

<p style="text-align: center;">H2O RETAILING CORPORATION</p> <p style="text-align: center;">Financial Results</p> <p style="text-align: center;">FY2017</p>

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I. Consolidated

1. Overview of consolidated statements of income

(1) Operating results

(Millions of yen, %)

	Amount	YoY	increase (decrease)	versus Oct. forecast	increase (decrease)
Net sales	901,221	98.4	△ 14,469	99.9	△ 779
Gross profit	263,384	98.9	△ 2,979	/	/
Gross profit / Net sales	(29.23)		(+0.14)		
Selling, general and administrative expenses	240,841	99.3	△ 1,697		
SG&A / Net sales	(26.72)		(+0.24)		
Operating income	22,542	94.6	△ 1,282	101.5	+ 342
Operating income / Net sales	(2.50)		(△0.10)		(+0.04)
Recurring income	21,725	94.2	△ 1,335	106.0	+ 1,225
Recurring income / Net sales	(2.41)		(△0.11)		(+0.14)
Net income	14,298	101.7	+ 245	101.4	+ 198
Net income / Net sales	(1.59)		(+0.05)		(+0.02)

Reference : Changes of operating results

(Millions of yen, %)

	FY2013	FY2014	FY2015	FY2016	FY2017
Net sales	525,154	576,852	844,819	915,690	901,221
YoY	(103.9)	(109.8)	(146.5)	(108.4)	(98.4)
Gross profit	142,529	156,949	241,417	266,363	263,384
YoY	(102.2)	(110.1)	(153.8)	(110.3)	(98.9)
Selling, general and administrative expenses	131,859	139,635	220,059	242,538	240,841
YoY	(101.8)	(105.9)	(157.6)	(110.2)	(99.3)
Operating income	10,670	17,313	21,358	23,825	22,542
YoY	(107.2)	(162.3)	(123.4)	(111.5)	(94.6)
Recurring income	11,338	18,160	21,219	23,060	21,725
YoY	(110.0)	(160.2)	(116.8)	(108.7)	(94.2)
Net income	6,200	295	11,586	14,053	14,298
YoY	(586.6)	(4.8)	(3,919.5)	(121.3)	(101.7)

(2) Segment information

(Millions of yen, %)

		1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Total		
		Amount	YoY	Amount	YoY	Amount	YoY	Amount	YoY	Amount	YoY	Vs Oct. forecast
Department Store	Net sales	95,429	99.0	101,630	97.1	120,282	99.0	110,302	101.5	427,644	99.2	101.6
	Operating income	2,381	75.8	2,344	94.1	7,001	106.0	4,265	97.3	15,993	96.2	105.7
Super-market	Net sales	103,261	100.5	102,334	97.4	110,118	99.1	93,739	95.0	409,454	98.1	98.4
	Operating income	1,079	3,301.6	507	33.9	2,440	64.9	△ 50	—	3,977	61.2	83.1
Shopping Center	Net sales	2,285	87.1	2,445	91.1	2,505	97.7	2,734	104.4	9,970	95.0	101.3
	Operating income	605	142.8	1,474	297.8	1,424	312.7	1,534	409.7	5,038	288.0	105.4
Sub Total	Net sales	105,547	100.2	104,779	97.2	112,623	99.1	96,474	95.2	419,424	98.0	98.5
	Operating income	1,685	368.9	1,981	99.5	3,864	91.6	1,484	94.0	9,016	109.4	94.2
Other	Net sales	12,981	95.7	13,171	96.3	14,152	103.5	13,846	89.2	54,151	95.9	98.1
	Operating income	2,240	120.1	△ 173	—	550	87.8	245	—	2,863	130.2	109.8
Adjustments	Net sales	—	—	—	—	—	—	—	—	—	—	—
	Operating income	△ 3,301	—	△ 536	—	△ 904	—	△ 588	—	△ 5,330	—	—
Total	Net sales	213,958	99.4	219,581	97.1	247,058	99.3	220,622	97.9	901,221	98.4	99.9
	Operating income	3,006	94.3	3,617	82.9	10,512	96.5	5,406	100.5	22,542	94.6	101.5

※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.). In the result of the previous year, we cannot divide net sales and operating income of the real estate business from Izumiya Co., Ltd. before reorganization, so we do not disclose year-on-year figures in the disclosure documents required by Japanese law.

The year-on-year in the above table is estimated by classifying all net sales and operating incomes of Izumiya Co., Ltd. in the previous year into Supermarket business.

Reference : Operating results based on the previous segment classification

(Millions of yen, %)

		1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Total	
		Amount	YoY	Amount	YoY	Amount	YoY	Amount	YoY	Amount	YoY
Department Store	Net sales	95,429	99.0	101,630	97.1	120,282	99.0	110,302	101.5	427,644	99.2
	Operating income	2,381	75.8	2,344	94.1	7,001	106.0	4,265	97.3	15,993	96.2
Super-market	Net sales	30,527	106.4	30,908	103.7	33,090	106.9	29,543	102.3	124,069	104.9
	Operating income	179	70.1	606	125.4	652	65.9	328	59.5	1,767	77.4
Izumiya	Net sales	76,518	96.5	74,975	93.2	80,748	95.4	67,942	91.6	300,184	94.2
	Operating income	1,117	—	954	86.8	3,004	95.9	682	93.0	5,759	121.5
Other	Net sales	11,482	105.2	12,067	108.3	12,937	109.8	12,835	93.2	49,322	103.6
	Operating income	2,326	106.2	161	34.5	676	94.3	612	—	3,776	113.8
Adjustments	Net sales	—	—	—	—	—	—	—	—	—	—
	Operating income	△ 2,999	—	△ 450	—	△ 822	—	△ 481	—	△ 4,753	—
Total	Net sales	213,958	99.4	219,581	97.1	247,058	99.3	220,622	97.9	901,221	98.4
	Operating income	3,006	94.3	3,617	82.9	10,512	96.5	5,406	100.5	22,542	94.6

※ Net sales refer to sales to external customers.

(3) Selling, general and administrative expenses

(Millions of yen, %)

	Amount	YoY	increase (decrease)
Personnel expenses	95,351	99.7	△ 316
Rent expenses	37,073	98.4	△ 587
Advertising and decoration expenses	15,409	88.6	△ 1,973
Depreciation	14,962	97.8	△ 342
Business consignment expenses	19,570	99.8	△ 37
Sales commission	9,848	140.5	+ 2,838
Transportation costs	14,459	109.9	+ 1,301
Others	34,165	93.0	△ 2,580
Total	240,841	99.3	△ 1,697

(4) Non-operating income and expenses

(Millions of yen, %)

	Amount	YoY	increase (decrease)
Non-operating income	3,018	95.3	△ 150
Interest income	91	89.2	△ 11
Dividends income	949	80.6	△ 228
Gain on adjustment of accounts payable	1,187	149.9	+ 395
Others	790	72.1	△ 306
Non-operating expenses	3,835	97.5	△ 97
Interest expense	1,081	87.0	△ 162
Loss on provision for redemption of gift certificates	1,161	102.1	+ 24
Loss on valuation of forward exchange contracts	159	270.0	+ 100
Others	1,433	96.0	△ 60

(5) Extraordinary income and losses

(Millions of yen)

	Amount	main contents
Extraordinary income	4,561	
Gain on sales of property, plant and others	4,295	Sales of the land by H2O Retailing
Reversal of provision for loss on store closing	265	Izumiya Oyama
Extraordinary losses	6,281	
Loss on closing of stores and others	2,921	Sakai Kitahanada Hankyu, Izumiya Izumi-fuchu
Impairment losses	2,300	Hanshin Umeda Main Store
Loss on disposal of property, plant, equipment and intangibles	1,059	Some Izumiya stores

(6) Income taxes

(Millions of yen)

	FY2017	FY2016	increase (decrease)
Income before income taxes	20,005	24,374	△ 4,369
Income taxes - current	6,326	9,140	△ 2,814
Income taxes - deferred	△ 619	1,180	△ 1,799
Profit attributable to owners of parent	14,298	14,053	+ 245

2. Overview of consolidated Balance Sheet

(Millions of yen)

	FY2017	FY2016	increase (decrease)
Cash and deposits	83,481	48,521	+ 34,959
Notes and accounts receivable-trade	43,588	46,785	△ 3,197
Total current assets	178,318	145,570	+ 32,747
Buildings and structures, net	108,262	113,755	△ 5,492
Land	134,591	124,341	+ 10,249
Investment securities	103,031	97,513	+ 5,518
Guarantee deposits	69,060	71,191	△ 2,131
Deferred tax assets	9,960	8,945	+ 1,014
Total non-current assets	462,225	451,471	+ 10,753
Total assets	640,543	597,041	+ 43,501

(Millions of yen)

	FY2017	FY2016	increase (decrease)
Notes and accounts payable-trade	59,394	62,235	△ 2,841
Commercial papers	2,000	0	+ 2,000
Current portion of bonds	6,600	2,100	+ 4,500
Current portion of long-term debt	29,585	10,077	+ 19,507
Income taxes payable	4,744	5,807	△ 1,062
Accounts payable-other	14,329	13,671	+ 657
Gift certificates	23,846	21,785	+2,061
Total current liabilities	189,202	157,225	+ 31,976
Bonds	10,000	16,600	△ 6,600
Long-term debt	108,593	100,879	+ 7,714
Deferred tax liabilities	21,521	20,622	+ 899
Total long-term liabilities	187,017	187,228	△ 210
Total liabilities	376,219	344,454	+ 31,765
Retained earnings	125,490	115,820	+ 9,670
Valuation difference on available-for-sale securities	31,227	30,333	+ 893
Total net assets	264,323	252,587	+ 11,735
Total liabilities and net assets	640,543	597,041	+ 43,501

3. Overview of consolidated Cash Flow statements

(Millions of yen)

	FY2017	FY2016	increase (decrease)
Cash flows from operating activities	38,742	24,539	+ 14,202
Income before income taxes	20,005	24,374	△ 4,369
Depreciation and amortisation	15,857	16,230	△ 373
Decrease(increase) in notes and accounts receivable	3,196	△ 7,763	+ 10,959
Cash flows from investing activities	△ 25,325	5,852	△ 31,177
Purchases of property, plant and equipment	△ 23,983	△ 18,803	△ 5,180
Proceeds from sales of property, plant and equipment	5,827	1,271	+ 4,555
Proceeds from sales of investment securities	158	24,373	△ 24,215
Cash flows from financing activities	21,703	△ 26,207	+ 47,910
Proceeds from long-term loans payable	38,000	2,750	+ 35,250
Repayments of long-term loans payable	△ 10,777	△ 17,563	+ 6,785
Cash and cash equivalents	83,462	48,492	+ 34,969

Reference : Changes of Cash Flows

(Millions of yen)

	FY2013	FY2014	FY2015	FY2016	FY2017
Cash flows from operating activities	24,533	33,415	25,468	24,539	38,742
Cash flows from investing activities	△ 23,925	△ 9,628	△ 49,162	5,852	△ 25,325
Cash flows from financing activities	△ 3,422	△ 3,557	24,161	△ 26,207	21,703
Cash and cash equivalents	15,082	35,383	44,334	48,492	83,462

4. Others

(1) Capital investment

(Millions of yen)

	Amount	main contents
Department Store Business	3,372	Renovation of Hankyu Main store, Rebuilding of Hanshin Umeda Main store
Supermarket Business	9,724	New stores of Izumiya and Hankyu Oasis
Shopping Center Business	6,651	Purchases of the land by H2O Asset Management
Other Business	10,083	Purchases of the land by H2O Retailing
Adjustments	△ 1,771	
Total	28,060	

(2) Number of employees

	FY 2017		FY 2016	
Department Store Business	2,942	(1,853)	2,917	(1,877)
Supermarket Business	3,593	(12,566)	3,541	(12,696)
Shopping Center Business	352	(1,200)	365	(1,399)
Other Business	1,641	(2,989)	1,633	(3,148)
Total	8,528	(18,608)	8,456	(19,120)

※1. The number of employees is on the operation staff basis. (excluding employees seconded to other company, and including employees seconded from other company and operating officers)

※2. () means the number of temporary employees. (the average of the fiscal period)

5. Forecast of FY2018

(1) Consolidated

(Millions of yen, %)

	1st・2nd Quarter		3rd・4th Quarter		FY2018	
	Amount	YoY	Amount	YoY	Amount	YoY
Net sales	430,000	99.2	465,000	99.4	895,000	99.3
Operating income	6,100	92.1	14,900	93.6	21,000	93.2
Operating income / Net sales	(1.42)		(3.20)		(2.35)	
Recurring income	6,000	117.2	14,100	84.9	20,100	92.5
Recurring income / Net sales	(1.40)		(3.03)		(2.25)	
Net income	3,200	48.8	8,800	113.6	12,000	83.9
Net income / Net sales	(0.74)		(1.89)		(1.34)	

(2) Segment information

(Millions of yen, %)

		1st・2nd Quarter		3rd・4th Quarter		FY2018	
		Amount	YoY	Amount	YoY	Amount	YoY
Department Store	Net sales	197,735	100.3	230,431	99.9	428,165	100.1
	Operating income	4,700	99.4	10,700	95.0	15,400	96.3
Supermarket	Net sales	200,300	97.4	199,573	97.9	399,873	97.7
	Operating income	303	19.1	2,497	104.5	2,800	70.4
Shopping Center	Net sales	5,560	117.5	4,664	89.0	10,224	102.5
	Operating income	2,507	120.5	1,993	67.3	4,500	89.3
Sub total	Net sales	205,860	97.9	204,237	97.7	410,097	97.8
	Operating income	2,811	76.6	4,489	83.9	7,300	81.0
Other	Net sales	26,406	101.0	30,332	108.3	56,738	104.8
	Operating income	1,919	92.8	1,205	151.4	3,124	109.1
Adjustments	Net sales	—	—	—	—	—	—
	Operating income	△ 3,329	—	△ 1,495	—	△ 4,824	—
Total	Net sales	430,000	99.2	465,000	99.4	895,000	99.3
	Operating income	6,100	92.1	14,900	93.6	21,000	93.2

※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.). In the result of the previous year, we cannot divide net sales and operating income of the real estate business from Izumiya Co., Ltd. before reorganization, so we do not disclose year-on-year figures in the disclosure documents required by Japanese law.

The year-on-year in the above table is estimated by classifying all net sales and operating incomes of Izumiya Co., Ltd. in the previous year into Supermarket business.

(3) Capital investments

(Millions of yen)

	Amount	main contents
Department Store	2,822	Renovation of Hakata Hankyu, Hankyu Main Store
Supermarket	11,571	New stores of Hankyu Oasis, Renovation of Izumiya stores
Shopping Center	1,344	
Other	4,492	New stores, System investment
Adjustments	—	
Total	20,229	

II. Non-consolidated

1. Hankyu Hanshin Department Stores, Inc.

(1) Operating results (Millions of yen, %)

	Amount	YoY	Increase (decrease)
Net sales	427,534	99.3	△ 3,197
Gross profit	104,772	98.8	△ 1,242
Gross profit / Net sales	(24.51)		(△0.11)
Other operating revenue	640	70.4	△ 269
Selling, general and administrative expenses	89,339	99.2	△ 763
SG&A / Net sales	(20.90)		(△0.02)
Operating income	16,072	95.5	△ 749
Operating income / Net sales	(3.76)		(△0.15)

①Sales, Number of customers and Sales area

	Sales (millions of yen)	YoY (%)	Number of customers (tousand)	YoY (%)	Sales area (m ²)
Hankyu Main Store (※1)	220,515	101.0	49,191	100.3	97,540
Hanshin Umeda Main Store	55,830	94.8	28,345	98.2	33,429
Hakata Hankyu	44,442	101.3	27,567	109.4	41,835
HANKYU MEN'S TOKYO	14,027	96.6	2,645	96.9	11,445
Other branch stores	92,718	97.5	(※2) 48,631	97.1	96,253
Total of branch stores	151,188	98.5	78,843	101.1	149,534
Total	427,534	99.3	156,379	100.3	280,502

※1 including HANKYU MEN'S OSAKA

※2 not including Takarazuka Hankyu, Sanda Hankyu and Amagasaki Hanshin

②Monthly (%)

	April	May	June	July	Aug.	Sep.	1Q・2Q
Hankyu Main Store (※)	102.8	99.2	99.6	103.1	94.9	94.7	99.2
Hanshin Umeda Main Store	99.2	94.7	92.8	98.3	92.0	87.7	94.1
Total of branch stores	98.3	98.4	98.5	101.8	96.3	93.3	98.0
Total	100.7	98.3	98.2	102.0	95.0	93.1	98.0

	Oct.	Nov.	Dec.	Jan.	Feb.	March	3Q・4Q	Total
Hankyu Main Store (※)	98.0	99.8	103.6	104.1	106.6	103.1	102.5	101.0
Hanshin Umeda Main Store	91.5	94.2	95.9	95.4	97.2	97.6	95.3	94.8
Total of branch stores	97.1	98.4	99.5	100.3	99.0	99.5	99.0	98.5
Total	96.8	98.6	101.2	101.6	102.5	101.1	100.3	99.3

※ including HANKYU MEN'S OSAKA

③Sales of each category

(Millions of yen, %)

	Amount	YoY	increase (decrease)	Share
Men's clothing	37,873	98.0	△ 767	8.9
Women's clothing	66,185	95.1	△ 3,383	15.5
Children's clothing	10,369	96.7	△ 352	2.4
Other clothing	12,235	94.6	△ 695	2.9
Clothing	126,663	96.1	△ 5,199	29.6
Accessories, bags and others	77,584	98.9	△ 828	18.1
Household merchandise	13,334	101.5	+ 194	3.1
Foods	131,399	100.4	+ 530	30.7
Restaurants & cafes	9,120	98.3	△ 159	2.1
General merchandise	66,104	103.6	+ 2,291	15.5
Service	1,796	97.0	△ 56	0.4
Other	1,530	101.9	+ 29	0.4
Total	427,534	99.3	△ 3,197	100.0

(2) Forecast of FY2018

(Millions of yen, %)

	1st・2nd Quarter		3rd・4th Quarter		Total	
	Amount	YoY	Amount	YoY	Amount	YoY
Hankyu Main Store (※)	102,735	102.8	124,653	103.4	227,388	103.1
Hanshin Umeda Main Store	25,282	95.6	28,239	96.1	53,520	95.9
Hakata Hankyu	20,581	100.2	25,127	105.1	45,709	102.8
HANKYU MEN'S TOKYO	5,989	95.9	7,641	98.2	13,630	97.2
Other branch stores	42,762	97.7	44,465	90.9	87,227	94.1
Total of branch stores	69,332	98.3	77,233	95.8	146,565	96.9
Total	197,410	100.2	230,125	99.8	427,534	100.0
Operating income	4,700	100.1	10,700	94.1	15,400	95.8

※ including HANKYU MEN'S OSAKA

2. Izumiya Co., Ltd.

(1) Operating results

(Millions of yen, %)

	Amount	YoY	increase (decrease)
Net sales	257,803	95.3	△ 12,632
Gross profit	67,488	97.2	△ 1,967
Gross profit / Net sales	(26.18)		(+0.50)
Other operating revenue	15,602	97.4	△ 417
Selling, general and administrative expenses	81,578	98.3	△ 1,385
SG&A / Net sales	(31.64)		(+0.97)
Operating income	1,513	60.2	△ 999
Operating income / Net sales	(0.59)		(△0.34)

Reference : H2O Asset Management Co., Ltd.

	Amount	YoY	increase (decrease)
Net sales	7,226	—	—
Operating income	3,043	—	—

① Sales of each category

(Millions of yen, %)

	Amount	YoY	increase (decrease)
Foods	167,395	97.0	△ 5,199
Clothing	32,053	91.5	△ 2,967
Household goods	43,796	92.7	△ 3,473
Total	243,245	95.4	△ 11,640

② Monthly sales

(%)

	April	May	June	July	Aug.	Sep.	1Q・2Q
Total stores	100.9	96.4	96.6	99.4	92.0	92.7	96.3
Existing stores	99.3	95.8	96.5	100.3	93.3	95.2	96.5

	Oct.	Nov.	Dec.	Jan.	Feb.	March	3Q・4Q	Total
Total stores	98.0	95.2	93.9	93.7	91.2	91.3	94.0	95.1
Existing stores	100.0	97.5	96.3	96.3	94.5	94.8	96.4	96.5

③ Number of stores

31st March, 2016	Opening : 1 stores	Closing : 7 stores	31st March, 2017
93 stores	Fukumachi(Ossaka)	Yachiyo(Chiba), Tsudaka(Okayama), Harborland(Hyogo), Suminodo(Osaka), Abiko(Osaka), Ushiku(Ibaraki), Izumi-Fuchu(Osaka)	87 stores

(2) Forecast of FY2018

(Millions of yen, %)

	1st・2nd Quarter		3rd・4th Quarter		Total	
	Amount	YoY	Amount	YoY	Amount	YoY
Net sales	119,702	91.9	117,037	91.8	236,739	91.8
Operating income	△ 489	—	762	59.0	273	18.1

Reference : H2O Asset Management Co., Ltd.

(Millions of yen, %)

	1st・2nd Quarter		3rd・4th Quarter		Total	
	Amount	YoY	Amount	YoY	Amount	YoY
Net sales	4,674	193.8	4,370	90.8	9,045	125.2
Operating income	1,896	188.3	1,711	84.0	3,607	118.5

3. Hankyu Oasis Co., Ltd.

(1) Operating results

(Millions of yen, %)

	Amount	YoY	increase (decrease)
Net sales	114,850	104.2	+ 4,588
Gross profit	29,812	113.0	+ 3,430
Gross profit / Net sales	(25.96)		(+2.03)
Other operating revenue	6,206	110.3	+ 580
Selling, general and administrative expenses	34,614	114.8	+ 4,466
SG&A / Net sales	(30.14)		(+2.80)
Operating income	1,404	75.5	△ 455
Operating income / Net sales	(1.22)		(△0.46)

①Sales of each category

(%)

	April	May	June	July	Aug.	Sep.	1Q・2Q
Total stores	106.8	104.7	104.9	105.4	103.6	102.9	104.7
Existing stores	101.2	99.7	99.1	99.3	97.0	98.3	99.2

	Oct.	Nov.	Dec.	Jan.	Feb.	March	3Q・4Q	Total
Total stores	104.9	106.0	104.7	103.9	100.1	102.1	103.6	104.2
Existing stores	98.7	100.0	101.0	101.0	97.3	99.2	99.6	99.5

②Number of stores

31st March, 2016	Opening : 4 stores	Closing : 2 stores	31st March, 2017
81 stores	Suitahonami(Osaka) Suitakatayama(Osaka) Enmachi(Kyoto) Ibaragiotemachi(Osaka)	Hirano-nishi(Osaka) Nonaka-kita(Osaka)	83 stores

(2) Forecast of FY2018

(Millions of yen, %)

	1st・2nd Quarter		3rd・4th Quarter		Total	
	Amount	YoY	Amount	YoY	Amount	YoY
Net sales	60,506	106.4	61,763	106.5	122,270	106.5
Operating income	503	73.0	1,102	154.1	1,605	114.3