

**Consolidated Financial Statements for the Second Quarter
of the Fiscal Year Ending March 31, 2019**
(Japanese accounting standards)

October 30, 2018

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
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 Scheduled date of filing of the quarterly financial report : November 9, 2018
 Scheduled date of dividend payment : November 30, 2018
 Preparation of supplementary materials : Yes
 Briefing session on quarterly financial results : Yes (for institutional investors and analysts)

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

**1. Consolidated Business Results for the Second Quarter of the Fiscal Year ending March 31, 2019
(From April 1, 2018 to September 30, 2018)**

(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	%
2Q of FY2019	444,408	2.9	6,100	(12.6)	6,449	(23.2)	139	(97.6)
2Q of FY2018	432,000	(0.4)	6,978	5.4	8,393	63.9	5,739	(12.4)

Note : Comprehensive income 2Q of FY2019 13 million yen, (99.9)% , 2Q of FY2018 19,168 million yen, 174.9 %

	Net Income per Share	Net Income per Share(Diluted)
	Yen	Yen
2Q of FY2019	1.13	1.12
2Q of FY2018	46.49	46.24

(2) Consolidated financial position

	Total Assets	Net Assets	Owner's Equity Ratio
	Millions of yen	Millions of yen	%
2Q of FY2019	627,619	278,414	44.2
FY2018	659,582	280,807	42.4

Reference : Owner's equity 2Q of FY2019 277,224 million yen , FY2018 279,569 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	-	20.00			
FY2019(Forecast)			-	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, 2019
(From April 1, 2018 to March 31, 2019)**

(Percentages indicate year-on-year changes.)

	Net Sales		Operating Profit		Ordinary Income		Profit attributable to owners of parent		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full Year	937,000	1.6	20,800	(8.6)	21,500	(11.4)	10,000	(31.7)	80.93

Note : Revision to recently disclosed consolidated business results forecast : Yes

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)

2Q of FY2019	125,201,396 shares
FY2018	125,201,396 shares
 - (b) Number of shares of treasury stock at the end of the period

2Q of FY2019	1,635,241 shares
FY2018	1,713,817 shares
 - (c) Average number of shares during the period

2Q of FY2019	123,505,328 shares
2Q of FY2018	123,468,202 shares

Note : Disclosure of progress of quarterly review procedures

At the time of disclosure of this quarterly financial statements, review procedures for quarterly financial reports based on the Financial Instruments and Exchange Act had not been completed.

Note : Explanation regarding 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 Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	FY2018 (as of March 31, 2018)	2Q of FY2019 (as of September 30, 2018)
Assets		
Current assets		
Cash on hand and in banks	67,150	30,821
Notes and accounts receivable -trade	46,939	43,531
Merchandise goods and finished goods	32,798	31,986
Work in progress	322	220
Raw materials and supplies	2,175	1,758
Notes and accounts receivable -others	5,984	5,469
Other	5,210	5,803
Allowance for doubtful accounts	(413)	(557)
Total current assets	160,167	119,033
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	108,692	120,020
Machinery, equipment and vehicles, net	3,657	3,659
Land	149,550	148,608
Construction in progress	8,839	4,282
Other, net	9,921	11,139
Total property, plant and equipment	280,661	287,710
Intangible assets		
Goodwill	4,647	4,362
Other	13,223	14,049
Total intangible assets	17,870	18,411
Investments and other assets		
Investment securities	114,544	114,196
Long-term loans receivable	3,986	4,083
Guarantee deposits	70,079	73,085
Net defined benefit asset	240	387
Deferred tax assets	12,649	11,262
Other	2,306	2,389
Allowance for doubtful accounts	(2,922)	(2,940)
Total investments and other assets	200,884	202,463
Total non-current assets	499,415	508,585
Total Assets	659,582	627,619

(Millions of yen)

	FY2018 (as of March 31, 2018)	2Q of FY2019 (as of September 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	62,794	56,124
Current portion of long-term loans payable	42,561	35,945
Accounts payable	19,162	14,895
Lease obligations	764	797
Income taxes payable	6,324	1,284
Gift certificates	33,881	30,207
Provision for bonuses	5,095	4,883
Provision for directors' bonuses	160	101
Provision for loss on store closing	116	42
Provision for point card certificates	1,959	2,427
Asset retirement obligations	600	299
Other	28,147	26,297
Total current liabilities	201,569	173,305
Non-current liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	96,931	96,803
Deferred tax liabilities	24,733	24,967
Deferred tax liabilities related to land revaluation	266	266
Provision for directors' retirement benefits	228	209
Provision for redemption of gift certificates	3,727	3,898
Net defined benefit liability	14,923	13,829
Long-term accounts payable - other	720	670
Lease obligations	9,175	9,009
Long-term guarantee deposited	9,911	9,728
Asset retirement obligations	2,727	2,718
Other	3,861	3,795
Total non-current liabilities	177,205	175,899
Total Liabilities	378,774	349,205
Net Assets		
Shareholders' equity		
Capital stock	17,796	17,796
Capital surplus	92,726	92,691
Retained earnings	135,057	132,727
Treasury shares	(3,190)	(3,044)
Total shareholders' equity	242,390	240,171
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	37,662	37,832
Deferred gains or losses on hedges	59	75
Revaluation reserve for land	124	124
Foreign currency translation adjustments	(8)	(444)
Remeasurements of defined benefit plans	(658)	(533)
Total accumulated other comprehensive income	37,178	37,053
Share acquisition rights	1,234	1,185
Non-controlling interests	3	3
Total net assets	280,807	278,414
Total Liabilities and Net Assets	659,582	627,619

(2) Consolidated Statements of Income (Second Quarter)

(Millions of yen)

	2Q of FY2018 (From April 1, 2017 to September 30, 2017)	2Q of FY2019 (From April 1, 2018 to September 30, 2018)
Net sales	432,000	444,408
Cost of sales	306,110	316,149
Gross profit	125,889	128,259
Selling, general and administrative expenses	118,911	122,158
Operating profit	6,978	6,100
Non-operating income		
Interest income	86	45
Dividend income	762	780
Gain on adjustment of accounts payable	619	713
Gain on valuation of forward exchange contracts	346	-
Other	964	452
Total non-operating income	2,780	1,992
Non-operating expenses		
Interest expenses	499	451
Loss on provision for redemption of gift certificates	460	561
Other	405	630
Total non-operating expenses	1,365	1,643
Ordinary profit	8,393	6,449
Extraordinary income		
Insurance income	-	267
Gain on sales of non-current assets	1,683	-
Gain on revision of retirement benefit plan	1,445	-
Total extraordinary income	3,128	267
Extraordinary losses		
Loss on closing of stores and others	873	1,039
Outplacement expenses	-	673
Loss on disaster	-	665
Loss on retirement of non-current assets	566	595
Loss on transfer of business	-	545
Expenses for opening new stores	-	493
Impairment losses	108	305
Total extraordinary losses	1,547	4,317
Profit before income taxes	9,974	2,399
Income taxes - current	2,774	772
Income taxes - deferred	1,460	1,487
Total income taxes	4,234	2,259
Profit	5,739	139
Profit attributable to non-controlling interests	0	0
Profit attributable to owners of parent	5,739	139

(3) Consolidated Cash Flow Statements

(Millions of yen)

	2Q of FY2018 (From April 1, 2017 to September 30, 2017)	2Q of FY2019 (From April 1, 2018 to September, 2018)
Cash flows from operating activities		
Income before income taxes	9,974	2,399
Depreciation	7,827	8,384
Impairment losses	108	305
Loss on store closing and others	655	66
Amortisation of goodwill	285	285
Gain on revision of retirement benefit plan	(1,445)	-
Increase (decrease) in allowance for doubtful accounts	0	162
Increase (decrease) in provision for bonuses	(2)	(211)
Increase (decrease) in provision for directors' bonuses	(70)	(59)
Increase (decrease) in net defined benefit liability	893	(995)
Increase (decrease) in provision for directors' retirement benefits	(38)	(18)
Increase(decrease) in provision for redemption of gift certificates	39	170
Increase(decrease) in provision for loss on store closing and others	(255)	(73)
Increase(decrease) in provision for point card certificates	297	468
Interest and dividend income	(849)	(825)
Interest expense	499	451
Share of loss (profit) of entities accounted for using equity method	(23)	177
Loss (gain) on sales of non-current assets	(1,683)	-
Loss on retirement of non-current assets	321	31
Loss (gain) on transfer of business	-	545
Valuation loss(gain) on forward exchange contracts	(346)	-
Decrease (increase) in notes and accounts receivable - trade	2,369	3,341
Decrease (increase) in inventories	1,473	929
Increase (decrease) in notes and accounts payable - trade	(3,686)	(6,140)
Increase (decrease) in accrued consumption taxes	(2,744)	(335)
Increase (decrease) in gift certificates	608	(3,668)
Increase (decrease) in advances received	3,085	25
Other, net	(1,621)	(769)
Sub total	15,674	4,645
Interest and dividend income received	811	851
Interest expenses paid	(490)	(457)
Income taxes paid	(3,935)	(6,115)
Net cash provided by (used in) operating activities	12,060	(1,075)

(Millions of yen)

	2Q of FY2018 (From April 1, 2017 to September 30, 2017)	2Q of FY2019 (From April 1, 2018 to September 30, 2018)
Cash flows from investing activities		
Purchase of property, plant and equipment	(9,483)	(20,594)
Proceeds from sales of property, plant and equipment	2,677	1,060
Purchase of intangible assets	(2,456)	(2,100)
Proceeds from sales of intangible assets	1,500	-
Payments for asset retirement obligations	(758)	(306)
Purchases of investment securities	(34)	(18)
Proceeds from sales and redemption of short-term and long-term investment securities	-	0
Payments of long-term loans receivable	(119)	(145)
Collection of long-term loans receivable	114	52
Payments for guarantee deposits	(162)	(5,937)
Proceeds from collection of guarantee deposits	909	2,490
Payments for transfer of business	-	(45)
Net cash provided by (used in) investing activities	(7,813)	(25,544)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(2,000)	-
Proceeds from long-term loans payable	150	-
Repayments of long-term loans payable	(4,876)	(6,749)
Redemption of bonds	(50)	-
Proceeds from sales of treasury shares	0	0
Purchase of treasury shares	(3)	(1)
Cash dividends paid	(2,469)	(2,469)
Repayments of lease obligations	(426)	(418)
Net cash provided by (used in) financing activities	(9,675)	(9,639)
Effect of exchange rate change on cash and cash equivalents	230	(69)
Net increase(decrease) in cash and cash equivalents	(5,198)	(36,329)
Cash and cash equivalents at beginning of year	83,462	67,150
Cash and cash equivalents	78,263	30,821