condolences to those who were affected by this disaster. The Harashin Narus Group sincerely wishes for a quick recovery.

Despite the difference in the scale of damage, we also suffered from two earthquakes—the Niigataken Chuetsu Earthquake in 2004 and the Niigataken Chuetsu-oki Earthquake in 2007—and had bitter experiences as disaster victims, with many people sustaining physical and psychological damage. Upon the Niigataken Chuetsu Earthquake, 22 of 44 Harashin stores were damaged, and 3 of these stores were beyond repair and had to be closed. Recalling the warm and encouraging support we received in during that disaster time, we felt prompted to return the favor. Therefore, we were compelled to take swift action.

Immediately after the Great East Japan Earthquake, I established a policy of “placing the highest appropriate on the support of those in the disaster areas.” When an emergency strikes, it is the initial response that is often the most impor-

tant. We have to be quick. Drawing on our experience of disaster situations, we quickly set up the disaster headquarters and commenced operations. However, a number of employees already knew what to do without any instructions. For example, one of our food manufacturing subsidiaries, Rori, Ltd., began preparing rice balls even before circumstances became clear, and delivered them to Fukushima Prefecture. Meanwhile, in our catchment area, amid the chaotic situation caused by the extreme shortage of many products, the Merchandizing Department really worked to procure items that were almost unavailable, while each store strived to keep the store shelves stocked so that they could serve the needs of as many customers as possible. In addition, cashiers maintained a courteous manner when responding to repeated customer inquiries about product shortages. The distribution sector supplied relief items to disaster areas while making efforts to normalize our distribution channels. I am very proud of those employees who knew what to do and took prompt and appropriate action.

Keenly Aware of Our Social Mission as a Supermarket— It Is Important that Each Individual Employee Plays a Role

To date, we have sent 20 separate shipments of relief supplies to the disaster areas. In addition to these supplies and monetary donations, we proactively helped people who were evacuated to Niigata Prefecture. Furthermore, working with volunteer centers, we collected relief supplies donated by the public at our stores in some areas and delivered the donated goods to the disaster areas. The reason for all these efforts was simply that we wanted to do whatever we could. We, as retailers, are a part of the infrastructure that supports our local communities, and our responsibility on this occasion was immediately apparent to us.

As for electricity conservation, we took prompt action as of March 14, 2011, to turn off a certain percentage of lights both inside and outside of stores and suspended in-store air conditioning at all stores. Amid growing concern regarding the shortage of electricity this summer, we will proactively cooperate with the Cut 15% off Peak Power Demand Campaign promoted by Niigata prefectural government to avoid blackouts.

We believe it is important that each of Harashin Narus employees becomes aware of their role as well as our social mission as a supermarket.

Q2 *Please tell us about fiscal 2011 performance and results.*

We had record-high net sales and ordinary income in fiscal 2011. Although we recorded a slight decline in net income, it was due to a change in an accounting standard for calculating estimated costs associated with dismantling stores built on leasehold lands and the amortization of such costs evenly over the term of the lease period. During the fiscal year under review, the first year after the change in this accounting standard, such dismantling accounted for approximately ¥1.3 billion in total, including costs that should have been recorded in the past years. The new calculation method will lead us to more appropriate business judgments as we dispose of future expenses in advance.

Looking back, several factors led to sales increases: price hikes for vegetables and fruit due to bad weather in spring; increased demand for beverages due to extreme heat in summer; a second round of price hikes for vegetables and fruit in autumn owing to the extremely hot summer; and bulk buying and increased sales of ingredients for hot pot dishes in reaction to the heavy snow in winter. These external factors boosted our sales, driving demand beyond our ability. However, over the past year we have made significant progress toward improving our operational structure and becoming an Advanced Regional Chain.

Specifically, we have thoroughly implemented our weekly management rule. Our long-term vision “Advanced Regional Chain,” announced in November 2009, required us to thoroughly review our business structure and system so that we may grow beyond our community-based mindset within local chain and be able to offer top-level services in Japan, establish 200 super supermarkets (SSMs), and build trust. We have been striving to develop a corporate structure and business foundation to offer unified quality and services regardless of each outlet's distance from headquarters.

In order to do so, it was necessary to change our management style, and accordingly, we instituted a system for thoroughly checking the operational status of each store on a weekly basis. It might sound like a perfectly common practice, but we established a system for implementing a PDCA (Plan-Do-Check-Action) management cycle to control sales, the gross profit ratio and working hours on a weekly basis and, based on this, for revising our business plan as necessary. This system helped stabilize figures.

Aiming to improve the quality of services and hospitality, we have introduced an in-house commendation system called the “Flower Smile Award.” This was set up for the purpose of ensuring that customers are welcomed with a level of hospital-

Assiduously pursuing clear communications in-house, we will share the vision among all members

ity that goes beyond the expected. The system's results are evident in the customer feedback we receive via in-store comment cards, telephone and e-mail. We get such comments as "When I was having trouble with my car because the battery ran out in the parking lot, a store employee brought his own car over to charge it. Thanks to his kindness, I was able to drive home," or "When I happened to break a glass that was on sale and was at a loss what to do, two employees hurried to help me, asking if I was okay. I really appreciated it." We are proactively searching out such examples of hospitality and awarding those outstanding employees. Also, our in-house magazine includes a special section in which we introduce Flower Smile Award winners that features photos and thank-you comments from customers as part of our efforts to further encourage all employees to strive every day to offer great hospitality as they work.

On the other hand, we felt the need to make a change in the style of in-house communications given the wide variety of jobs that comprise our business operations. As part of such initiatives, store managers are required to hold weekly and daily meetings and thoroughly disseminate operational policies to store staff at the divisional morning meeting following the general morning assembly so that each employee can reflect such policies in their work. In addition, traditionally, the chief of each division simply handed out part-time workers' monthly pay statements. One day, however, one of our store managers began to provide each part-time worker with a bit of feedback when he handed over the statement, calling it a "short meeting." This practice significantly improved communications between the store manager and his part-time workers. This



was a wonderful idea, so we made it an across-the-board rule for store managers to take the time at least once a month for one-on-one communication with their part-time workers. Some workers said this made them feel closer to the store manager. Store managers also began to hear customer feedback directly from part-time workers. When part-time workers become aware of their store manager's interest in them as individuals, they become increasingly motivated and engaged in their work. Furthermore, this communication helps part-time workers to directly grasp the store manager's image of how to improve the store in the following week. It is important that all store staff get the full picture of operations at store or in a division. We cannot set numerical targets for such knowledge, but it is indispensable to a company aiming to supply top-level services in Japan.

of steady progress. Harashin Misawa store opened in an unusual location where there are three Harashin stores within two kilometers and eight within three kilometers. Despite the risk of market competition among our own branch stores, we



How is the development of New Concept Part II merchandizing progressing?

The New Concept Part II has been considered since autumn two years ago, and was first introduced at Harashin Misawa store when it opened in March 2010 in Nagaoka City, Niigata Prefecture. One year later, as of March 2011, there is evidence

We will welcome customers with a level of hospitality that goes beyond the expected

had to establish a store in this location to preempt our competitors establishing a store there. Therefore, we attempted to develop a store based on all-new concepts with regard to product policies and store layout.

Introduced 10 years ago, the first "New Concept" approach fulfill by the key words "easy and convenient," to offer customers simple diet solutions through enhanced lineups of prepared products, including ready to cook and precooked dishes, processed foods, salads and cut fruits. The target market was encompassed working housewives, elderly people and singles. When we announced the new vision Advanced Regional Chain, however, we thought it would be best to introduce new sales methods by quickly adopting changes of the times. Accordingly, adopting the new key words "sophisticated and slim storefront," we strived to improve those aspects of operations that had yet to meet with customer approval in other outlets.

Starting at Harashin Misawa store, we introduced the New Concept Part II to Harashin Iwagami store in June 2010 along with a refurbishment. This was followed by the opening of two completely new New Concept Part II stores, Narus Joetsu Inter store in September 2010 and Harashin Murakami Inter store in October 2010. At this point, we corrected the concept as necessary and applied it to existing stores.

Changing in-store lighting or interior décor to give a chic impression can only be done to new or renovated stores. In terms of the selection of products, however, we were able to introduce imported cheeses, olive oils and delicatessen meats at existing stores, along with display cases that take color and design into careful consideration.

Furthermore, as part of the New Concept Part II, we began to introduce "power items." Power items comprise a new product category in which we can offer products at unbeatable prices yet with a certain quality and taste by leveraging our advantage of having food manufacturing subsidiaries in the Group. For example, we offer a milk bun at ¥20, a sandwich at ¥98, and a rice ball at ¥68, but are still able to secure appropriate revenues. On top of the existing private brand products, we will nurture these power items.

As a member of regional society, Harashin Narus will remain fully aware of its social mission as a supermarket and make

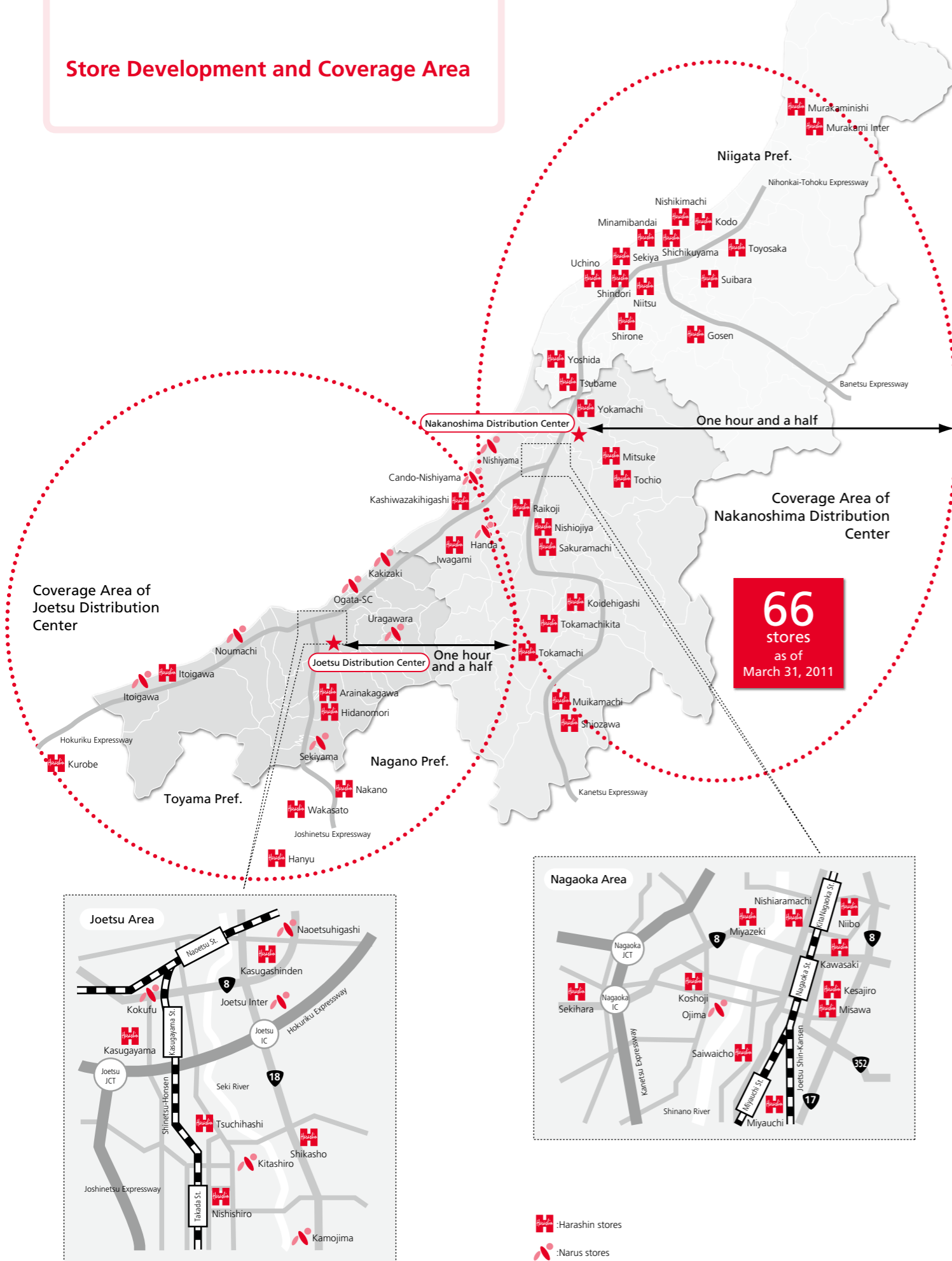


continuous efforts to become a regional store chain that meets customers' everyday lifestyle needs.

We sincerely ask for shareholders and investors' continued support and understanding.

Kazuhiko Hara
President and Representative Director

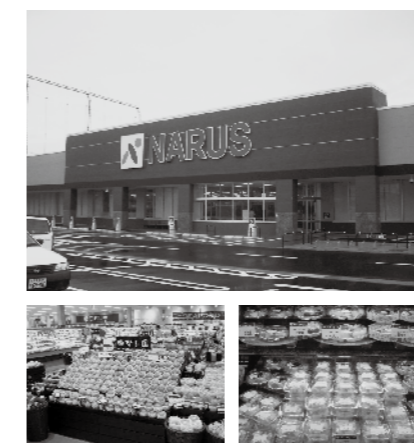
Store Development and Coverage Area



The number of SSMs to be developed is not simply a numerical target, it is the number of stores necessary to fulfill our mission as a store chain that meets customers' everyday lifestyle needs. SSM stands for a super superstore, that is, an outlet that has 500–800 *tsubo*, or approximately 1,650–2,650m² floor space. We plan to open new SSMs in pursuit of developing areas of dominance where stores are sited close enough to each other so that their catchment areas slightly overlap. We are aiming to extend our business footprint across more than one prefecture, while developing distribution networks in neighboring regions and forming areas of dominance.

Narus Joetsu Inter store

Opened in September 2010, this was the first Narus store based on the New Concept Part II. The greengrocery section, the part of store that customers first see when entering the outlet, welcomes customers with displays that take into consideration season and color. The specialty section has a wide selection of items both from established shops in the stores' local communities as well as local specialties.



Harashin Murakami Inter store

This was established as the second Harashin store in the Murakami City, Niigata Prefecture, in October 2010. Along with select products based on New Concept Part II, the store offers a number of local specialties, including Murakami beef and fresh fish from Iwafune fishing port and Sanpoku fishery cooperative association.



Harashin Iwagami store

Based on New Concept Part II, this store was refurbished in June 2010. Sited in an area populated by a number of rival stores, Harashin Iwagami store attracts customers from a wider area owing to its innovative approach.



Consolidated Balance Sheets

March 31, 2011 and 2010

ASSETS	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
CURRENT ASSETS:			
Cash and cash equivalents	¥ 6,228	¥ 4,609	\$ 74,896
Short-term investments	2	2	24
Marketable securities	6	6	71
Receivables:			
Trade notes and accounts	1,846	1,713	22,204
Allowance for doubtful receivables	(6)	(2)	(67)
Inventories	2,345	2,457	28,203
Deferred tax assets	691	636	8,305
Lease investment assets	1,896	1,495	22,806
Prepaid expenses and other current assets	1,142	1,094	13,731
Total current assets	14,150	12,010	170,173
PROPERTY, PLANT AND EQUIPMENT:			
Land	13,382	12,083	160,939
Buildings and structures	26,623	23,856	320,176
Machinery and equipment	1,625	1,557	19,546
Lease assets	5,646	6,028	67,903
Construction in progress	198	184	2,385
Other	4,297	5,671	51,674
Total	51,771	49,379	622,623
Accumulated depreciation	(22,692)	(22,006)	(272,903)
Net property, plant and equipment	29,079	27,373	349,720
INVESTMENTS AND OTHER ASSETS:			
Investment securities	1,431	1,558	17,205
Investments in unconsolidated subsidiaries and associated companies	37	46	438
Long-term loans receivable	124	854	1,490
Intangible assets	1,747	2,198	21,009
Lease and guarantee deposits	4,936	5,217	59,366
Deferred tax assets	1,605	750	19,307
Other asset	1,018	1,133	12,243
Allowance for doubtful accounts	(1)		(9)
Total investments and other assets	10,897	11,756	131,049
TOTAL ASSETS	¥54,126	¥51,139	\$650,942

LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
CURRENT LIABILITIES:			
Current portion of long-term loans payable	¥ 5,154	¥ 4,335	\$ 61,991
Payables:			
Trade	7,899	7,423	94,995
Other	368	306	4,425
Income taxes payable	1,142	875	13,734
Accrued expenses	2,449	2,114	29,452
Other current liabilities	815	783	9,798
Total current liabilities	17,827	15,836	214,395
LONG-TERM LIABILITIES:			
Long-term loans payable	5,312	6,198	63,885
Lease obligations	2,560	3,142	30,782
Asset retirement obligations	2,396		28,816
Long-term lease and guarantee deposited	2,765	2,538	33,254
Other	329	559	3,956
Total long-term liabilities	13,362	12,437	160,693
NET ASSETS:			
SHAREHOLDERS' EQUITY:			
Common stock			
Authorized— 38,000,000 shares			
Issued— 18,014,239 shares in 2011 and 18,014,239 shares in 2010	3,160	3,160	38,000
Capital surplus	6,406	6,406	77,040
Retained earnings	13,621	12,993	163,811
Treasury stock, at cost— 413,293 shares in 2011 and 11,691 shares in 2010	(495)	(11)	(5,946)
Total shareholders' equity	22,692	22,548	272,905
VALUATION AND TRANSLATION ADJUSTMENTS:			
Net unrealized gains on available-for-sale securities	245	318	2,949
Total valuation and translation adjustments	245	318	2,949
Total net assets	22,937	22,866	275,854
TOTAL LIABILITIES AND NET ASSETS	¥54,126	¥51,139	\$650,942

Consolidated Statements of Cash Flows

Years Ended March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
OPERATING ACTIVITIES:			
Income before income taxes	¥2,382	¥2,856	\$28,641
Adjustments for:			
Income taxes paid	(1,494)	(1,396)	(17,972)
Depreciation and amortization	2,774	2,714	33,366
Loss on sales and disposals of property, plant and equipment—net	64	5	764
Impairment losses on fixed assets		75	
Changes in assets and liabilities:			
Increase in trade notes and accounts receivables	(85)	(85)	(1,020)
Decrease (Increase) in inventories	135	(189)	1,624
Decrease in lease investment assets	(401)	(270)	(4,819)
Increase in interest and dividends receivable	(52)	(47)	(630)
Increase (Decrease) in trade payables	451	314	5,419
Increase (Decrease) in interest payable	3	8	41
Loss on adjustment for changes of accounting standard for asset retirement obligations	1,361		16,370
Other—net	479	614	5,764
Net cash provided by operating activities	5,617	4,599	67,548
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	91	69	1,089
Purchases of property, plant and equipment	(2,861)	(966)	(34,412)
Proceeds from sales of marketable securities	6	6	71
Purchases of marketable securities	(6)	(6)	(71)
Proceeds from sales of investments in securities	6	8	70
Purchases of investments in securities		(8)	
Decrease (Increase) lease and guarantee deposit—net	339	(413)	4,077
Other—net	(4)	(9)	(41)
Net cash used in investing activities	(2,429)	(1,319)	(29,217)
FINANCING ACTIVITIES:			
Decrease in short-term loans payable—net		(620)	
Proceeds from long-term loans payable	4,620	2,720	55,562
Repayments of long-term loans payable	(4,583)	(4,939)	(55,122)
Proceeds from issuance of bonds		1,000	
Redemption of bonds		(1,235)	
Repayments of lease obligations	(727)	(727)	(8,743)
Increase in treasury stock	(483)		(5,814)
Dividends paid	(432)	(396)	(5,195)
Repayments to minority shareholders	(2)		(20)
Cash dividends paid to minority shareholders	(1)		(1)
Net cash used in financing activities	(1,608)	(4,197)	(19,333)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,580	(917)	18,998
INCREASE IN CASH AND CASH EQUIVALENTS RESULTING FROM CHANGE OF SCOPE OF CONSOLIDATION	39		465
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,609	5,527	55,433
CASH AND CASH EQUIVALENTS, END OF YEAR	¥6,228	¥4,610	\$74,896

Shareholders' Information**Paid-in Capital**

¥3,160 million

Number of Shares of Common Stock

Authorized: 38,000,000 shares

Issued: 18,014,239 shares

Outstanding (excluding treasury stock): 17,600,946 shares

Stock Exchange Listing

Tokyo Stock Exchange, First Section

Listing Date: March 2007

Code: 8255

Transfer Agent and Registrar

Mitsubishi UFJ Trust and Banking Corporation

1-4-5, Marunouchi, Chiyoda-ku,

Tokyo 100-8212, Japan

Number of Shareholders

7,264

Major Shareholders

(As of March 31, 2011)

Name	Number of Shares (Thousands)	Shareholding Ratio (%)
Kazuhiko Hara	1,248	7.0
Nobuhiro Hara	842	4.7
The Daishi Bank, Ltd.	835	4.7
Harashin Narus Group Employees' Stockholding	680	3.8
The Shoko Chukin Bank, Ltd.	540	3.0
Sumitomo Mitsui Banking Corporation	398	2.2
Aioi Nissay Dowa Insurance Company, Limited	368	2.0
Masaki Hara	368	2.0
Setsu Hara	320	1.8
Hokuto Corporation	302	1.7

*Ratio of Shareholding is calculated on the outstanding shares.

Distribution of Shareholders (%)