

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

October 26, 2016

Corporate Name : H2O Retailing Corporation
 Securities Code : 8242 (First Section of the Tokyo Stock Exchange)
 URL : <http://www.h2o-retailing.co.jp/>
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 Scheduled date of filing of the quarterly financial report : November 11, 2016
 Scheduled date of dividend payment : November 30, 2016
 Preparation of supplementary materials : Yes
 Briefing session on quarterly financial results : Yes (for institutional investors and analysts)

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

1. Consolidated Business Results for the Second Quarter of the Fiscal Year ending March 31, 2017 (From April 1, 2016 to September 30, 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	%
2Q of FY2017	433,539	(1.8)	6,623	(12.3)	5,121	(33.7)	6,552	3.6
2Q of FY2016	441,425	26.7	7,555	29.1	7,721	28.8	6,327	(50.0)

Note : Comprehensive income(loss) 2Q of FY2017 6,972 million yen —%, 2Q of FY2016 (3,404) million yen —%

	Net Income per Share		Net Income per Share (Diluted)	
	Yen	Yen	Yen	Yen
2Q of FY2017	53.09		52.83	
2Q of FY2016	51.30		51.05	

(2) Consolidated financial position

	Total Assets	Net Assets	Owner's Equity Ratio
	Millions of yen	Millions of yen	%
2Q of FY2017	623,386	257,399	41.1
FY2016	597,041	252,587	42.1

Reference : Owner's equity 2Q of FY2017 256,453 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 : Yes

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 : Yes

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)

2Q of FY2017	125,201,396 shares
FY2016	125,201,396 shares
 - (b) Number of shares of treasury stock at the end of the period

2Q of FY2017	1,753,802 shares
FY2016	1,819,577 shares
 - (c) Average number of shares during the period

2Q of FY2017	123,407,211 shares
2Q of FY2016	123,337,442 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)	2Q of FY2017 (as of September, 30, 2016)
Assets		
Current assets		
Cash on hand and in banks	48,521	67,802
Notes and accounts receivable-trade	46,785	41,550
Merchandise goods and finished goods	33,959	35,115
Work in progress	186	334
Raw materials and supplies	1,361	1,103
Deferred tax assets	4,910	5,451
Notes and accounts receivable -others	4,710	4,646
Other	5,949	6,555
Allowance for doubtful receivables	(814)	(393)
Total current assets	145,570	162,167
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	113,755	111,387
Machinery and equipment, net	3,625	3,894
Land	124,341	134,547
Construction in progress	834	420
Others, net	10,904	10,880
Total property, plant and equipment	253,461	261,131
Intangible assets		
Goodwill	5,997	5,691
Other	11,733	11,839
Total intangible assets	17,730	17,530
Investments and other assets		
Investment securities	97,513	98,092
Long-term loans receivable	3,993	3,910
Long-term leasehold deposits	71,191	69,637
Long-term deferred tax assets	8,945	11,722
Other	1,868	2,264
Allowance for doubtful receivables	(3,232)	(3,071)
Total investments and other assets	180,279	182,557
Total noncurrent assets	451,471	461,219
Total Assets	597,041	623,386

(Millions of yen)

	FY2016 (as of March 31, 2016)	2Q of FY2017 (as of September, 30, 2016)
Liabilities		
Current Liabilities		
Notes and accounts payable-trade	62,235	55,445
Current portion of bonds	2,100	2,100
Commercial papers	—	4,000
Current portion of long-term debt	10,077	10,779
Accounts payable-other	13,671	12,284
Lease obligations	963	709
Income taxes payable	5,807	2,503
Deferred tax liabilities	0	0
Gift certificates	21,785	21,755
Provision for bonuses to employees	5,048	4,952
Provision for bonuses to directors and corporate auditors	148	115
Provision for loss on store closing	295	228
Provision for point card certificates	2,097	2,395
Asset retirement obligations	383	1,152
Other	32,610	36,060
Total current liabilities	157,225	154,483
Long-term Liabilities		
Bonds	16,600	16,550
Long-term debt	100,879	123,686
Deferred tax liabilities	20,622	22,254
Deferred tax liabilities related to land revaluation	265	265
Provision for retirement benefits to directors and corporate auditors	205	222
Provision for redemption of gift certificates	3,183	3,247
Net defined benefit liability	20,463	20,302
Long-term payable accrued	268	249
Lease obligations	7,535	7,760
Guarantee deposits	12,103	11,853
Asset retirement obligations	2,576	2,646
Other	2,524	2,464
Total long-term liabilities	187,228	211,503
Total Liabilities	344,454	365,986
Net Assets		
Shareholders' Equity		
Common stock	17,796	17,796
Capital surplus	92,783	92,746
Retained earnings	115,820	120,213
Treasury stock	(3,387)	(3,264)
Total shareholders' equity	223,013	227,492
Accumulated Other Comprehensive Income		
Net unrealised holding gains on securities	30,333	31,931
Deferred gains or losses on hedges	185	(144)
Land revaluation, net of tax	125	125
Foreign currency translation adjustments	182	(846)
Remeasurements of defined benefit plans	(2,285)	(2,104)
Total accumulated other comprehensive income	28,541	28,961
Subscription Rights to Shares	1,028	942
Non-controlling interests	3	3
Total Net Assets	252,587	257,399
Total Liabilities and Net Assets	597,041	623,386

(2) Consolidated Statements of Income (Second Quarter)

(Millions of yen)

	2Q of FY2016 (From April 1, 2015 to September 30, 2015)	2Q of FY2017 (From April 1, 2016 to September 30, 2016)
Net sales	441,425	433,539
Cost of sales	313,176	307,059
Gross profit	128,248	126,480
Selling, general and administrative expenses	120,693	119,856
Operating income	7,555	6,623
Non-operating income		
Interest income	48	42
Dividends income	694	524
Gain on adjustment of accounts payable	649	584
Other	806	386
Total non-operating income	2,199	1,538
Non-operating expenses		
Interest expense	630	541
Valuation loss on forward exchange contacts	—	1,135
Loss on provision for redemption of gift certificates	628	473
Other	774	890
Total non-operating expenses	2,033	3,040
Recurring income	7,721	5,121
Extraordinary income		
Gain on sales of property, plant and others	—	4,291
Reversal of provision for loss on store closing	—	218
Gain on sales of investment securities	7,443	—
Total extraordinary income	7,443	4,510
Extraordinary loss		
Loss on closing of stores and others	970	1,992
Impairment losses	1,546	1,114
Loss on disposal of property, plant, equipment and intangibles	233	536
Outplacement expenses	92	—
Total extraordinary loss	2,843	3,643
Income before income taxes	12,321	5,987
Income taxes - current	4,430	1,917
Income taxes - deferred	1,563	(2,482)
Total income taxes	5,994	(564)
Income before minority interests	6,327	6,552
Profit attributable to non-controlling interests	0	0
Profit attributable to owners of parent	6,327	6,552

(3) Consolidated Cash Flow Statements

(Millions of yen)

	2Q of FY2016 (From April 1, 2015 to September 30, 2015)	2Q of FY2017 (From April 1, 2016 to September 30, 2016)
Cash flows from operating activities		
Income before income taxes	12,321	5,987
Depreciation and amortisation	8,019	7,951
Impairment losses	1,546	1,114
Loss on closing of stores and others	—	1,746
Amortisation of goodwill	306	306
Increase(decrease) in allowance for doubtful receivables	(43)	(582)
Increase(decrease) in provision for bonuses to employees	19	(92)
Increase(decrease) in provision for bonuses to directors	(79)	(33)
Increase(decrease) in provision for net defined benefit liability	(981)	(160)
Increase(decrease) in provision for retirement benefits to directors	10	17
Increase(decrease) in provision for redemption of gift certificates	107	64
Increase(decrease) in provision for loss on store closing	(340)	(66)
Increase(decrease) in provision for point card certificates	383	301
Interest and dividend income	(743)	(567)
Interest expense	630	541
Equity in losses(earnings) of affiliates	(84)	110
Loss(gain) on sales of investment securities	(7,443)	—
Loss(gain) on sales of property, plant, equipment and intangibles	—	(4,291)
Loss on retirement of non-current assets	233	254
Valuation loss (gain) on forward exchange contracts	—	1,135
Decrease(increase) in notes and accounts receivable	522	5,233
Decrease(increase) in inventories	(561)	(1,073)
Increase(decrease) in notes and accounts payable	(3,113)	(6,665)
Increase(decrease) in consumption tax payable	(2,622)	(271)
Other	2,243	3,620
Sub total	<u>10,329</u>	<u>14,581</u>
Interest and dividends received	717	534
Interest expense paid	(629)	(537)
Income taxes paid	<u>(5,524)</u>	<u>(6,035)</u>
Net cash provided by operating activities	<u>4,892</u>	<u>8,543</u>

	2Q of FY2016 (From April 1, 2015 to September 30, 2015)	2Q of FY2017 (From April 1, 2016 to September 30, 2016)
Cash flows from investing activities		
Net decrease(increase) in time deposits	(6)	10
Purchases of property, plant and equipment	(11,297)	(18,993)
Proceeds from sales of property, plant and equipment	459	5,699
Purchases of intangibles	(1,120)	(1,787)
Proceeds from sales of intangibles	0	0
Payment for exercise of asset retirement obligations	(298)	(253)
Purchases of investment securities	(5)	(4)
Proceeds from sales of investment securities	18,963	134
Payments of long-term loans receivable	(287)	—
Proceeds from collection of long-term loans receivable	176	121
Payments for guarantee deposits	(1,113)	(328)
Proceeds from collection of guarantee deposits	1,880	1,447
Net cash provided by (used in) investing activities	<u>7,352</u>	<u>(13,953)</u>
Cash flows from financing activities		
Increase(decrease) in short-term debt	(3,000)	4,000
Proceeds from long-term debt	—	26,500
Repayments of long-term debt	(6,383)	(2,991)
Payments for redemption of bonds	(50)	(50)
Proceeds from sale of treasury stock	22	0
Additions to treasury stock	(7)	(1)
Dividends paid	(1,541)	(2,159)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(4)	—
Repayments of lease obligations	(547)	(404)
Net cash provided by (used in) financing activities	<u>(11,512)</u>	<u>24,893</u>
Foreign exchange differences of cash and cash equivalents	15	(192)
Net increase(decrease) in cash and cash equivalents	<u>748</u>	<u>19,290</u>
Cash and cash equivalents at beginning of year	<u>44,334</u>	<u>48,492</u>
Cash and cash equivalents	<u>45,083</u>	<u>67,783</u>

Reference : Business Results of Hankyu Hanshin Department Stores, Inc.

Second Quarter (From April 1, 2016 to September 30, 2016)

(1) Business Results

	millions of yen	year on year
Net sales	196,982	98.0%
Gross profit	48,423	97.7%
Other operating revenue	329	78.6%
Operating gross profit	48,752	97.5%
Selling, general and administrative expenses	44,056	99.7%
Operating income	4,696	80.9%

(2) Sales of each store

	millions of yen	year on year
Hankyu Umeda Main Store (※1)	99,984	99.2%
Hanshin Umeda Main Store	26,437	94.1%
Hakata Hankyu	20,536	101.1%
HANKYU MEN'S TOKYO	6,242	95.6%
Other Branches	43,781	96.9%
Total of Branches	70,561	98.0%
Total	196,982	98.0%

※1 including HANKYU MEN'S OSAKA

(3) Sales of each category

	millions of yen	year on year
Clothing	57,523	94.5%
Accessories, bags and others	36,392	96.7%
Household merchandise	6,367	101.2%
Foods	59,889	99.8%
Restaurants and cafés	4,599	97.8%
General merchandise	30,565	102.9%
Service	888	91.9%
Other	756	102.1%
Total	196,982	98.0%