

Message to our shareholders 2010

H2O RETAILING CORPORATION

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Jun Wakabayashi

President and Representative Director

First I would like to thank all our shareholders for their support. Below is our “Messages to our shareholders 2010”. I hope it will help shareholders understand our business better.

The Group has made steady progress in a range of projects based on our long-term business plan Grand Prix 10 (GP10) Plan ver. 2, with fiscal 2014 as its final year.

We opened Phase 1 (south side) of the reconstruction of the Hankyu Department Store Umeda Main Store, one of our long-term projects, in September 2009.

We also completed the management integration process, launched in October 2007, for the businesses of Hankyu Department Stores, Inc. and The Hanshin Department Store, Ltd. Both department stores now operate as one. In addition, in order to build a more competitive but complimentary relationship between Hankyu and Hanshin department stores’ Umeda Main Stores, we refurbished the Hanshin Department Store Umeda Main Store in August 2009, enabling both stores to make a smooth new start.

Meanwhile, in Taiwan, in autumn 2010, a second Uni-President Hankyu Department Store is scheduled to open, this time in Taipei. This will be a partnership with the Uni-President Group of Taiwan, with ourselves supplying technological assistance. In spring 2011, we plan to launch operations at the Hakata Hankyu (department store) and Phase I of the redevelopment project near JR Oimachi Station in Tokyo. We will continue to make good progress in these two major projects.

In this way, we will move forward with various measures under the GP10 Plan ver. 2. However, in the runup to the grand opening of the Hankyu Department Store Umeda Main Store, we expect performance to be adversely affected by the shrinkage of retail area resulting from the works. The Group is unified in its commitment to minimise this negative impact. I would like to thank our shareholders for their further support in this endeavour.

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.

Progress of our long term plan "GP10 Plan"

The GP10 Plan, with fiscal 2014 as its final year, was launched in fiscal 2005, with the aim of realizing the Group's philosophy of remaining "indispensable to the local community." We are now exactly halfway through the plan. The photographs below give an idea of our achievements to date, as well as our future aims. In coming years, we will complete a string of major projects, including the grand openings of Hankyu Department Store Umeda Main Store, Hakata Hankyu, and New Hankyu-Oi Building (tentative name). You will find more details below.

Progress of GP10 Plan

Hankyu Umeda main store Rebuilding Project



Phase 1
opened in Sep 2009

Grand open in 2012

FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
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Sanda Hankyu
Opened in Sep.2005



Hankyu Mens
Opened in Feb.2008



Nishinomiya Hankyu
Opened in Nov.2008



Hakata Hankyu
Open in spring, 2011



Hanshin Mikage
opened in Mar.2008



Amagasaki Hanshin
opened in Oct.2009

Hankyu Kitchen Yell
expanded service area
Into Osaka city and Kyoto
In 2008



Hankyu Delica
built deli-dish preparation plant
In 2008

Number of supermarket stores

33	57	56	58	61
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Oi Redevelopment Project



started reconstruction
in 2008



Phase 1
open in spring, 2011



New Oi Hankyu Bldg
Grand Open in 2014



Acquisition of Nissho store
In 2006



H2O Retailing Corp.
founded after management integration
with Hankyu Dept. & Hanshin Dept.
in Oct. 2007

Department Business

Planned opening of new Uni-President Hankyu Department Store in Taipei in autumn 2010

In May 2007, Uni-President Hankyu Department Store opened in Kaohsiung. It is operated by Uni-President Group of Taiwan, with H2O supplying technological assistance. In autumn 2010, a second store is scheduled to open in Taiwan's capital, Taipei.

The building in which the new store will be located is a multipurpose high-rise housing a hotel above. The location is very convenient, close by a subway and bus terminal. With a sales area of approximately 26,000m², the Taipei Uni-President Hankyu Department Store will have nine floors, with two underground. Leveraging our expertise in the new-store development in Japan, we want this department store to become a trendsetter, with a focus on fashion and food products. If you go to Taiwan, we cordially invite you to drop by both the Kaohsiung and new Taipei stores.



Launch of joint operations with Takashimaya in 2010 summer giftgiving season

In fiscal 2009, the Group teamed up with Takashimaya Company, Limited to develop ranges of wedding rings and women's coats, and organise an Italian-themed exhibition. In fiscal 2010, cooperation has been extended into the area of gift products. As a first step, we are expanding our product lineups through joint operation of catalogues covering approximately 800 items, beginning

with the 2010 summer giftgiving season. We aim to increase efficiency further by jointly centralising packaging and delivery operations.

Looking ahead, in addition to joint development of products and sales floors, we will work together in reducing expenses through joint procurement of supplies and materials.

Supermarket Business

Boosting earnings through appealing stores and integrated manufacturing and marketing

In fiscal 2009, Hanshoku Co., Ltd. launched a new store development programme including face-to-face sales consultation and weigh-and-sell services for vegetable buyers. We are steadily introducing such ideas into new and existing stores. While increasing store appeal in this way, we are strengthening alliances with subsidiaries that produce delicatessen and bakery products.

At our deli-dish preparation plant, built in autumn 2008, we have begun production of delicatessen items and salads. In autumn 2009, we also launched a new ¥100 bread/pastry business. By anticipating customer needs based on what we have learnt in store transactions, and meeting them from in-house production, we aim to deliver more attractive products that rival chains cannot offer.

Hanshoku

Our aim is to create upscale specialty food retailers capable of meeting all customers' food needs. We do this by talking and listening to the customer, emphasizing freshness in preparation and display, and setting trends in top-quality food.



Through face-to-face sales consultation (left) and in-store cookery lessons (right), we promote dialogue with our customers.

Food supermarkets

Delicatessen

Hankyu Delica

Items processed at our deli-dish plant are cooked in the store, and are always fresh.

Bakery

Hankyu Bakery

In autumn 2009, we launched a new ¥100 bread/pastry business. This enriched product lineup has proved very popular.

Bakery

Hankyu Foods

This company produces high-class dried products and *tsukudani* items such as seaweed, as well *kombu* and *hanakatsuo* bonito shavings.

Bakery

Mameda

Bite-sized *inarizushi* is very popular with women. At both Hankyu and Hanshin's main department stores, queues form for this treat. It is also sold in Tokyo and Hokkaido.

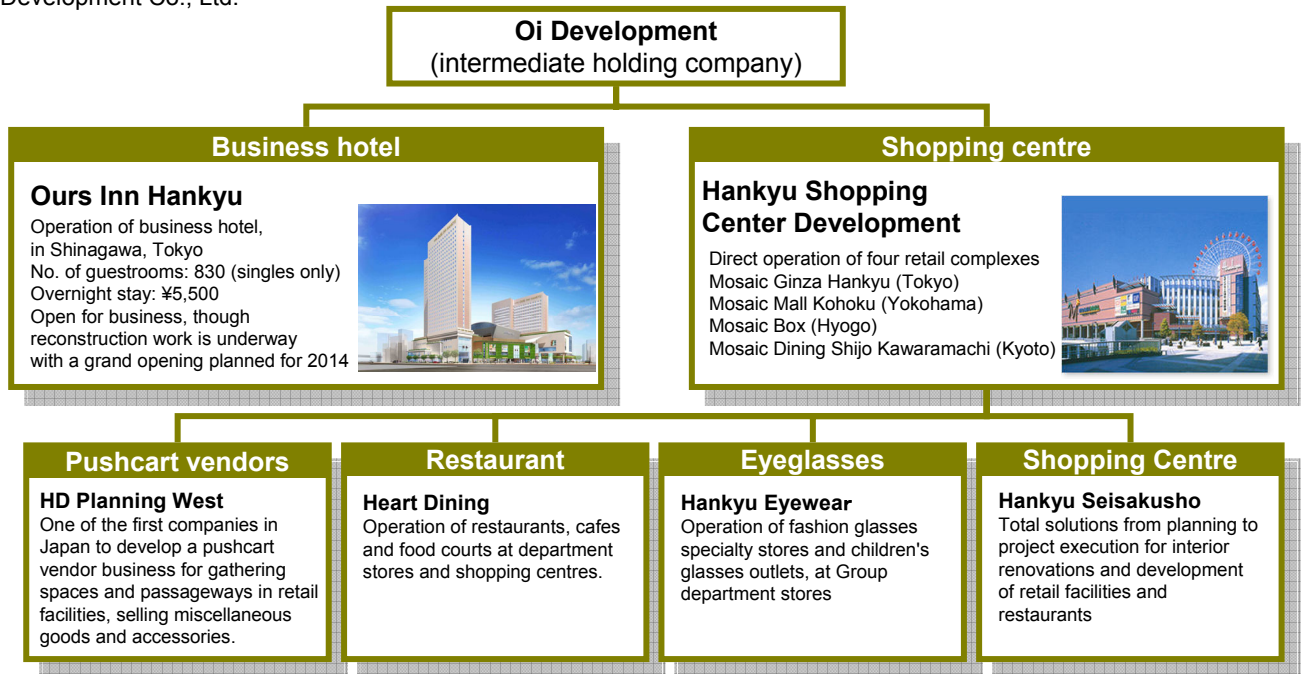
Food producers

Property Management Business

New management model for more appealing retail facilities

In April 2010, the Property Management Business overhauled its subsidiaries operating pushcart vendor, restaurant and eyeglass specialty store businesses in retail facilities, bringing them under Hankyu Shopping Center Development Co., Ltd.

Starting from the current fiscal year, we aim to leverage the strengths of each of these subsidiaries under a new business model, and develop new retail facilities with unique appeal.



Affiliated Business

Hankyu Sennan Green Farm: Superior, safe and worry free organic vegetables

In recent years, an increasing number of retailers have become involved in farming. Wishing to ensure a safe, worry-free supply of vegetables to our customers, the Group in September 2003 established Hankyu Sennan Green Farm making it one of the pioneers among retailers of organic farming in Japan. With the cooperation of local residents, we now organically farm vegetables (mainly leaf vegetables) over an area of some 20,000m² within Osaka Prefecture. To enable customers to enjoy the taste of organic vegetables more affordably, we plan to increase production volumes by using abandoned agricultural land.



“At the beginning, we had to learn by trial and error how to manage the soil and eliminate pests. Now we are positioned to assure stable deliveries of organic vegetables. Looking ahead, we aim to dispel the image of unaffordability that organic produce has, and are working to provide safe, worry-free organic vegetables at prices our customers are comfortable with.”

Hankyu Sennan Green Farm President
Kazuo Oshima

Settlement report & Corporate data

Settlement report (from 1st April, 2009 to 31st March, 2010)

Consolidated statements of income

(Millions of yen)

	Amount	Comparison with the previous term
Net sales	470,395	92.3%
Cost of sales	339,027	93.1%
Selling, general and administrative expenses	123,344	93.4%
Operating income	8,023	59.8%
Non-operating income	3,506	96.4%
Non-operating expenses	1,926	110.0%
Recurring income	9,603	62.8%
Extraordinary gain	2,197	810.0%
Extraordinary loss	6,034	98.5%
Income before income taxes	5,766	61.0%
Current income taxes	1,241	34.7%
Deferred income taxes	1,522	-
Minority interests	-14	-
Net income	3,016	47.3%

Consolidated Balance Sheets

(Millions of yen)

	Amount	Comparison with the previous term		Amount	Comparison with the previous term
Current assets	88,635	-708	Current liabilities	82,621	-6,223
Fixed assets	256,063	+22,363	Long-term liabilities	102,511	+22,307
Total	344,699	+21,655	Net assets	159,566	+5,571
			Total	344,699	+21,655

Projection performance (from 1st April, 2010 to 31st March, 2011)

(Millions of yen)

	Amount	Comparison with the previous term
Sales	453,000	96.3%
Operating income	6,200	77.3%
Recurring income	6,500	67.7%
Net income	2,600	86.2%

Corporate data

Outline of the company (as of 31st March, 2010)

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: 16,071

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

Board of directors (as of 24th June, 2010)

Chairman, Representative Director and CEO	Shunichi Sugioka
President and Representative Director	Jun Wakabayashi
Representative Director	Nobuaki Nitta
Director	Yohsaku Fuji
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
Corporate Auditor	Hideyuki Takai
Corporate Auditor	Takeshi Nakagawa
Corporate Auditor	Toshihisa Takamura