

**Consolidated Financial Statements for the First Quarter
of the Fiscal Year Ending March 31, 2023**
(Japanese accounting standards)

August 4, 2022

Corporate Name : H2O Retailing Corporation
 Securities Code : 8242 (Tokyo Stock Exchange)
 URL : <http://www.h2o-retailing.co.jp/>
 Representative : Naoya Araki, President and Representative Director
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 Scheduled date of filing of the financial report : August 12, 2022
 Scheduled date of dividend payment : –
 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 of the Fiscal Year ending March 31, 2023
(From April 1, 2022 to June 30, 2022)

(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 FY2023	149,352	30.7	664	-	1,867	-	651	(89.6)
1Q of FY2022	114,285	-	(2,044)	-	(949)	-	6,277	-

Note : Comprehensive income 1Q of FY2023 5,627 million yen, 133.1% , 1Q of FY2022 2,414 million yen, -%

Note : The Company has applied "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and other standards from the beginning of the first quarter of FY2022. As for 1Q of FY2022, the percentage change from the same period of the previous fiscal year in net sales is not shown due to the significant impact on net sales.

	Net Income per Share	Net Income per Share(Diluted)
	Yen	Yen
1Q of FY2023	5.29	5.25
1Q of FY2022	50.73	50.41

(2) Consolidated financial position

	Total Assets	Net Assets	Owner's Equity Ratio
	Millions of yen	Millions of yen	%
1Q of FY2023	666,825	264,678	36.1
FY2022	654,558	260,938	36.2

Reference : Owner's equity 1Q of FY2023 240,739 million yen, FY2022 236,844 million yen

2. Dividends

	Annual Dividends				
	First Quarter	Second Quarter	Third Quarter	Fiscal Year-End	Total
	Yen	Yen	Yen	Yen	Yen
FY2022	-	12.50	-	12.50	25.00
FY2023	-	-	-	-	-
FY2023(Forecast)	-	12.50	-	12.50	25.00

Revision to recently disclosed dividends forecast : No

3. Forecast of Consolidated Business Results for the Fiscal Year ending March 31, 2023
(From April 1, 2022 to March 31, 2023)

	Net Sales		Operating Income		Ordinary Profit		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	320,000	35.0	(1,000)	-	(1,500)	-	0	-	-
Full Year	660,000	27.3	8,000	980.1	7,000	198.3	8,000	(19.0)	64.93

Note : Revision to recently disclosed consolidated business results forecast : No

Note : The Company has applied "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and other standards from the beginning of the first quarter of FY2022.

Consolidated gross sales, which is equivalent to net sales up to the previous fiscal year excluding the effects of changes in accounting policies, amounted to 474,000 million yen (up 37.8% year on year) for the first half and 1,000,000 million yen (up 26.9% year on year) for the full year.

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 FY2023	125,201,396 shares
FY2022	125,201,396 shares
 - (b) Number of shares of treasury stock at the end of the period

1Q of FY2023	1,977,677 shares
FY2022	1,989,253 shares
 - (c) Average number of shares during the period

1Q of FY2023	123,215,448 shares
1Q of FY2022	123,731,303 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.

1. Consolidated Financial Results

Following the business integration through a share exchange with Kansai Super Market Ltd. in December 2021, Kansai Food Market Ltd., Kansai Super Market Ltd., and Kansai Super Premium Co., Ltd. were included in the Supermarket Business segment. The above three companies were not included in the first quarter results of FY2021 and FY2022.

▶ Sales

Consolidated net sales of 1Q of FY2023 was ¥149,352 million, increased by 30.7% YOY. Consolidated gross sales, which is equivalent to net sales up to the fiscal year before the application of Accounting Standard for Revenue Recognition, excluding the effects of changes in accounting policies, amounted to ¥227,919 million, increased by 41.4% YOY. In Department store Business segment, domestic existing store sales exceeded the pre-COVID-19 level due to the easing of the impact of COVID-19 infection and a recovery trend in consumer confidence. Sales grew significantly due in part to a rebound from the about one-and-a-half month of operating restrictions associated with COVID-19 expansion in the previous year. In Supermarket Business segment, although existing store sales fell below the previous year's level, consolidated sales increased due to the new consolidation of Kansai Super Market Ltd.

▶ Operating Profit and Ordinary Profit

As a result of an increase in gross profit due to higher sales and controlling selling, general and administrative expenses less than planned in Department store Business segment, operating profit was ¥664 million (operating loss of ¥2,044 million in the previous fiscal year), and ordinary profit was ¥1,867 million (ordinary loss of ¥949 million in the previous fiscal year).

(Department store business)

Although the impact of the COVID-19 infection was remained, sales and the number of customers showed a recovery trend, including Golden Week, the first time in three years without restrictions on activities. At Hankyu Main Store, sales of women's fashion, in particular, performed well as fashion needs became more active with the increase in commuting and opportunities to go out. Sales of high-end items such as watches and luxury also increased. Hanshin Umeda Main Store celebrated its grand opening of entire building on April 6, 2022. Efforts to strengthen the value of experiences centered on food, resulted in a wide range of customers visiting the store.

Selling, general and administrative expenses increased due to the decrease of the transfer to extraordinary losses related to COVID-19 infection compared with the previous fiscal year and the opening of the Hanshin Umeda Main Store, but were reduced from the plan by controlling advertising expenses.

As results of above, gross sales was ¥108,678 million, increased by 62.9% YOY and operating profit was ¥1,224 million (operating loss of ¥1,846 million in the previous fiscal year).

(Supermarket business)

Gross sales was ¥101,308 million, increased by 38.1% YOY and operating profit was ¥426 million, decreased by 68.1% YOY.

Izumiya Co., Ltd. and Hankyu Oasis Co., Ltd. worked to improve productivity through standardization of operations and labor-saving measures, such as unifying leaflets and sales promotion measures and developing product MD according to store formats, in the context of integrated management initiatives. Both the number of customers and average spend per customer declined as the impact of COVID-19 infection eased and demand for eating at home declined and opportunities to go out increased. As a result, existing store sales year-on-year for Izumiya Co., Ltd. were 94.4% (95.8% for number of customers and 98.5% for spend per customer), and existing store sales year-on-year for Hankyu Oasis Co., Ltd. were 90.0% (93.6% for number of customers and 96.2% for spend per customer). Izumiya Co., Ltd. renovated Daily Qanat Tengachaya store in June. Hankyu Oasis Co., Ltd. opened Oasis Town Suita SST store in April, with the themes of "health," "sustainability," and "multi-generational coexistence".

Selling, general and administrative expenses were lower than in the previous year due to efforts to reduce personnel and other costs in the context of integrated operations, while utility expenses increased at both companies.

Kansai Super Market Ltd. worked to realize a "total solution supermarket" that solves problems through environmental initiatives and social contributions with customers, employees, and local communities. Existing store sales were 96.3% (97.2% for number of customers and 99.0% for spend per customer). Existing store sales fell below the previous year's level, since we had the increase in demand for eating at home due to COVID-19 in the previous fiscal year.

Renovations were carried out at two stores, Makino store and Keihan Owada store.

Selling, general and administrative expenses were below the previous year's level due to a review of expenses for consumables and security, etc., while advertising expenses increased due to the resumption of newspaper inserts and utility costs soared.

The food manufacturing subsidiaries, which produces prepared foods and bakery products, increase in wholesale sales to supermarket companies. In addition, sales and profits increased due to a recovery in sales at specialty stores as a rebound to the previous year's closure.

(Shopping Center business)

Gross sales was ¥9,120 million, decreased by 30.0% YOY and operating profit was ¥596 million (operating profit of ¥23 million in the previous year).

In H2O Shopping Center Development Co., Ltd., which operates management of tenants and sales of apparel and home products at Izumiya stores, gross sales decreased due to closure of operation area and operating profit increased because of cost reduction by operational efficiency.

Oi Development Co., Ltd, which operates the business hotel, increased in income and profit due to improvement of occupancy rate compared to the previous year.

(Other business)

Gross sales was ¥8,812 million, increased by 8.7% YOY and operating loss was ¥769 million (operating loss of ¥1,090 million in the previous year).

The subsidiaries in the other businesses, excluding the Company as a holding company, posted an operating profit increase of ¥298 million, reflecting an increase in sales due to a reduction in the number and duration of COVID-19 related closed stores compared to the previous year.

► Profit attributable to owners of parent

The Companies recorded extraordinary losses of ¥740 million including loss on retirement of noncurrent assets ¥482 million. As a result, profit attributable to owners of parent was ¥651 million decreased 89.6% YOY.

2. Forecast of FY2023

Consolidated results for the first quarter of the current fiscal year are largely in line with expectations, and there are no changes to the consolidated forecasts for the first half of the fiscal year and for the full year from those announced on May 12, 2022.

Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	FY2022	1Q of FY2023
	(as of March 31, 2022)	(as of June 30, 2022)
Assets		
Current assets		
Cash and deposits	34,724	33,166
Notes and accounts receivable -trade	59,906	63,517
Merchandise and finished goods	21,002	21,407
Work in process	231	252
Raw materials and supplies	1,405	1,270
Accounts receivable - other	7,398	4,507
Other	5,368	6,760
Allowance for doubtful accounts	(311)	(347)
Total current assets	129,725	130,534
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	122,490	128,026
Machinery, equipment and vehicles, net	2,903	2,901
Land	162,462	165,015
Construction in progress	2,220	1,094
Other, net	11,167	11,262
Total property, plant and equipment	301,245	308,299
Intangible assets		
Goodwill	2,197	2,070
Other	14,245	14,441
Total intangible assets	16,443	16,511
Investments and other assets		
Investment securities	104,231	110,295
Long-term loans receivable	16,044	13,830
Guarantee deposits	73,074	73,148
Retirement benefit asset	4,156	4,394
Deferred tax assets	10,495	10,691
Other	1,943	1,913
Allowance for doubtful accounts	(2,802)	(2,796)
Total investments and other assets	207,143	211,478
Total non-current assets	524,832	536,290
Total Assets	654,558	666,825

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Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2023

	(Millions of yen)	
	FY2022	1Q of FY2023
	(as of March 31, 2022)	(as of June 30, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	56,839	53,360
Short-term borrowings	-	6,000
Current portion of long-term borrowings	1,100	850
Accounts payable - other	24,764	22,515
Lease obligations	1,267	1,181
Income taxes payable	3,546	769
Gift certificates	9,211	9,216
Advances received	32,320	36,958
Provision for bonuses	4,177	3,109
Provision for bonuses for directors (and other officers)	24	36
Provision for loss on store closings and others	1,457	1,437
Asset retirement obligations	620	477
Other	12,334	13,992
Total current liabilities	<u>147,663</u>	<u>149,905</u>
Non-current liabilities		
Bonds payable	20,000	20,000
Long-term borrowings	154,282	159,215
Deferred tax liabilities	26,938	28,755
Deferred tax liabilities related to land revaluation	266	266
Provision for retirement benefits for directors (and other officers)	228	190
Provision for redemption of gift certificates	3,079	3,143
Retirement benefit liability	13,260	13,260
Long-term accounts payable - other	386	274
Lease obligations	12,248	12,005
Long-term guarantee deposited	10,651	10,543
Asset retirement obligations	3,580	3,592
Other	1,034	992
Total non-current liabilities	<u>245,956</u>	<u>252,241</u>
Total Liabilities	<u>393,620</u>	<u>402,146</u>
Net Assets		
Shareholders' equity		
Share capital	17,796	17,796
Capital surplus	95,086	95,081
Retained earnings	92,299	91,282
Treasury shares	(3,151)	(3,132)
Total shareholders' equity	<u>202,030</u>	<u>201,028</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	35,881	39,809
Revaluation reserve for land	303	303
Foreign currency translation adjustments	565	1,448
Remeasurements of defined benefit plans	(1,936)	(1,850)
Total accumulated other comprehensive income	<u>34,814</u>	<u>39,711</u>
Share acquisition rights	1,168	1,156
Non-controlling interests	22,924	22,782
Total net assets	<u>260,938</u>	<u>264,678</u>
Total Liabilities and Net Assets	<u>654,558</u>	<u>666,825</u>

H2O Retailing Corporation(8242)

Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2023

(2) Consolidated Statements of Income	(Millions of yen)	
	1Q of FY2022 (From April 1, 2021 to June 30, 2021)	1Q of FY2023 (From April 1, 2022 to June 30, 2022)
Net sales	114,285	149,352
Cost of sales	67,884	87,808
Gross profit	46,400	61,544
Selling, general and administrative expenses	48,445	60,880
Operating profit (loss)	(2,044)	664
Non-operating income		
Interest income	118	140
Dividend income	593	627
Gain on adjustment of accounts payable	261	206
Foreign exchange gains	679	739
Other	174	191
Total non-operating income	1,827	1,904
Non-operating expenses		
Interest expenses	236	245
Loss on provision for redemption of gift certificates	210	162
Share of loss of entities accounted for using equity method	156	114
Other	129	178
Total non-operating expenses	733	701
Ordinary profit (loss)	(949)	1,867
Extraordinary income		
Subsidy income	174	49
Gain on sales of non-current assets	8,881	-
Gain on sales of investment securities	6,485	-
Total extraordinary income	15,541	49
Extraordinary losses		
Loss on retirement of non-current assets	194	482
Loss related to COVID-19	3,753	146
Expenses for opening new stores	-	107
Loss on store closings and others	270	4
Total extraordinary losses	4,218	740
Profit (loss) before income taxes	10,373	1,175
Income taxes - current	1,894	512
Income taxes - deferred	2,201	(85)
Total income taxes	4,096	426
Profit (loss)	6,277	749
Profit (loss) attributable to non-controlling interests	-	98
Profit (loss) attributable to owners of parent	6,277	651