

Consolidated Financial Statements of the Fiscal Year Ending March 31, 2014 (Japanese accounting standards)

May 9, 2014

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 shareholders' meeting : June 24, 2014
 Scheduled date of dividend payment : June 3, 2014
 Scheduled date of filing of the financial report : June 24, 2014
 Preparation of supplementary materials : Yes
 Briefing session on financial results : Yes (for institutional investors and analysts)

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

1. Consolidated Business Results of the Fiscal Year ending March 31, 2014 (From April 1, 2013 to March 31, 2014)

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

	Net Sales		Operating Income		Recurring Income		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2014	576,852	9.8	17,313	62.3	18,160	60.2	295	(95.2)
FY2013	525,154	3.9	10,670	7.2	11,338	10.0	6,200	486.6

Note : Comprehensive income FY2014 2,251 million yen, (88.6) % , FY2013 19,814 million yen, 172.6%

	Net Income per Share	Net Income per Share(Diluted)	Return on Equity	Ratio of Recurring Income to Total Assets	Ratio of Operating Income to Net Sales
	Yen	Yen	%	%	%
FY2014	1.52	1.52	0.2	4.9	3.0
FY2013	31.94	31.83	3.5	3.3	2.0

Reference : Equity in earnings of affiliates FY2014 104 million yen , FY2013 7 million yen

(2) Consolidated financial position

	Total Assets	Net Assets	Owner's Equity Ratio	Net Assets per Share
	Millions of yen	Millions of yen	%	Yen
FY2014	377,716	182,277	47.8	929.18
FY2013	359,323	186,422	51.4	951.52

Reference : Owner's equity FY2014 180,406 million yen , FY2013 184,744 million yen

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY2014	33,415	(9,628)	(3,557)	35,383
FY2013	24,533	(23,925)	(3,422)	15,082

2. Dividends

	Annual Dividends					Total Dividends Payment (Annual)	Payout Ratio (Consolidated)	Ratio of Dividends to Net Assets (Consolidated)
	First Quarter	Second Quarter	Third Quarter	Fiscal Year-End	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
FY2013	-	6.25	-	6.25	12.50	2,427	39.1	1.4
FY2014	-	6.25	-	6.25	12.50	2,426	821.0	1.3
FY2015(Forecast)	-	12.50	-	12.50	25.00		-	

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

3. Forecast of Consolidated Business Results for the Fiscal Year ending March 31, 2015

(From April 1, 2014 to March 31, 2015)

(Percentages indicate year-on-year changes.)

	Net Sales		Operating Income		Recurring Income		Net Income		Net Income per Share	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen	
Half Year	342,000	29.1	4,400	1.2	4,600	(5.1)	-	-	-	
Full Year	810,000	40.4	20,000	15.5	20,100	10.7	-	-	-	

Notes

- (1) Changes in significant subsidiaries during the period
(changes in specified subsidiaries resulting in the change in scope of consolidation) : No
- (2) Changes in accounting policies, changes in accounting estimates or restatements
(a) Changes in accounting policies due to changes in consolidated accounting standards : Yes
(b) Changes other than (a) : Yes
(c) Changes in accounting estimates : Yes
(d) Restatements due to correction : No
- (3) Number of shares issued and outstanding (common stock)
(a) Number of shares issued at the end of the period (including treasury stock)
FY2014 206,740,777 shares
FY2013 206,740,777 shares
(b) Number of shares of treasury stock at the end of the period
FY2014 12,584,542 shares
FY2013 12,583,415 shares
(c) Average number of shares during the period
FY2014 194,151,917 shares
FY2013 194,164,220 shares

Reference : Summary of Non-Consolidated Financial Statements

Non-Consolidated Business Results of the Fiscal Year ending March 31, 2014 (From April 1, 2013 to March 31, 2014)

(1) Non-consolidated operating results (Percentages indicate year-on-year changes.)

	Net Sales		Operating Income		Recurring Income		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2014	11,026	42.9	4,454	290.3	5,036	213.3	3,237	68.7
FY2013	7,714	(4.4)	1,141	(37.6)	1,607	(21.1)	1,919	439.0

	Net Income per Share	Net Income per Share(Diluted)
	Yen	Yen
FY2014	16.68	16.61
FY2013	9.89	9.85

(2) Non-consolidated financial position

	Total Assets	Net Assets	Owner's Equity Ratio	Net Assets per Share
	Millions of yen	Millions of yen	%	Yen
FY2014	279,117	173,355	61.9	889.38
FY2013	259,530	170,739	65.6	876.65

Reference : Owner's equity FY2014 172,679 million yen , FY2013 170,208 million yen

Note : Disclosure of progress of review procedures

At the time of disclosure of this financial statements, review procedures for 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)

	FY2013 (as of March 31, 2013)	FY2014 (as of March 31, 2014)
Assets		
Current Assets		
Cash on hand and in banks	15,135	35,402
Notes and accounts receivable -trade	22,960	30,987
Securities	0	—
Merchandise goods and finished goods	14,863	15,270
Work in progress	270	177
Raw materials and supplies	945	1,060
Deferred tax assets	6,116	3,936
Notes and accounts receivable -others	2,935	2,746
Other	2,258	2,529
Allowance for doubtful receivables	(68)	(82)
Total current assets	65,418	92,027
Noncurrent Assets		
Property, plant and equipment		
Buildings and structures	155,381	160,063
Accumulated depreciation	(79,081)	(85,766)
Buildings and structures ,net	76,299	74,296
Machinery and equipment	4,612	4,785
Accumulated depreciation	(2,485)	(2,588)
Machinery and equipment, net	2,126	2,197
Land	35,730	37,460
Construction in progress	1,355	140
Others	22,703	22,928
Accumulated depreciation	(14,904)	(16,538)
Others, net	7,799	6,389
Total property, plant and equipment	123,312	120,484
Intangible assets		
Goodwill	16,019	7,942
Other	8,739	7,154
Total intangible assets	24,759	15,097
Investments and other assets		
Investment securities	87,639	88,949
Long-term loans receivable	2,635	2,730
Long-term leasehold deposits	47,609	47,217
Long-term deferred tax assets	6,736	9,862
Other	1,368	1,612
Allowance for doubtful receivables	(154)	(265)
Total investments and other assets	145,833	150,107
Total noncurrent assets	293,905	285,689
Total Assets	359,323	377,716

(Millions of yen)

	FY2013 (as of March 31, 2013)	FY2014 (as of March 31, 2014)
Liabilities		
Current Liabilities		
Notes and accounts payable - trade	35,960	44,213
Current portion of bonds	34	—
Short-term debt	5	5
Current portion of long-term debt	580	35,483
Accounts payable-other	7,285	8,357
Income taxes payable	3,092	5,064
Deferred tax liabilities	0	1
Gift certificates	19,275	18,909
Provision for bonuses to employees	3,661	5,250
Provision for bonuses to directors and corporate auditors	99	127
Provision for point card certificates	1,166	1,272
Asset retirement obligations	32	5
Other	19,505	22,910
Total current liabilities	90,700	141,603
Long-term Liabilities		
Long-term debt	41,210	5,501
Deferred tax liabilities	17,537	18,339
Deferred tax liabilities related to land revaluation	310	310
Provision for retirement benefits to employees	12,561	—
Net defined benefit liability	—	18,221
Provision for retirement benefits to directors and corporate auditors	160	176
Provision for redemption of gift certificates	1,874	2,082
Long-term payable accrued	2,476	2,936
Guarantee deposits	5,671	5,834
Asset retirement obligations	280	406
Other	118	26
Total long-term liabilities	82,201	53,835
Total Liabilities	172,901	195,439
Net Assets		
Shareholders' Equity		
Common stock	17,796	17,796
Capital surplus	48,260	48,273
Retained earnings	99,032	96,901
Treasury stock	(132)	(154)
Total shareholders' equity	164,957	162,817
Accumulated Other Comprehensive Income		
Net unrealised holding gains on securities	19,976	21,636
Land revaluation, net of tax	81	81
Foreign currency translation adjustments	(269)	—
Remeasurements of defined benefit plans	—	(4,128)
Total accumulated other comprehensive income	19,787	17,589
Subscription Rights to Shares	531	676
Minority Interests	1,145	1,194
Total Net Assets	186,422	182,277
Total Liabilities and Net Assets	359,323	377,716

(2) Consolidated Statements of Income

(Millions of yen)

	FY2013 (From April 1, 2012 to March 31, 2013)	FY2014 (From April 1, 2013 to March 31, 2014)
Net sales	525,154	576,852
Cost of sales	382,624	420,837
Gross profit	142,529	156,014
Selling, general and administrative expenses		
Salaries	38,614	40,745
Rental expenses	23,556	25,172
Other	69,688	72,781
Total selling, general and administrative expenses	131,859	138,700
Operating income	10,670	17,313
Non-operating income		
Interest income	71	64
Dividends income	826	982
Gain on adjustment of accounts payable	1,394	1,255
Equity in earnings of affiliates	7	104
Other	681	774
Total non-operating income	2,981	3,181
Non-operating expenses		
Interest expense	439	452
Loss on provision for redemption of gift certificates	1,130	1,036
Other	742	844
Total non-operating expenses	2,312	2,334
Recurring income	11,338	18,160
Extraordinary income		
Gain on liquidation of subsidiaries and affiliates	—	126
Compensation income	6,000	—
Gain on sales of investment securities	1,001	—
Gain on sales of property, plant and others	158	—
Total extraordinary income	7,159	126
Extraordinary loss		
Loss of store rebuilding	—	9,411
Impairment losses	621	1,295
Loss on disposal of property, plant and others	1,647	432
Expenses for opening new stores	2,735	171
Loss on closing of stores and others	1,642	152
Loss on liquidation of subsidiaries and affiliates	524	—
Loss on sales of property, plant and equipment	34	—
Total extraordinary loss	7,204	11,462
Income before income taxes	11,293	6,824
Income taxes - current	3,789	5,433
Income taxes - deferred	1,343	1,068
Total income taxes	5,133	6,502
Income before minority interests	6,160	322
Minority interests	(40)	26
Net income	6,200	295

(3) Consolidated Cash Flow Statements

(Millions of yen)

	FY2013 (From April 1, 2012 to March 31, 2013)	FY2014 (From April 1, 2013 to March 31, 2014)
Cash flows from operating activities		
Income before income taxes	11,293	6,824
Depreciation and amortisation	13,511	13,598
Impairment losses	621	1,295
Loss of store rebuilding	—	9,328
Loss on store closing and others	1,462	151
Loss (gain) on liquidation of subsidiaries and affiliates	—	(126)
Loss on liquidation of subsidiaries and affiliates	524	—
Amortisation of goodwill	1,221	1,246
Increase(decrease) in allowance for doubtful receivables	54	123
Increase(decrease) in provision for bonuses to employees	(639)	1,589
Increase(decrease) in provision for bonuses to directors and corporate auditors	23	28
Increase(decrease) in provision for retirement benefits to employees	(2,900)	(12,562)
Increase(decrease) in net defined benefit liability	—	11,810
Increase(decrease) in provision for retirement benefits to directors and corporate auditors	10	16
Increase(decrease) in provision for redemption of gift certificates	131	208
Interest and dividend income	(898)	(1,046)
Interest expense	439	452
Equity in losses(earnings) of affiliates	(7)	(104)
Loss(gain) on sales of property, plant, equipment and intangibles	(124)	—
Loss on disposal of property, plant, equipment and intangibles	1,647	432
Loss(gain) on sales of investment securities	(1,001)	—
Decrease(increase) in notes and accounts receivable	(2,809)	(8,043)
Decrease(increase) in inventories	(562)	(428)
Increase(decrease) in notes and accounts payable	3,393	8,250
Increase(decrease) in consumption tax payable	(1,368)	2,058
Other	1,798	1,737
Sub total	25,823	36,839
Interest and dividends received	871	1,016
Interest expense paid	(439)	(498)
Income taxes paid	(1,722)	(3,941)
Net cash provided by operating activities	24,533	33,415

(Millions of yen)

	FY2013 (From April 1, 2012 to March 31, 2013)	FY2014 (From April 1, 2013 to March 31, 2014)
Cash flows from investing activities		
Net decrease(increase) in time deposits	(0)	34
Purchases of property, plant and equipment	(29,865)	(9,891)
Proceeds from sales of property, plant and equipment	1,106	102
Purchases of intangibles	(1,924)	(1,511)
Payment for exercise of asset retirement obligations	(1,797)	(78)
Purchases of investment securities	(3,438)	(510)
Proceeds from sales of investment securities	1,978	1,819
Payment for the purchase of stock of subsidiaries accompanied by a change in the scope of consolidation	(39)	—
Payment for the purchase of stock of subsidiaries	—	(51)
Payments of long-term loans receivable	(16)	(215)
Proceeds from collection of long-term loans receivable	133	143
Payments for guarantee deposits	(844)	(445)
Proceeds from collection of guarantee deposits	10,637	867
Other	144	109
Net cash provided by (used in) investing activities	(23,925)	(9,628)
Cash flows from financing activities		
Increase(decrease) in short-term debt	(40)	—
Repayments of long-term debt	(651)	(812)
Payments for redemption of bonds	(35)	(34)
Proceeds from share issuance to minority shareholders	—	53
Proceeds from sale of treasury stock	2	0
Additions to treasury stock	(13)	(22)
Dividends paid	(2,427)	(2,426)
Dividends paid to minority shareholders	(9)	(18)
Other	(247)	(297)
Net cash provided by (used in) financing activities	(3,422)	(3,557)
Foreign exchange differences of cash and cash equivalents	127	66
Net increase(decrease) in cash and cash equivalents	(2,687)	20,295
Increase in cash and cash equivalents resulting from merger of subsidiaries and unconsolidated subsidiaries	—	4
Cash and cash equivalents at beginning of year	17,770	15,082
Cash and cash equivalents at end of year	15,082	35,383

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

(From April 1, 2013 to March 31, 2014)

(1) Business Results

	millions of yen	year on year
Net sales	426,838	111.8%
Gross profit	105,505	112.1%
Other operating revenue	894	51.2%
Operating gross profit	106,400	110.9%
Selling, general and administrative expenses	92,325	105.7%
Operating income	14,074	165.2%

(2) Sales of each store

	millions of yen	year on year
Hankyu Umeda Main Store (※1)	192,214	132.8%
Senri Hankyu	17,390	101.2%
Sakai Kitahanada Hankyu	10,123	98.4%
Kawanishi Hankyu	17,549	99.1%
Takarazuka Hankyu(※2)	8,690	97.8%
Nishinomiya Hankyu	25,116	103.9%
Sanda Hankyu	1,392	99.8%
Hakata Hankyu	40,464	108.0%
HANKYU MEN'S TOKYO	12,646	110.3%
Oi Hankyu Food Hall	4,683	102.8%
Tsuzuki Hankyu (※3)	5,231	87.4%
Hanshin Umeda Main Store	82,413	92.4%
Amagasaki Hanshin	3,818	100.8%
Hanshin Nishinomiya	4,539	100.7%
Hanshin Mikage	563	98.3%
Total	426,838	111.8%

※1 including HANKYU MEN'S OSAKA

※2 closed the first floor on March 4, 2014

※3 Second, third and fourth floor of Tsuzuki Hankyu was remodelled into the shopping center on October 3, 2012.

After the remodelling, the revenue is posted in Hankyu Shopping Center Development Co.,Ltd.

(3) Sales of each category

	millions of yen	year on year
Clothing	135,608	107.6%
Accessories, bags and others	78,052	123.5%
Household merchandise	14,618	115.4%
Foods	132,128	105.4%
Restaurant and café	12,068	119.2%
General merchandise	50,322	123.7%
Service	2,291	101.1%
Other	1,747	110.1%
Total	426,838	111.8%