

H2O RETAILING CORPORATION

Financial Results

2nd Quarter of FY2017

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I . Consolidated

1. Overview of consolidated statements of income

(1) Operating results

(Millions of yen)

	Amount	YoY	increase (decrease)
Net sales	433,539	98.2%	(7,885)
Gross profit	126,480	98.6%	(1,768)
Gross profit / Net sales	29.17%		+0.12Pt
Selling, general and administrative expenses SG & A	119,856	99.3%	(837)
/ Net sales	27.65%		+0.30Pt
Operating income	6,623	87.7%	(931)
Operating income / Net sales	1.53%		(0.18Pt)
Recurring income	5,121	66.3%	(2,599)
Recurring income / Net sales	1.18%		(0.57Pt)
Net income	6,552	103.6%	+ 225
Net income / Net sales	1.51%		+0.08Pt

Reference : Changes of operating results of 2nd Quarter

(Millions of yen)

	FY2013	FY2014	FY2015	FY2016	FY2017
Net sales	236,185	264,822	348,360	441,425	433,539
YoY	99.9%	112.1%	131.5%	126.7%	98.2%
Gross profit	64,392	71,791	99,695	128,248	126,480
YoY	98.3%	111.5%	138.9%	128.6%	98.6%
Selling, general and administrative expenses	62,229	67,443	93,843	120,693	119,856
YoY	100.6%	108.4%	139.1%	128.6%	99.3%
Operating income	2,162	4,348	5,852	7,555	6,623
YoY	59.1%	201.1%	134.6%	129.1%	87.7%
Recurring income	2,762	4,846	5,992	7,721	5,121
YoY	71.9%	175.4%	123.7%	128.8%	66.3%
Net income	3,004	2,652	12,660	6,327	6,552
YoY	—	88.3%	477.2%	50.0%	103.6%

(2) Segment information

(Millions of yen)

		1st Quarter		2nd Quarter		Total	
		Amount	YoY	Amount	YoY	Amount	YoY
Department Store Business	Net sales	95,429	99.0%	101,630	97.1%	197,060	98.0%
	Operating income	2,381	75.8%	2,344	94.1%	4,726	83.9%
Supermarket Business	Net sales	103,261	100.5%	102,334	97.4%	205,595	9.9%
	Operating income	1,079	3301.6%	507	33.9%	1,587	103.8%
Shopping Center Business	Net sales	2,285	87.1%	2,445	91.1%	4,730	89.1%
	Operating income	605	142.8%	1,474	297.8%	2,080	226.2%
Sub Total	Net sales	105,547	100.2%	104,779	97.2%	210,326	98.7%
	Operating income	1,685	368.9%	1,981	99.5%	3,667	149.8%
Other Business	Net sales	12,981	95.7%	13,171	96.3%	26,152	96.0%
	Operating income	2,240	120.1%	(173)	-	2,066	107.7%
Consolidation adjustment	Net sales	-	-	-	-	-	-
	Operating income	(3,301)	-	(536)	-	(3,837)	-
Total	Net sales	213,958	99.4%	219,581	97.1%	433,539	98.2%
	Operating income	3,006	94.3%	3,617	82.9%	6,623	87.7%

※1 Net sales refer to sales to external customers.

※2 On 1st July 2016, Izumiya Co., Ltd. was reorganized and divided into a retail business (Izumiya Co., Ltd.) and a real estate business (H2O Asset Management Co., Ltd.). In the result of the previous year, we cannot divide net sales and operating income of the real estate business from Izumiya Co., Ltd. before reorganization, so we do not disclose year-on-year figures in the disclosure documents required by Japanese law.

The year-on-year in the above table is estimated by classifying all net sales and operating incomes of Izumiya Co., Ltd. in the previous year into Supermarket business.

Reference : The current results based on the segment classification
of the previous fiscal year

(Millions of yen)

		1st Quarter		2nd Quarter		Total	
		Amount	YoY	Amount	YoY	Amount	YoY
Department Store Business	Net sales	95,429	99.0%	101,630	97.1%	197,060	98.0%
	Operating income	2,381	75.8%	2,344	94.1%	4,726	83.9%
Supermarket Business	Net sales	30,527	106.4%	30,908	103.7%	61,435	105.0%
	Operating income	179	70.1%	606	125.4%	786	106.3%
Izumiya Business	Net sales	76,518	96.5%	74,975	93.2%	151,494	94.8%
	Operating income	1,117	-	954	86.8%	2,071	236.5%
Other Business	Net sales	11,482	105.2%	12,067	108.3%	23,549	106.8%
	Operating income	2,326	106.2%	161	34.5%	2,487	93.6%
Consolidation adjustment	Net sales	-	-	-	-	-	-
	Operating income	(2,999)	-	(450)	-	(3,449)	-
Total	Net sales	213,958	99.4%	219,581	97.1%	433,539	98.2%
	Operating income	3,006	94.3%	3,617	82.9%	6,623	87.7%

※ Net sales refer to sales to external customers.

(3) Selling, general and administrative expenses

(Millions of yen)

	Amount	YoY	increase (decrease)
Personnel expenses	47,486	98.8%	(585)
Rent expenses	18,543	98.0%	(384)
Advertising and decoration expenses	7,759	93.2%	(567)
Depreciation	7,520	99.3%	(51)
Business consignment expenses	9,784	100.8%	+ 73
Sales commission	4,245	128.8%	+ 950
Transportation costs	7,058	110.8%	+ 687
Others	17,458	94.8%	(960)
Total	119,856	99.3%	(837)

(4) Non-operating income and expenses

(Millions of yen)

	Amount	YoY	increase (decrease)
Non-operating income	1,538	69.9%	(660)
Interest income	42	87.7%	(6)
Dividends income	524	75.5%	(169)
Gain on adjustment of accounts payable	584	90.1%	(64)
Others	386	47.9%	(420)
Non-operating expenses	3,040	149.5%	+ 1,007
Interest expense	541	86.0%	(88)
Loss on valuation of forward exchange contracts	1,135	-	+ 1,135
Loss on provision for redemption of gift certificates	473	75.2%	(155)
Others	890	115.0%	+ 116

(5) Extraordinary income and losses

(Millions of yen)

	Amount	main contents
Extraordinary income	4,510	
Gain on sales of property, plant and others	4,291	Sales of the land by H2O Retailing
Reversal of provision for loss on store closing	218	Izumiya Oyama
Extraordinary losses	3,643	
Loss on closing of stores and others	1,992	Sakai Kitahanada Hankyu, Izumiya Suminodo
Impairment losses	1,114	Hanshin Umeda Main Store
Loss on disposal of property, plant, equipment and intangibles	536	Some Izumiya stores

(6) Income taxes

(Millions of yen)

	Amount	2nd Quarter of FY2015	increase (decrease)
Income before income taxes	5,987	12,321	(6,333)
Income taxes - current	1,917	4,430	(2,513)
Income taxes - deferred	(2,482)	1,563	(4,045)
Profit attributable to owners of parent	6,552	6,327	+ 225

2. Overview of consolidated Balance Sheet

(Millions of yen)

main subjects	2nd Quarter of FY2017	FY2016	increase (decrease)
Cash and deposits	67,802	48,521	+ 19,280
Notes and accounts receivable-trade	41,550	46,785	(5,235)
Total current assets	162,167	145,570	+ 16,597
Buildings and structures, net	111,387	113,755	(2,367)
Land	134,547	124,341	+ 10,206
Investment securities	98,092	97,513	+ 579
Guarantee deposits	69,637	71,191	(1,554)
Deferred tax assets	11,722	8,945	+ 2,776
Total non-current assets	461,219	451,471	+ 9,747
Total assets	623,386	597,041	+ 26,344

(Millions of yen)

main subjects	2nd Quarter of FY2017	FY2016	increase (decrease)
Notes and accounts payable-trade	55,445	62,235	(6,790)
Commercial papers	4,000	-	+ 4,000
Current portion of bonds	2,100	2,100	-
Current portion of long-term debt	10,779	10,077	+ 701
Income taxes payable	2,503	5,807	(3,303)
Accounts payable-other	12,284	13,671	(1,386)
Total current liabilities	154,483	157,225	(2,742)
Bonds	16,550	16,600	(50)
Long-term debt	123,686	100,879	+ 22,807
Deferred tax liabilities	22,254	20,622	+ 1,631
Total long-term liabilities	211,503	187,228	+ 24,274
Total liabilities	365,986	344,454	+ 21,532
Retained earnings	120,213	115,820	+ 4,392
Net unrealised holding gains on securities	31,931	30,333	+ 1,597
Total net assets	257,399	252,587	+ 4,812
Total liabilities and net assets	623,386	597,041	+ 26,344

3. Overview of consolidated Cash Flow statements

(Millions of yen)

main subjects	Amount	2nd Quarter of FY2016	increase (decrease)
Cash flows from operating activities	8,543	4,892	+ 3,650
Income before income taxes	5,987	12,321	(6,333)
Depreciation and amortisation	7,951	8,019	(67)
Decrease(increase) in notes and accounts receivable	5,233	522	+ 4,711
Cash flows from investing activities	(13,953)	7,352	(21,306)
Purchases of property, plant and equipment	(18,993)	(11,297)	(7,695)
Proceeds from sales of property, plant and equipment	5,699	459	+ 5,240
Proceeds from sales of investment securities	134	18,963	(18,828)
Cash flows from financing activities	24,893	(11,512)	+ 36,405
Proceeds from long-term loans payable	26,500	-	+ 26,500
Repayments of long-term loans payable	(2,991)	(6,383)	+ 3,392
Cash and cash equivalents	67,783	45,083	+ 22,699

Reference : Changes of Cash Flows

(Millions of yen)

	FY2013	FY2014	FY2015	FY2016	2nd Quarter of FY2017
Cash flows from operating activities	24,533	33,415	25,468	24,539	8,543
Cash flows from investing activities	(23,925)	(9,628)	(49,162)	5,852	(13,953)
Cash flows from financing activities	(3,422)	(3,557)	24,161	(26,207)	24,893
Cash and cash equivalents	15,082	35,383	44,334	48,492	67,783

※ The results from FY2013 to FY2016 are of full-year in the past fiscal year.

4. Others

(1) Capital investment

(Millions of yen)

	Amount	main subjects
Department Store Business	1,242	Renovation of Hankyu Main store, Rebuilding of Hanshin Umeda Main store
Supermarket Business	6,554	New stores of Izumiya and Hankyu Oasis
Shopping Center Business	6,260	Purchases of the land by H2O Asset Management
Other Business	7,860	Purchases of the land by H2O Retailing
Consolidation adjustment	(1,762)	
Total	20,154	

(2) Number of employees

	2nd Quarter of FY2017		FY2016	
Department Store Business	2,946	(1,807)	2,917	(1,877)
Supermarket Business	3,661	(12,874)	3,541	(12,696)
Shopping Center Business	356	(1,290)	365	(1,399)
Other Business	1,703	(3,017)	1,633	(3,148)
Total	8,666	(18,988)	8,456	(19,120)

※1 The number of employees is on the operation staff basis. (excluding employees seconded to other company, and including employees seconded from other company and operating officers)

※2 () means the number of temporary employees. (the average of the fiscal period)

5. Forecast of FY2017

(1) Consolidated

(Millions of yen)

	1st•2nd Quarter		3rd•4th Quarter		FY2017	
	Amount	YoY	Amount	YoY	forecast	YoY
Net sales	433,539	98.2%	468,460	98.8%	902,000	98.5%
Operating income	6,623	87.7%	15,576	95.7%	22,200	93.2%
Operating income / Net sales	1.53%		3.33%		2.46%	
Recurring income	5,121	66.3%	15,378	100.3%	20,500	88.9%
Recurring income / Net sales	1.18%		3.28%		2.27%	
Net income	6,552	103.6%	7,547	97.7%	14,100	100.3%
Net income / Net sales	1.51%		1.61%		1.56%	

(2) Segment information

(Millions of yen)

		1st•2nd Quarter		3rd•4th Quarter		FY2017	
		Amount	YoY	Amount	YoY	forecast	YoY
Department Store Business	Net sales	197,060	98.0%	223,753	97.3%	420,814	97.6%
	Operating income	4,726	83.9%	10,400	94.6%	15,126	91.0%
Supermarket Business	Net sales	205,595	99.0%	210,532	100.3%	416,128	99.7%
	Operating income	1,587	103.8%	3,200	64.4%	4,787	73.7%
Shopping Center Business	Net sales	4,730	89.1%	5,114	98.7%	9,845	93.8%
	Operating income	2,080	226.2%	2,700	325.3%	4,780	273.2%
Sub Total	Net sales	210,326	98.7%	215,646	100.3%	425,973	99.5%
	Operating income	3,667	149.8%	5,900	101.8%	9,567	116.1%
Other Business	Net sales	26,152	96.0%	29,059	99.5%	55,212	97.8%
	Operating income	2,066	107.7%	539	191.9%	2,606	118.5%
Consolidation adjustment	Net sales	-	-	-	-	-	-
	Operating income	(3,837)	-	(1,263)	-	(5,101)	-
Total	Net sales	433,539	98.2%	468,460	98.8%	902,000	98.5%
	Operating income	6,623	87.7%	15,576	95.7%	22,200	93.2%

※1 Net sales refer to sales to external customers.

※2 On 1st July 2016, Izumiya Co., Ltd. was reorganized and divided into a retail business (Izumiya Co., Ltd.) and a real estate business (H2O Asset Management Co., Ltd.). In the result of the previous year, we cannot divide net sales and operating income of the real estate business from Izumiya Co., Ltd. before reorganization, so we do not disclose year-on-year figures in the disclosure documents required by Japanese law.

The year-on-year in the above table is estimated by classifying all net sales and operating incomes of Izumiya Co., Ltd. in the previous year into Supermarket business.

II. Non-consolidated

1. Hankyu Hanshin Department Stores, Inc.

(1) Operating results (Millions of yen)

	Aomout	YoY	increase (decrease)
Net sales	196,982	98.0%	(3,937)
Gross profit	48,423	97.7%	(1,148)
Gross profit / Net sales	24.58%		(0.09Pt)
Other operating revenue	329	78.6%	(90)
Selling, general and administrative expenses	44,056	99.7%	(130)
SG & A / Net sales	22.33%		+0.38Pt
Operating income	4,696	80.9%	(1,108)
Operating income / Net sales	2.38%		(0.50Pt)

① Sales, Number of customers and Sales area (Millions of yen)

	Sales	YoY	Number of customers (thousand)	YoY	Sales area
Hankyu Main Store (※1)	99,984	99.2%	23,735	98.2%	97,518m ²
Hanshin Umeda Main Store	26,437	94.1%	14,083	98.6%	33,428m ²
Hakata Hankyu	20,536	101.1%	13,856	113.0%	41,835m ²
HANKYU MEN'S TOKYO	6,242	95.6%	1,238	95.7%	11,445m ²
Other branch stores	43,781	96.9%	(※2) 23,793	96.7%	96,253m ²
Total of branch stores	70,561	98.0%	38,889	101.9%	149,533m ²
Total	196,982	98.0%	76,708	100.1%	280,480m ²

※1 including HANKYU MEN'S OSAKA

※2 not including Takarazuka Hankyu, Sanda Hankyu and Amagasaki Hanshin.

② Monthly Sales

	April	May	June	July	August	September	Total
Hankyu Main Store (※)	102.8%	99.2%	99.6%	103.1%	94.9%	94.7%	99.2%
Hanshin Umeda Main Store	99.2%	94.7%	92.8%	98.3%	92.0%	87.7%	94.1%
Hakata Hankyu	99.6%	103.6%	101.8%	107.4%	100.1%	93.1%	101.1%
HANKYU MEN'S TOKYO	101.5%	98.2%	97.3%	100.9%	89.5%	84.6%	95.6%
Other branch stores	97.2%	96.1%	97.2%	99.6%	95.5%	94.8%	96.9%
Total of branch stores	98.3%	98.4%	98.5%	101.8%	96.3%	93.3%	98.0%
Total	100.7%	98.3%	98.2%	102.0%	95.0%	93.1%	98.0%

※ including HANKYU MEN'S OSAKA

③ Sales of each category

(Millions of yen)

	Amount	YoY	increase (decrease)	Share
Men's clothing	16,173	97.4%	(432)	8.2%
Women's clothing	30,581	93.2%	(2,228)	15.5%
Children's clothing	4,795	94.5%	(278)	2.5%
Other clothing	5,973	93.6%	(410)	3.0%
Clothing	57,523	94.5%	(3,349)	29.2%
Accessories, bags and others	36,392	96.7%	(1,230)	18.5%
Household merchandise	6,367	101.2%	73	3.2%
Foods	59,889	99.8%	(112)	30.4%
Restaurants & cafés	4,599	97.8%	(105)	2.3%
General merchandise	30,565	102.9%	848	15.5%
Service	888	91.9%	(77)	0.5%
Other	756	102.1%	15	0.4%
Total	196,982	98.0%	(3,937)	100.0%

(2) Forecast of FY2017

(Millions of yen)

	1st・2nd Quarter		3rd・4th Quarter		Total	
	Amount	YoY	forecast	YoY	forecast	YoY
Hankyu Main Store (※)	99,984	99.2%	116,542	99.1%	216,526	99.2%
Hanshin Umeda Main Store	26,437	94.1%	28,372	92.0%	54,809	93.0%
Hakata Hankyu	20,536	101.1%	23,305	99.0%	43,842	100.0%
HANKYU MEN'S TOKYO	6,242	95.6%	7,593	95.0%	13,836	95.3%
Other branch stores	43,781	96.9%	47,658	95.5%	91,440	96.2%
Total of branch stores	70,561	98.0%	78,557	96.5%	149,119	97.2%
Net sales	196,982	98.0%	223,472	97.2%	420,455	97.6%
Operating income	4,696	80.9%	10,431	94.7%	15,127	89.9%

※ including HANKYU MEN'S OSAKA

2. Izumiya Co., Ltd.

(1) Operating results (Millions of yen)

	Amount	YoY	increase (decrease)
Net sales	138,250	96.7%	(4,656)
Gross profit	41,267	98.3%	(716)
Gross profit / Net sales	29.85%		+0.47Pt
Other operating revenue	-	-	-
Selling, general and administrative expenses	41,045	97.6%	(993)
SG & A / Net sales	29.69%		+0.27Pt
Operating income	221	-	276
Operating income / Net sales	0.16%		+0.20Pt

① Sales of each category (Millions of yen)

	Amount	YoY	increase (decrease)
Foods	84,440	98.1%	(1,596)
Clothing	16,524	93.2%	(1,206)
Household goods	21,770	93.4%	(1,530)
Total	122,735	96.3%	(4,333)

② Monthly Sales

	April	May	June	July	August	September	Total
Total stores	100.9%	96.4%	96.6%	99.4%	92.0%	92.7%	96.3%
Existing stores	99.3%	95.8%	96.5%	100.3%	93.3%	95.2%	96.5%

③ Number of stores

31st March, 2016	Opening 1 store	Closing 3 stores	30th September, 2016
93 stores	Fukumachi (Osaka)	Yachiyo (Chiba) Harborland (Hyogo) Tsudaka (Okayama)	91 stores

(2) Forecast for FY2017 (Millions of yen)

	1st•2nd Quarter (※)		3rd•4th Quarter		Total	
	Amount	YoY	Forecast	YoY	Forecast	YoY
Net sales	138,250	96.7%	132,842	92.5%	271,092	94.6%
Operating income	221	-	1,119	-	1,341	-

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

Reference : H2O Asset Management Co., Ltd. (Millions of yen)

	2nd Quarter (※)		3rd•4th Quarter		Total	
	Amount	YoY	forecast	YoY	forecast	YoY
Net sales	2,411	-	4,795	-	7,207	-
Operating income	1,007	-	1,979	-	2,986	-

※ established on July 1, 2016

3. Hankyu Oasis Co., Ltd.

(1) Operating results (Millions of yen)

	Amount	YoY	increase (decrease)
Net sales	56,872	104.7%	(4,656)
Gross profit	14,723	115.7%	(716)
Gross profit / Net sales	25.89%		+0.47Pt
Other operating revenue	3,089	-	-
Selling, general and administrative expenses	17,124	115.0%	(993)
SG & A / Net sales	28.56%		+0.27Pt
Operating income	688	-	276
Operating income / Net sales	1.15%		+0.20Pt

① Monthly Sales

	April	May	June	July	August	September	Total
Total stores	106.8%	104.7%	104.9%	105.4%	103.6%	102.9%	104.7%
Existing stores	101.2%	99.7%	99.1%	99.3%	97.0%	98.3%	99.2%

② Number of stores

31st March, 2016	Opening 2 stores		Closing 1 store		30th September, 2016	
81 stores	Suitahonami (Osaka) Suitakatayama (Osaka)		Hiranonishi (Osaka)		82 stores	

(2) Forecast for FY2017 (Millions of yen)

	1st•2nd Quarter		3rd•4th Quarter		Total	
	Amount	YoY	Forecast	YoY	Forecast	YoY
Net sales	56,872	104.7%	58,900	105.3%	115,773	105.0%
Operating income	688	113.8%	1,353	107.9%	2,042	109.8%