

Consolidated Financial Statements for the Second Quarter of the Fiscal Year Ending March 31, 2015 (Japanese accounting standards)

October 28, 2014

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 13, 2014
 Scheduled date of dividend payment : November 28, 2014
 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, 2015 (From April 1, 2014 to September 30, 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	%
2Q of FY2015	348,360	31.5	5,852	34.6	5,992	23.7	12,660	377.2
2Q of FY2014	264,822	12.1	4,348	101.1	4,846	75.4	2,652	(11.7)

Note : Comprehensive income(loss) 2Q of FY2015 17,047 million yen (424.0%) , 2Q of FY2014 3,253 million yen (—)

	Net Income per Share		Net Income per Share(Diluted)	
	Yen		Yen	
2Q of FY2015	112.37		111.87	
2Q of FY2014	27.33		27.21	

(2) Consolidated financial position

	Total Assets	Net Assets	Owner's Equity Ratio
	Millions of yen	Millions of yen	%
2Q of FY2015	564,164	241,898	42.8
FY2014	377,716	182,277	47.8

Reference : Owner's equity 2Q of FY2015 241,187 million yen , FY2014 180,406 million yen

2. Dividends

	Annual Dividends				
	First Quarter	Second Quarter	Third Quarter	Fiscal Year-End	Total
	Yen	Yen	Yen	Yen	Yen
FY2014	—	6.25	—	6.25	12.50
FY2015	—	12.50			
FY2015(Forecast)			—	12.50	25.00

Note : Revision to recently disclosed dividend forecast : No

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
Full Year	810,000	40.4	20,000	15.5	20,100	10.7	10,000	—	80.12

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) : Yes

Number of subsidiaries newly consolidated 2

Name of subsidiaries newly consolidated

Name of subsidiaries excluded from consolidation -

On June 1, 2014, the Company acquired Izumiya Co., Ltd. and its subsidiaries by stock-for-stock exchange.

(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

The Company adopted the "Accounting standard for Retirement Benefits" and the "Guidance on Accounting standard for Retirement Benefits" effective 1st April 2014.

(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 FY2015 125,201,396 shares

FY2014 103,370,388 shares

(b) Number of shares of treasury stock at the end of the period

2Q of FY2015 382,571 shares

FY2014 6,292,271 shares

(c) Average number of shares during the period

2Q of FY2015 112,665,514 shares

2Q of FY2014 97,077,497 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)

	FY2014 (as of March 31, 2014)	2Q of FY2015 (as of September 30, 2014)
Assets		
Current assets		
Cash on hand and in banks	35,402	33,011
Notes and accounts receivable -trade	30,987	36,116
Merchandise goods and finished goods	15,270	35,521
Work in progress	177	175
Raw materials and supplies	1,060	841
Deferred tax assets	3,936	4,395
Notes and accounts receivable -others	2,746	4,521
Other	2,529	7,331
Allowance for doubtful receivables	(82)	(439)
Total current assets	<u>92,027</u>	<u>121,475</u>
Noncurrent assets		
Property, plant and equipment		
Buildings and structures ,net	74,296	112,698
Machinery and equipment, net	2,197	3,417
Land	37,460	110,833
Construction in progress	140	2,320
Others, net	6,389	10,000
Total property, plant and equipment	<u>120,484</u>	<u>239,270</u>
Intangible assets		
Goodwill	7,942	8,034
Other	7,154	13,483
Total intangible assets	<u>15,097</u>	<u>21,518</u>
Investments and other assets		
Investment securities	88,949	97,615
Long-term loans receivable	2,730	3,221
Long-term leasehold deposits	47,217	69,886
Long-term deferred tax assets	9,862	9,732
Other	1,612	1,965
Allowance for doubtful receivables	(265)	(520)
Total investments and other assets	<u>150,107</u>	<u>181,901</u>
Total noncurrent assets	<u>285,689</u>	<u>442,689</u>
Total Assets	<u>377,716</u>	<u>564,164</u>

(Millions of yen)

	FY2014 (as of March 31, 2014)	2Q of FY2015 (as of September, 30, 2014)
Liabilities		
Current Liabilities		
Notes and accounts payable-trade	44,213	61,255
Current portion of bonds	—	100
Short-term debt	5	—
Commercial papers	—	3,000
Current portion of long-term debt	35,483	24,984
Income taxes payable	5,064	1,435
Deferred tax liabilities	1	0
Gift certificates	18,909	19,421
Provision for bonuses to employees	5,250	4,905
Provision for bonuses to directors and corporate auditors	127	64
Provision for loss on store closing	—	1,001
Provision for point card certificates	1,272	2,625
Asset retirement obligations	5	61
Other	31,268	43,989
Total current liabilities	141,603	162,845
Long-term Liabilities		
Bonds	—	8,750
Long-term debt	5,501	79,881
Deferred tax liabilities	18,339	20,640
Deferred tax liabilities related to land revaluation	310	310
Provision for retirement benefits to directors and corporate auditors	176	174
Provision for redemption of gift certificates	2,082	2,175
Net defined benefit liability	18,221	25,735
Asset retirement obligations	406	2,249
Guarantee deposits	5,834	12,027
Long-term payable accrued	2,936	5,067
Other	26	2,408
Total long-term liabilities	53,835	159,420
Total Liabilities	195,439	322,265
Net Assets		
Shareholders' Equity		
Common stock	17,796	17,796
Capital surplus	48,273	93,098
Retained earnings	96,901	108,350
Treasury stock	(154)	(28)
Total shareholders' equity	162,817	219,216
Accumulated Other Comprehensive Income		
Net unrealised holding gains on securities	21,636	25,819
Deferred gains or losses on hedges	—	2
Land revaluation, net of tax	81	81
Foreign currency translation adjustments	—	(23)
Remeasurements of defined benefit plans	(4,128)	(3,908)
Total accumulated other comprehensive income	17,589	21,971
Subscription Rights to Shares	676	676
Minority Interests	1,194	34
Total Net Assets	182,277	241,898
Total Liabilities and Net Assets	377,716	564,164

(2) Consolidated Statements of Income (Second Quarter)

(Millions of yen)

	2Q of FY2014 (From April 1, 2013 to September 30, 2013)	2Q of FY2015 (From April 1, 2014 to September 30, 2014)
Net sales	264,822	348,360
Cost of sales	193,030	248,664
Gross profit	71,791	99,695
Selling, general and administrative expenses	67,051	93,843
Operating income	4,348	5,852
Non-operating income		
Interest income	33	40
Dividends income	634	577
Gain on adjustment of accounts payable	638	621
Other	300	408
Total non-operating income	1,608	1,647
Non-operating expenses		
Interest expense	228	506
Loss on provision for redemption of gift certificates	522	507
Other	358	492
Total non-operating expenses	1,110	1,507
Recurring income	4,846	5,992
Extraordinary income		
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
Gain on liquidation of subsidiaries and affiliates	126	—
Total extraordinary income	126	10,424
Extraordinary loss		
Loss on closing of stores and others	—	961
Loss of store rebuilding	—	408
Loss on disposal of property, plant, equipment and intangibles	154	114
Impairment losses	129	63
Total extraordinary loss	283	1,549
Income before income taxes	4,688	14,868
Income taxes - current	994	1,663
Income taxes - deferred	1,004	539
Total income taxes	1,999	2,203
Income before minority interests	2,689	12,665
Minority interests	36	5
Net income	2,652	12,660

(3) Consolidated Cash Flow Statements

(Millions of yen)

	2Q of FY2014 (From April 1, 2013 to September 30, 2013)	2Q of FY2015 (From April 1, 2014 to September 30, 2014)
Cash flows from operating activities		
Income before income taxes	4,688	14,868
Depreciation and amortisation	6,732	6,552
Impairment losses	129	63
Amortisation of goodwill	642	340
Gain on bargain purchase	—	(10,030)
Increase(decrease) in allowance for doubtful receivables	11	(15)
Increase(decrease) in provision for bonuses to employees	(281)	(2,041)
Increase(decrease) in provision for bonuses to directors and corporate auditors	(49)	(62)
Increase(decrease) in provision for retirement benefits to employees	(421)	—
Increase(decrease) in provision for net defined benefit liability	—	(911)
Increase(decrease) in provision for retirement benefits to directors and corporate auditors	(0)	0
Increase(decrease) in provision for redemption of gift certificates	17	92
Increase(decrease) in provision for loss on store closing	—	914
Interest and dividend income	(668)	(618)
Interest expense	228	506
Equity in losses(earnings) of affiliates	13	33
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	154	114
Loss on disposal of property, plant, equipment and intangibles	(126)	—
Decrease(increase) in notes and accounts receivable	2,293	6,626
Decrease(increase) in inventories	(1,128)	337
Increase(decrease) in notes and accounts payable	(3,647)	(10,004)
Increase(decrease) in consumption tax payable	904	(468)
Other	1,718	4,113
Sub total	11,209	10,017
Interest and dividends received	653	590
Interest expense paid	(282)	(530)
Income taxes paid	(3,340)	(5,315)
Net cash provided by operating activities	8,240	4,761

Net defined benefit liability

	2Q of FY2014 (From April 1, 2013 to September 30, 2013)	2Q of FY2015 (From April 1, 2014 to September 30, 2014)
Cash flows from investing activities		
Net decrease(increase) in time deposits	5	(23)
Purchases of property, plant and equipment	(3,439)	(10,422)
Proceeds from sales of property, plant and equipment	2	185
Purchases of intangibles	(923)	(1,561)
Payment for exercise of asset retirement obligations	(15)	(4)
Purchases of investment securities	(6)	(15)
Proceeds from sales of investment securities	1,810	9
Payments of long-term loans receivable	(102)	(236)
Proceeds from collection of long-term loans receivable	92	156
Payments for guarantee deposits	(171)	(493)
Proceeds from collection of guarantee deposits	367	894
Payment for the purchase of stock of subsidiaries	(51)	(3)
Payment for the purchase of stock of subsidiaries accompanied by a change in the scope of consolidation	—	215
Other	109	(13)
Net cash provided by (used in) investing activities	<u>(2,323)</u>	<u>(11,311)</u>
Cash flows from financing activities		
Increase(decrease) in short-term debt	—	(3,355)
Repayments of long-term debt	(306)	(22,832)
Proceeds from long-term debt	—	23,550
Repayments of short-term debt	—	—
Payments for redemption of bonds	(17)	(50)
Proceeds from sale of treasury stock	—	5
Additions to treasury stock	(10)	(43)
Dividends paid	(1,213)	(1,213)
Dividends paid to minority shareholders	(9)	(9)
Other	(147)	(317)
Net cash provided by (used in) financing activities	<u>(1,704)</u>	<u>(4,266)</u>
Foreign exchange differences of cash and cash equivalents	<u>66</u>	<u>(8)</u>
Net increase(decrease) in cash and cash equivalents	<u>4,277</u>	<u>(10,825)</u>
Cash and cash equivalents at beginning of year	15,082	35,383
Increase in cash and cash equivalents resulting from merger of subsidiaries and unconsolidated subsidiaries	4	—
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 at end of year	<u>19,365</u>	<u>32,939</u>

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

Second Quarter (From April 1, 2014 to September 30, 2014)

(1) Business Results

	millions of yen	year on year
Net sales	191,187	99.2%
Gross profit	47,186	99.2%
Other operating revenue	431	95.7%
Operating gross profit	47,617	99.1%
Selling, general and administrative expenses	43,103	96.9%
Operating income	4,514	126.5%

(2) Sales of each store

	millions of yen	year on year
Hankyu Umeda Main Store (※1)	86,268	102.4%
Senri Hankyu	7,723	94.9%
Sakai Kitahanada Hankyu	4,424	94.0%
Kawanishi Hankyu	7,898	96.2%
Takarazuka Hankyu(※2)	3,791	88.5%
Nishinomiya Hankyu	11,536	100.3%
Sanda Hankyu	640	99.5%
Hakata Hankyu	19,236	105.6%
HANKYU MEN'S TOKYO	5,844	106.7%
Oi Hankyu Food Hall	2,229	101.4%
Tsuzuki Hankyu	2,364	97.7%
Hanshin Umeda Main Store(※3)	35,117	91.3%
Amagasaki Hanshin	1,728	97.6%
Hanshin Nishinomiya	2,128	100.2%
Hanshin Mikage	255	95.1%
Total	191,187	99.2%

※1 including HANKYU MEN'S OSAKA

※2 closed the first floor on March 4, 2014

※3 The sales area has decreased since April 1, 2014 due to rebuilding preparatory work.

(3) Sales of each category

	millions of yen	year on year
Clothing	60,076	100.4%
Accessories, bags and others	35,421	100.8%
Household merchandise	6,409	95.2%
Foods	60,332	99.6%
Restaurants and cafés	5,337	86.2%
General merchandise	21,670	97.1%
Service	1,168	102.3%
Other	769	95.1%
Total	191,187	99.2%