

Message to our shareholders 2009

H2O RETAILING CORPORATION

Contents

To Our Shareholders

“Hankyu Department Store Umeda Main Store (Phase I)
to open in September

Topics

- H2O Retailing group reorganises its credit cards
- New Hanshin Department Store to open in Amagasaki
- Supermarket business

Settlement Report

Corporate Data



Jun Wakabayashi

President and Representative Director

Following the management integration with The Hanshin Department Store, Ltd. in October 2007, the Group relaunched its long-term business plan as The Grand Prix 10 (GP10) Plan ver.2. We are taking various steps to realise our basic strategy under this plan of expanding market share in the Kansai business area.

In fiscal 2008, ended March 2009, the Group worked hard to establish an efficient system of management based on the merger of Hankyu Department Stores, Inc. and The Hanshin Department Store, Ltd., and through the merger of five companies in the supermarket business, but earnings performance was seriously affected by reduced consumer spending following the rapid economic slowdown.

We expect the consumer spending environment to remain harsh, and foresee further pressure on earnings from a reduction in retail space related to the transfer of Hankyu Department Store Umeda Main Store retail operations to the Phase I development of the main store reconstruction. These adverse conditions are expected to persist until the grand opening of the Hankyu Department Stores Umeda Main Store in 2012, but we will minimise adverse impact through measures by our group, such as refurbishment of the Hanshin Department Store Umeda Main Store, a reorganisation of our store credit card operations, and through new openings of food supermarkets.

While making progress under the new GP10 Plan ver.2 long-term business plan, we reached agreement in October 2008 on an operational and capital alliance with a view to possible management integration with Takashimaya Company, Limited, as a means of ensuring future growth. At the moment, preparations in this regard are being made under an operational alliance committee.

I would like to thank our shareholders for their continued support.

H2O Retailing's basic philosophy

To remain indispensable to the local communities through our activities of providing a model of lifestyle to local residents

Reason for the name change

Based on the Group's philosophy of continuing to be indispensable to the local community, we chose the symbol for water, which is indispensable to the global environment.

About our logo



Our logo is intended to express the beauty of water, a universal element and the source of all life. The typeface we have used has an orthodox beauty. Together they convey a sense of neutrality and substance. The shape of the logo is intended to suggest a spirit of boldness enabling us to survive in the fierce competition of the retail sector. It also expresses the determination of H2O Retailing to progress to the next level.

Hankyu Department Store Umeda Main Store (Phase I) to open in September



In autumn 2005, reconstruction work began on the Umeda Main Store of Hankyu Department Stores. In September 2009, Phase I (south side), currently under construction, will finally be completed and retail floors will open for business. At the same time, we expect a drop in sales as total retail space will fall from the current 43,000m² to 27,000m². For this reason, earnings performance will be at its weakest until the grand opening of the flagship store. However, we are working to minimise the erosion of earnings through a four-store business model, including the refurbished Hanshin Department Store Umeda Main Store and Hankyu Ings store, and the Hankyu Department Store MEN'S emporium opened in February 2008. After the Phase I store opens for business, Phase II of works will begin with the rebuilding of the northern area of the Umeda Main Store. This is a city centre location, with many people and cars passing through as well as railways, so we expect the works to be complicated. While placing the highest priority on safety, we aim to complete the works for a grand opening in 2012. We regret that, during the period of works, much inconvenience will be caused to shoppers and pedestrians. However, we strongly hope customers will enjoy shopping at two Umeda main stores of "Hankyu" and "Hanshin".

Sales floors of Hankyu Umeda main store (Phase I)

12F	Household mdse
11F	Kimono, Art, Event, e.t.c.
10F	
9F	Ladies clothing
8F	
7F	
6F	International boutique
5F	
4F	Ladies accessories, bags, Cosmetics, e.t.c.
3F	
2F	
1F	Food items
B1F	
B2F	

Phase I retail floors

The Hankyu Department Store Umeda Main Store at completion of Phase I will have 14 retail floors, with two underground. Retail space will be limited, but we aim to ensure buoyant sales through our popular women's fashion department, food department in the two basement floors and first floor, which always attract a lot of customers, and relocation of children's wear department to the Hankyu Ings store.

Retail space after opening Hankyu Umeda main store (Phase I)

		After Sep. 2009
Hankyu department store Umeda main store	Main store Phase I	27,000 m ²
	Men's emporium	16,000 m ²
	Ings	7,000 m ²
Hanshin department store Umeda main store		53,000 m ²
Total of sales space at Umeda area		approx. 103,000 m ²



Improved access to the Hanshin Department Store

In the current round of building works, we have improved access to the Hankyu Department Store from the Hanshin Department Store and from Osaka (JR) station via a footbridge, enabling customers to walk straight into the second floor through a new entrance. Moreover, previously a stairway linked the underground shopping arcade and the basement level 1 sales area, but with a lowering of the store flooring, this gap has disappeared. These moves have improved convenience at the Hankyu Department Store Umeda Main Store.



Keeping history alive at the new Hankyu Umeda Main Store

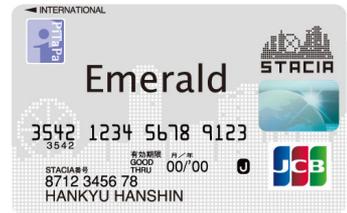
The Hankyu Department Store Umeda Main Store (former Umeda Hankyu Building), completed in 1929, encapsulates the history of the Umeda area of Osaka. The former Umeda Hankyu Building, with its distinctive exterior and beautifully decorated concourse, is considered a model of Umeda architecture. By extensively incorporating design motifs from the old building into the new structure, we aim to create a new landmark in the Umeda area that keeps alive the spirit of the building it replaces.

H2O Retailing Group reorganises its credit cards

Since the management integration of the Hankyu and Hanshin department stores and our relaunch as the H2O Retailing Group, we have been promoting the mutual use of store credit cards. Now, we have decided to integrate both department stores' credit cards with the aim of further enhancing shopping convenience for our customers. First, in April 2009 we replaced Hankyu Department Store's Persona Card with the Hankyu Hanshin Persona Card, which lets purchases made at Hanshin Department Store be added to the total balance of the Persona Card. Customers will receive up to a 10% discount at both department store chains depending on the total balance for a year.

Then, this autumn Hankyu Hanshin Department Stores, Inc. will issue the Hankyu Hanshin Emerald STACIA Card jointly with Hankyu Hanshin Holdings, Inc. The new card will accrue points not only at Hankyu and Hanshin department stores, but also when riding the Hankyu and Hanshin railways and frequenting facilities operated by the group companies of Hankyu Hanshin Holdings. We plan to extend the mutual point system not only to the H2O Retailing Group's supermarkets and home delivery service, but also to non-group companies based in the Kansai area and shops in areas served by the Group's railway lines, so as to further enhance customer convenience.

We will leverage the assets of the Hankyu Hanshin Group to create a menu of appealing items for which the points may be exchanged. In this way, customers will not just accrue points, they will get more enjoyment out of using them.



New Hanshin Department Store to open in Amagasaki in October 2009

Our fifth Hanshin Department Store will open in Amagasaki City, Hyogo Prefecture in October of this year. The store is being constructed on the north side of JR Amagasaki station, on the former site of Kirin Brewery's Amagasaki Plant. The new Hanshin Department Store will serve as a core retailer in the new "COCOE" commercial complex. The Umeda Main Store of the Hanshin Department Store has long been popular with local residents for its provision of food items and sundry goods. The new store will employ a similar marketing policy to fully meet the needs of the local community. We are currently working to create a store that will meet your high expectations.

(Retail space : approx. 5,000 m²)

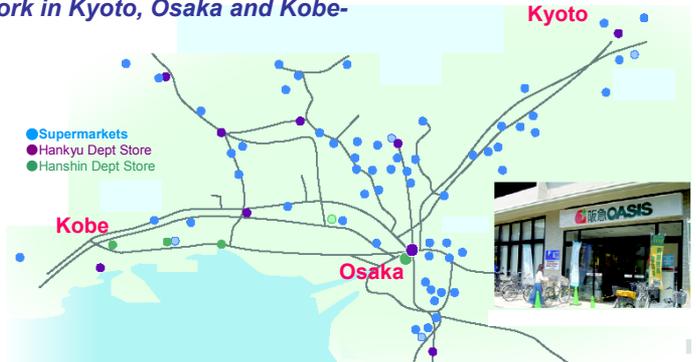


Becoming the dominant player in Kansai through supermarket openings

- Expanding the H2O Retailing Group store network in Kyoto, Osaka and Kobe-

Hanshoku Co., Ltd. is opening new supermarkets in Kyoto, Osaka and the Kobe area as one of the core strategies of its long-term business plan GP10 Plan ver. 2.

In fiscal 2008 we opened three new Hankyu Family Stores in central Osaka, and In fiscal 2009 we plan to open a total of five new stores. Looking ahead, we will continue opening stores in Kyoto, Osaka and the Kobe area.



Hankyu Delica's new food plant specializing in deli dishes begins operation

Full-scale production began at our new deli dish preparation plant in Ikeda City, Osaka Prefecture in November 2008. This plant has a world-class food hygiene control system, in accordance with HACCP (Hazard Analysis and Critical Control Points) guidelines. In the selection of equipment and production machinery, adequate consideration was given to environmental requirements and the health and safety of employees, with the top priority being to ensure food safety and hygiene. The new system is expected to achieve a 20% reduction in CO₂ emission intensity. The deli dishes prepared at this plant can be purchased at Hanshoku Group supermarkets and the food floors of department stores under the H2O Retailing umbrella. Please taste them for yourself.

Settlement report & Corporate data

Settlement report (from 1st April, 2008 to 31st March, 2009)

Consolidated statements of income

(Millions of yen)

	Amount	Comparison with the previous term
Net sales	509,525	108.0%
Cost of sales	364,028	108.8%
Selling, general and administrative expenses	132,079	110.2%
Operating income	13,416	78.4%
Non-operating income	3,637	119.2%
Non-operating expenses	1,751	82.4%
Recurring income	15,302	84.8%
Extraordinary income	271	9.6%
Extraordinary loss	6,124	154.9%
Income before income taxes	9,449	55.9%
Current income taxes	3,577	52.4%
Deferred income taxes	△ 533	-
Minority interests	24	448.6%
Net income	6,380	67.5%

Consolidated Balance Sheets

(Millions of yen)

	Amount	Comparison with the previous term		Amount	Comparison with the previous term
Current assets	89,344	△ 22,005	Current liabilities	88,845	△ 11,269
Fixed assets	233,700	+7,271	Long-term liabilities	80,204	+6,527
Total	323,044	△ 14,734	Net assets	153,994	△ 9,992
			Total	323,044	△ 14,734

Projection performance (from 1st April, 2009 to 31st March, 2010)

(Millions of yen)

	Amount	Comparison with the previous term
Sales	460,000	90.3%
Operating income	6,000	44.7%
Recurring income	6,800	44.4%
Net income	2,700	42.3%

Corporate data

Outline of the company (as of 31st March, 2009)

Company name : H2O RETAILING CORPORATION

Address of HQ : 8-7, Kakuda-cho, Kita-ku, Osaka

Incorporated : 7th March, 1947

The company renamed as H2O Retailing Corporation on 1st October, 2007

Common stock : ¥17,796,659,575

Total number of issued and outstanding shares : 206,740,777

Number of shareholders: 16,037

Website address : <http://www.h2o-retailing.co.jp/>

Board of directors (as of 24th June, 2009)

Chairman, Representative Director and CEO	Shunichi Sugioka
President and Representative Director	Jun Wakabayashi
Representative Director	Nobuaki Nitta
Outside Director	Yosaku Fuji
Outside Director	Atsunori Ando
Director	Kazuo Sumi
Director	Kazutoshi Senno
Director	Keiji Uchiyama
Director	Shigeru Yasukawa
Director and Corporate Officer	Tadatsugu Mori
Director and Corporate Officer	Katsuhiro Hayashi
Standing Corporate Auditor	Toshimitsu Konishi
Outside Corporate Auditor	Hideyuki Takai
Outside Corporate Auditor	Takeshi Nakagawa
Outside Corporate Auditor	Toshihisa Takamura