

**Consolidated Financial Statements of the Fiscal Year Ending March 31, 2018**  
(Japanese accounting standards)

May 15, 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  
Contact : Tadatsugu Mori, Director and Managing Executive Officer  
TEL : +81-6-6365-8120  
Scheduled date of shareholders' meeting : June 22, 2018  
Scheduled date of dividend payment : June 1, 2018  
Scheduled date of filing of the financial report : June 22, 2018  
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, 2018**  
(From April 1, 2017 to March 31, 2018)

(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	%
FY2018	921,871	2.3	22,765	1.0	24,272	11.7	14,636	2.4
FY2017	901,221	(1.6)	22,542	(5.4)	21,725	(5.8)	14,298	1.7

Note : Comprehensive income FY2018 21,380 million yen, (32.0%) , FY2017 16,192 million yen, (226.0%)

	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	%	%	%
FY2018	118.54	117.90	5.4	3.7	2.5
FY2017	115.84	115.28	5.6	3.5	2.5

Reference : Equity in earnings of affiliates FY2018 195 million yen , FY2017 -34 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
FY2018	661,873	280,807	42.2	2,263.95
FY2017	640,543	264,323	41.1	2,131.97

Reference : Owner's equity FY2018 279,569 million yen , FY2017 263,220 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
FY2018	32,739	(35,492)	(13,812)	67,150
FY2017	38,742	(25,325)	21,703	83,462

**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	%	%
FY2017	-	20.00	-	20.00	40.00	4,938	34.5	1.9
FY2018	-	20.00	-	20.00	40.00	4,939	33.7	1.8
FY2019(Forecast)	-	20.00	-	20.00	40.00		47.5	

*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, 2019**  
(From April 1, 2018 to March 31, 2019)

(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	451,800	4.6	4,700	(32.6)	5,400	(35.7)	1,600	(72.1)	12.96
Full Year	945,500	2.6	18,400	(19.2)	19,200	(20.9)	10,400	(28.9)	84.22

## Notes

- (1) Changes in significant subsidiaries during the period  
(changes in specified subsidiaries resulting in the change in scope of consolidation) : Yes  
Number of subsidiaries newly consolidated : 1  
Name of subsidiaries newly consolidated : H2O (China) Investment Co.,Ltd  
Number of subsidiaries excluded from consolidation -  
Name of subsidiaries excluded from consolidation -
- (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) : Yes  
(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)  
FY2018 125,201,396 shares  
FY2017 125,201,396 shares  
(b) Number of shares of treasury stock at the end of the period  
FY2018 1,713,817 shares  
FY2017 1,737,627 shares  
(c) Average number of shares during the period  
FY2018 123,473,119 shares  
FY2017 123,427,319 shares

## Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(Millions of yen)

	FY2017 (as of March 31, 2017)	FY2018 (as of March 31, 2018)
Assets		
Current Assets		
Cash on hand and in banks	83,481	67,150
Notes and accounts receivable -trade	43,588	46,939
Merchandise goods and finished goods	33,531	32,798
Work in progress	174	322
Raw materials and supplies	1,587	2,175
Deferred tax assets	4,146	6,210
Notes and accounts receivable -others	5,063	5,984
Other	7,172	5,210
Allowance for doubtful receivables	(428)	(413)
Total current assets	178,318	166,377
Noncurrent Assets		
Property, plant and equipment		
Buildings and structures	314,401	317,072
Accumulated depreciation	(206,138)	(208,379)
Buildings and structures ,net	108,262	108,692
Machinery and equipment	7,912	8,103
Accumulated depreciation	(4,167)	(4,445)
Machinery and equipment, net	3,745	3,657
Land	134,591	149,550
Construction in progress	2,012	8,839
Others	47,063	46,131
Accumulated depreciation	(36,714)	(36,210)
Others, net	10,348	9,921
Total property, plant and equipment	258,961	280,661
Intangible assets		
Goodwill	5,217	4,647
Other	12,326	13,223
Total intangible assets	17,543	17,870
Investments and other assets		
Investment securities	103,031	114,544
Long-term loans receivable	3,868	3,986
Long-term leasehold deposits	69,060	70,079
Net defined benefit asset	683	240
Long-term deferred tax assets	9,960	8,729
Other	2,067	2,306
Allowance for doubtful receivables	(2,952)	(2,922)
Total investments and other assets	185,720	196,964
Total noncurrent assets	462,225	495,495
Total Assets	640,543	661,873

(Millions of yen)

	FY2017 (as of March 31, 2017)	FY2018 (as of March 31, 2018)
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Notes and accounts payable - trade	59,394	62,794
Current portion of bonds	6,600	-
Commercial paper	2,000	-
Current portion of long-term debt	29,585	42,561
Accounts payable-other	14,329	19,162
Lease obligations	675	764
Income taxes payable	4,744	6,324
Deferred tax liabilities	4	0
Gift certificates	23,846	33,881
Provision for bonuses to employees	4,885	5,095
Provision for bonuses to directors and corporate auditors	177	160
Provision for loss on store closing	441	116
Provision for point card certificates	1,750	1,959
Asset retirement obligations	1,089	600
Other	39,676	28,147
<b>Total current liabilities</b>	<b>189,202</b>	<b>201,569</b>
<b>Long-term Liabilities</b>		
Bonds	10,000	10,000
Long-term debt	108,593	96,931
Deferred tax liabilities	21,521	27,023
Deferred tax liabilities related to land revaluation	265	266
Provision for retirement benefits to directors and corporate auditors	245	228
Provision for redemption of gift certificates	3,558	3,727
Net defined benefit liability	18,209	14,923
Long-term payable accrued	526	720
Lease obligations	7,706	9,175
Guarantee deposits	11,494	9,911
Asset retirement obligations	2,567	2,727
Other	2,328	3,861
<b>Total long-term liabilities</b>	<b>187,017</b>	<b>179,496</b>
<b>Total Liabilities</b>	<b>376,219</b>	<b>381,065</b>
<b>Net Assets</b>		
<b>Shareholders' Equity</b>		
Common stock	17,796	17,796
Capital surplus	92,732	92,726
Retained earnings	125,490	135,057
Treasury stock	(3,234)	(3,190)
<b>Total shareholders' equity</b>	<b>232,786</b>	<b>242,390</b>
<b>Accumulated Other Comprehensive Income</b>		
Net unrealised holding gains on securities	31,227	37,662
Deferred gains or losses on hedges	21	59
Land revaluation, net of tax	125	124
Foreign currency translation adjustments	(309)	(8)
Remeasurements of defined benefit plans	(629)	(658)
<b>Total accumulated other comprehensive income</b>	<b>30,434</b>	<b>37,178</b>
Subscription Rights to Shares	1,098	1,234
Non-controlling interests	3	3
<b>Total Net Assets</b>	<b>264,323</b>	<b>280,807</b>
<b>Total Liabilities and Net Assets</b>	<b>640,543</b>	<b>661,873</b>

## (2) Consolidated Statements of Income

(Millions of yen)

	FY2017 (From April 1, 2016 to March 31, 2017)	FY2018 (From April 1, 2017 to March 31, 2018)
Net sales	901,221	921,871
Cost of sales	637,837	655,646
Gross profit	263,384	266,224
Selling, general and administrative expenses		
Salaries	78,092	78,039
Rental expenses	37,073	38,210
Other	125,675	127,209
Total selling, general and administrative expenses	240,841	243,459
Operating income	22,542	22,765
Non-operating income		
Interest income	91	198
Dividends income	949	1,230
Gain on adjustment of accounts payable	1,187	1,256
Equity in earnings of affiliates	—	195
Foreign exchange gains	—	485
Other	790	1,141
Total non-operating income	3,018	4,508
Non-operating expenses		
Interest expenses	1,081	1,003
Loss on provision for redemption of gift certificates	1,161	913
Equity in losses of affiliates	34	—
Valuation loss on forward exchange contracts	159	—
Other	1,399	1,082
Total non-operating expenses	3,835	3,000
Recurring income	21,725	24,272
Extraordinary income		
Gain on bargain purchase	—	2,010
Gain on sales of property, plant and others	4,295	1,787
Gain on revision of retirement benefit plan	—	1,445
Reversal of provision for loss on store closing	265	—
Total extraordinary income	4,561	5,243
Extraordinary loss		
Impairment losses	2,300	3,479
Loss on closing of stores and others	2,921	1,639
Loss on retirement of non-current assets	1,059	1,177
Total extraordinary loss	6,281	6,296
Income before income taxes	20,005	23,219
Income taxes - current	6,326	7,780
Income taxes - deferred	(619)	803
Total income taxes	5,706	8,583
Income before minority interests	14,298	14,636
Profit attributable to non-controlling interests	0	0
Profit attributable to owners of parent	14,298	14,636

## (3) Consolidated Cash Flow Statements

(Millions of yen)

	FY2017 (From April 1, 2016 to March 31, 2017)	FY2018 (From April 1, 2017 to March 31, 2018)
Cash flows from operating activities		
Income before income taxes	20,005	23,219
Depreciation and amortisation	15,857	16,223
Impairment losses	2,300	3,479
Loss on store closing and others	2,248	993
Amortisation of goodwill	612	570
Gain on bargain purchase	—	(2,010)
Gain on revision of retirement benefit plan	—	(1,445)
Increase(decrease) in allowance for doubtful receivables	(667)	(44)
Increase(decrease) in provision for bonuses to employees	(160)	58
Increase(decrease) in provision for bonuses to directors and corporate auditors	29	(17)
Increase(decrease) in provision for net defined benefit liability	(2,254)	(1,840)
Increase(decrease) in provision for retirement benefits to directors and corporate auditors	40	(17)
Increase(decrease) in provision for redemption of gift certificates	374	169
Increase(decrease) in provision for loss on store closing	145	(324)
Increase(decrease) in provision for point card certificates	(345)	208
Interest and dividend income	(1,041)	(1,428)
Interest expense	1,081	1,003
Equity in losses(earnings) of affiliates	34	(195)
Loss(gain) on sales of property, plant, equipment and intangibles	(4,295)	(1,787)
Loss on retirement of non-current assets	497	600
Valuation loss (gain) on forward exchange contracts	159	—
Decrease(increase) in notes and accounts receivable	3,196	(2,248)
Decrease(increase) in inventories	199	1,796
Increase(decrease) in notes and accounts payable	(3,033)	833
Increase(decrease) in consumption tax payable	1,944	(2,481)
Increase (decrease) in gift certificates	2,070	10,030
Increase (decrease) in advances received	5,852	(11,247)
Other	2,267	3,999
Sub total	47,118	38,098
Interest and dividends received	965	1,369
Interest expense paid	(1,073)	(1,006)
Income taxes paid	(8,266)	(5,721)
Net cash provided by operating activities	38,742	32,739

(Millions of yen)

	FY2017 (From April 1, 2016 to March 31, 2017)	FY2018 (From April 1, 2017 to March 31, 2018)
Cash flows from investing activities		
Net decrease(increase) in time deposits	10	19
Purchases of property, plant and equipment	(23,983)	(19,197)
Proceeds from sales of property, plant and equipment	5,827	3,259
Purchases of intangibles	(3,340)	(4,009)
Proceeds from sales of intangibles	0	1,501
Payment for exercise of asset retirement obligations	(586)	(973)
Purchases of investment securities	(5,178)	(53)
Proceeds from sales and redemption of short-term and long-term investment securities	158	1
Payments for transfer of business	—	(14,536)
Payments of long-term loans receivable	—	(435)
Proceeds from collection of long-term loans receivable	197	190
Payments for guarantee deposits	(570)	(2,756)
Proceeds from collection of guarantee deposits	2,142	1,499
Net cash provided by (used in) investing activities	(25,325)	(35,492)
Cash flows from financing activities		
Increase(decrease) in short-term debt	2,000	(2,000)
Proceeds from long-term debt	38,000	30,150
Repayments of long-term debt	(10,777)	(29,578)
Payments for redemption of bonds	(2,100)	(6,600)
Proceeds from sale of treasury stock	0	0
Additions to treasury stock	(4)	(6)
Dividends paid	(4,628)	(4,938)
Repayments of lease obligations	(787)	(839)
Net cash provided by (used in) financing activities	21,703	(13,812)
Foreign exchange differences of cash and cash equivalents	(150)	253
Net increase(decrease) in cash and cash equivalents	34,969	(16,311)
Cash and cash equivalents at beginning of year	48,492	83,462
Cash and cash equivalents at end of year	83,462	67,150