

Consolidated Financial Statements for the Second Quarter of the Fiscal Year Ending March 31, 2016 (Japanese accounting standards)

October 29, 2015

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 : November 13, 2015
 Scheduled date of dividend payment : November 30, 2015
 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, 2016 (From April 1, 2015 to September 30, 2015)

(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 FY2016	441,425	26.7	7,555	29.1	7,721	28.8	6,327	(50.0)
2Q of FY2015	348,360	31.5	5,852	34.6	5,992	23.7	12,660	377.2

Note : Comprehensive income(loss) 2Q of FY2016 (3,404) million yen —%, 2Q of FY2015 17,047 million yen 424.0%

	Net Income per Share	Net Income per Share (Diluted)
	Yen	Yen
2Q of FY2016	51.30	51.05
2Q of FY2015	112.37	111.87

(2) Consolidated financial position

	Total Assets	Net Assets	Owner's Equity Ratio
	Millions of yen	Millions of yen	%
2Q of FY2016	601,049	246,184	40.8
FY2015	631,877	251,659	39.7

Reference : Owner's equity 2Q of FY2016 245,309 million yen, FY2013 250,762 million yen

2. Dividends

	Annual Dividends				
	First Quarter	Second Quarter	Third Quarter	Fiscal Year-End	Total
	Yen	Yen	Yen	Yen	Yen
FY2015	—	12.50	—	12.50	25.00
FY2016	—	17.50			
FY2016(Forecast)			—	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, 2016 (From April 1, 2015 to March 31, 2016)

(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	917,100	8.6	24,600	15.2	24,500	15.5	14,000	20.8	113.50

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 : Yes
(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 FY2016 | 125,201,396 shares |
| FY2015 | 125,201,396 shares |
- (b) Number of shares of treasury stock at the end of the period
- | | |
|--------------|------------------|
| 2Q of FY2016 | 1,852,490 shares |
| FY2015 | 1,870,521 shares |
- (c) Average number of shares during the period
- | | |
|--------------|--------------------|
| 2Q of FY2016 | 123,337,442 shares |
| 2Q of FY2015 | 112,665,514 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)

	FY2015 (as of March 31, 2015)	2Q of FY2016 (as of September 30, 2015)
Assets		
Current assets		
Cash on hand and in banks	44,381	45,136
Notes and accounts receivable-trade	39,158	38,636
Merchandise goods and finished goods	35,623	38,266
Work in progress	139	220
Raw materials and supplies	1,263	1,103
Deferred tax assets	5,701	5,274
Notes and accounts receivable -others	7,247	5,757
Other	6,818	7,545
Allowance for doubtful receivables	(427)	(391)
Total current assets	139,905	139,549
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	116,951	116,704
Machinery and equipment, net	3,392	3,612
Land	124,406	124,780
Construction in progress	503	668
Others, net	9,839	9,638
Total property, plant and equipment	255,093	255,404
Intangible assets		
Goodwill	7,127	6,303
Other	12,703	11,935
Total intangible assets	19,830	18,238
Investments and other assets		
Investment securities	127,086	101,360
Long-term loans receivable	3,268	3,405
Long-term leasehold deposits	74,486	71,900
Long-term deferred tax assets	10,184	9,805
Other	2,456	1,810
Allowance for doubtful receivables	(434)	(426)
Total investments and other assets	217,047	187,856
Total noncurrent assets	491,971	461,499
Total Assets	631,877	601,049

(Millions of yen)

	FY2015 (as of March 31, 2015)	2Q of FY2016 (as of September, 30, 2015)
Liabilities		
Current Liabilities		
Notes and accounts payable-trade	61,921	60,326
Current portion of bonds	100	100
Commercial papers	6,500	3,500
Current portion of long-term debt	14,773	11,398
Accounts payable-other	17,139	10,924
Lease obligations	929	830
Income taxes payable	5,126	3,527
Deferred tax liabilities	0	0
Gift certificates	20,361	20,170
Provision for bonuses to employees	5,465	5,485
Provision for bonuses to directors and corporate auditors	147	67
Provision for loss on store closing	5,208	3,914
Provision for point card certificates	2,276	2,660
Asset retirement obligations	512	542
Other	33,363	33,297
Total current liabilities	173,826	156,745
Long-term Liabilities		
Bonds	18,700	18,650
Long-term debt	110,996	107,988
Deferred tax liabilities	26,676	22,638
Deferred tax liabilities related to land revaluation	281	281
Provision for retirement benefits to directors and corporate auditors	176	187
Provision for redemption of gift certificates	2,675	2,782
Net defined benefit liability	22,984	22,002
Long-term payable accrued	336	330
Lease obligations	5,970	5,842
Guarantee deposits	12,900	12,591
Asset retirement obligations	2,424	2,521
Other	2,269	2,301
Total long-term liabilities	206,391	198,118
Total Liabilities	380,218	354,864
Net Assets		
Shareholders' Equity		
Common stock	17,796	17,796
Capital surplus	93,100	92,810
Retained earnings	105,715	110,253
Treasury stock	(3,478)	(3,447)
Total shareholders' equity	213,134	217,412
Accumulated Other Comprehensive Income		
Net unrealised holding gains on securities	39,783	29,663
Deferred gains or losses on hedges	649	833
Land revaluation, net of tax	109	109
Foreign currency translation adjustments	0	(5)
Remeasurements of defined benefit plans	(2,914)	(2,704)
Total accumulated other comprehensive income	37,627	27,896
Subscription Rights to Shares	892	870
Non-controlling interests	3	3
Total Net Assets	251,659	246,184
Total Liabilities and Net Assets	631,877	601,049

(2) Consolidated Statements of Income (Second Quarter)

(Millions of yen)

	2Q of FY2015 (From April 1, 2014 to September 30, 2014)	2Q of FY2016 (From April 1, 2015 to September 30, 2015)
Net sales	348,360	441,425
Cost of sales	248,664	313,176
Gross profit	99,695	128,248
Selling, general and administrative expenses	93,843	120,693
Operating income	5,852	7,555
Non-operating income		
Interest income	40	48
Dividends income	577	694
Gain on adjustment of accounts payable	621	649
Other	408	806
Total non-operating income	1,647	2,199
Non-operating expenses		
Interest expense	506	630
Loss on provision for redemption of gift certificates	507	628
Other	492	774
Total non-operating expenses	1,507	2,033
Recurring income	5,992	7,721
Extraordinary income		
	—	7,443
Gain on bargain purchase	10,030	—
Gain on sales of shares of subsidiaries and associates	295	—
Gain on sales of property, plant and others	98	—
Total extraordinary income	10,424	7,443
Extraordinary loss		
Impairment losses	63	1,546
Loss on closing of stores and others	961	970
Loss on disposal of property, plant, equipment and intangibles	114	233
Outplacement expenses	—	92
Loss of store rebuilding	408	—
Total extraordinary loss	1,549	2,843
Income before income taxes	14,868	12,321
Income taxes - current	1,663	4,430
Income taxes - deferred	539	1,563
Total income taxes	2,203	5,994
Income before minority interests	12,665	6,327
Profit attributable to non-controlling interests	5	0
Profit attributable to owners of parent	12,660	6,327

(3) Consolidated Cash Flow Statements

(Millions of yen)

	2Q of FY2015 (From April 1, 2014 to September 30, 2014)	2Q of FY2016 (From April 1, 2015 to September 30, 2015)
Cash flows from operating activities		
Income before income taxes	14,868	12,321
Depreciation and amortisation	6,552	8,019
Impairment losses	63	1,546
Loss of store rebuilding	301	—
Amortisation of goodwill	340	306
Gain on bargain purchase	(10,030)	—
Increase(decrease) in allowance for doubtful receivables	(15)	(43)
Increase(decrease) in provision for bonuses to employees	(2,041)	19
Increase(decrease) in provision for bonuses to directors and corporate auditors	(62)	(79)
Increase(decrease) in provision for net defined benefit liability	(911)	(981)
Increase(decrease) in provision for retirement benefits to directors and corporate auditors	0	10
Increase(decrease) in provision for redemption of gift certificates	92	107
Increase(decrease) in provision for loss on store closing	914	(340)
Increase(decrease) in Provision for point card certificates	377	383
Interest and dividend income	(618)	(743)
Interest expense	506	630
Equity in losses(earnings) of affiliates	33	(84)
Loss(gain) on sales of investment securities	—	(7,443)
Gain on sales of shares of subsidiaries and associates	(295)	—
Loss(gain) on sales of property, plant, equipment and intangibles	(98)	—
Loss(gain) on liquidation of subsidiaries and associates	114	233
Decrease(increase) in notes and accounts receivable	6,626	522
Decrease(increase) in inventories	337	(561)
Increase(decrease) in notes and accounts payable	(10,004)	(3,113)
Increase(decrease) in consumption tax payable	(468)	(2,622)
Other	3,434	2,243
Sub total	10,017	10,329
Interest and dividends received	590	717
Interest expense paid	(530)	(629)
Income taxes paid	(5,315)	(5,524)
Net cash provided by operating activities	4,761	4,892

	2Q of FY2015 (From April 1, 2014 to September 30, 2014)	2Q of FY2016 (From April 1, 2015 to September 30, 2015)
Cash flows from investing activities		
Net decrease(increase) in time deposits	(23)	(6)
Purchases of property, plant and equipment	(10,422)	(11,297)
Proceeds from sales of property, plant and equipment	185	459
Purchases of intangibles	(1,561)	(1,120)
Proceeds from sales of intangibles	—	0
Payment for exercise of asset retirement obligations	(4)	(298)
Purchases of investment securities	(15)	(5)
Proceeds from sales of investment securities	9	18,963
Payments of long-term loans receivable	(236)	(287)
Proceeds from collection of long-term loans receivable	156	176
Payments for guarantee deposits	(493)	(1,113)
Proceeds from collection of guarantee deposits	894	1,880
Payment for the purchase of stock of subsidiaries	(3)	—
Payment for the purchase of stock of subsidiaries accompanied by a change in the scope of consolidation	215	—
Other	(13)	—
Net cash provided by (used in) investing activities	<u>(11,311)</u>	<u>7,352</u>
Cash flows from financing activities		
Increase(decrease) in short-term debt	(3,355)	(3,000)
Repayments of long-term debt	(22,832)	(6,383)
Proceeds from long-term debt	23,550	—
Payments for redemption of bonds	(50)	(50)
Proceeds from sale of treasury stock	5	22
Additions to treasury stock	(43)	(7)
Dividends paid	(1,213)	(1,541)
Dividends paid to non-controlling interests	(9)	—
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(4)
Other	(317)	(547)
Net cash provided by (used in) financing activities	<u>(4,266)</u>	<u>(11,512)</u>
Foreign exchange differences of cash and cash equivalents	<u>(8)</u>	<u>15</u>
Net increase(decrease) in cash and cash equivalents	<u>(10,825)</u>	<u>748</u>
Cash and cash equivalents at beginning of year	35,383	44,334
Increase of cash and cash equivalents due to share exchange	8,374	—
Increase in cash and cash equivalents from newly consolidated subsidiary	8	—
Cash and cash equivalents	<u>32,939</u>	<u>45,083</u>

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

Second Quarter (From April 1, 2015 to September 30, 2015)

(1) Business Results

	millions of yen	year on year
Net sales	200,920	105.1%
Gross profit	49,571	105.1%
Other operating revenue	419	97.3%
Operating gross profit	49,991	105.0%
Selling, general and administrative expenses	44,187	102.5%
Operating income	5,804	128.6%

(2) Sales of each store

	millions of yen	year on year
Hankyu Umeda Main Store (※1)	100,809	116.9%
Senri Hankyu	8,023	103.9%
Sakai Kitahanada Hankyu	4,184	94.6%
Kawanishi Hankyu	7,945	100.6%
Takarazuka Hankyu	3,798	100.2%
Nishinomiya Hankyu	11,879	103.0%
Sanda Hankyu	657	102.7%
Hakata Hankyu	20,309	105.6%
HANKYU MEN'S TOKYO	6,527	111.7%
Oi Hankyu Food Hall	2,226	99.9%
Tsuzuki Hankyu	2,339	98.9%
Hanshin Umeda Main Store(※2)	28,080	80.0%
Amagasaki Hanshin	1,737	100.5%
Hanshin Nishinomiya	2,140	100.6%
Hanshin Mikage	260	101.9%
Total	200,920	105.1%

※1 including HANKYU MEN'S OSAKA

※2 Sales area of Hanshin Umeda Main Store was reduced to around 60% of former levels due to rebuilding.

(3) Sales of each category

	millions of yen	year on year
Clothing	60,873	101.3%
Accessories, bags and others	37,622	106.2%
Household merchandise	6,293	98.2%
Foods	60,001	99.5%
Restaurants and cafés	4,705	88.2%
General merchandise	29,716	137.1%
Service	966	82.7%
Other	740	96.2%
Total	200,920	105.1%