

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

May 11, 2017

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 shareholders' meeting : June 21, 2017  
 Scheduled date of dividend payment : May 31, 2017  
 Scheduled date of filing of the financial report : June 21, 2017  
 Preparation of supplementary materials : Yes  
 Briefing session on financial results : Yes (for institutional investors and analysts)

(Figures are rounded down to the nearest million yen.)

### 1. Consolidated Business Results of the Fiscal Year ending March 31, 2017 (From April 1, 2016 to March 31, 2017)

(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 | %    |
| FY2017 | 901,221         | (1.6) | 22,542           | (5.4) | 21,725           | (5.8) | 14,298          | 1.7  |
| FY2016 | 915,690         | 8.4   | 23,825           | 11.5  | 23,060           | 8.7   | 14,053          | 21.3 |

Note : Comprehensive income FY2017 16,192 million yen, (226.0%) , FY2016 4,966 million yen, (△84.3%)

|        | Net Income per Share | Net Income per Share(Diluted) | Return on Equity | Ratio of Recurring Income to Total Assets | Ratio of Operating Income to Net Sales |
|--------|----------------------|-------------------------------|------------------|---|--|
|        | Yen                  | Yen                           | %                | %   | %                                      |
| FY2017 | 115.84               | 115.28                        | 5.6              | 3.5                                       | 2.5                                    |
| FY2016 | 113.93               | 113.39                        | 5.6              | 3.8                                       | 2.6                                    |

Reference : Equity in earnings of affiliates FY2017 △34 million yen , FY2016 68 million yen

(2) Consolidated financial position

|        | Total Assets    | Net Assets      | Owner's Equity Ratio | Net Assets per Share |
|--------|-----------------|-----------------|----------------------|----------------------|
|        | Millions of yen | Millions of yen | %                    | Yen                  |
| FY2017 | 640,543         | 264,323         | 41.1                 | 2,131.97             |
| FY2016 | 597,041         | 252,587         | 42.1                 | 2,038.83             |

Reference : Owner's equity FY2017 263,220 million yen , FY2016 251,554 million yen

(3) Consolidated cash flows

|        | Cash flows from operating activities | Cash flows from investing activities | Cash flows from financing activities | Cash and cash equivalents at end of year |
|--------|--------------------------------------|--------------------------------------|--------------------------------------|--|
|        | Millions of yen                      | Millions of yen                      | Millions of yen                      | Millions of yen                          |
| FY2017 | 38,742                               | (25,325)                             | 21,703                               | 83,462                                   |
| FY2016 | 24,539                               | 5,852                                | (26,207)                             | 48,492                                   |

### 2. Dividends

|                  | Annual Dividends |                |               |                 |       | Total Dividends Payment (Annual) | Payout Ratio (Consolidated) | Ratio of Dividends to Net Assets (Consolidated) |
|------------------|------------------|----------------|---------------|-----------------|-------|----------------------------------|-----------------------------|---|
|                  | First Quarter    | Second Quarter | Third Quarter | Fiscal Year-End | Total |                                  |                             |   |
|                  | Yen              | Yen            | Yen           | Yen             | Yen   | Millions of yen                  | %                           | %   |
| FY2016           | -                | 17.50          | -             | 17.50           | 35.00 | 4,317                            | 30.7                        | 1.7   |
| FY2017           | -                | 20.00          | -             | 20.00           | 40.00 | 4,938                            | 34.5                        | 1.9   |
| FY2018(Forecast) | -                | 20.00          | -             | 20.00           | 40.00 |                                  | -                           |   |

*These financial statements have been prepared for reference only in accordance with accounting principles and practices generally accepted in Japan.*

### 3. Forecast of Consolidated Business Results for the Fiscal Year ending March 31, 2018

(From April 1, 2017 to March 31, 2018)

(Percentages indicate year-on-year changes.)

|           | Net Sales       |       | Operating Income |       | Recurring Income |       | Net Income      |        | Net Income<br>per Share |
|-----------|-----------------|-------|------------------|-------|------------------|-------|-----------------|--------|-------------------------|
|           | Millions of yen | %     | Millions of yen  | %     | Millions of yen  | %     | Millions of yen | %      | Yen                     |
| Half Year | 430,000         | (0.8) | 6,100            | (7.9) | 6,000            | 17.2  | 3,200           | (51.2) | 25.92                   |
| Full Year | 895,000         | (0.7) | 21,000           | (6.8) | 20,100           | (7.5) | 12,000          | (16.1) | 97.19                   |

#### Notes

- (1) Changes in significant subsidiaries during the period  
(changes in specified subsidiaries resulting in the change in scope of consolidation) : No
- (2) 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
- (3) Number of shares issued and outstanding (common stock)  
(a) Number of shares issued at the end of the period (including treasury stock)  
FY2017 125,201,396 shares  
FY2016 125,201,396 shares  
(b) Number of shares of treasury stock at the end of the period  
FY2017 1,737,627 shares  
FY2016 1,819,577 shares  
(c) Average number of shares during the period  
FY2017 123,427,319 shares  
FY2016 123,347,854 shares

## Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(Millions of yen)

|                                       | FY2016<br>(as of March 31, 2016) | FY2017<br>(as of March 31, 2017) |
|---------------------------------------|----------------------------------|----------------------------------|
| <b>Assets</b>                         |                                  |                                  |
| Current Assets                        |                                  |                                  |
| Cash on hand and in banks             | 48,521                           | 83,481                           |
| Notes and accounts receivable -trade  | 46,785                           | 43,588                           |
| Merchandise goods and finished goods  | 33,959                           | 33,531                           |
| Work in progress                      | 186                              | 174                              |
| Raw materials and supplies            | 1,361                            | 1,587                            |
| Deferred tax assets                   | 4,910                            | 4,146                            |
| Notes and accounts receivable -others | 4,710                            | 5,063                            |
| Other                                 | 5,949                            | 7,172                            |
| Allowance for doubtful receivables    | (814)                            | (428)                            |
| Total current assets                  | 145,570                          | 178,318                          |
| Noncurrent Assets                     |                                  |                                  |
| Property, plant and equipment         |                                  |                                  |
| Buildings and structures              | 323,276                          | 314,401                          |
| Accumulated depreciation              | (209,521)                        | (206,138)                        |
| Buildings and structures ,net         | 113,755                          | 108,262                          |
| Machinery and equipment               | 8,967                            | 7,912                            |
| Accumulated depreciation              | (5,342)                          | (4,167)                          |
| Machinery and equipment, net          | 3,625                            | 3,745                            |
| Land                                  | 124,341                          | 134,591                          |
| Construction in progress              | 834                              | 2,012                            |
| Others                                | 46,831                           | 47,063                           |
| Accumulated depreciation              | (35,927)                         | (36,714)                         |
| Others, net                           | 10,904                           | 10,348                           |
| Total property, plant and equipment   | 253,461                          | 258,961                          |
| Intangible assets                     |                                  |                                  |
| Goodwill                              | 5,997                            | 5,217                            |
| Other                                 | 11,733                           | 12,326                           |
| Total intangible assets               | 17,730                           | 17,543                           |
| Investments and other assets          |                                  |                                  |
| Investment securities                 | 97,513                           | 103,031                          |
| Long-term loans receivable            | 3,993                            | 3,868                            |
| Long-term leasehold deposits          | 71,191                           | 69,060                           |
| Long-term deferred tax assets         | 8,945                            | 9,960                            |
| Other                                 | 1,868                            | 2,751                            |
| Allowance for doubtful receivables    | (3,232)                          | (2,952)                          |
| Total investments and other assets    | 180,279                          | 185,720                          |
| Total noncurrent assets               | 451,471                          | 462,225                          |
| Total Assets                          | 597,041                          | 640,543                          |

(Millions of yen)

|   | FY2016<br>(as of March 31, 2016) | FY2017<br>(as of March 31, 2017) |
|---|----------------------------------|----------------------------------|
| <b>Liabilities</b>  |                                  |                                  |
| <b>Current Liabilities</b>  |                                  |                                  |
| Notes and accounts payable - trade                                    | 62,235                           | 59,394                           |
| Current portion of bonds  | 2,100                            | 6,600                            |
| Commercial paper  | —                                | 2,000                            |
| Current portion of long-term debt                                     | 10,077                           | 29,585                           |
| Accounts payable-other  | 13,671                           | 14,329                           |
| Lease obligations   | 963                              | 675                              |
| Income taxes payable  | 5,807                            | 4,744                            |
| Deferred tax liabilities  | 0                                | 4                                |
| Gift certificates   | 21,785                           | 23,846                           |
| Provision for bonuses to employees                                    | 5,048                            | 4,885                            |
| Provision for bonuses to directors and corporate auditors             | 148                              | 177                              |
| Provision for loss on store closing                                   | 295                              | 441                              |
| Provision for point card certificates                                 | 2,097                            | 1,750                            |
| Asset retirement obligations  | 383                              | 1,089                            |
| Other   | 32,610                           | 39,676                           |
| <b>Total current liabilities</b>                                      | <b>157,225</b>                   | <b>189,202</b>                   |
| <b>Long-term Liabilities</b>  |                                  |                                  |
| Bonds   | 16,600                           | 10,000                           |
| Long-term debt  | 100,879                          | 108,593                          |
| Deferred tax liabilities  | 20,622                           | 21,521                           |
| Deferred tax liabilities related to land revaluation                  | 265                              | 265                              |
| Provision for retirement benefits to directors and corporate auditors | 205                              | 245                              |
| Provision for redemption of gift certificates                         | 3,183                            | 3,558                            |
| Net defined benefit liability   | 20,463                           | 18,209                           |
| Long-term payable accrued   | 268                              | 526                              |
| Lease obligations   | 7,535                            | 7,706                            |
| Guarantee deposits  | 12,103                           | 11,494                           |
| Asset retirement obligations  | 2,576                            | 2,567                            |
| Other   | 2,524                            | 2,328                            |
| <b>Total long-term liabilities</b>                                    | <b>187,228</b>                   | <b>187,017</b>                   |
| <b>Total Liabilities</b>  | <b>344,454</b>                   | <b>376,219</b>                   |
| <b>Net Assets</b>   |                                  |                                  |
| <b>Shareholders' Equity</b>   |                                  |                                  |
| Common stock  | 17,796                           | 17,796                           |
| Capital surplus   | 92,783                           | 92,732                           |
| Retained earnings   | 115,820                          | 125,490                          |
| Treasury stock  | (3,387)                          | (3,234)                          |
| <b>Total shareholders' equity</b>                                     | <b>223,013</b>                   | <b>232,786</b>                   |
| <b>Accumulated Other Comprehensive Income</b>                         |                                  |                                  |
| Net unrealised holding gains on securities                            | 30,333                           | 31,227                           |
| Deferred gains or losses on hedges                                    | 185                              | 21                               |
| Land revaluation, net of tax  | 125                              | 125                              |
| Foreign currency translation adjustments                              | 182                              | (309)                            |
| Remeasurements of defined benefit plans                               | (2,285)                          | (629)                            |
| <b>Total accumulated other comprehensive income</b>                   | <b>28,541</b>                    | <b>30,434</b>                    |
| Subscription Rights to Shares   | 1,028                            | 1,098                            |
| Non-controlling interests   | 3                                | 3                                |
| <b>Total Net Assets</b>   | <b>252,587</b>                   | <b>264,323</b>                   |
| <b>Total Liabilities and Net Assets</b>                               | <b>597,041</b>                   | <b>640,543</b>                   |

## (2) Consolidated Statements of Income

(Millions of yen)

|   | FY2016<br>(From April 1, 2015<br>to March 31, 2016) | FY2017<br>(From April 1, 2016<br>to March 31, 2017) |
|---|---|---|
| Net sales   | 915,690   | 901,221   |
| Cost of sales   | 649,326   | 637,837   |
| Gross profit  | 266,363   | 263,384   |
| Selling, general and administrative expenses          |   |   |
| Salaries  | 79,002  | 78,092  |
| Rental expenses                                       | 37,660  | 37,073  |
| Other   | 125,875   | 125,675   |
| Total selling, general and administrative expenses    | 242,538   | 240,841   |
| Operating income                                      | 23,825  | 22,542  |
| Non-operating income                                  |   |   |
| Interest income                                       | 102   | 91  |
| Dividends income                                      | 1,177   | 949   |
| Gain on adjustment of accounts payable                | 792   | 1,187   |
| Equity in earnings of affiliates                      | 68  | —   |
| Other   | 1,028   | 790   |
| Total non-operating income                            | 3,169   | 3,018   |
| Non-operating expenses                                |   |   |
| Interest expense                                      | 1,244   | 1,081   |
| Loss on provision for redemption of gift certificates | 1,136   | 1,161   |
| Equity in losses of affiliates                        | —   | 34  |
| Valuation loss on forward exchange contracts          | 58  | 159   |
| Other   | 1,493   | 1,399   |
| Total non-operating expenses                          | 3,933   | 3,835   |
| Recurring income                                      | 23,060  | 21,725  |
| Extraordinary income                                  |   |   |
| Gain on sales of property, plant and others           | 113   | 4,295   |
| Reversal of provision for loss on store closing       | 629   | 265   |
| Gain on sales of investment securities                | 8,508   | —   |
| Total extraordinary income                            | 9,251   | 4,561   |
| Extraordinary loss                                    |   |   |
| Loss on closing of stores and others                  | 2,855   | 2,921   |
| Impairment losses                                     | 3,836   | 2,300   |
| Loss on disposal of property, plant and others        | 1,153   | 1,059   |
| Outplacement expenses                                 | 92  | —   |
| Total extraordinary loss                              | 7,937   | 6,281   |
| Income before income taxes                            | 24,374  | 20,005  |
| Income taxes - current                                | 9,140   | 6,326   |
| Income taxes - deferred                               | 1,180   | (619)   |
| Total income taxes                                    | 10,321  | 5,706   |
| Net income  | 14,053  | 14,298  |
| Income before minority interests                      | 0   | 0   |
| Minority interests                                    | 14,053  | 14,298  |

## (3) Consolidated Cash Flow Statements

(Millions of yen)

|   | FY2016<br>(From April 1, 2015<br>to March 31, 2016) | FY2017<br>(From April 1, 2016<br>to March 31, 2017) |
|---|---|---|
| Cash flows from operating activities  |   |   |
| Income before income taxes  | 24,374  | 20,005  |
| Depreciation and amortisation   | 16,230  | 15,857  |
| Impairment losses   | 3,836   | 2,300   |
| Loss on store closing and others  | 1,926   | 2,248   |
| Amortisation of goodwill  | 612   | 612   |
| Increase(decrease) in allowance for doubtful receivables                                    | 3,185   | (667)   |
| Increase(decrease) in provision for bonuses to employees                                    | (406)   | (160)   |
| Increase(decrease) in provision for bonuses to directors and corporate auditors             | 1   | 29  |
| Increase(decrease) in net defined benefit liability   | (2,059)   | (2,254)   |
| Increase(decrease) in provision for retirement benefits to directors and corporate auditors | 28  | 40  |
| Increase(decrease) in provision for redemption of gift certificates                         | 508   | 374   |
| Increase(decrease) in provision for loss on store closing                                   | (3,685)   | 145   |
| Increase(decrease) in provision for point card certificates                                 | (177)   | (345)   |
| Interest and dividend income  | (1,280)   | (1,041)   |
| Interest expense  | 1,244   | 1,081   |
| Equity in losses(earnings) of affiliates  | (68)  | 34  |
| Loss(gain) on sales of investment securities  | (8,508)   | -   |
| Loss(gain) on sales of property, plant, equipment and intangibles                           | (113)   | (4,295)   |
| Loss on disposal of property, plant, equipment and intangibles                              | 932   | 497   |
| Valuation loss (gain) on forward exchange contracts   | 58  | 159   |
| Decrease(increase) in notes and accounts receivable   | (7,763)   | 3,196   |
| Decrease(increase) in inventories   | (528)   | 199   |
| Increase(decrease) in notes and accounts payable  | 853   | (3,033)   |
| Increase(decrease) in consumption tax payable   | (1,832)   | 1,944   |
| Decrease (increase) in advance payments   | 1,602   | 5,852   |
| Other   | 4,048   | 4,338   |
| Sub total   | 33,020  | 47,118  |
| Interest and dividends received   | 1,214   | 965   |
| Interest expense paid   | (1,239)   | 1,073   |
| Income taxes paid   | (8,455)   | (8,266)   |
| Net cash provided by operating activities   | 24,539  | 38,742  |

(Millions of yen)

|  | FY2016<br>(From April 1, 2015<br>to March 31, 2016) | FY2017<br>(From April 1, 2016<br>to March 31, 2017) |
|--|---|---|
| Cash flows from investing activities   |   |   |
| Net decrease(increase) in time deposits  | 18  | 10  |
| Purchases of property, plant and equipment   | (18,803)  | (23,983)  |
| Proceeds from sales of property, plant and equipment   | 1,271   | 5,827   |
| Purchases of intangibles   | (2,249)   | (3,340)   |
| Proceeds from sales of intangibles   | 1   | 0   |
| Payment for exercise of asset retirement obligations   | (536)   | (586)   |
| Purchases of investment securities   | (1,013)   | (5,178)   |
| Proceeds from sales of investment securities   | 24,373  | 158   |
| Proceeds from collection of short-term loans receivable  | 917   | —   |
| Payments of long-term loans receivable   | (917)   | —   |
| Proceeds from collection of long-term loans receivable   | 257   | 197   |
| Payments for guarantee deposits  | (864)   | (570)   |
| Proceeds from collection of guarantee deposits   | 3,045   | 2,142   |
| Proceeds from sales of shares of subsidiaries resulting<br>in change in scope of consolidation                         | 279   | —   |
| Net cash provided by (used in) investing activities  | 5,852   | (25,325)  |
| Cash flows from financing activities   |   |   |
| Increase(decrease) in short-term debt  | (6,500)   | 2,000   |
| Proceeds from long-term debt   | 2,750   | 38,000  |
| Repayments of long-term debt   | (17,563)  | (10,777)  |
| Payments for redemption of bonds   | (100)   | (2,100)   |
| Proceeds from sale of treasury stock   | 0   | 0   |
| Additions to treasury stock  | (13)  | (4)   |
| Dividends paid   | (3,700)   | (4,628)   |
| Repayments of lease obligations  | (1,077)   | (787)   |
| Payments from changes in ownership interests in subsidiaries that do<br>not result in change in scope of consolidation | (4)   | —   |
| Net cash provided by (used in) financing activities  | (26,207)  | 21,703  |
| Foreign exchange differences of cash and cash equivalents  | (26)  | (150)   |
| Net increase(decrease) in cash and cash equivalents  | 4,157   | 34,969  |
| Cash and cash equivalents at beginning of year   | 44,334  | 48,492  |
| Cash and cash equivalents at end of year   | 48,492  | 83,462  |

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

(From April 1, 2016 to March 31, 2017)

### (1) Business Results

|  | millions of yen | year on year |
|--|-----------------|--------------|
| Net sales                                    | 427,534         | 99.3%        |
| Gross profit                                 | 104,772         | 98.8%        |
| Other operating revenue                      | 640             | 70.4%        |
| Operating gross profit                       | 105,412         | 98.6%        |
| Selling, general and administrative expenses | 89,339          | 99.2%        |
| Operating income                             | 16,072          | 95.5%        |

### (2) Sales of each store

|                              | millions of yen | year on year |
|------------------------------|-----------------|--------------|
| Hankyu Umeda Main Store (※1) | 220,515         | 101.0%       |
| Hanshin Umeda Main Store     | 55,830          | 94.8%        |
| Hakata Hankyu                | 44,442          | 101.3%       |
| HANKYU MEN'S TOKYO           | 14,027          | 96.6%        |
| Other Branches               | 92,718          | 97.5%        |
| Total of Branches            | 151,188         | 98.5%        |
| Total                        | 427,534         | 99.3%        |

※1 including HANKYU MEN'S OSAKA

### (3) Sales of each category

|                              | millions of yen | year on year |
|------------------------------|-----------------|--------------|
| Clothing                     | 126,663         | 96.1%        |
| Accessories, bags and others | 77,584          | 98.9%        |
| Household merchandise        | 13,334          | 101.5%       |
| Foods                        | 131,399         | 100.4%       |
| Restaurants and cafés        | 9,120           | 98.3%        |
| General merchandise          | 66,104          | 103.6%       |
| Service                      | 1,796           | 97.0%        |
| Other                        | 1,530           | 101.9%       |
| Total                        | 427,534         | 99.3%        |