

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

July 27, 2016

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
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 Scheduled date of filing of the quarterly financial report : August 12, 2016
 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 First Quarter of the Fiscal Year ending March 31, 2017 (From April 1, 2016 to June 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 | % |
| 1Q of FY2017 | 213,958 | (0.6) | 3,006 | (5.7) | 2,110 | (38.6) | 3,102 | (48.5) |
| 1Q of FY2016 | 215,279 | 68.2 | 3,189 | 10.5 | 3,434 | 1.2 | 6,025 | (49.6) |

Note : Comprehensive income 1Q of FY2017 (953) million yen, -%, 1Q of FY2016 1,512 million yen, (90.3)%

| | Net Income per Share | | Net Income per Share (Diluted) | |
|--------------|----------------------|-----|--------------------------------|-----|
| | Yen | Yen | Yen | Yen |
| 1Q of FY2017 | 25.15 | | 25.02 | |
| 1Q of FY2016 | 48.85 | | 48.62 | |

(2) Consolidated financial position

| | Total Assets | Net Assets | Owner's Equity Ratio |
|--------------|-----------------|-----------------|----------------------|
| | Millions of yen | Millions of yen | % |
| 1Q of FY2017 | 583,252 | 249,474 | 42.6 |
| FY2016 | 597,041 | 252,587 | 42.1 |

Reference : Owner's equity 1Q of FY2017 248,443 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 | — | | | | |
| FY2017(Forecast) | | 17.50 | — | 17.50 | 35.00 |

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 | Yen |
| Half Year | 448,000 | 1.5 | 7,800 | 3.2 | 8,000 | 3.6 | 2,900 | (54.2) | | 23.50 |
| Full Year | 930,000 | 1.6 | 25,000 | 4.9 | 24,900 | 8.0 | 14,100 | 0.3 | | 114.28 |

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)

| | |
|--------------|--------------------|
| 1Q of FY2017 | 125,201,396 shares |
| FY2016 | 125,201,396 shares |
 - (b) Number of shares of treasury stock at the end of the period

| | |
|--------------|------------------|
| 1Q of FY2017 | 1,817,980 shares |
| FY2016 | 1,819,577 shares |
 - (c) Average number of shares during the period

| | |
|--------------|--------------------|
| 1Q of FY2017 | 123,382,399 shares |
| 1Q of FY2016 | 123,331,502 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)

| | FY 2016 (as of March 31, 2016) | 1Q of FY 2017 (as of June 30, 2016) |
|--|-----------------------------------|--|
| Assets | | |
| Current Assets | | |
| Cash on hand and in banks | 48,521 | 41,212 |
| Notes and accounts receivable - trade | 46,785 | 48,137 |
| Merchandise goods and finished goods | 33,959 | 35,837 |
| Work in progress | 186 | 212 |
| Raw materials and supplies | 1,361 | 1,229 |
| Deferred tax assets | 4,910 | 4,022 |
| Notes and accounts receivable - others | 4,710 | 3,603 |
| Other | 5,949 | 6,563 |
| Allowance for doubtful receivables | (814) | (775) |
| Total current assets | 145,570 | 140,043 |
| Noncurrent Assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 113,755 | 113,432 |
| Machinery and equipment, net | 3,625 | 3,663 |
| Land | 124,341 | 123,057 |
| Construction in progress | 834 | 246 |
| Others, net | 10,904 | 10,996 |
| Total property, plant and equipment | 253,461 | 251,396 |
| Intangible assets | | |
| Goodwill | 5,997 | 5,844 |
| Other | 11,733 | 11,874 |
| Total intangible assets | 17,730 | 17,718 |
| Investments and other assets | | |
| Investment securities | 97,513 | 91,598 |
| Long-term loans receivable | 3,993 | 3,985 |
| Long-term leasehold deposits | 71,191 | 70,446 |
| Long-term deferred tax assets | 8,945 | 8,880 |
| Other | 1,868 | 1,841 |
| Allowance for doubtful receivables | (3,232) | (2,657) |
| Total investments and other assets | 180,279 | 174,094 |
| Total noncurrent assets | 451,471 | 443,209 |
| Total Assets | 597,041 | 583,252 |

(Millions of yen)

| | FY 2016 (as of March 31, 2016) | 1Q of FY 2017 (as of June 30, 2016) |
|---|-----------------------------------|--|
| Liabilities | | |
| Current Liabilities | | |
| Notes and accounts payable-trade | 62,235 | 55,449 |
| Current portion of bonds | 2,100 | 2,100 |
| Current portion of long-term debt | 10,077 | 9,154 |
| Accounts payable-other | 13,671 | 10,742 |
| Lease obligations | 963 | 764 |
| Income taxes payable | 5,807 | 910 |
| Deferred tax liabilities | 0 | 2 |
| Gift certificates | 21,785 | 22,869 |
| Provision for bonuses to employees | 5,048 | 3,998 |
| Provision for bonuses to directors and corporate auditors | 148 | 61 |
| Provision for loss on store closing | 295 | 298 |
| Provision for point card certificates | 2,097 | 2,274 |
| Asset retirement obligations | 383 | 382 |
| Other | 32,610 | 38,388 |
| Total current liabilities | 157,225 | 147,398 |
| Long-term Liabilities | | |
| Bonds | 16,600 | 16,550 |
| Long-term debt | 100,879 | 100,755 |
| Deferred tax liabilities | 20,622 | 19,120 |
| Deferred tax liabilities related to land revaluation | 265 | 265 |
| Provision for retirement benefits to directors and corporate auditors | 205 | 212 |
| Provision for redemption of gift certificates | 3,183 | 3,236 |
| Net defined benefit liability | 20,463 | 20,337 |
| Long-term payable accrued | 268 | 232 |
| Lease obligations | 7,535 | 7,595 |
| Guarantee deposits | 12,103 | 12,047 |
| Asset retirement obligations | 2,576 | 3,452 |
| Other | 2,524 | 2,575 |
| Total long-term liabilities | 187,228 | 186,380 |
| Total Liabilities | 344,454 | 333,778 |
| Net Assets | | |
| Shareholders' Equity | | |
| Common stock | 17,796 | 17,796 |
| Capital surplus | 92,783 | 92,782 |
| Retained earnings | 115,820 | 116,764 |
| Treasury stock | (3,387) | (3,384) |
| Total shareholders' equity | 223,013 | 223,958 |
| Accumulated Other Comprehensive Income | | |
| Net unrealised holding gains on securities | 30,333 | 26,576 |
| Deferred gains or losses on hedges | 185 | (9) |
| Land revaluation, net of tax | 125 | 125 |
| Foreign currency translation adjustments | 182 | (13) |
| Remeasurements of defined benefit plans | (2,285) | (2,194) |
| Total accumulated other comprehensive income | 28,541 | 24,484 |
| Subscription Rights to Shares | 1,028 | 1,026 |
| Non-controlling interests | 3 | 3 |
| Total Net Assets | 252,587 | 249,474 |
| Total Liabilities and Net Assets | 597,041 | 583,252 |

(2) Consolidated Statements of Income (First Quarter)

(Millions of yen)

| | 1Q of FY 2016 (From April 1, 2015 to June 30, 2015) | 1Q of FY 2017 (From April 1, 2016 to June 30, 2016) |
|---|---|---|
| Net sales | 215,279 | 213,958 |
| Cost of sales | 152,670 | 151,092 |
| Gross profit | 62,608 | 62,866 |
| Selling, general and administrative expenses | 59,419 | 59,859 |
| Operating income | 3,189 | 3,006 |
| Non-operating income | | |
| Interest income | 26 | 21 |
| Dividends income | 627 | 518 |
| Gain on adjustment of accounts payable | 350 | 324 |
| Other | 417 | 174 |
| Total non-operating income | 1,421 | 1,039 |
| Non-operating expenses | | |
| Interest expense | 318 | 269 |
| Loss on valuation of forward exchange contracts | — | 801 |
| Loss on provision for redemption of gift certificates | 414 | 266 |
| Other | 443 | 598 |
| Total non-operating expenses | 1,177 | 1,935 |
| Recurring income | 3,434 | 2,110 |
| Extraordinary income | | |
| Gain on sales of property, plant and others | — | 4,291 |
| Reversal of provision for loss on store closing | — | 203 |
| Gain on sales of investment securities | 7,361 | — |
| Total extraordinary income | 7,361 | 4,495 |
| Extraordinary loss | | |
| Loss on closing of stores and others | 85 | 1,094 |
| Loss on disposal of property, plant and others | 66 | 68 |
| Impairment losses | 85 | 4 |
| Outplacement expenses | 111 | — |
| Total extraordinary loss | 349 | 1,167 |
| Income before income taxes | 10,445 | 5,437 |
| Income taxes - current | 2,401 | 1,262 |
| Income taxes - deferred | 2,018 | 1,071 |
| Total income taxes | 4,420 | 2,334 |
| Income before minority interests | 6,025 | 3,102 |
| Profit attributable to non-controlling interests | 0 | 0 |
| Profit attributable to owners of parent | 6,025 | 3,102 |

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

First Quarter (From April 1, 2016 to June 30, 2016)

(1) Business Results

| | millions of yen | year on year |
|--|-----------------|--------------|
| Net sales | 95,395 | 99.1% |
| Gross profit | 23,846 | 98.8% |
| Other operating revenue | 164 | 75.0% |
| Operating gross profit | 24,010 | 98.6% |
| Selling, general and administrative expenses | 21,661 | 102.3% |
| Operating income | 2,348 | 73.9% |

(2) Sales of each store

| | millions of yen | year on year |
|------------------------------|-----------------|--------------|
| Hankyu Umeda Main Store (※1) | 48,384 | 100.5% |
| Senri Hankyu | 3,747 | 97.3% |
| Sakai Kitahanada Hankyu | 1,845 | 90.7% |
| Kawanishi Hankyu | 3,674 | 96.9% |
| Takarazuka Hankyu | 1,789 | 99.8% |
| Nishinomiya Hankyu | 5,683 | 99.4% |
| Sanda Hankyu | 299 | 103.2% |
| Hakata Hankyu | 9,967 | 101.7% |
| HANKYU MEN'S TOKYO | 3,189 | 99.1% |
| Oi Hankyu Food Hall | 1,077 | 98.7% |
| Tsuzuki Hankyu | 1,136 | 99.7% |
| Hanshin Umeda Main Store | 12,856 | 95.6% |
| Amagasaki Hanshin (※2) | 603 | 73.4% |
| Hanshin Nishinomiya | 1,012 | 97.9% |
| Hanshin Mikage | 127 | 104.0% |
| Total | 95,395 | 99.1% |

※1 including HANKYU MEN'S OSAKA

※2 closed the second floor on January 11, 2016

(3) Sales of each category

| | millions of yen | year on year |
|------------------------------|-----------------|--------------|
| Clothing | 29,297 | 96.3% |
| Accessories, bags and others | 17,837 | 96.5% |
| Household merchandise | 3,148 | 101.9% |
| Foods | 26,958 | 100.4% |
| Restaurants and cafés | 2,175 | 96.8% |
| General merchandise | 15,147 | 105.7% |
| Service | 427 | 89.2% |
| Other | 402 | 102.1% |
| Total | 95,395 | 99.1% |