

H2O RETAILING CORPORATION

Financial Results 1st Quarter of FY2018

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I. Consolidated

1. Overview of consolidated statements of income

(1) Operating results (Millions of yen)

	Amount	YoY	increase (decrease)
Net sales	212,319	99.2%	(1,638)
Gross profit	62,528	99.5%	(338)
Gross profit / Net sales	29.45%		+0.07Pt
Selling, general and administrative expenses	58,926	98.4%	(933)
SG & A / Net sales	27.75%		(0.22Pt)
Operating income	3,601	119.8%	595
Operating income / Net sales	1.70%		+0.29Pt
Recurring income	4,644	220.1%	2,534
Recurring income / Net sales	2.19%		+1.20Pt
Profit attributable to owners of parent	4,027	129.8%	+ 924
Net income / Net sales	1.90%		+0.45Pt

Reference : Changes of operating results of 1st Quarter (Millions of yen)

	FY2016	FY2017	FY2018
Net sales	215,279	213,958	212,319
YoY	168.2%	99.4%	99.2%
Gross profit	62,608	62,866	62,528
YoY	175.5%	100.4%	99.5%
Selling, general and administrative expenses	59,419	59,859	58,926
YoY	181.3%	100.7%	98.4%
Operating income	3,189	3,006	3,601
YoY	110.5%	94.3%	119.8%
Recurring income	3,434	2,110	4,644
YoY	101.2%	61.4%	220.1%
Profit attributable to owners of parent	6,025	3,102	4,027
YoY	50.4%	51.5%	129.8%

(2) Segment information (Millions of yen)

	Department Store Business	Supermarket Business		Shopping Center Business	Sub Total	Other Business	Consolidation adjustment	Total
Net sales	99,712	96,478	3,301	99,779	12,827	—	212,319	
YoY	104.5%	93.4%	144.5%	94.5%	98.8%	—	99.2%	
Operating income	3,319	△ 703	1,552	849	2,525	△ 3,091	3,601	
YoY	139.3%	—	256.4%	50.4%	112.7%	—	119.8%	

※ 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) Selling, general and administrative expenses (Millions of yen)

	Amount	YoY	increase (decrease)
Personnel expenses	23,598	98.9%	(251)
Rent expenses	9,330	100.1%	+ 5
Advertising and decoration expenses	3,311	83.4%	(657)
Depreciation	3,619	97.2%	(104)
Business consignment expenses	4,664	95.1%	(240)
Sales commission	3,116	147.0%	+ 995
Transportation costs	3,448	100.3%	+ 11
Others	7,837	91.9%	(690)
Total	58,926	98.4%	(933)

(4) Non-operating income and expenses (Millions of yen)

	Amount	YoY	increase (decrease)
Non-operating income	1,770	170.2%	+ 730
Interest income	43	199.5%	+ 21
Dividends income	755	145.7%	+ 237
Gain on adjustment of accounts payable	350	108.1%	+ 26
Gain on valuation of forward exchange contracts	130	—	+ 130
Others	489	279.8%	+ 314
Non-operating expenses	727	37.6%	(1,208)
Interest expense	252	93.7%	(16)
Loss on provision for redemption of gift certificates	260	97.6%	(6)
Loss on valuation of forward exchange contracts	—	—	(801)
Others	214	35.8%	(384)

(5) Extraordinary income and losses (Millions of yen)

	Amount	main contents
Extraordinary income	2,518	
Gain on revision of retirement benefit plan	1,445	Izumiya Co., Ltd
Reversal of provision for loss on store closing	1,073	Izumiya Kemigawahama
Extraordinary losses	786	
Loss on closing of stores and others	427	Izumiya Saikudani
Impairment losses	279	Some Izumiya stores
Loss on disposal of property, plant, equipment and intangibles	79	Hankyu Oasis Shirakawa-dori

(6) Income taxes (Millions of yen)

	1st Quarter of FY2018	1st Quarter of FY2017	increase (decrease)
Income before income taxes	6,376	5,437	+ 939
Income taxes – current	909	1,262	(353)
Income taxes – deferred	1,439	1,071	+ 368
Profit attributable to owners of parent	4,027	3,102	+ 924

2. Overview of consolidated Balance Sheet

(Millions of yen)

main subjects	1st Quarter of FY2018	FY2017	increase (decrease)
Cash and deposits	70,962	83,481	(12,519)
Notes and accounts receivable-trade	46,696	43,588	+ 3,107
Total current assets	169,816	178,318	(8,501)
Buildings and structures, net	107,037	108,262	(1,225)
Land	134,593	134,591	+ 2
Investment securities	113,522	103,031	+ 10,491
Guarantee deposits	68,971	69,060	(88)
Deferred tax assets	9,340	9,960	(619)
Total non-current assets	471,569	462,225	+ 9,344
Total assets	641,385	640,543	+ 842

(Millions of yen)

main subjects	1st Quarter of FY2018	FY2017	increase (decrease)
Notes and accounts payable-trade	52,600	59,394	(6,794)
Commercial papers	0	2,000	(2,000)
Current portion of bonds	6,550	6,600	(50)
Current portion of long-term debt	29,518	29,585	(67)
Income taxes payable	1,053	4,744	(3,691)
Accounts payable-other	11,622	14,329	(2,706)
Gift certificates	24,908	23,846	+ 1,061
Total current liabilities	177,010	189,202	(12,191)
Bonds	10,000	10,000	+ 0
Long-term debt	108,685	108,593	+ 91
Deferred tax liabilities	26,435	21,521	+ 4,914
Total long-term liabilities	191,888	187,017	+ 4,870
Total liabilities	368,898	376,219	(7,321)
Retained earnings	126,918	125,490	+ 1,427
Net unrealised holding gains on securities	38,742	31,227	+ 7,514
Total net assets	272,487	264,323	+ 8,163
Total liabilities and net assets	641,385	640,543	+ 842

II. Non-consolidated

1. Hankyu Hanshin Department Stores, Inc.

① Operating results (Millions of yen)

	Amount	YoY	increase (decrease)
Net sales	99,663	104.5%	+ 4,268
Gross profit	24,740	103.8%	+ 894
Gross profit / Net sales	24.82%		(0.17Pt)
Other operating revenue	174	106.5%	+ 10
Selling, general and administrative expenses	21,603	99.7%	(58)
SG & A / Net sales	21.68%		(1.03Pt)
Operating income	3,312	141.0%	+ 963
Operating income / Net sales	3.32%		+0.86Pt

② Sales of Storers (Millions of yen)

	Sales	YoY	increase (decrease)
Hankyu Main Store (※1)	51,940	107.4%	+ 3,556
Hanshin Umeda Main Store	12,622	98.2%	(233)
Hakata Hankyu	10,359	103.9%	+ 391
HANKYU MEN'S TOKYO	3,109	97.5%	(80)
Other branch stores	21,631	103.0%	+ 635
Total of branch stores	35,100	102.8%	+ 945
Total	99,663	104.5%	+ 4,268

※1 including HANKYU MEN'S OSAKA

③ Sales of each category (Millions of yen)

	Amount	YoY	increase (decrease)
Men's clothing	8,813	102.7%	+ 233
Women's clothing	15,316	99.0%	(153)
Children's clothing	2,454	105.3%	+ 123
Other clothing	2,951	101.1%	+ 33
Clothing	29,535	100.8%	+ 237
Accessories, bags and others	18,760	105.2%	+ 923
Household merchandise	3,309	105.1%	+ 161
Foods	27,662	102.6%	+ 704
Restaurants & cafés	2,213	101.7%	+ 37
General merchandise	17,314	114.3%	+ 2,167
Service	460	107.8%	+ 33
Other	406	101.0%	+ 3
Total	99,663	104.5%	+ 4,268

2. Izumiya Co., Ltd.

① Operating results (Millions of yen)

	Amount	YoY	increase (decrease)
Net sales	58,438	88.9%	(7,260)
Gross profit	15,385	91.8%	(1,366)
Gross profit / Net sales	26.33%		+0.83Pt
Other operating revenue	3,585	84.0%	(684)
Selling, general and administrative expenses	19,414	95.3%	(962)
SG & A / Net sales	33.22%		+2.21Pt
Operating income	(443)	—	(1,088)
Operating income / Net sales	(0.76%)		(1.74Pt)

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

	Amount	YoY	increase (decrease)
Operating income	1,031	—	+ 1,031

※ established on July 1, 2016

② Sales of stores (Millions of yen)

	Amount	YoY	increase (decrease)
Total stores	56,259	88.8%	(7,081)
Existing stores	54,395	95.8%	(2,357)

③ Sales of each category (Millions of yen)

	Amount	YoY	increase (decrease)
Foods	38,016	90.0%	(4,213)
Clothing	7,805	86.3%	(1,237)
Household goods	9,630	87.2%	(1,412)
Total	55,452	89.0%	(6,864)

④ Number of stores

31st March, 2017	Opening	Closing 2 stores	30th June, 2017
86 stores	—	Kemigawahama (Chiba) Saikudani (Osaka)	84 stores

3. Hankyu Oasis Co., Ltd.

① Operating results

(Millions of yen)

	Amount	YoY	increase (decrease)
Net sales	29,179	103.3%	+ 929
Gross profit	7,275	100.0%	(2)
Gross profit / Net sales	24.93%		(0.83Pt)
Other operating revenue	1,665	108.0%	+ 123
Selling, general and administrative expenses SG & A	9,145	105.8%	+ 499
/ Net sales	31.34%		+0.74Pt
Operating income	(204)	—	(378)
Operating income / Net sales	(0.70%)		(1.32Pt)

② Sales of stores

(Millions of yen)

	Amount	YoY	increase (decrease)
Total stores	29,179	103.3%	+ 929
Existing stores	27,087	99.9%	(33)

③ Number of stores

31st March, 2017	Opening 2 stores	Closing 1 store	30th June, 2017
83 stores	Himejima (Osaka) Itami-Koyahigashi (Hyogo)	Sumiyoshi (Osaka)	84 stores