

H2O RETAILING CORPORATION

Financial Results

3rd Quarter of FY2018

I. Consolidated

1. Overview of consolidated statements of income
 - (1) Operating results
 - (2) Segment information
 - (3) Selling, general and administrative expenses
 - (4) Non-operating income and expenses
 - (5) Extraordinary income and losses
 - (6) Income taxes (current and deferred)
2. Overview of consolidated Balance Sheet

II. Non-consolidated

1. Hankyu Hanshin Department Stores, Inc.
2. Izumiya Co., Ltd.
3. Hankyu Oasis Co., Ltd.

I. Consolidated

1. Overview of consolidated statements of income

(1) Operating results (Millions of yen)

	Amount	YoY	increase (decrease)
Net sales	689,206	101.3%	+ 8,607
Gross profit	199,480	100.3%	+ 508
Gross profit / Net sales	28.94%	—	(0.29Pt)
Selling, general and administrative expenses	181,504	99.8%	(331)
SG & A / Net sales	26.34%	—	(0.38Pt)
Operating income	17,975	104.9%	+ 839
Operating income / Net sales	2.61%	—	+ 0.09Pt
Recurring income	19,645	118.1%	+ 3,010
Recurring income / Net sales	2.85%	—	+ 0.41Pt
Net income	15,194	105.2%	+ 747
Net income / Net sales	2.20%	—	+ 0.08Pt

Reference : Changes of operating results of 3rd Quarter (Millions of yen)

	FY2016	FY2017	FY2018
Net sales	690,231	680,598	689,206
YoY	110.9%	98.6%	101.3%
Gross profit	201,082	198,971	199,480
YoY	113.4%	99.0%	100.3%
Selling, general and administrative expenses	182,637	181,836	181,504
YoY	113.3%	99.6%	99.8%
Operating income	18,444	17,135	17,975
YoY	114.5%	92.9%	104.9%
Recurring income	18,730	16,634	19,645
YoY	114.6%	88.8%	118.1%
Net income	14,933	14,446	15,194
YoY	119.6%	96.7%	105.2%

(2) Segment information

(Millions of yen)

		1st Quarter		2nd Quarter		3rd Quarter		Total	
		Amount	YoY	Amount	YoY	Amount	YoY	Amount	YoY
Department Store Business	Net Sales	99,712	104.5%	106,775	105.1%	125,563	104.4%	332,051	104.6%
	Operating income	3,319	139.3%	2,817	120.2%	7,728	110.4%	13,865	118.2%
Kobe・Takatsuki Business	Net Sales	-	-	-	-	12,682	-	12,682	-
	Operating income	-	-	-	-	508	-	508	-
Supermarket Business	Net Sales	96,478	93.4%	97,329	95.1%	102,621	93.2%	296,428	93.9%
	Operating income	(703)	-	(373)	-	1,891	77.5%	814	20.2%
Shopping Center Business	Net Sales	3,301	144.5%	2,377	97.2%	2,310	92.2%	7,989	110.4%
	Operating income	1,552	256.4%	1,237	83.9%	1,096	77.0%	3,887	110.9%
Sub Total	Net Sales	99,779	94.5%	99,706	95.2%	104,931	93.2%	304,417	94.3%
	Operating income	849	50.4%	864	43.6%	2,988	77.3%	4,701	62.4%
Other Business	Net Sales	12,827	98.8%	13,199	100.2%	14,028	99.1%	40,055	99.4%
	Operating income	2,525	112.7%	86	-	826	150.1%	3,439	131.4%
Consolidation adjustment	Net Sales	-	-	-	-	-	-	-	-
	Operating income	(3,091)	-	(391)	-	(1,056)	-	(4,539)	-
Total	Net Sales	212,319	99.2%	219,681	100.0%	257,205	104.1%	689,206	101.3%
	Operating income	3,601	119.8%	3,376	93.3%	10,997	104.6%	17,975	104.9%

※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.).

※3. On 1st October 2017, the company acquired business of Sogo Kobe & Seibu Takatsuki stores

(3) Selling, general and administrative expenses

(Millions of yen)

	Amount	YoY	increase (decrease)
Personnel expenses	71,663	100.0%	(14)
Rent expenses	28,195	101.7%	+ 481
Advertising and decoration expenses	10,776	89.4%	(1,279)
Depreciation	11,276	100.5%	+ 57
Business consignment expenses	14,177	95.4%	(680)
Sales commission	9,414	129.7%	+ 2,158
Transportation costs	11,276	101.0%	+ 115
Others	24,724	95.5%	(1,169)
Total	181,504	99.8%	(331)

(4) Non-operating income and expenses

(Millions of yen)

	Amount	YoY	increase (decrease)
Non-operating income	3,886	154.9%	+ 1,377
Interest income	166	264.3%	+ 103
Dividends income	1,218	129.2%	+ 275
Gain on adjustment of accounts payable	1,014	105.5%	+ 53
Foreign exchange gains	508	-	+ 508
Others	977	180.6%	+ 436
Non-operating expenses	2,216	73.6%	(793)
Interest expenses	781	96.0%	(32)
Loss on provision for redemption of gift certificate	744	97.1%	(22)
Loss on valuation of forward exchange contracts	-	-	(256)
Others	690	58.9%	(481)

(5) Extraordinary income and losses

(Millions of yen)

	Amount	main contents
Extraordinary income	5,151	
Gain on bargain purchase	2,010	
Gain on sales of property, plant and others	1,695	Izumiya Kemigawahama, Izumiya Suminodo
Gain on revision of retirement benefit plan	1,445	Izumiya
Extraordinary losses	2,277	
Loss on closing of stores and others	939	Izumiya Saikudani
Loss on disposal of property, plant, equipment and intangibles	917	some department stores some Izumiya stores
Impairment losses	420	Hankyu OASIS Shirakawadori

(6) Income taxes

(Millions of yen)

科目	Amount	3rd Quarter of FY2017	increase (decrease)
Income before income taxes	22,519	+ 17,215	+ 5,303
Income taxes - current	5,281	+ 4,176	+ 1,105
Income taxes - deferred	2,043	(1,406)	+ 3,450
Profit attributable to owners of parent	15,194	+ 14,446	+ 747

2. Overview of consolidated Balance Sheet

(Millions of yen)

	3rd Quarter of FY2018	FY2017	increase (decrease)
Cash and deposits	58,153	83,481	(25,327)
Notes and accounts receivable-trade	62,705	43,588	+ 19,117
Total current assets	175,632	178,318	(2,685)
Buildings and structures, net	110,983	108,262	+ 2,720
Land	150,000	134,591	+ 15,408
Investment securities	126,087	103,031	+ 23,056
Guarantee deposits	70,522	69,060	+ 1,461
Deferred tax assets	8,426	9,960	(1,534)
Total non-current assets	509,699	462,225	+ 47,474
Total assets	685,332	640,543	+ 44,788

(Millions of yen)

	3rd Quarter of FY2018	FY2017	increase (decrease)
Notes and accounts payable-trade	80,140	59,394	+ 20,746
Commercial papers	-	2,000	(2,000)
Current portion of bonds	2,000	6,600	(4,600)
Current portion of long-term debt	34,569	29,585	+ 4,983
Income taxes payable	3,576	4,744	(1,167)
Accounts payable-other	15,714	14,329	+ 1,384
Gift certificates	27,909	23,846	+ 4,062
Total current liabilities	210,220	189,202	+ 21,018
Bonds	10,000	10,000	-
Long-term debt	97,107	108,593	(11,486)
Deferred tax liabilities	30,061	21,521	+ 8,539
Total long-term liabilities	186,184	187,017	(833)
Total liabilities	396,405	376,219	+ 20,185
Retained earnings	135,615	125,490	+ 10,124
Net unrealised holding gains on securities	45,945	31,227	+ 14,717
Total net assets	288,927	264,323	+ 24,603
Total liabilities and net assets	685,332	640,543	+ 44,788

II. Non-consolidated

1. Hankyu Hanshin Department Stores, Inc.

① Operating results

(Millions of yen)

	Aomout	YoY	increase (decrease)
Net sales	331,921	104.6%	+ 14,673
Gross profit	81,561	104.1%	+ 3,240
Gross profit / Net sales	24.57%		(0.12Pt)
Other operating revenue	518	106.7%	+ 32
Selling, general and administrative expenses	68,193	101.5%	+ 1,007
SG & A / Net sales	20.55%		(0.63Pt)
Operating income	13,886	119.5%	+ 2,265
Operating income / Net sales	4.18%		+ 0.52Pt

② Sales, Number of customers and Sales area

	Sales	YoY	Number of customers (thousand)	YoY	Sales area
Hankyu Main Store ※1	178,255	109.2%	37,359	102.9%	97,540m ²
Hanshin Umeda Main Store	41,516	99.7%	21,075	99.2%	33,429m ²
Senri Hankyu	12,347	99.1%	3,733	99.6%	13,902m ²
Sakai Kitahanada Hankyu ※2	3,809	63.3%	1,987	48.3%	–
Kawanishi Hankyu	12,128	98.3%	4,689	99.4%	15,528m ²
Takarazuka Hankyu	5,773	98.2%	※3 –	–	6,148m ²
Nishinomiya Hankyu	19,180	102.4%	9,821	102.3%	25,099m ²
Sanda Hankyu	1,073	99.7%	※3 –	–	2,143m ²
Hakata Hankyu	34,239	105.4%	20,491	99.2%	41,835m ²
HANKYU MEN'S TOKYO	10,521	102.3%	1,940	98.7%	11,445m ²
Oi Hankyu Food Hall	3,475	98.5%	4,227	98.7%	2,042m ²
Tsuzuki Hankyu	3,610	97.8%	2,837	100.4%	6,736m ²
Amagasaki Hanshin	2,192	105.8%	※3 –	–	2,855m ²
Hanshin Nishinomiya	3,388	101.8%	2,997	100.4%	4,998m ²
Hanshin Mikage	407	97.1%	3,749	96.3%	804m ²
Total of branch stores	112,149	99.9%	56,476	96.1%	133,534m ²
Total stores	331,921	104.6%	114,911	98.8%	264,502m ²
Existing stores ※4	328,111	105.4%	112,924	100.6%	

※1 including HANKYU MEN'S OSAKA

※2 closed on 31st July, 2017

※3 not counting the number of customers

※4 not including Sakai Kitahanada Hankyu

③ Monthly Sales

(Millions of yen)

	April	May	June	July	August	September	1st•2nd Quarter
Hankyu Main Store ※1	105.4%	108.4%	108.3%	108.0%	110.0%	114.4%	109.0%
Hanshin Umeda Main Store	96.5%	101.6%	96.2%	95.7%	99.8%	106.1%	99.3%
Senri Hankyu	99.3%	99.2%	98.4%	98.1%	97.8%	97.9%	98.4%
Sakai Kitahanada Hankyu ※2	98.1%	148.2%	140.7%	176.6%	–	–	98.8%
Kawanishi Hankyu	99.2%	98.9%	98.3%	96.5%	100.0%	98.8%	98.5%
Takarazuka Hankyu	98.5%	98.5%	98.7%	95.4%	98.0%	96.4%	97.5%
Nishinomiya Hankyu	102.4%	103.9%	102.7%	100.2%	101.9%	104.4%	102.4%
Sanda Hankyu	99.2%	96.9%	94.2%	96.9%	98.0%	100.9%	97.5%
Hakata Hankyu	105.2%	101.4%	105.5%	100.2%	101.6%	105.0%	103.0%
HANKYU MEN'S TOKYO	99.5%	92.4%	100.7%	101.4%	105.4%	110.0%	101.2%
Oi Hankyu Food Hall	98.1%	98.5%	98.0%	98.5%	97.5%	99.9%	98.4%
Tsuzuki Hankyu	100.9%	102.2%	104.0%	99.5%	96.3%	94.6%	99.7%
Amagasaki Hanshin	107.5%	105.2%	103.5%	104.3%	105.7%	106.9%	105.5%
Hanshin Nishinomiya	101.3%	100.1%	100.9%	99.5%	101.1%	102.9%	100.9%
Hanshin Mikage	89.3%	96.2%	97.8%	97.1%	101.1%	97.3%	96.6%
Total of branch stores	101.6%	102.8%	104.0%	103.4%	94.9%	97.3%	100.9%
Total stores	102.9%	105.4%	105.1%	104.7%	103.1%	107.4%	104.8%
Existing stores ※3	–	–	–	–	105.4%	109.4%	104.9%

(Millions of yen)

	October	September	December	3rd Quarter	Total
Hankyu Main Store ※1	110.1%	112.6%	106.5%	109.4%	109.2%
Hanshin Umeda Main Store	100.2%	100.6%	100.4%	100.4%	99.7%
Senri Hankyu	100.5%	102.3%	98.2%	100.2%	99.1%
Sakai Kitahanada Hankyu ※2	–	–	–	–	63.3%
Kawanishi Hankyu	93.9%	101.0%	98.5%	98.0%	98.3%
Takarazuka Hankyu	97.2%	100.0%	100.9%	99.6%	98.2%
Nishinomiya Hankyu	99.6%	106.4%	101.4%	102.5%	102.4%
Sanda Hankyu	96.7%	106.6%	104.5%	103.3%	99.7%
Hakata Hankyu	104.4%	112.2%	111.4%	109.7%	105.4%
HANKYU MEN'S TOKYO	100.9%	104.9%	105.3%	103.9%	102.3%
Oi Hankyu Food Hall	95.2%	99.6%	100.3%	98.7%	98.5%
Tsuzuki Hankyu	93.7%	94.1%	95.5%	94.6%	97.8%
Amagasaki Hanshin	107.2%	107.4%	105.4%	106.5%	105.8%
Hanshin Nishinomiya	103.9%	103.9%	102.2%	103.2%	101.8%
Hanshin Mikage	96.2%	99.0%	98.6%	98.1%	97.1%
Total of branch stores	95.3%	100.5%	98.4%	98.2%	99.9%
Total stores	103.6%	106.9%	103.0%	104.4%	104.6%
Existing stores ※3	105.5%	108.8%	104.9%	106.3%	105.4%

※1 including HANKYU MEN'S OSAKA

※2 closed on 31st July, 2017

※3 not including Sakai Kitahanada Hankyu

④ Sales of each category

(Millions of yen)

	Amount	YoY	increase (decrease)	Share
Men's clothing	29,630	106.5%	+ 1,810	8.9%
Women's clothing	48,672	100.3%	+ 122	14.7%
Children's clothing	7,696	101.8%	+ 135	2.3%
Other clothing	9,317	101.0%	+ 89	2.8%
Clothing	95,316	102.3%	+ 2,157	28.7%
Accessories, bags and others	60,576	106.2%	+ 3,531	18.3%
Household merchandise	10,450	105.1%	+ 503	3.2%
Foods	98,723	99.9%	(116)	29.7%
Restaurants & cafés	7,007	102.2%	+ 153	2.1%
General merchandise	57,243	117.1%	+ 8,370	17.2%
Service	1,446	105.5%	+ 75	0.4%
Other	1,156	99.9%	(1)	0.4%
Total	331,921	104.6%	+ 14,673	100.0%

2. Izumiya Co., Ltd.

① Operating results (Millions of yen)

	Amount	YoY	increase (decrease)
Net sales	179,452	89.7%	(20,516)
Gross profit	47,493	91.5%	(4,419)
Gross profit / Net sales	26.47%		+ 0.51Pt
Other operating revenue	10,908	90.5%	(1,149)
Selling, general and administrative expenses	57,947	93.3%	(4,170)
SG & A / Net sales	32.29%		+ 1.23Pt
Operating income	454	24.5%	(1,398)
Operating income / Net sales	0.25%		(0.67Pt)

② Sales of each category (Millions of yen)

	Amount	YoY	increase (decrease)
Foods	117,032	90.7%	(12,066)
Clothing	22,467	89.2%	(2,726)
Household goods	29,451	86.0%	(4,812)
Total	168,950	89.6%	(19,604)

③ Monthly Sales

	April	May	June	July	August	September	1st*2nd Quarter
Total stores	91.5%	87.6%	87.5%	87.9%	91.7%	92.4%	89.7%
Existing stores	98.2%	94.6%	95.2%	95.0%	98.4%	98.3%	96.4%

	October	September	December	3rd Quarter	Total
Total stores	86.3%	89.7%	91.1%	89.1%	89.5%
Existing stores	93.6%	98.2%	99.6%	97.2%	96.6%

④ Number of stores

31st March, 2017	Opening	Closing 4 stores	31st December, 2017
86 stores	—	Kemigawahama (Chiba) Saikudani (Osaka) Hanazono(Osaka) Fushimi(Kyoto)	82 stores

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

	Amount	YoY	increase (decrease)
Net sales	7,021	145.3%	+ 2,187
Operating income	2,921	143.2%	+ 880

※not including operating results of Sogo Kobe store and Seibu Takatsuki store

3. Hankyu Oasis Co., Ltd.

① Operating results

(Millions of yen)

	Amount	YoY	increase (decrease)
Net sales	89,431	102.3%	+ 1,999
Gross profit	22,770	101.3%	+ 293
Gross profit / Net sales	25.46%		(0.25Pt)
Other operating revenue	5,133	109.1%	+ 429
Selling, general and administrative expenses	27,709	106.3%	+ 1,632
SG & A / Net sales	30.98%		+ 1.16Pt
Operating income	195	17.7%	(909)
Operating income / Net sales	0.22%		(1.05Pt)

② Monthly Sales

	April	May	June	July	August	September	1st•2nd Quarter
Total stores	104.6%	103.9%	101.3%	102.7%	103.7%	104.3%	103.4%
Existing stores	101.4%	99.2%	98.6%	98.1%	98.6%	99.2%	99.3%

	October	September	December	3rd Quarter	Total
Total stores	99.3%	99.9%	101.1%	100.2%	102.3%
Existing stores	97.3%	99.2%	99.9%	98.8%	99.2%

③ Number of stores

31st March, 2017	Opening 3 stores	Closing 4 stores	31st December, 2017
83 stores	Himejima (Osaka) Itami Koyahigasi (Hyogo) Itami Konoike (Hyogo)	Sumiyoshi (Osaka) Miyakojima (Osaka) Ibaraki-eki-mae(Osaka) Showa-cho(Osaka)	82 stores