

**Consolidated Financial Statements for the First Quarter
of the Fiscal Year Ending March 31, 2020**
(Japanese accounting standards)

July 30, 2019

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 financial report : August 9, 2019
 Scheduled date of dividend payment : —
 Preparation of supplementary materials : Yes
 Briefing session on quarterly financial results : No

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

1. Consolidated Business Results of the Fiscal Year ending March 31, 2020
(From April 1, 2019 to June 30, 2019)

(1) Consolidated operating results (Cumulative total) (Percentages indicate year-on-year changes.)

	Net Sales		Operating Profit		Ordinary Profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
1Q of FY2019	217,124	(1.0)	2,854	(15.0)	3,511	(8.9)	1,569	468.5
1Q of FY2018	219,282	3.3	3,360	(6.7)	3,855	(17.0)	276	(93.1)

Note : Comprehensive income 1Q of FY2019 371 million yen, (85.4)% , 1Q of FY2018 2,548 million yen, (76.3)%

	Net Income per Share	Net Income per Share(Diluted)
	Yen	Yen
1Q of FY2019	12.70	12.62
1Q of FY2018	2.24	2.22

(2) Consolidated financial position

	Total Assets	Net Assets	Owner's Equity Ratio
	Millions of yen	Millions of yen	%
1Q of FY2019	649,822	277,502	42.5
FY2018	663,335	279,603	42.0

Reference : Owner's equity 1Q of FY2019 276,295 million yen , 1Q of FY2018 278,364 million yen

2. Dividends

	Annual Dividends				
	First Quarter	Second Quarter	Third Quarter	Fiscal Year-End	Total
	Yen	Yen	Yen	Yen	Yen
FY2018	-	20.00	-	20.00	40.00
FY2019	-	-	-	-	-
FY2020(Forecast)	-	20.00	-	20.00	40.00

Note : Revision to recently disclosed dividend forecast : No

3. Forecast of Consolidated Business Results for the Fiscal Year ending March 31, 2020
(From April 1, 2019 to March 31, 2020)

(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
Half Year	458,600	3.2	6,050	(0.8)	6,400	(0.8)	3,500	-	28.32
Full Year	947,300	2.2	18,400	(9.9)	18,500	(13.5)	7,700	256.1	62.30

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) : No
- (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 : No
(b) Changes other than (a) : No
(c) Changes in accounting estimates : No
(d) Restatements due to correction : No
- (4) Number of shares issued and outstanding (common stock)
- | | |
|---|--------------------|
| (a) Number of shares issued at the end of the period (including treasury stock) | |
| 1Q of FY2019 | 125,201,396 shares |
| FY2018 | 125,201,396 shares |
| (b) Number of shares of treasury stock at the end of the period | |
| 1Q of FY2019 | 1,584,601 shares |
| FY2018 | 1,609,297 shares |
| (c) Average number of shares during the period | |
| 1Q of FY2019 | 123,604,457 shares |
| 1Q of FY2018 | 123,493,761 shares |

Note : These consolidated financial results are outside the scope of audit by certified public accountants or auditing firms

Note : Explanation regarding the 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 Results

H2O Retailing Corporation 2019 1Q

Overview

(millions of yen)

	Jun. 30, 2017 Amount	Jun. 30, 2018 Amount	Amount	Jun. 30, 2019 YoY	Inc./Dec.
Department Store	99,712	102,693	103,643	0.9%	950
Kobe/Takatsuki	-	9,952	9,874	(0.8)%	(77)
Department Store Total	99,712	112,645	113,518	0.8%	872
Supermarket	96,478	90,589	87,971	(2.9)%	(2,618)
Shopping Center	3,301	2,380	2,129	(10.5)%	(250)
Other	12,827	13,667	13,505	(1.2)%	(161)
Net Sales	212,319	219,282	217,124	(1.0)%	(2,157)
Department Store	3,319	3,420	3,001	(12.3)%	(419)
Kobe/Takatsuki	-	(54)	(128)	-	(73)
Department Store Total	3,319	3,365	2,872	(14.7)%	(493)
Supermarket	(703)	(768)	(803)	-	(34)
Shopping Center	1,552	1,166	1,160	(0.5)%	(6)
Other	2,525	3,760	2,893	(23.1)%	(866)
consolidation adjustment	(3,091)	(4,164)	(3,268)	-	895
Operating Profit	3,601	3,360	2,854	(15.0)%	(505)
Ordinary Profit	4,644	3,855	3,511	(8.9)%	(343)
Extraordinary income	2,518	-	-	-	-
Extraordinary losses	786	2,163	254	(88.3)%	(1,909)
Profit	4,027	276	1,569	468.5%	1,293

※Net sales refer to sales to external customers.

※Kobe/Takatsuki business segment has been integrated to Department store business segment since FY2019 because businesses of Sogo Kobe store and Seibu Takatsuki store will be transferred to Hankyu Hanshin Department Stores Inc. in October 1, 2019 and these stores will be rebranded to “Kobe Hankyu” and “Takatsuki Hankyu”.

▶Sales

Sales decreased by 1.0% YOY. Sales increased in department store business, on the other hand, sales decreased in supermarket business.

▶Operating Profit and Ordinary Profit

Operating profit decreased by 0.5 billion yen and ordinary profit decreased by 0.3 billion yen decreased because of decrease of gross profit. This result is almost in line with the forecast.

(Department store Business)

Kobe/Takatsuki business segment has been integrated to Department store business segment since FY2019 because businesses of Sogo Kobe store and Seibu Takatsuki store will be transferred to Hankyu Hanshin Department Stores Inc. in October 1, 2019 and these stores will be rebranded to “Kobe Hankyu” and “Takatsuki Hankyu”.

Sales in Hankyu main store increased by 4.1% YOY because of the stable growth of sales of domestic customers and inbound customers. Sales in Hanshin Umeda main store decreased by 12.6% YOY because sales of Wing I rebuilt and opened in June 1, 2018 was strong in the previous year. Sogo Kobe store and Seibu Takatsuki store has been operated with no change of store brands and service, resulting in almost the same sales in the previous year. In total of department store business, sales increased by 0.8% YOY and operating profit decreased by 0.4 billion yen.

(Supermarket Business)

Sales and profit decreased from the previous year.

Izumiya Co., Ltd. decreased by 0.4% YOY in sales and by ¥0.14 billion in profit. Although rebuilt stores and new stores contributed to sales, sales in GMS stores decreased because the sales area of non-food business has been shrinking due to restructuring.

In Hankyu Oasis Co., Ltd., although sales decreased by 5.8% YOY, profit increased ¥0.08 billion because of review of pricing and efforts for cost reduction.

(Shopping Center Business)

Centre Limited Liability Company decreased in sales. It operates SELCY the shopping center. Withdrawal of tenants in SELCY increased because of the on-going redevelopment project.

(Other Business)

H2O Retailing Co. decreased in sales and profit because of decrease of dividends from its subsidiary companies.

▶Profit attributable to owners of parent

The company recorded extraordinary losses of ¥0.2 billion such as loss on retirement of non-current assets and loss on closing of stores and others.

As a result, profit attributable to owners of parent increased by ¥1.2 billion, to ¥1.5 billion.

Consolidated Balance Sheet

	(millions of yen)		
	Jun. 30, 2018	Mar. 31, 2019	Jun. 30, 2019
Cash and deposits	42,569	55,229	35,080
Accounts receivable-trade	50,759	49,886	51,841
Inventory	35,939	33,920	35,042
Total current assets	140,905	150,003	133,429
Total non-current assets	510,903	513,331	516,392
Total assets	651,808	663,335	649,822
Accounts payable-trade	57,023	59,732	52,661
Loans payable and bonds	149,353	164,920	166,471
Total liabilities	370,906	383,731	372,319
Shareholders' equity	240,208	239,755	238,884
Total net assets	280,902	279,603	277,502
Total liabilities and net assets	651,808	663,335	649,822

Forecast

The consolidated financial results forecasts of a first half and a full year of FY 2019 are unchanged from that announced in the consolidated financial results released on May 14, 2019.

Consolidated Financial Statements**(1) Consolidated Balance Sheets**

(Millions of yen)

	FY2018 (as of March 31, 2019)	1Q of FY2019 (as of June 30, 2019)
Assets		
Current assets		
Cash and deposits	55,229	35,080
Notes and accounts receivable -trade	49,886	51,841
Merchandise goods and finished goods	31,600	32,918
Work in progress	329	233
Raw materials and supplies	1,990	1,889
Notes and accounts receivable -others	6,778	5,677
Other	4,643	6,228
Allowance for doubtful accounts	(454)	(440)
Total current assets	150,003	133,429
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	115,608	119,383
Machinery, equipment and vehicles, net	3,420	3,420
Land	147,281	146,368
Construction in progress	7,666	7,964
Other, net	10,882	11,220
Total property, plant and equipment	284,860	288,358
Intangible assets		
Goodwill	4,076	4,020
Other	14,685	15,176
Total intangible assets	18,762	19,197
Investments and other assets		
Investment securities	121,149	120,447
Long-term loans receivable	4,571	6,189
Guarantee deposits	72,290	72,088
Retirement benefit asset	-	15
Deferred tax assets	11,942	10,963
Other	2,683	2,078
Allowance for doubtful accounts	(2,928)	(2,946)
Total investments and other assets	209,709	208,836
Total non-current assets	513,331	516,392
Total Assets	663,335	649,822

	(Millions of yen)	
	FY2018	1Q of FY2019
	(as of March 31, 2019)	(as of June 30, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	59,732	52,661
Short-term borrowings	8,000	29,500
Current portion of long-term borrowings	20,201	400
Accounts payable - other	19,655	15,001
Lease obligations	749	748
Income taxes payable	4,151	695
Gift certificates	29,676	29,217
Provision for bonuses	5,018	4,070
Provision for bonuses for directors (and other officers)	156	51
Provision for loss on store closing	967	996
Provision for point card certificates	1,823	2,004
Asset retirement obligations	68	60
Other	23,888	28,677
Total current liabilities	174,092	164,084
Non-current liabilities		
Bonds payable	20,000	20,000
Long-term borrowings	116,718	116,571
Deferred tax liabilities	26,152	25,825
Deferred tax liabilities related to land revaluation	266	266
Provision for retirement benefits for directors (and other officers)	221	187
Provision for redemption of gift certificates	4,020	4,137
Retirement benefit liability	16,827	16,227
Long-term accounts payable - other	621	572
Lease obligations	8,686	8,512
Long-term guarantee deposited	9,820	9,812
Asset retirement obligations	2,755	2,786
Other	3,548	3,334
Total non-current liabilities	209,639	208,235
Total Liabilities	383,731	372,319
Net Assets		
Shareholders' equity		
Share capital	17,796	17,796
Capital surplus	92,675	92,660
Retained earnings	132,278	131,376
Treasury shares	(2,995)	(2,949)
Total shareholders' equity	239,755	238,884
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	42,864	41,314
Revaluation reserve for land	124	124
Foreign currency translation adjustments	(788)	(547)
Remeasurements of defined benefit plans	(3,591)	(3,481)
Total accumulated other comprehensive income	38,608	37,410
Share acquisition rights	1,235	1,203
Non-controlling interests	4	4
Total net assets	279,603	277,502
Total Liabilities and Net Assets	663,335	649,822

(2) Consolidated Statements of Income

(Millions of yen)

	1Q of FY2018 (From April 1, 2018 to June 30, 2018)	1Q of FY2019 (From April 1, 2019 to June 30, 2019)
Net sales	219,282	217,124
Cost of sales	155,478	154,107
Gross profit	63,804	63,017
Selling, general and administrative expenses	60,444	60,162
Operating profit	3,360	2,854
Non-operating income		
Interest income	19	30
Dividend income	770	724
Gain on adjustment of accounts payable	409	433
Other	273	454
Total non-operating income	1,473	1,642
Non-operating expenses		
Interest expenses	228	183
Loss on provision for redemption of gift certificates	326	348
Other	422	453
Total non-operating expenses	978	985
Ordinary profit	3,855	3,511
Extraordinary losses		
Loss on retirement of non-current assets	330	150
Loss on closing of stores and others	281	101
Impairment losses	294	2
Loss on disaster	106	-
Outplacement expenses	674	-
Expenses for opening new stores	476	-
Total extraordinary losses	2,163	254
Profit before income taxes	1,691	3,257
Income taxes - current	458	400
Income taxes - deferred	956	1,286
Total income taxes	1,415	1,687
Profit	276	1,569
Profit attributable to non-controlling interests	0	0
Profit attributable to owners of parent	276	1,569

Consolidated

Selling, general and administrative expenses

(millions of yen)

	Amount	YoY	Inc./Dec.
Personnel expenses	23,690	(0.8)%	(180)
Rent expenses	9,876	(0.2)%	(23)
Advertising and decoration expenses	2,976	(13.8)%	(476)
Depreciation and amortization	4,040	6.1%	231
Business consignment expenses	4,912	3.1%	148
Sales commission	3,113	(0.4)%	(13)
Transportation costs	3,571	0.7%	24
Others	7,979	0.1%	6
Total	60,162	(0.5)%	(281)

Non-operating Income and Expenses

(millions of yen)

	Amount	YoY	Inc./Dec.
Non-operating income	1,642	11.5%	168
Interest income	30	53.2%	10
Dividend income	724	(6.0)%	(46)
Gain on adjustment of accounts payable	433	5.8%	23
Other	454	66.1%	180
Non-operating expenses	985	0.7%	7
Interest expenses	183	(19.8)%	(45)
Loss on provision for redemption of gift certificates	348	6.8%	22
Other	453	7.2%	30

Extraordinary Income and Losses

(millions of yen)

	Amount	Main contents
Extraordinary income	-	(previous 1Q : -)
Extraordinary losses	254	(previous 1Q : 2,163)
Loss on retirement of non-current assets	150	Hankyu Hanshin Department Stores, Izumiya
Loss on closing of stores and others	101	Izumiya
Impairment losses	2	

Hankyu Hanshin Department Stores, Inc.

Overview

	(millions of yen)				
	Amount	YoY	Inc./Dec.		
Net Sales	103,616	1.0%	1,002	Inc./Dec. of major stores	
Gross Profit	25,245	(0.4)%	(104)		Hankyu Main Store 2,278
Gross profit/ Net Sales	24.36%	-	(0.34)pt		Hakata Hankyu 483
Other operating revenue	142	(0.7)%	(1)		Hanshin Umeda Main Store (1,605)
SG & A	22,355	1.3%	277		
SG & A/ Net Sales	21.57%	-	0.06pt		
Operating profit	3,033	(11.2)%	(382)		
Operating profit/ Net Sales	2.93%	-	(0.40)pt		

- ▶In Hankyu main store, inbound sales increased by 10%, and sales composition ratio reached 16%.
- ▶In Hanshin Umeda main store, sales decreased because sales in the previous year was good before and after opening Wing I in June, 2018.
- ▶SG&A increased such as depreciation and sales commission.

Sales by stores, Number of customers

	(millions of yen, thousands of people)			
	Sales	YoY	Number of customers	YoY
Hankyu Main Store ※1	58,233	4.1%	11,355	(3.9)%
Hanshin Umeda Main Store	11,157	(12.6)%	7,472	(7.1)%
Senri Hankyu	3,564	(1.4)%	1,201	0.8%
Kawanishi Hankyu	3,478	(1.0)%	1,469	(0.4)%
Takarazuka Hankyu	1,737	0.4%	※2 -	-
Nishinomiya Hankyu	5,922	3.3%	3,231	3.9%
Sanda Hankyu	279	0.8%	※2 -	-
Hakata Hankyu	12,279	4.1%	6,628	0.6%
Hankyu Men's Tokyo	3,068	(8.7)%	650	11.2%
Oi Hankyu Food Hall	1,042	1.9%	1,312	(1.5)%
Tsuzuki Hankyu	1,056	(1.0)%	879	(0.3)%
Amagasaki Hanshin	652	2.6%	※2 -	-
Hanshin Nishinomiya	1,028	0.3%	1,051	9.5%
Hanshin Mikage	116	(3.8)%	1,211	0.9%
Total of branch stores	34,225	1.0%	17,636	1.8%
Total stores	103,616	1.0%	36,464	(1.9)%

※1. including Hankyu Men's Osaka

※2. not counting the number of customers

Sales of each category

(millions of yen)

	Sales	YoY	Share
Men's clothing	9,423	2.9%	9.1%
Women's clothing	14,475	(2.9)%	14.0%
Children's clothing	2,285	(2.2)%	2.2%
Other clothing	2,570	(8.1)%	2.5%
Clothing	28,754	(1.5)%	27.8%
Accessories, bags and others	20,987	3.8%	20.3%
Household merchandise	3,120	(11.5)%	3.0%
Foods	26,596	0.6%	25.7%
Restaurants & cafes	2,365	1.9%	2.3%
General merchandise	20,821	4.1%	20.1%
Service	590	5.8%	0.6%
Other	380	1.1%	0.4%
Total	103,616	1.0%	100.0%

Monthly Sales

	April	May	June
Hankyu Main Store ※1	4.6%	0.4%	7.6%
Hanshin Umeda Main Store	(15.1)%	0.5%	(20.9)%
Total of branch stores	1.2%	(0.3)%	2.0%
Total	1.0%	0.2%	1.8%
Total (not including Hanshin Umeda Main Store)	3.4%	0.1%	5.4%

※1. including Hankyu Men's Osaka

Izumiya Co., Ltd.

Overview

	(millions of yen)		
	Amount	YoY	Inc./Dec.
Net Sales	52,858	(0.4)%	(224)
Gross Profit	13,997	(1.9)%	(263)
Gross profit/ Net Sales	26.48%	-	(0.38)pt
Other operating revenue	3,628	(0.3)%	(10)
SG & A	18,348	(0.7)%	(132)
SG & A/ Net Sales	34.71%	-	(0.10)pt
Operating profit	(722)	-	(141)
Operating profit/ Net Sales	-	-	-

Store sales (YoY)

	Existing stores
Foods	(3.3)%
Clothing	(4.8)%
Household goods	(6.2)%
Total	(4.0)%

Numbers of stores

	Number of stores
Total	86
YoY difference	3

Opening and closing stores

Opening	Izumi Fuchu (Osaka), Shin-Chujo (Osaka)
Closing	Higashi-Neyagawa (Osaka)

Monthly Sales

	April	May	June
Total	(3.6)%	(0.5)%	(0.4)%
Existing stores	(5.4)%	(2.8)%	(3.5)%

Hankyu Oasis Co., Ltd.

Overview

	(millions of yen)		
	Amount	YoY	Inc./Dec.
Net Sales	26,694	(5.8)%	(1,639)
Gross Profit	6,940	(0.9)%	(65)
Gross profit/ Net Sales	26.00%	-	1.27pt
Other operating revenue	1,639	(1.2)%	(20)
SG & A	8,755	(1.9)%	(173)
SG & A/ Net Sales	32.80%	-	1.29pt
Operating profit	(176)	-	87
Operating profit/ Net Sales	-	-	-

Store sales (YoY)	
	Existing stores
Total	(4.6)%

Number of stores	
	Number of stores
Total	77
YoY difference	(2)
(excluding Ibaraki Higashi Nara which is temporary closed)	

Opening and closing stores

Opening	Fukushima Fukumarudori 57 (Osaka)
Closing	-

Monthly Sales

	April	May	June
Total	(5.6)%	(6.4)%	(5.3)%
Existing stores	(3.0)%	(5.1)%	(5.9)%