

Consolidated Financial Statements for the Third Quarter of the Fiscal Year Ending March 31, 2017 (Japanese accounting standards)

January 26, 2017

Corporate Name : H2O Retailing Corporation
 Securities Code : 8242 (First Section of the Tokyo Stock Exchange)
 URL : <http://www.h2o-retailing.co.jp/>
 Representative : Atsushi Suzuki, President and Representative Director
 Contact : Tadatsugu Mori, Director and Managing Executive Officer
 TEL : +81-6-6365-8120
 Scheduled date of filing of the quarterly financial report : February 13, 2017
 Scheduled date of dividend payment : —
 Preparation of supplementary materials : Yes
 Briefing session on quarterly financial results : No

(Figures are rounded down to the nearest million yen.)

1. Consolidated Business Results for the Third Quarter of the Fiscal Year ending March 31, 2017 (From April 1, 2016 to December 31, 2016)

(1) Consolidated operating results (Cumulative total) (Percentages indicate year-on-year changes.)

| | Net Sales | | Operating Income | | Recurring Income | | Profit attributable to owners of parent | |
|--------------|-----------------|-------|------------------|-------|------------------|--------|---|-------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| 3Q of FY2017 | 680,598 | (1.4) | 17,135 | (7.1) | 16,634 | (11.2) | 14,446 | (3.3) |
| 3Q of FY2016 | 690,231 | 10.9 | 18,444 | 14.5 | 18,730 | 14.6 | 14,933 | 19.6 |

Note : Comprehensive income 3Q of FY2017 17,615 million yen, (42.0%) 3Q of FY2016 12,404 million yen, (40.3%)

| | Net Income per Share | | Net Income per Share (Diluted) | |
|--------------|----------------------|--|--------------------------------|--|
| | Yen | | Yen | |
| 3Q of FY2017 | 117.05 | | 116.47 | |
| 3Q of FY2016 | 121.08 | | 120.50 | |

(2) Consolidated financial position

| | Total Assets | Net Assets | Owner's Equity Ratio |
|--------------|-----------------|-----------------|----------------------|
| | Millions of yen | Millions of yen | % |
| 3Q of FY2017 | 655,265 | 265,572 | 40.4 |
| FY2016 | 597,041 | 252,587 | 42.1 |

Reference : Owner's equity 3Q of FY2017 264,628 million yen FY2016 251,554 million yen

2. Dividends

| | Annual Dividends | | | | |
|------------------|------------------|----------------|---------------|-----------------|-------|
| | First Quarter | Second Quarter | Third Quarter | Fiscal Year-End | Total |
| | Yen | Yen | Yen | Yen | Yen |
| FY2016 | — | 17.50 | — | 17.50 | 35.00 |
| FY2017 | — | 20.00 | — | | |
| FY2017(Forecast) | | | | 20.00 | 40.00 |

Note : Revision to recently disclosed dividend forecast : No

3. Forecast of Consolidated Business Results for the Fiscal Year ending March 31, 2017 (From April 1, 2016 to March 31, 2017)

(Percentages indicate year-on-year changes.)

| | Net Sales | | Operating Income | | Recurring Income | | Profit attributable to owners of parent | | Net Income per Share | |
|-----------|-----------------|-------|------------------|-------|------------------|--------|---|-----|----------------------|--|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Yen | |
| Full Year | 902,000 | (1.5) | 22,200 | (6.8) | 20,500 | (11.1) | 14,100 | 0.3 | 114.22 | |

Note : Revision to recently disclosed consolidated business results forecast : No

These financial statements have been prepared for reference only in accordance with accounting principles and practices generally accepted in Japan.

Notes

- (1) Changes in significant subsidiaries during the period
(changes in specified subsidiaries resulting in the change in scope of consolidation) : No
- (2) Adoption of special accounting methods for preparing quarterly consolidated financial statements : No
- (3) Changes in accounting policies, changes in accounting estimates or restatements
(a) Changes in accounting policies due to changes in consolidated accounting standards : No
(b) Changes other than (a) : No
(c) Changes in accounting estimates : No
(d) Restatements due to correction : No
- (4) Number of shares issued and outstanding (common stock)
(a) Number of shares issued at the end of the period (including treasury stock)
3Q of FY2017 125,201,396 shares
FY2016 125,201,396 shares
(b) Number of shares of treasury stock at the end of the period
3Q of FY2017 1,752,551 shares
FY2016 1,819,577 shares
(c) Average number of shares during the period
3Q of FY2017 123,419,424 shares
3Q of FY2016 123,340,849 shares

Note : Disclosure of progress of quarterly review procedures

At the time of disclosure of this quarterly financial statements, review procedures for quarterly financial reports based on the Financial Instruments and Exchange Act had not been completed.

Note : Explanation regarding appropriate use of forecast

The above-mentioned forecast is based on the information available to the company at present, and including a potential risk and uncertainty. Actual achievements may differ from these forecasts due to many factors.

Consolidated Financial Statements**(1) Consolidated Balance Sheets**

(Millions of yen)

| | FY2016 (as of March 31, 2016) | 3Q of FY2017 (as of December 31, 2016) |
|---------------------------------------|----------------------------------|---|
| Assets | | |
| Current assets | | |
| Cash on hand and in banks | 48,521 | 71,998 |
| Notes and accounts receivable-trade | 46,785 | 58,137 |
| Merchandise goods and finished goods | 33,959 | 37,437 |
| Work in progress | 186 | 250 |
| Raw materials and supplies | 1,361 | 1,417 |
| Deferred tax assets | 4,910 | 4,293 |
| Notes and accounts receivable -others | 4,710 | 4,951 |
| Other | 5,949 | 7,429 |
| Allowance for doubtful receivables | (814) | (398) |
| Total current assets | <u>145,570</u> | <u>185,517</u> |
| Noncurrent assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 113,755 | 110,922 |
| Machinery and equipment, net | 3,625 | 3,927 |
| Land | 124,341 | 134,547 |
| Construction in progress | 834 | 322 |
| Others, net | 10,904 | 10,889 |
| Total property, plant and equipment | <u>253,461</u> | <u>260,609</u> |
| Intangible assets | | |
| Goodwill | 5,997 | 5,537 |
| Other | 11,733 | 12,050 |
| Total intangible assets | <u>17,730</u> | <u>17,588</u> |
| Investments and other assets | | |
| Investment securities | 97,513 | 107,120 |
| Long-term loans receivable | 3,993 | 3,876 |
| Long-term leasehold deposits | 71,191 | 69,361 |
| Long-term deferred tax assets | 8,945 | 11,623 |
| Other | 1,868 | 2,600 |
| Allowance for doubtful receivables | (3,232) | (3,032) |
| Total investments and other assets | <u>180,279</u> | <u>191,550</u> |
| Total noncurrent assets | <u>451,471</u> | <u>469,748</u> |
| Total Assets | <u>597,041</u> | <u>655,265</u> |

(Millions of yen)

| | FY2016 (as of March 31, 2016) | 3Q of FY2017 (as of December 31, 2016) |
|---|----------------------------------|---|
| Liabilities | | |
| Current Liabilities | | |
| Notes and accounts payable-trade | 62,235 | 78,762 |
| Current portion of bonds | 2,100 | 6,600 |
| Current portion of long-term debt | 10,077 | 12,211 |
| Accounts payable-other | 13,671 | 13,714 |
| Lease obligations | 963 | 699 |
| Income taxes payable | 5,807 | 2,663 |
| Deferred tax liabilities | 0 | 0 |
| Gift certificates | 21,785 | 23,941 |
| Provision for bonuses to employees | 5,048 | 2,607 |
| Provision for bonuses to directors and corporate auditors | 148 | 120 |
| Provision for loss on store closing | 295 | 257 |
| Provision for point card certificates | 2,097 | 2,433 |
| Asset retirement obligations | 383 | 948 |
| Other | 32,610 | 38,572 |
| Total current liabilities | 157,225 | 183,532 |
| Long-term Liabilities | | |
| Bonds | 16,600 | 12,000 |
| Long-term debt | 100,879 | 121,262 |
| Deferred tax liabilities | 20,622 | 23,384 |
| Deferred tax liabilities related to land revaluation | 265 | 265 |
| Provision for retirement benefits to directors and corporate auditors | 205 | 233 |
| Provision for redemption of gift certificates | 3,183 | 3,347 |
| Net defined benefit liability | 20,463 | 20,511 |
| Long-term payable accrued | 268 | 574 |
| Lease obligations | 7,535 | 7,871 |
| Guarantee deposits | 12,103 | 11,647 |
| Asset retirement obligations | 2,576 | 2,657 |
| Other | 2,524 | 2,403 |
| Total long-term liabilities | 187,228 | 206,160 |
| Total Liabilities | 344,454 | 389,692 |
| Net Assets | | |
| Shareholders' Equity | | |
| Common stock | 17,796 | 17,796 |
| Capital surplus | 92,783 | 92,745 |
| Retained earnings | 115,820 | 125,638 |
| Treasury stock | (3,387) | (3,261) |
| Total shareholders' equity | 223,013 | 232,918 |
| Accumulated Other Comprehensive Income | | |
| Net unrealised holding gains on securities | 30,333 | 34,810 |
| Deferred gains or losses on hedges | 185 | 2 |
| Land revaluation, net of tax | 125 | 125 |
| Foreign currency translation adjustments | 182 | (1,214) |
| Remeasurements of defined benefit plans | (2,285) | (2,013) |
| Total accumulated other comprehensive income | 28,541 | 31,710 |
| Subscription Rights to Shares | 1,028 | 939 |
| Non-controlling interests | 3 | 3 |
| Total Net Assets | 252,587 | 265,572 |
| Total Liabilities and Net Assets | 597,041 | 655,265 |

(2) Consolidated Statements of Income (Third Quarter)

(Millions of yen)

| | 3Q of FY2016 (From April 1, 2015 | 3Q of FY2017 (From April 1, 2016 |
|--|-------------------------------------|-------------------------------------|
| Net sales | 690,231 | 680,598 |
| Cost of sales | 489,148 | 481,626 |
| Gross profit | 201,082 | 198,971 |
| Selling, general and administrative expenses | 182,637 | 181,836 |
| Operating income | 18,444 | 17,135 |
| Non-operating income | | |
| Interest income | 69 | 62 |
| Dividends income | 1,116 | 943 |
| Gain on adjustment of accounts payable | 1,032 | 961 |
| Other | 965 | 541 |
| Total non-operating income | 3,183 | 2,508 |
| Non-operating expenses | | |
| Interest expense | 938 | 814 |
| Loss on provision for redemption of gift certificates | 919 | 766 |
| Valuation loss on forward exchange contracts | — | 256 |
| Other | 1,039 | 1,171 |
| Total non-operating expenses | 2,897 | 3,009 |
| Recurring income | 18,730 | 16,634 |
| Extraordinary income | | |
| Gain on sales of property, plant and others | — | 4,291 |
| Reversal of provision for loss on store closing | 464 | 252 |
| Gain on sales of investment securities | 8,496 | — |
| Total extraordinary income | 8,961 | 4,544 |
| Extraordinary loss | | |
| Loss on closing of stores and others | 1,142 | 1,990 |
| Impairment losses | 1,667 | 1,186 |
| Loss on disposal of property, plant, equipment and intangibles | 416 | 785 |
| Outplacement expenses | 92 | — |
| Total extraordinary loss | 3,319 | 3,962 |
| Income before income taxes | 24,373 | 17,215 |
| Income taxes - current | 6,981 | 4,176 |
| Income taxes - deferred | 2,458 | (1,406) |
| Total income taxes | 9,439 | 2,769 |
| Income before minority interests | 14,933 | 14,446 |
| Minority interests | 0 | 0 |
| Net income | 14,933 | 14,446 |

Reference : Non-consolidated

(1) Business Results of Hankyu Hanshin Department Stores, Inc.

Third Quarter (From April 1, 2016 to December 31, 2016)

① Operating results (Millions of yen)

| | Aomout | YoY | increase (decrease) |
|--|---------|-------|---------------------|
| Net sales | 317,247 | 98.4% | (5,021) |
| Gross profit | 78,321 | 98.1% | (1,521) |
| Gross profit / Net sales | 24.69% | — | (0.09Pt) |
| Other operating revenue | 486 | 77.0% | (145) |
| Selling, general and administrative expenses | 67,185 | 98.8% | (840) |
| SG & A / Net sales | 21.18% | — | +0.07Pt |
| Operating income | 11,621 | 93.4% | (826) |
| Operating income / Net sales | 3.66% | — | (0.20Pt) |

② Sales of each store (Millions of yen)

| | Aomout | YoY | increase (decrease) |
|--------------------------|---------|--------|---------------------|
| Hankyu Main Store (※1) | 163,298 | 99.8% | (295) |
| Hanshin Umeda Main Store | 41,651 | 94.1% | (2,606) |
| Hakata Hankyu | 32,477 | 100.9% | +288 |
| HANKYU MEN'S TOKYO | 10,290 | 95.7% | (460) |
| Other branch stores | 69,530 | 97.3% | (1,946) |
| Total of branch stores | 112,297 | 98.1% | (2,119) |
| Total | 317,247 | 98.4% | (5,021) |

※1 including HANKYU MEN'S OSAKA

③ Sales of each category (Millions of yen)

| | Aomout | YoY | increase (decrease) |
|------------------------------|---------|--------|---------------------|
| Men's clothing | 27,819 | 97.3% | (768) |
| Women's clothing | 48,550 | 94.3% | (2,907) |
| Children's clothing | 7,561 | 95.9% | (319) |
| Other clothing | 9,227 | 94.4% | (546) |
| Clothing | 93,159 | 95.4% | (4,542) |
| Accessories, bags and others | 57,044 | 97.8% | (1,309) |
| Household merchandise | 9,946 | 100.8% | +77 |
| Foods | 98,840 | 99.7% | (255) |
| Restaurants and cafés | 6,853 | 97.6% | (171) |
| General merchandise | 48,873 | 102.6% | +1,243 |
| Service | 1,371 | 94.9% | (73) |
| Other | 1,158 | 100.8% | +9 |
| Total | 317,247 | 98.4% | (5,021) |

(2) Business Results of Izumiya Co., Ltd.

Third Quarter (From April 1, 2016 to December 31, 2016)

① Operating results

(Millions of yen)

| | Aomout | YoY | increase (decrease) |
|--|---------|-------|---------------------|
| Net sales | 212,026 | 96.5% | (7,794) |
| Gross profit | 63,970 | 98.0% | (1,293) |
| Gross profit / Net sales | 30.17% | — | +0.48Pt |
| Other operating revenue | — | — | — |
| Selling, general and administrative expenses | 62,117 | 98.7% | (819) |
| SG & A / Net sales | 29.30% | — | +0.67Pt |
| Operating income | 1,852 | 79.6% | (473) |
| Operating income / Net sales | 0.87% | — | (0.18Pt) |

※ separating asset management business company (H2O Asset Management Co., Ltd.) on 1st July, 2016

◆ H2O Asset Management Co., Ltd.

(Millions of yen)

| | Aomout | YoY | increase (decrease) |
|------------------|--------|-----|---------------------|
| Operating income | 2,040 | — | + 2,040 |

※ established on July 1, 2016

② Sales of stores

(Millions of yen)

| | Aomout | YoY | increase (decrease) |
|-----------------|---------|-------|---------------------|
| Total stores | 191,515 | 96.0% | (7,883) |
| Existing stores | 176,776 | 97.0% | (5,531) |

③ Sales of each category

(Millions of yen)

| | Aomout | YoY | increase (decrease) |
|-----------------|---------|-------|---------------------|
| Foods | 129,021 | 98.1% | (2,523) |
| Clothing | 25,270 | 92.2% | (2,127) |
| Household goods | 34,263 | 93.1% | (2,525) |
| Total | 188,555 | 96.3% | (7,176) |

(2) Business Results of Hankyu Oasis Co., Ltd.

Third Quarter (From April 1, 2016 to December 31, 2016)

① Operating results

(Millions of yen)

| | Aomout | YoY | increase (decrease) |
|--|--------|--------|---------------------|
| Net sales | 87,432 | 104.9% | + 4,047 |
| Gross profit | 22,477 | 114.6% | + 2,861 |
| Gross profit / Net sales | 25.71% | — | +2.18Pt |
| Other operating revenue | 4,704 | 111.7% | + 492 |
| Selling, general and administrative expenses | 26,076 | 115.6% | + 3,515 |
| SG & A / Net sales | 29.83% | — | +2.77Pt |
| Operating income | 1,104 | 87.2% | Δ 162 |
| Operating income / Net sales | 1.26% | — | (0.26Pt) |

② Sales of stores

(Millions of yen)

| | Aomout | YoY | increase (decrease) |
|-----------------|--------|--------|---------------------|
| Total stores | 87,432 | 104.9% | + 4,047 |
| Existing stores | 79,740 | 99.5% | Δ 393 |