



Message to
our shareholders
2017

H2O RETAILING CORPORATION

Top message

Atsushi Suzuki

President and Representative Director



I'd like to take this opportunity to thank our shareholders.

During the previous fiscal year, in addition to the insufficient strength of personal consumption in the mainstay businesses such as the department store business and supermarket business, results have been affected by rebuilding work and store closures associated with store restructuring. Consequently, net sales, operating income and recurring income were lower than the previous year's results, but net income attributable to parent company shareholders was the highest ever for the third year running.

In our department store business, because of large scale renovations in urban area stores, we attracted new customers not only from our dominant market in Japan, but also from wider areas including inbound tourists. Furthermore, this renovation has led to increased purchases by existing customers. As a result, we recorded almost the same net sales as the previous year.

In our supermarket business and shopping center business, we restructured the organization to separate the role of the retailing business and property management in order to maximize income.

In Izumiya Co., Ltd. newly founded in this reorganization, although the sales of clothing items and household goods have struggled, we strengthened the existing stores by reconstructing the stores for improved earthquake resistance and renovating them in order to expand the range of fresh food and delicatessen foods. Furthermore, we cut costs in areas such as advertising and business consignments, and closed unprofitable stores. As a result, Izumiya Co., Ltd. recorded operating income as expected.

To integrate consumer businesses to enhance the quality of people's lives in the Kansai area, which is our dominant market, we will keep strengthening the alliance with major distribution company group and reorganizing our businesses aggressively and speedily.

I look forward to the continued support of our shareholders as we pursue these priorities.

GP10-II (Midterm management plan : FY2017-FY2019)

The Group has been pursuing the GP10 Plan, a long-term plan designed to facilitate sustained growth in the scale and profitability of our businesses, since fiscal year 2006. In fiscal year 2016, we entered a new stage of the plan, GP10 Plan Stage II, whose priorities are “Increasing profits by improving business efficiency,” “Integrating consumer businesses to enhance the quality of people’s lives in the Kansai area,” and “Pursuing large, long-term projects.”

Priority measure I Increasing profits by improving business efficiency

In order to improve business efficiency, we have been trying to improve profitability by reinforcing the food group and using real estate efficiently. In fiscal year 2017, we restructured the organization by establishing a food intermediate holding company. We also restructured the food business by co-purchasing and cross-supplying fresh foods and delicatessen foods between Izumiya and Hankyu OASIS. We have been focusing on the establishment of food business through renovation and reconstruction of Izumiya’s existing stores ahead of schedule, and through renovation of Hankyu Oasis’s existing stores, and opening new stores.

Priority measure II Integrating consumer businesses to enhance the quality of people’s lives in the Kansai area

In Hankyu Umeda Main Store, we completed renovation of the entire women’s fashion floors from 1 to 6, which had been ongoing since fall 2015. As a result, we attracted new customers not only from our dominant market in Japan, but also from wider areas including inbound tourists. Furthermore, this renovation has led to increased purchases by existing customers. In other words, we are expanding our dominant market area. In terms of group activities as a whole, we began the new reward share point program “S point” with Hankyu Hanshin holdings group in April 2016, and we also began the new electric money service “litta,” our original prepaid system, in April 2017. We have been improving services and settlements conveniently by developing this retail infrastructure.

Priority measure III Pursuing large, long-term projects

Our projects to reconstruct Hanshin Umeda Main Store and launch a Hankyu Department Store in Ningbo, China, are long-term projects that will require 10 years from the planning stage until the completed stores open for business. Construction in both projects is currently progressing according to schedule.

These projects will play an important role in the GP10-II Phase 3 (2022 to 2024) goals of expanding the scale of our businesses and achieving sustained growth.



Hanshin Umeda Main Store grand opening (fall 2021)



Hankyu Department Store opening in Ningbo, China (fall 2018)

FY2017 Financial Statements (April 1st, 2016 to March 31st, 2017)

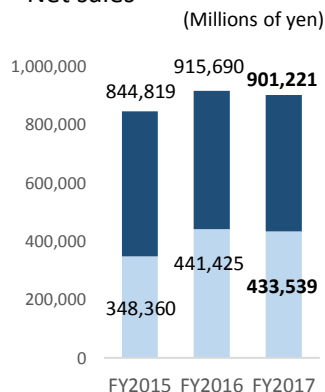
● Three-Year Summary

	FY2015		FY2016		FY2017	
	Half year	Full year	Half year	Full year	Half year	Full year
(Millions of yen)						
Net sales	348,360	844,819	441,425	915,690	433,539	901,221
Cost of sales	248,664	603,401	313,176	649,326	307,059	637,837
Selling, general and administrative expenses	93,843	220,059	120,693	242,538	119,856	240,841
Operating income	5,852	21,358	7,555	23,825	6,623	22,542
Non-operating income	1,647	3,720	2,199	3,169	1,538	3,018
Non-operating expense	1,507	3,859	2,033	3,933	3,040	3,835
Recurring income	5,992	21,219	7,721	23,060	5,121	21,725
Extraordinary income	10,424	10,846	7,443	9,251	4,510	4,561
Extraordinary losses	1,549	14,483	2,843	7,937	3,643	6,281
Income before income taxes	14,868	17,582	12,321	24,374	5,987	20,005
Income taxes - current	1,663	6,801	4,430	9,140	1,917	6,326
Income taxes - deferred	539	△780	1,563	1,180	△2,482	△619
Net income	12,660	11,586	6,327	14,053	6,552	14,298
(Yen)						
Dividends per share	12.50	12.50	17.50	17.50	20.00	20.00

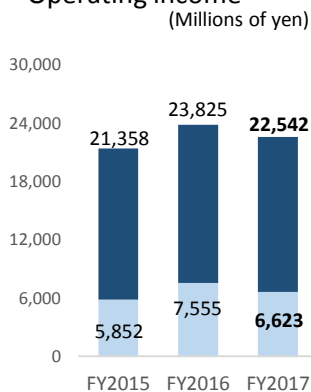
● Financial Highlights

■ Half year ■ Full year

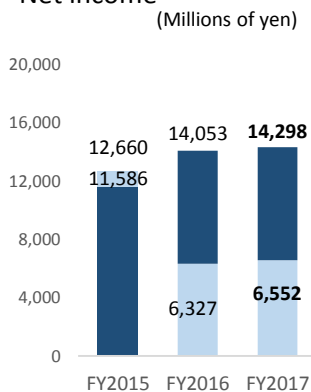
Net sales



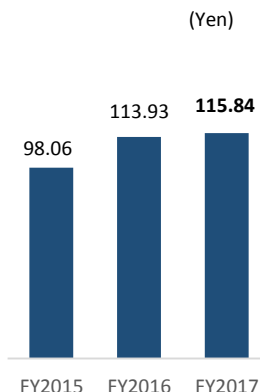
Operating income



Net income



EPS

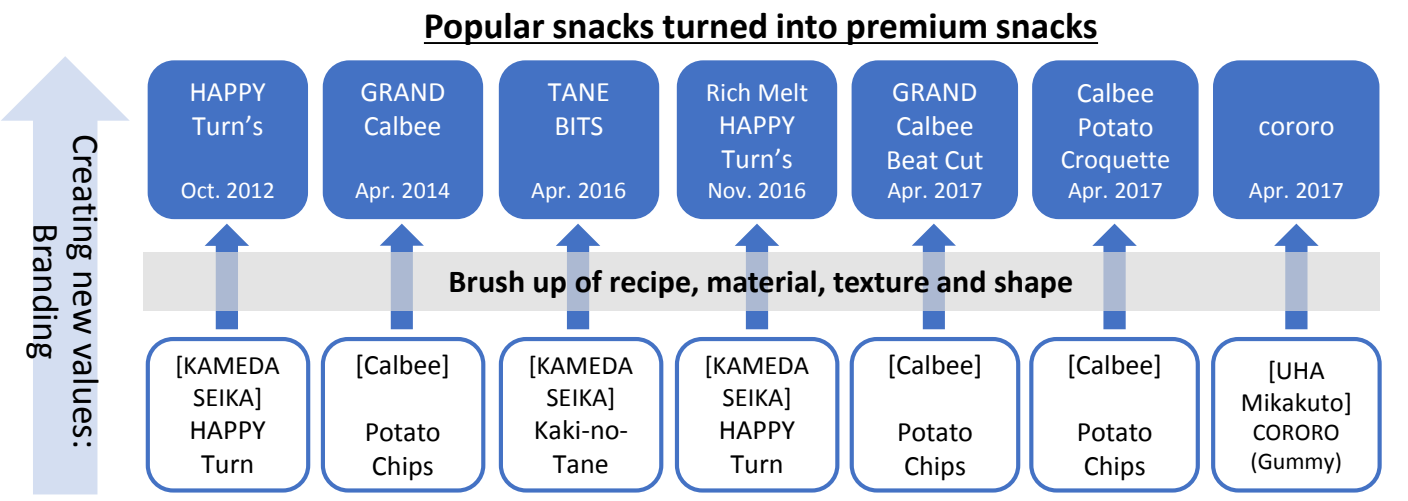


Hankyu Umeda Main Store's Exclusive Strategy

Food Category

In the food category in Hankyu Umeda Main Store, we have continued to create new values for goods and offer them to our customers since the grand opening in 2012. Through collaborations with famous snack makers, we produce premium foods whose origins come from popular snacks, such as HAPPY Turn's and GRAND Calbee, and sell them exclusively

in Hankyu Umeda Main Store. Now, the basement floor in Hankyu Umeda Main Store, where these premium exclusive foods are sold, is popular to not only domestic customers who live in the Kanto area, Hokuriku area, and Chugoku area, but also inbound tourists. As a result, a lot of customers visit not only the food floor but also other floors throughout the store.



April 19th 2017 OPEN

Calbee Potato : Croquette store collaboration with Calbee Group

We wanted to produce the most delicious croquettes in Japan. That's why we produced delicatessen food in this premium exclusive food strategy for the first time.
The very popular snacks Potato Chips turned into a new type of croquette.



April 26th 2017 OPEN

cororo : Juicy and fruity gummy like a fruit

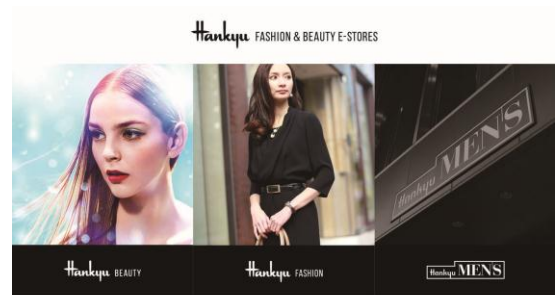
A new sensation gummy CORORO, which is juicy and has a soft texture, has proved popular. We pursued a mouth-watering sensation, like that of real fruit, and cororo was born.



Fashion EC Mall by Hankyu Department Store : Women's clothing , Men's clothing, Cosmetics

HANKYU FASHION & BEAUTY E-STORES - Open!

We renewed the conventional site, enhanced the service, and launched new fashion EC mall HANKYU FASHION & BEAUTY E-STORES on March 22nd. Our EC mall has high level of specialty and originality. It includes the cosmetic site HANKYU BEAUTY, selling more than 160 brands, the men's fashion specialty site HANKYU MEN'S ONLINE STORE, offering men's world-class fashion, and the women's fashion site HANKYU FASHION.



Hakata Hankyu : New Men's Fashion World

men's creators - Open

We opened the new men's fashion floor men's creators on March 3rd in Hakata Hankyu. Hakata Hankyu is promoting youthful and casual image and we aim to attract lots of fashionable men not only from the Kyushu area but also from west Japan and Asia. We offer seven brands, which include world-class Japanese creator brands (such as HOMME PLISSE ISSEI MIYAKE, opened in the Kyushu area's department store for the first time) and modern fashionable sports casual fashion brands.



Nishinomiya Hankyu : Customers love our original lifestyle proposal

In Nishinomiya Hankyu, our local customers really love our merchandising and services because we reflect their needs in shops directly managed by us. For our customers who live in the Hanshin area, we manage our original multi-brand shop tournage, whose proposal is a style incorporating elegance and cute nuances and Maison Sant Honore, whose concept is fashionable lifestyle with bread.



tournage



Maison Sant Honore

Reorganizations of GMS & SM



Reconstruction of the stores for earthquake-resistant reinforcement

In Izumiya, we have been focusing on the enforcement of existing store’s operations and reconstruction of the stores for improved earthquake resistance sequentially. In fiscal year 2017, we closed four stores (Suminodo, Abiko, Izumi-Fuchu and Yamada-nishi) temporarily and started reconstruction.

Renovation of existing stores to new food prototype stores

We have been renovating existing stores to expand fresh food and delicatessen foods as scheduled. We also have been placing Hankyu Bakery Kobo and the eating area in the same arrangement as that for the existing food prototype store in order to increase sales. In the fiscal year 2017, we opened Hankyu Bakery Kobo in 23 stores. We continue to make our stores attractive to local customers.



※image sketch



Izumiya Furuichi
Renewal Opened on
Nov. 18th, 2016

●Schedule of Reconstruction

	FY2018	FY2019	FY2020
Suminodo(Osaka)		2018 Summer	
Abiko(Osaka)		2018 Spring	
Kita-Sukematsu(Osaka)	2017 Winter		
Izumi-Fuchu(Osaka)			Undecided
Yamada-Nishi(Osaka)		2018 Spring	
Hanazono(Osaka)	2017 Fall Close		Undecided

●Schedule of Renovation

Kokubucho(Osaka)	May, 26 th Open	
Izumi-Chuo(Osaka)	June, 23 rd Open	

High Quality Food Store
Opening new stores &
expanding delicatessen and bakery food

阪急OASIS

In fiscal year 2017, we opened four stores (Suitahonami in Osaka, Suitakatayama in Osaka, Emmachi in Kyoto, and Ibaraki-Otecho in Osaka) and changed the delicatessen and bakery from outsourcing to directly managing. We also renovated some existing stores. We are aiming to increase sales and improve business efficiency using our group’s purchasing power and merchandising knowhow. In fiscal year 2018, we have already opened two stores.

Hankyu OASIS Himejima (Osaka)

Opened on April 5th, 2017

The Himejima store is the second store located under the Hanshin Electric Railway overpass (the first one is the Ishiyagawa store). We change the merchandising of this store according to the time of day (morning, afternoon, and evening) because the type of customer changes throughout the day. For example, at the delicatessen corner, we change the merchandise at 9 a.m. opening time and again after 4 p.m., and we offer daily delicatessen foods made in store from 6 p.m.



Hankyu OASIS Itamikoya-Higashi (Hyogo)

Opened on May 3rd, 2017

The sales area of this store is quite large (about 1,450 m²), enough to attract customers not only for daily business but also from a wider area. We have installed a specialized oven and convection oven in the bakery for the first time, and offer new, original sweets made in store every three months. When we opened the store, we sold castellas and puddings whose ingredients are selected carefully and whose recipes are customized. Our customers love these sweets.



Renewal Opening of Hankyu HELLO! DOG

Various kinds of services are being introduced for dogs' healthy life

We offer a higher quality of life for dogs' at Hankyu HELLO! DOG because we know that every dog lover wants their dog to live everyday joyfully, healthy, and peacefully. We renovated the Nishinomiya store in February 2017. We sell clothing and food for dogs and operate a kindergarten, beauty salon, and dog running space. Now, we have new services to help ensure dog's health.



Health Care Service

We support dog's health by providing an enjoyable environment

We consider a dog's health to be most important, so we employ experienced and knowledgeable professional staff. They consult the dog owner and propose services and products to suite the dog, and support the dog's health by using anti-aging measures, diet, and improving the dog's overall health condition.

*We are supervised and checked for safety by the Hadukikai veterinarian organization, which is our business partner.



Senior Care Service

We also provide support for dog owners

We provide services for dog owners whose dogs are old or have a health problem.

Fast trimming

There is a service for dog owners whose dogs don't like to be trimmed for a long time or whose dogs don't have enough energy to be trimmed because of their age. Two members of staff carry out the trimming for each dog, so the procedure can be finished quickly to prevent the dog feeling tired.



Fruit GATHERING

Expanding business to operate 30 stores by 2020

In the shopping center in Tokyo Station, we opened the beauty multi-brand store FRUIT GATHERING, which is operated by F.G.J Co., Ltd. We provide a new original partial make-up service for women who work in the station area (Marunouchi) or are fashionable and active and on a business trip, holiday or date. We provide them with a 10-minute personalized make-up service. For example, we makeup the eyebrows with consideration to the bone structure. We have various types of make-up methods because we merchandise many cosmetic brands. We offer new beauty options for customers.



Opened on April 27th, 2017
Fruit GATHERING
TOKYO STATION CITY GRANSTA



● New Opening

December 9 th , 2016	Utsunomiya PASEO (Tochigi)
March 17 th , 2017	Keihan Mall Kyobashi (Osaka)
April 27 th , 2017	PERIE Chiba(Chiba)
June 15 th , 2017	GINZA INZ (Tokyo)

● Renewal Opening

March 10 th , 2017	Kuzuha Mall (Osaka)
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Start of Prepaid Electric Money service “litta”



We are increasing customers’ experience of our group through more convenience

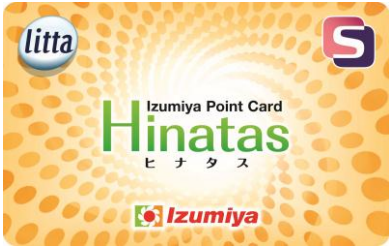
We launched the original prepaid electric money service “litta,” which can be used conveniently in H2O retailing group stores, on April 12th in Izumiya group outlets and April 20th in Hankyu Oasis. By adopting non-contact type IC, payment can be settled simply by holding the card over the reader, for a more enjoyable shopping experience without having to wait.



●Variations of “litta” cards (as of May, 2017)



Solena STACIA Card



Hinatas
(Izumiya point card)



CLUB F
(Hankyu Oasis members card)

●Major Features

Easy Settlement

If money is deposited to the card at a charge machine inside the store before shopping, payment can be settled simply by holding the card over the reader. No more bulky purses since there is no need to use cash in the payment.

Earn Points

If payment is settled using litta in Izumiya group outlets or Hankyu Oasis, customers receive 0.5% equivalent points (1 point for every 200 yen spent) in addition to the basic points of each card.

Peace of Mind in Case of a Lost Card

A sum of up to 50,000 yen can be deposited to the card. If the card is lost, it can be reissued with the amount deposited in the lost card.

We will acquire business of Sogo Kobe & Seibu Takatsuki stores

We made a basic agreement to acquire business related to two stores, Sogo Kobe Store and Seibu Takatsuki Store of Sogo & Seibu Co., Ltd., a subsidiary of Seven & i Holdings Co., Ltd. We will succeed them on October 1st, 2017 (planned). In the future, based on our business alliance with the Seven & i Group as a strategic business partner in the Kansai area, we will improve convenience and satisfaction for customers in the region.

We will start system development to introduce the "S point" service (the reward share point program promoted by us) to Seven-Eleven Japan stores in the Kansai area, and the service will start in 2018. In addition, we are engaged in discussion on a wide range of fields, such as mutually providing products and services owned by both groups.

Community Service Network - H2O Santa (general incorporated foundation)

Under the philosophy of creating a charity culture in local communities with the theme of child support, we support various organizations working on solving social problems. Taking advantage of the media reach of Hankyu Umeda Main Store, where approximately 50 million people visit, we have been introducing social contribution groups to our customers and carrying out fund-raising activities since 2012. In addition, we have set up group introduction booths at various events that attract many visitors, and we are expanding our activities by expanding the circle of charities.



In the year from April 2016 to March 2017,
we introduced 44 social contribution organizations to our customers.
We donated a total of 27,541,954 yen to the groups.

Expanding Charity Network

March 12th, 2017 Tamahiyo Family Park

We set up introduction booths at the child-rearing family event for the first time. We introduced three organizations working on supporting children and carried out fund-raising activities. People visiting our booths donated a total of 77,763 yen. Seeing a lot of families visiting our booths, we recognized the pro-active attitude of child-rearing families toward cheritis.

May 13th & 14th, 2017 Lohas Festa Banpaku (Osaka)

We set up introduction booths for the first time at Lohas Festa, which promotes lifestyle respecting a healthy and sustainable society. We introduced five organizations on the panel and promoted a charity culture by conducting a quiz related to these organizations. As many as 1,050 people took part in the quiz, and a total of 45,439 yen was donated over the two days.

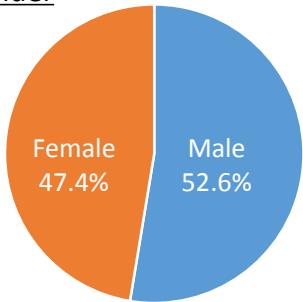


Report of shareholder questionnaire results

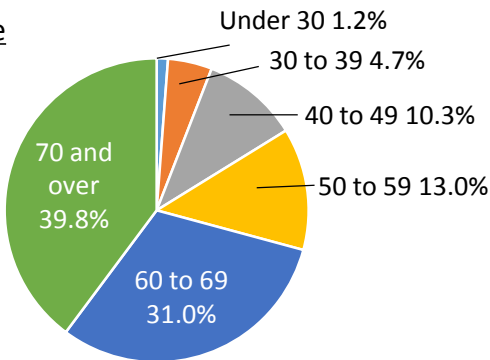
We would like to thank all of the shareholders who cooperated with the shareholder questionnaire we conducted last November. We received a total of 3,201 responses. A summary of some of the results follows.

Profile of respondents

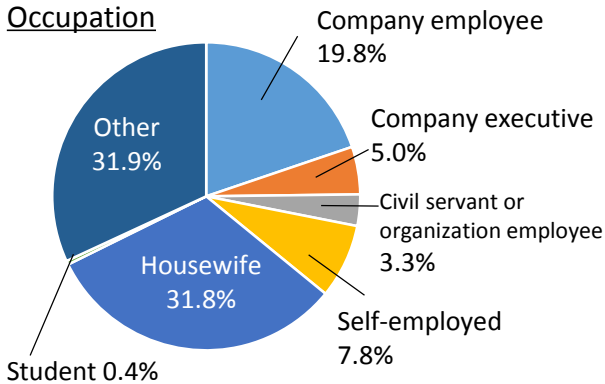
Gender



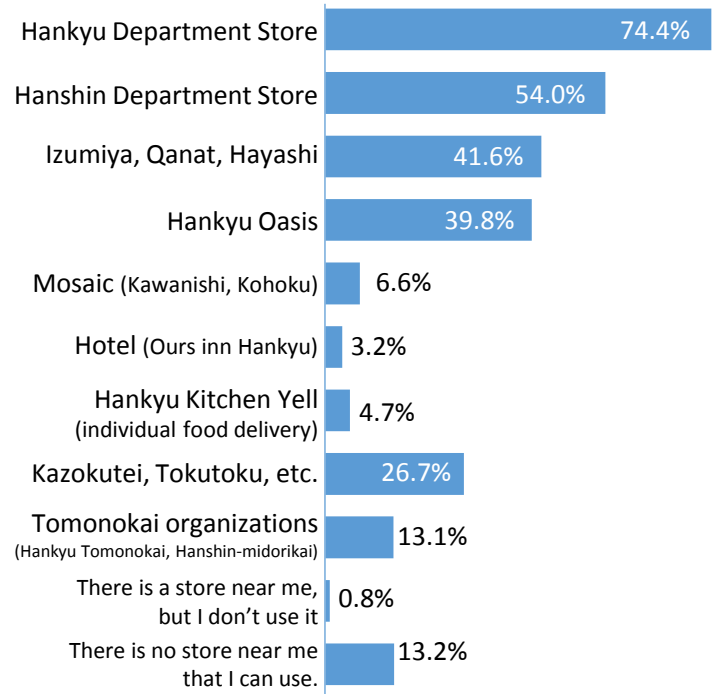
Age



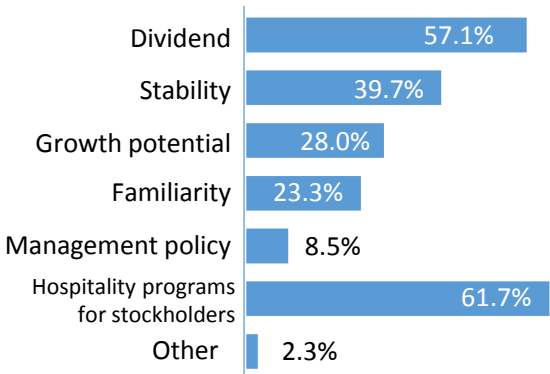
Occupation



● Which of the Group’s stores or services do you use frequently? (Multiple answers)



● What is important to keep holding shares in the future? (Multiple answers)

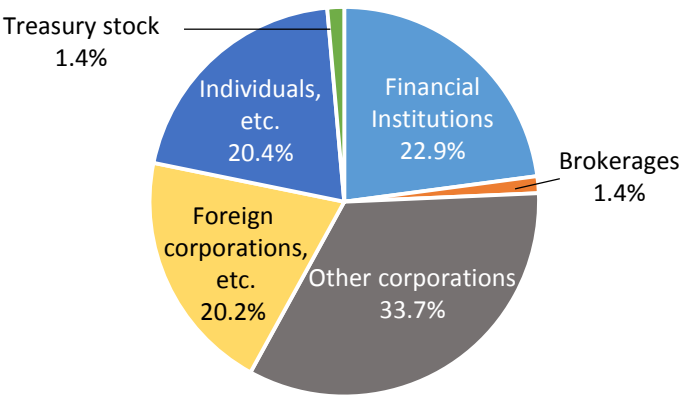


*We will take the results of the questionnaire as well as the views and requests that we have received into consideration when determining future communications with shareholders and enhancement of services.

Total number of shares outstanding 125,201,396

Number of shareholders 27,890

Share ownership by shareholder



Major shareholders

Major shareholder	Number of shares (thousands of shares)	Stake (%)
Hanshin Electric Railway Co., Ltd.	14,749	11.95
Hankyu Hanshin Holdings, Inc.	10,336	8.37
Takashimaya Co., Ltd.	6,259	5.07
Japan Trustee Services Bank, Ltd. (trust account)	5,044	4.09
The Master of Trust Bank of Japan, Ltd. (Trust account)	3,709	3.00
Izumiya Kyowakai Assn.	2,641	2.14
Japan Trustee Service Bank, Ltd. (Trust account9)	2,425	1.96
CBNY-GOVERNMENT OF NORWAY	2,363	1.91
Japan Trustee Service Bank, Ltd. (Trust account5)	1,855	1.50
H2O Retailing Group Employees' Shareholding Association	1,686	1.37

Company profile (as of June 21st, 2017)

Name	H 2 O Retailing Corporation
Head office address	8-7 Kakuda-cho, Kita-ku, Osaka
Established	March 7 th , 1947
Capitalization	¥17,796,659,575
Website	http://www.h2o-retailing.co.jp

Executives (as of June 21, 2017)

President and Representative Director	Atsushi Suzuki
Representative Director	Naoya Araki
Executive Vice President and Representative Director	Katsuhiko Hayashi
Outside Director	Makoto Yagi
Director	Kazuo Sumi
Director	Haruya Shijo
Director and Managing Executive Officer	Tadatsugu Mori
Director, Standing Audit and Supervisory Committee Member	Toshimitsu Konishi
Outside Director, Audit and Supervisory Committee Member	Naoshi Ban
Outside Director, Audit and Supervisory Committee Member	Kenjiro Nakano
Outside Director, Audit and Supervisory Committee Member	Mayumi Ishihara
Managing Executive Officer	Hiroyasu Kuromatsu
Executive Officer	Kenji Uno
Executive Officer	Yasuhiro Imai

Notes 1: The company owns 1,737,627 shares of treasury stock.
2: Each shareholder's stake has been calculated after subtracting treasury stock from the total number of outstanding shares.

Shareholder Memo

Fiscal year	From April 1 st to March 31 st
Regular shareholders' meeting	Every June
Finalization of shareholder eligibility for year-end dividend	March 31 st
Finalization of shareholder eligibility for interim dividend	September 30 th
Administrator of shareholder registry	Mitsubishi UFJ Trust and Banking Corporation
Account management institution for special accounts	Mitsubishi UFJ Trust and Banking Corporation *Sumitomo Mitsui Trust Bank, Limited, serves as the account management institution for special accounts for former Izumiya shares.
Account management institution contact information	Osaka Transfer Division Mitsubishi UFJ Trust and Banking Corporation 3-6-3 Fushimi-machi, Chuo-ku, Osaka 541-8502 *Transfer Division Sumitomo Mitsui Trust Bank, Limited 2-8-4 Izumi, Suginami-ku, Tokyo 168-0063
Method of notice	Electronic URL for electronic notices http://www.h2o-retailing.co.jp/koukoku (In the event that it is not possible or practical to provide electronic notice, the company publishes notices in the Nikkei.)

Notes

- (1) In general, shareholder address changes, share buyback and purchase requests, and requests concerning other administrative procedures should be directed to the account management institution (i.e., brokerage or other firm) at which the initiating shareholder holds an account. Please contact the brokerage or other institution at which you have an account. Please note that the administrator of the shareholder registry (Mitsubishi UFJ Trust and Banking Corporation) cannot handle these requests.
- (2) Requests concerning shares registered as special accounts should be directed to the account management institution for special accounts listed above since Mitsubishi UFJ Trust and Banking Corporation (or for former Izumiya shares, Sumitomo Mitsui Trust Bank, Limited) serves as the account management institution. Such requests can also be processed by any branch of Mitsubishi UFJ Trust and Banking Corporation (or for former Izumiya shares, Sumitomo Mitsui Trust Bank, Limited).
- (3) Requests concerning the procedure for designating account transfers of dividends should also be directed to your account management institution. For more information, please contact your account management institution.
- (4) Payment of unclaimed dividends (including dividends paid for former Izumiya and Kazokutei shares) will be made at any branch of Mitsubishi UFJ Trust and Banking Corporation.