

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

November 2, 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 : November 11, 2022
Scheduled date of dividend payment : November 30, 2022
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 September 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	%
2Q of FY2023	304,425	28.4	1,114	-	2,835	-	2,790	(65.5)
2Q of FY2022	237,020	-	(5,148)	-	(4,189)	-	8,085	-

Note : Comprehensive income 2Q of FY2023 16,145 million yen, 22.5% , 2Q of FY2022 13,177 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 2Q 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
2Q of FY2023	22.64	22.48
2Q of FY2022	65.35	64.91

(2) Consolidated financial position

	Total Assets	Net Assets	Owner's Equity Ratio
	Millions of yen	Millions of yen	%
2Q of FY2023	673,233	274,613	37.3
FY2022	654,558	260,938	36.2

Reference : Owner's equity 2Q of FY2023 250,917 million yen, FY2022 236,844 million yen

2. Dividends

	Annual Dividends					Total
	First Quarter	Second Quarter	Third Quarter	Fiscal Year-End		
	Yen	Yen	Yen	Yen	Yen	Yen
FY2022	-	12.50	-	12.50		25.00
FY2023	-	12.50	-	-		-
FY2023(Forecast)	-	-	-	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
Full Year	640,000	23.4	9,000	-	10,000	326.3	11,000	11.4	89.27

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

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 FY2021 excluding the effects of changes in accounting policies, amounted to 980,000 million yen (up 24.3% 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)
2Q of FY2023 125,201,396 shares
FY2022 125,201,396 shares
(b) Number of shares of treasury stock at the end of the period
2Q of FY2023 1,978,481 shares
FY2022 1,989,253 shares
(c) Average number of shares during the period
2Q of FY2023 123,218,745 shares
2Q of FY2022 123,731,021 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 Supermarket Business segment. The above three companies were not included in the second quarter results of FY2021 and FY2022.

▶ Sales

Consolidated net sales of 2Q of FY2023 was ¥304,425 million, increased by 28.4% 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 ¥461,546 million, increased by 34.1% 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 the strong performance of Hankyu Main Store. 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, consolidated sales increased significantly 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 ¥1,114 million (operating loss of ¥5,148 million in the previous fiscal year), and ordinary profit was ¥2,835 million (ordinary loss of ¥4,189 million in the previous fiscal year).

(Department store business)

Although affected by the seventh wave of COVID-19 infection spread, sales and the number of customers recovered, reflecting a recovery trend in customer willingness to shop. At Hankyu Main Store, sales of women's fashion, in particular, performed well with the increase in commuting and opportunities to go out. Sales of high-end items such as watches and luxuries also increased. Hanshin Umeda Main Store celebrated its grand opening of entire building in April, 2022. Efforts to strengthen the value of experiences centered on food, which is offered on four floors, resulted in a wide range of customers visiting the store.

Selling, general and administrative expenses increased compared with the previous fiscal year due to the decrease of the transfer to extraordinary losses related to COVID-19 infection, the increase of depreciation cost with the opening of the Hanshin Umeda Main Store and heating and lighting expenses rise. Selling, general and administrative expenses were lower than planned by reducing costs such as controlling advertising expenses, despite the increase of sales commission cost due to sales increase.

As results of above, gross sales was ¥220,475 million, increased by 42.9% YOY and operating profit was ¥1,626 million (operating loss of ¥4,075 million in the previous fiscal year).

(Supermarket business)

Gross sales was ¥205,832 million, increased by 37.9% YOY and operating profit was ¥1,643 million, decreased by 31.4% YOY.

Existing store sales for Izumiya Co., Ltd, Hankyu Oasis Co., Ltd. and Kansai Super Market Ltd. were lower than the previous year due to the easing of the impact of COVID-19 infection, the downturn after the previous year's increase in demand for eating at home, and the impact of rising prices on consumer sentiment.

Regarding stores, one store was opened and five stores were remodeled during the first half of the current fiscal year.

Izumiya Co., Ltd. and Hankyu Oasis Co., Ltd. worked to improve productivity through standardization of operations and labor-saving measures, such as unifying weekly ad and sales promotion measures and developing product MD according to store formats. As a result, existing store sales year-on-year for Izumiya Co., Ltd. were 94.9% (94.7% for number of customers and 100.2% for spend per customer), and those for Hankyu Oasis Co., Ltd. were 91.0% (94.0% for number of customers and 96.8% for spend per customer).

Selling, general and administrative expenses were lower than both the previous year and forecast 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. promoted measures based on three categories, "health management" (health counseling by visiting public health nurses etc.), "productivity improvement" (increasing meats packaged outside stores, installation of sliding shelves, expansion of steam convection systems etc.), "education" (e-learning of compliance, manuals and rules etc.)

Existing store sales were 96.5% (96.9% for number of customers and 99.6% for spend per customer).

Selling, general and administrative expenses were lower than both the previous year and forecast due to a review of expenses for consumables etc., while utility costs soared.

The food manufacturing subsidiaries, which produces delicatessen and bakery products, increase in wholesale sales to supermarket companies. In addition, sales and profits, increased due to the recovery in specialty stores.

(Shopping Center business)

Gross sales was ¥17,497 million, decreased by 28.8% YOY and operating profit was ¥867 million (operating loss of ¥6 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 direct 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 ¥17,740 million, increased by 11.0% YOY and operating loss was ¥1,563 million (operating loss of ¥2,348 million in the previous year).

The subsidiaries in the other businesses, excluding the Company as a holding company, posted an operating profit increase of ¥555 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 income of ¥5,029 million including gain on sales of noncurrent assets of ¥4,973 million and extraordinary losses of ¥3,144 million including loss on store closings and others of ¥1,400 million and loss on retirement of noncurrent assets of ¥707 million. As a result, profit attributable to owners of parent was ¥2,790 million, decreased 65.5% YOY.

2. Forecast of FY2023

Consolidated forecasts of FY2023 have been changed from the forecasts in the "Consolidated Financial Results for the Fiscal Year Ended March 31, 2022," announced on May 12, 2022.

Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	FY2022 (as of March 31, 2022)	2Q of FY2023 (as of September 30, 2022)
Assets		
Current assets		
Cash and deposits	34,724	31,012
Notes and accounts receivable -trade	59,906	60,495
Merchandise and finished goods	21,002	20,690
Work in process	231	86
Raw materials and supplies	1,405	1,227
Accounts receivable - other	7,398	4,900
Other	5,368	6,055
Allowance for doubtful accounts	(311)	(410)
Total current assets	129,725	124,057
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	122,490	128,767
Machinery, equipment and vehicles, net	2,903	2,886
Land	162,462	164,876
Construction in progress	2,220	940
Other, net	11,167	11,486
Total property, plant and equipment	301,245	308,956
Intangible assets		
Goodwill	2,197	1,944
Other	14,245	15,186
Total intangible assets	16,443	17,130
Investments and other assets		
Investment securities	104,231	121,064
Long-term loans receivable	16,044	14,289
Guarantee deposits	73,074	73,059
Retirement benefit asset	4,156	4,627
Deferred tax assets	10,495	11,029
Other	1,943	1,804
Allowance for doubtful accounts	(2,802)	(2,787)
Total investments and other assets	207,143	223,087
Total non-current assets	524,832	549,175
Total Assets	654,558	673,233

H2O Retailing Corporation(8242)

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

	(Millions of yen)	
	FY2022	2Q of FY2023
	(as of March 31, 2022)	(as of September 30, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	56,839	54,547
Short-term borrowings	-	2,000
Current portion of long-term borrowings	1,100	10,600
Accounts payable - other	24,764	22,260
Lease obligations	1,267	1,065
Income taxes payable	3,546	1,809
Gift certificates	9,211	9,046
Advances received	32,320	33,893
Provision for bonuses	4,177	3,870
Provision for bonuses for directors (and other officers)	24	61
Provision for loss on store closings and others	1,457	1,820
Asset retirement obligations	620	553
Other	12,334	11,784
Total current liabilities	147,663	153,314
Non-current liabilities		
Bonds payable	20,000	20,000
Long-term borrowings	154,282	149,129
Deferred tax liabilities	26,938	32,263
Deferred tax liabilities related to land revaluation	266	266
Provision for retirement benefits for directors (and other officers)	228	191
Provision for redemption of gift certificates	3,079	3,178
Retirement benefit liability	13,260	13,222
Long-term accounts payable - other	386	233
Lease obligations	12,248	11,797
Long-term guarantee deposited	10,651	10,511
Asset retirement obligations	3,580	3,548
Other	1,034	962
Total non-current liabilities	245,956	245,304
Total Liabilities	393,620	398,619
Net Assets		
Shareholders' equity		
Share capital	17,796	17,796
Capital surplus	95,086	95,016
Retained earnings	92,299	93,421
Treasury shares	(3,151)	(3,133)
Total shareholders' equity	202,030	203,100
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	35,881	46,962
Revaluation reserve for land	303	303
Foreign currency translation adjustments	565	2,316
Remeasurements of defined benefit plans	(1,936)	(1,765)
Total accumulated other comprehensive income	34,814	47,816
Share acquisition rights	1,168	1,191
Non-controlling interests	22,924	22,505
Total net assets	260,938	274,613
Total Liabilities and Net Assets	654,558	673,233

H2O Retailing Corporation(8242)

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

(2) Consolidated Statements of Income	(Millions of yen)	
	2Q of FY2022 (From April 1, 2021 to September 30, 2021)	2Q of FY2023 (From April 1, 2022 to September 30, 2022)
Net sales	237,020	304,425
Cost of sales	139,195	177,891
Gross profit	97,824	126,533
Selling, general and administrative expenses	102,973	125,419
Operating profit (loss)	(5,148)	1,114
Non-operating income		
Interest income	249	277
Dividend income	593	629
Gain on adjustment of accounts payable	453	421
Foreign exchange gains	890	1,357
Other	402	401
Total non-operating income	2,588	3,088
Non-operating expenses		
Interest expenses	475	492
Loss on provision for redemption of gift certificates	362	339
Share of loss of entities accounted for using equity method	483	225
Other	307	310
Total non-operating expenses	1,629	1,367
Ordinary profit (loss)	(4,189)	2,835
Extraordinary income		
Gain on sales of non-current assets	11,109	4,973
Subsidy income	2,291	55
Gain on sales of investment securities	6,485	-
Total extraordinary income	19,886	5,029
Extraordinary losses		
Loss on store closings and others	335	1,400
Loss on retirement of non-current assets	532	707
Loss related to COVID-19	3,941	380
Loss on withdrawal of system development	-	279
Head office relocation expenses	-	273
Expenses for opening new stores	-	102
Total extraordinary losses	4,809	3,144
Profit (loss) before income taxes	10,887	4,719
Income taxes - current	2,582	1,659
Income taxes - deferred	219	(113)
Total income taxes	2,801	1,546
Profit (loss)	8,085	3,173
Profit (loss) attributable to non-controlling interests	-	383
Profit (loss) attributable to owners of parent	8,085	2,790