

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

July 27, 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
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 Scheduled date of filing of the quarterly financial report : August 10, 2017
 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 for the First Quarter of the Fiscal Year ending March 31, 2018
(From April 1, 2017 to June 30, 2017)**

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

	Net Sales		Operating Income		Recurring Income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
1Q of FY2018	212,319	(0.8)	3,601	19.8	4,644	120.1	4,027	29.8
1Q of FY2017	213,958	(0.6)	3,006	(5.7)	2,110	(38.6)	3,102	(48.5)

Note : Comprehensive income 1Q of FY2018 10,765 million yen, - % , 1Q of FY2017 (953) million yen, - %

	Net Income per Share	Net Income per Share(Diluted)
	Yen	Yen
1Q of FY2018	32.62	32.45
1Q of FY2017	25.15	25.02

(2) Consolidated financial position

	Total Assets	Net Assets	Owner's Equity Ratio
	Millions of yen	Millions of yen	%
1Q of FY2018	641,385	272,487	42.3
FY2017	640,543	264,323	41.1

Reference : Owner's equity 1Q of FY2018 271,389 million yen , FY2017 263,220 million yen

2. Dividends

	Annual Dividends				
	First Quarter	Second Quarter	Third Quarter	Fiscal Year-End	Total
	Yen	Yen	Yen	Yen	Yen
FY2017	-	20.00	-	20.00	40.00
FY2018	-				
FY2018(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, 2018
(From April 1, 2017 to March 31, 2018)**

(Percentages indicate year-on-year changes.)

	Net Sales		Operating Income		Recurring Income		Profit attributable to owners of parent		Net Income 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

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) : Yes
 - (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 FY2018	125,201,396 shares
FY2017	125,201,396 shares
 - (b) Number of shares of treasury stock at the end of the period

1Q of FY2018	1,734,368 shares
FY2017	1,737,627 shares
 - (c) Average number of shares during the period

1Q of FY2018	123,466,496 shares
1Q of FY2017	123,382,399 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)

	FY2017 (as of March 31, 2017)	1Q of FY2018 (as of June 30, 2017)
Assets		
Current Assets		
Cash on hand and in banks	83,481	70,962
Notes and accounts receivable -trade	43,588	46,696
Merchandise goods and finished goods	33,531	34,656
Work in progress	174	198
Raw materials and supplies	1,587	1,391
Deferred tax assets	4,146	5,207
Notes and accounts receivable -others	5,063	4,992
Other	7,172	6,139
Allowance for doubtful receivables	(428)	(427)
Total current assets	178,318	169,816
Noncurrent Assets		
Property, plant and equipment		
Buildings and structures	108,262	107,037
Machinery and equipment	3,745	3,916
Land	134,591	134,593
Construction in progress	2,012	1,884
Others	10,348	10,515
Total property, plant and equipment	258,961	257,947
Intangible assets		
Goodwill	5,217	5,074
Other	12,326	12,212
Total intangible assets	17,543	17,287
Investments and other assets		
Investment securities	103,031	113,522
Long-term loans receivable	3,868	3,862
Long-term leasehold deposits	69,060	68,971
Net defined benefit asset	683	1,498
Long-term deferred tax assets	9,960	9,340
Other	2,067	2,097
Allowance for doubtful receivables	(2,952)	(2,958)
Total investments and other assets	185,720	196,334
Total noncurrent assets	462,225	471,569
Total Assets	640,543	641,385

	(Millions of yen)	
	FY2017	1Q of FY2018
	(as of March 31, 2017)	(as of June 30, 2017)
Liabilities		
Current Liabilities		
Notes and accounts payable - trade	59,394	52,600
Current portion of bonds	6,600	6,550
Commercial paper	2,000	—
Current portion of long-term debt	29,585	29,518
Accounts payable-other	14,329	11,622
Lease obligations	675	671
Income taxes payable	4,744	1,053
Deferred tax liabilities	4	0
Gift certificates	23,846	24,908
Provision for bonuses to employees	4,885	3,762
Provision for bonuses to directors and corporate auditors	177	52
Provision for loss on store closing	441	288
Provision for point card certificates	1,750	1,837
Asset retirement obligations	1,089	1,082
Other	39,676	43,060
Total current liabilities	189,202	177,010
Long-term Liabilities		
Bonds	10,000	10,000
Long-term debt	108,593	108,685
Deferred tax liabilities	21,521	26,435
Deferred tax liabilities related to land revaluation	265	265
Provision for retirement benefits to directors and corporate auditors	245	195
Provision for redemption of gift certificates	3,558	3,596
Net defined benefit liability	18,209	17,606
Long-term payable accrued	526	753
Lease obligations	7,706	8,150
Guarantee deposits	11,494	10,987
Asset retirement obligations	2,567	2,650
Other	2,328	2,559
Total long-term liabilities	187,017	191,888
Total Liabilities	376,219	368,898
Net Assets		
Shareholders' Equity		
Common stock	17,796	17,796
Capital surplus	92,732	92,729
Retained earnings	125,490	126,918
Treasury stock	(3,234)	(3,228)
Total shareholders' equity	232,786	234,216
Accumulated Other Comprehensive Income		
Net unrealised holding gains on securities	31,227	38,742
Deferred gains or losses on hedges	21	20
Land revaluation, net of tax	125	125
Foreign currency translation adjustments	(309)	(568)
Remeasurements of defined benefit plans	(629)	(1,147)
Total accumulated other comprehensive income	30,434	37,172
Subscription Rights to Shares	1,098	1,094
Non-controlling interests	3	3
Total Net Assets	264,323	272,487
Total Liabilities and Net Assets	640,543	641,385

(2) Consolidated Statements of Income (First Quarter)

(Millions of yen)

	1Q of FY2017 (From April 1, 2016 to June 30, 2016)	1Q of FY2018 (From April 1, 2017 to June 30, 2017)
Net sales	213,958	212,319
Cost of sales	151,092	149,791
Gross profit	62,866	62,528
Selling, general and administrative expenses	59,859	58,926
Operating income	3,006	3,601
Non-operating income		
Interest income	21	43
Dividends income	518	755
Gain on adjustment of accounts payable	324	350
Gain on valuation of forward exchange contracts	—	130
Other	174	489
Total non-operating income	1,039	1,770
Non-operating expenses		
Interest expense	269	252
Loss on valuation of forward exchange contracts	801	—
Loss on provision for redemption of gift certificates	266	260
Other	598	214
Total non-operating expenses	1,935	727
Recurring income	2,110	4,644
Extraordinary income		
Gain on revision of retirement benefit plan	—	1,445
Gain on sales of property, plant and others	4,291	1,073
Reversal of provision for loss on store closing	203	—
Total extraordinary income	4,495	2,518
Extraordinary loss		
Loss on closing of stores and others	1,094	427
Loss on disposal of property, plant and others	68	279
Impairment losses	4	79
Total extraordinary loss	1,167	786
Income before income taxes	5,437	6,376
Income taxes - current	1,262	909
Income taxes - deferred	1,071	1,439
Total income taxes	2,334	2,348
Net income	3,102	4,027
Profit attributable to non-controlling interests	0	0
Profit attributable to owners of parent	3,102	4,027