



Message to our shareholders

2016



Hankyu Umeda Main Store

Search

Integrating consumer businesses to enhance of Kansai people's life and to accelerate the of our businesses



the quality development



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

During the previous fiscal year, we posted record consolidated-basis sales, operating income, ordinary income, and profit attributable to owners of parent for the second year running.

In our department stores business, the Hankyu Umeda Main Store experienced dramatically higher sales on growth in customer visits from not only our dominant market in Japan, but also a large area including inbound tourists thanks to a sustained effort to enhance product and sale areas throughout the store as well as promotions in its event space and the dissemination of information using the Internet and social media.

As a result, we were able to make up for a sales decline attributable to shrinkage in retail area due to the reconstruction project at the Hanshin Umeda Main Store, enabling total sales for all stores to exceed the previous year's sales results.

In our supermarkets business and Izumiya business, we worked both to increase sales volume through ongoing new-store openings and renovation of existing stores and to maximize economies of scale, for example through joint product procurement and sharing of manufacturing plants.

We also enjoyed steady sales growth in other businesses such as restaurants, hotels, and specialty stores.

During this fiscal year, we will work to expand profits through improved business efficiency in manufacturing, retail, restaurant, and other operations as we streamline existing businesses and reorganize our supermarkets business.

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

Atsushi Suzuki

President and Representative Director



Developing a new midterm plan during Stage II of the GP10 Plan

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 2005. In 2015, we entered a new stage of the plan whose priorities are increasing profit through improved business efficiency, integrating consumer businesses to enhance the quality of Kansai people's life, and pursuing large, long-term projects. During 2015, we posted record business results thanks to robust performance in our flagship department stores business as well as our supermarkets business and Izumiya business. In particular, our integration of Izumiya's operations proceeded faster than anticipated and generated favorable results, allowing us to begin stores reconstruction and renovation projects sooner than anticipated and leading us to revise our interim plan.

Stages of the GP10 plan

2005 to 2014	2015 to 2024	2025 to 2034
GP10 Plan Stage I	GP10 Plan Stage II	GP10 Plan Stage III
Strengthening the department stores business <ul style="list-style-type: none"> Reconstruction of Hankyu Umeda Main Store Launching Nishinomiya Hankyu and Hakata Hankyu stores 	Pursuing a strategy to ensure dominance in the Kansai region (facilitating the growth of Group businesses) <ul style="list-style-type: none"> Increasing business efficiency Integrating consumer businesses to enhance the quality of Kansai people's life Pursuing large, long-term projects 	Expanding our businesses overseas

	Phase 1				Phase 2			Phase 3		
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Group priority measures					●Project to open a Hankyu Department Store in Ningbo, China Grand opening in fall 2018 (scheduled)					
	●Strengthening of the ability of the Hankyu Umeda Main Store to attract customers from a large area ●Development of infrastructure to integrate consumer businesses to enhance the quality of Kansai people's life							●Project to reconstruct the Hanshin Umeda Main Store Grand opening in fall 2021 (scheduled)		
	Development of a food business (Reorganizing businesses, investing in store reorganizations)				Initial plan					
Izumiya reforms	●Initial steps to consolidate management	GMS and SM renovations, reconstruction, structural changes, etc.								
		●Reorganization of distribution and systems	Initial plan							

Forecast for FY2019 consolidated performance (April 1, 2018, to March 31, 2019)

Net Sales	¥916.0 billion
Operating Income	¥28.0 billion
Ordinary Income	¥26.0 billion
Profit attributable to owners of parent	¥14.3 billion

Capital investment plan (2016 to 2018)

Total investment **About ¥85.0 billion**

Management target for GP10-II (2015 to 2024)

FY2025 (April 1, 2024, to March 31, 2025)
ROE target: **8.0%**

Priority measure I

Increasing profit by improving business efficiency: Establishment of food business

We will reorganize our supermarkets business by organizing retail companies and manufacturing companies in parallel underneath an intermediate holding company that controls the entire supermarkets business. In this way, we will facilitate speedy decision-making, enhance initiatives and cooperation across Group companies, and maximize profit by improving business efficiency (see page 7).

Priority measure II

Integrating consumer businesses to enhance the quality of Kansai people's life

Sales at the Hankyu Umeda Main Store have risen steadily since its grand opening in November 2012, and we began a large-scale renovation of the women's fashion floor in fall 2015. Going forward, we will establish an even more robust position in the Kansai region. In addition, we will develop a foundation to integrate consumer businesses to enhance the quality of Kansai people's life by putting in place unique retail infrastructure such as payment methods and point-based programs in an effort to accommodate customer needs across the full range of lifestyle settings through not only the Hankyu Umeda Main Store but also the Hanshin Umeda Main Store which is currently being rebuilt, along with suburban stores and supermarkets.

- January 2016...We launched the "Solena STACIA Card" for use in supermarkets such as Izumiya.
- April 2016... We launched "S-Point," a joint program offered by the H₂O Retailing Group and the Hankyu Hanshin Holdings Group (see page 9).
- Spring 2017 (scheduled)...We will launch "litta," our own prepaid e-money service.



Priority measure III

Pursuing large, long-term projects

Our projects to reconstruct the 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)

Hankyu Umeda Main Store

We're boosting our ability to attract customers from a large area by proposing new ways to enjoy life through wonderment, discovery, learning, emotional experience, and wishing.

We're working to enlarge the area from which the Hankyu Umeda Main Store draws shoppers by disseminating lifestyle information from the ninth-floor "SHUKUSAI Plaza" and by using the Internet and social media to attract customers, including inbound tourists, from a large area. We're also strengthening the level of service we offer foreign tourists, for example by boosting the size of our information desk staff and adding new tax-refund counters. As a result, tax-free sales grew 153% from the previous year.

In fall 2015, we embarked on a large-scale project to renovate Hankyu Men's Osaka as well as the first- and second-floor handbag area and the third- and fourth-floor women's clothing and footwear areas of the Hankyu Umeda Main Store to mark the fourth anniversary of the store's grand opening and further boost competitiveness. The project, which continues to progress smoothly, is yielding tangible results. As a result, sales at the Hankyu Umeda Main Store, including Hankyu Men's Osaka, rose 10% from the previous year to ¥218.3 billion.



Hawaii Fair (July 2015)

We're working to become even more distinctive by renovating our stores and offering even more sophisticated products, information, and services.



Hankyu Men's Osaka (September 2015)
Luxury and the latest sophisticated fashions

We're expanding product areas that are preferred by fashion-forward customers who demand authentic, high-quality products. Hankyu Men's Osaka has been reborn as an even more sophisticated and original store that is better able to attract and lock in customers from a large area.

Hankyu Umeda Main Store handbag area
(November 2015)

Bringing together the latest designer brands
We've added new directly-managed areas featuring the latest designer brands for customers with a highly attuned sense of fashion. The handbag area showcases an even greater sense of style in order to attract shoppers from a larger area.



Hankyu Umeda Main Store women's clothing and women's footwear area
(March 2016)

Reconstituting women's fashion with a new approach
We've rebuilt the women's clothing and women's footwear areas so that they can propose new fashion value, for example by adding a new style floor designed to capture new customers and enhancing both promotions and directly-managed areas that propose unique products and services.

Hankyu Men's Tokyo

Hakata Hankyu

Customers love how we're making these stores more distinctive and "Coto Coto Stage" events.

Hankyu Men's Tokyo, where we completed in August 2015 the first large-scale renovation since its opening in 2011, has earned praise from customers for its selection of proprietary and limited-edition products, especially miscellaneous clothing items and luxury brands. In February 2016, we expanded the men's beauty area. That area is attracting more businessmen and women seeking to purchase gifts, driving steadily increasing sales.

At Hakata Hankyu, sales grew 4% from the previous year as a result of the store's efforts to hold shoppers' attention by hosting 4,000 "Coto Coto Stage" events a year and holding Christmas and other promotions. Ongoing efforts by the store to attract customers from a large area included expanding its watch area in March 2016.



Hankyu Men's Tokyo men's beauty area

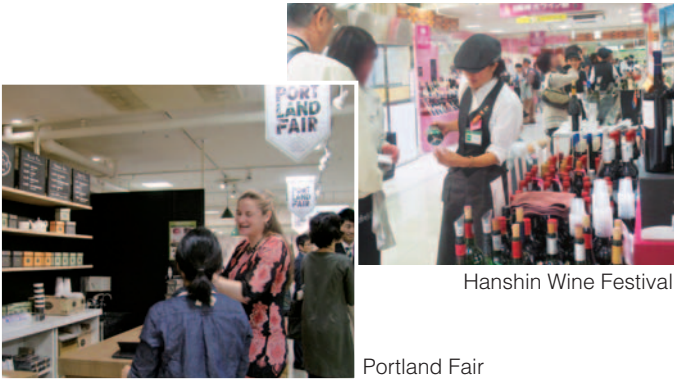


Hakata Hankyu watch area

Hanshin Umeda Main Store

Minimizing the impact of reduced sales area by holding distinctive events and carrying out store-wide promotions

Despite a reduction of about 40% in the sales area available at the Hanshin Umeda Main Store due to the ongoing reconstruction project, the store minimized the impact of the disruption to limit the year-on-year drop in sales to 18%. We launched a new series of monthly store-wide promotions in March 2015, and we've increased the store's ability to attract shoppers by offering new proposals, for example by holding the first Portland-themed event in January 2016. Customary events throughout the year such as the store's "Hanshin Wine Festival" and "Food Gift Sale" also continue to earn it praise. The reconstruction project, whose great inconvenience on customers we regret, is making steady progress according to plan in advance of the opening of the Phase 1 building in spring 2018.



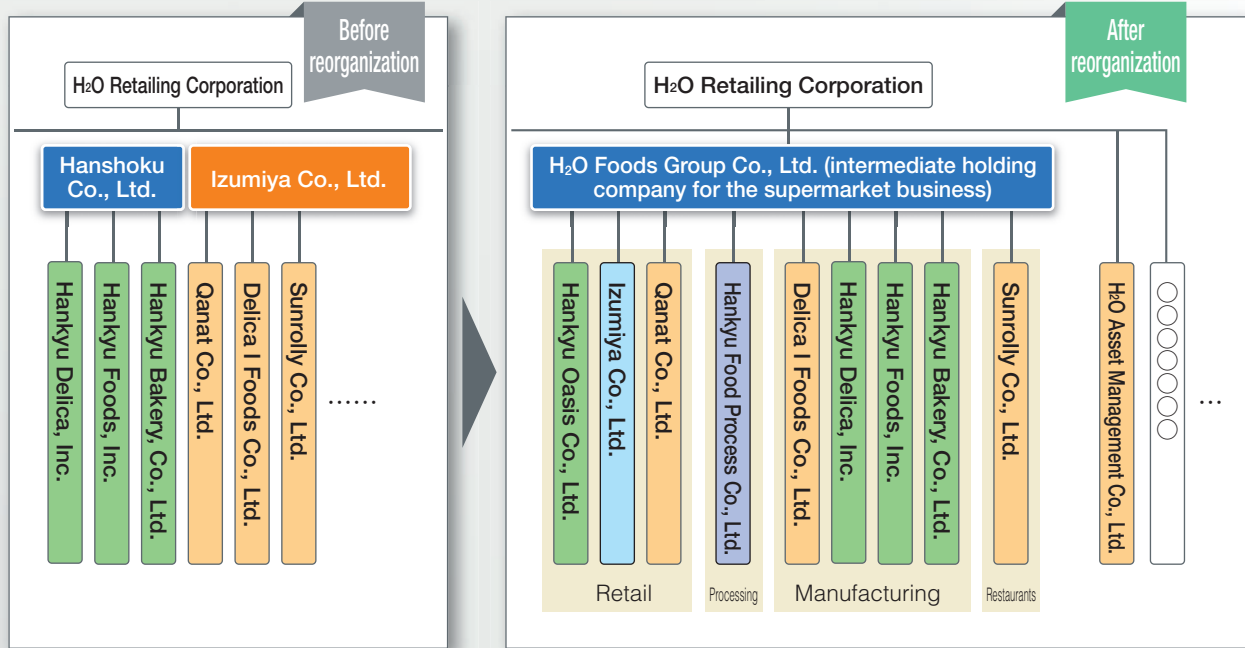
Construction is making steady progress at the Hanshin Umeda Main Store, which remains open.

We're working to increase profit by improving business efficiency throughout the Group.

Establishment of H₂O Foods Group Co., Ltd. a new intermediate holding company that will be responsible for our supermarket business

In our food business, which is a core business second only in importance to our department stores business and an area of operations where we have identified increasing profit by improving business efficiency as a priority measure, has launched a variety of initiatives, including joint procurement and mutual supply. Against that backdrop, we've organized a parallel structure of subsidiaries underneath a newly established intermediate holding company (H₂O Foods Group Co., Ltd.) that controls the entire

supermarket business. By putting in place structures to manage the supermarket business in a more centralized manner and clarifying the roles of each subsidiary that's active in the business, we are seeking to increase profits by streamlining the entire business. At the same time, we will draw on our real estate company (H₂O Asset Management Co., Ltd.) to streamline operations by effectively utilizing existing assets from a group-wide perspective.



Enhancing Izumiya as a supermarket

We've sought to create a store that is more responsive to customer needs by shifting our approach to product development from a headquarters-led effort to a store-led, region-specific merchandising focus.



Daily Qanat Izumiya Shin-Omiya branch (Nara)

- We've also opened a series of other small supermarkets.
- May 2015 Daily Qanat Izumiya Hoenzaka (Osaka)
- October 2015 Daily Qanat Izumiya Senbonnakadachiuri (Kyoto)
- November 2015 Daily Qanat Izumiya Lalaport Expocity (Osaka)
- April 2016 Super center Fukumachi (Osaka)

Our Shin-Omiya store recently opened after a series of renovations as a prototype store with a larger selection of fresh and prepared food. Sales are increasing steadily, and we've started applying the same approach to other existing stores.

Accelerating "Hankyu Bakery Kobo" openings in Izumiya stores

During FY2015, we opened 25 new branches of "Hankyu Bakery Kobo," a popular bakery at Hankyu Oasis that sells bread priced at ¥100, inside Izumiya stores. We're now operating a total of 28 locations and have enhanced the business's ability to attract customers.



Lowering costs through joint procurement and shared use of manufacturing plants

We lowered manufacturing costs through joint procurement with Hankyu Oasis and through shared use of prepared food manufacturing plants. We also put in place new infrastructure with a view to future growth in the scale of our entire supermarket business.



Expanding and developing Hankyu Oasis's "High Quality Food Store" concept

We've achieved steadily rising sales by opening new "High Quality Food Stores" that offer specialization, a bustling ambience, and extensive information resources based on the approach of working with customers and producers to create market-like stores.

By actively developing highly distinctive products, we are striving to become an indispensable part of our customers' communities.



Hankyu Oasis Mino-Semba

- Newly opened "High Quality Food Store"
- April 2015 Hankyu Oasis Senriyama (Osaka)
- June 2015 Hankyu Oasis Seimeidori (Osaka)
- September 2015 Hankyu Oasis Nishinokyo (Kyoto)
- November 2015 Hankyu Oasis Mino-Semba (Osaka)
- December 2015 Hankyu Oasis Koyoen (Hyogo)
- April 2016 Hankyu Oasis Suita-Honami (Osaka)
- June 2016 Hankyu Oasis Suita-Katayama (Osaka)



S-Point launched as a Kansai-region loyalty points program

Network links about 20 different cards so that they can be used anywhere to accumulate points

Until now, holders of cards issued by Hankyu Hanshin Group facilities could only use them to earn points at associated facilities.

Starting this April, we launched S-Point, a Kansai-region loyalty points program that lets all cardholders collect and use shared points known as S-Points.

Customers choose a single card that suits their lifestyle, and then they can use that card to collect points and to enjoy shopping and Group services using those points at department stores, Hankyu Oasis, Izumiya, and other Hankyu Hanshin group facilities.

Going forward, we plan to ensure that S-Point is the loyalty points program that makes it the easiest to collect and use points in the Kansai region, for example by adding new member stores and by entering into partnerships with other companies' loyalty points programs.



*We plan to transition the Emerald Stacia card to the above design starting sometime in fall 2016.

Making daily life in the Kansai region special

The "S" in S-Point highlights the fact that the program features special points that can be collected and used in a variety of daily-life situations. Members can redeem points to pay for products and services at the rate of ¥1 per point, use them to obtain discounts, or exchange them for gifts.

- | | | |
|--|--------------------------|--|
| | Shopping | Shopping at Hankyu Department Store, Hanshin Department Store, Hankyu Oasis, Izumiya, and other stores |
| | Station | Travel to and from work, school, and other destinations by train, bus, taxi, etc. |
| | Sightseeing | Travel in Japan and abroad |
| | Stay&Spa | Lodging and use of hotels and spas |
| | Site | Online shopping |
| | Stadium&Stage | Attendance at baseball games at Hanshin Koshien Stadium and the Takarazuka Revue |



Anybody can become Santa Claus Charity network H₂O Santa becomes a general incorporated foundation

The H₂O Santa charity network was launched as a community service program during the grand opening of the Hankyu Umeda Main Store in fall 2012.

In an effort to ensure that anybody could become Santa Claus, the group has worked to connect people who have an interest in community service with organizations that need support. In November 2015, we established H₂O Santa as a general incorporated foundation in order to further expand those activities.

チャリティーネットワーク
H₂Oサンタ
誰もが誰かのサンタになれる。



Employees do more than just introduce community service groups—they also actively participate in volunteer activities themselves.

Three H₂O Santa activities



1
Introducing organizations

We take advantage of the media function of the Hankyu Umeda Main Store, which attracts about 50 million people every year, to introduce community service organizations.



2
Donating funds

We donate funds to community service organizations through a variety of means, for example by placing donation boxes in stores and selling products that include donations.



3
Participating in volunteer activities

In addition to donating funds, employees actively participate in volunteer activities.

Become a member

H₂O Santa needs all the support it can get so that it can continue and expand its activities.

Visit the foundation's website to learn more about how to join and the benefits of membership.

H₂O Santa



H₂O Santa

<http://www.h2o-retailing.co.jp/h2o-santa/>
8-47 Kakuda-cho, Kita-ku, Osaka 530-0017



Consolidated income statement (Unit: Millions of yen)

	Amount	YoY
Net Sales	915,690	108.4%
Cost of sales	649,326	107.6%
Selling, general and administrative expenses	242,538	110.2%
Operating Income	23,825	111.5%
Non-operating income	3,169	85.2%
Non-operating expenses	3,933	101.9%
Ordinary income	23,060	108.7%
Extraordinary income	9,251	85.3%
Extraordinary losses	7,937	54.8%
Profit before income taxes	24,374	138.6%
Income taxes-current	9,140	134.4%
Income taxes-deferred	1,180	—
Profit attributable to non-controlling interests	0	—
Profit attributable to owners of parent	14,053	121.3%

Performance by segment

	Sales (YoY)	Operating income (YoY)
Department stores business	431,178 (102.4%)	16,625 (105.7%)
Supermarkets business	118,326 (108.9%)	2,282 (95.2%)
Izumiya business	318,575 (117.7%)	4,741 (150.8%)
Other businesses	47,609 (107.2%)	3,317 (140.9%)

Note: Previous-year performance for the Izumiya business covers the period from the merger effective June 1, 2014, to March 31, 2015.

Consolidated balance sheet

	Amount	Change from previous year		Amount	Change from previous year
Current assets	145,570	+5,664	Current liabilities	157,225	(16,600)
Noncurrent assets	451,471	(40,500)	Long-term liabilities	187,228	(19,163)
			Net assets	252,587	+928
Total	597,041	(34,835)	Total	597,041	(34,835)

FY2017 forecast (consolidated-basis)

	Half year		Full year	
	Amount	YoY	Amount	YoY
Net Sales	448,000	101.5%	930,000	101.6%
Operating Income	7,800	103.2%	25,000	104.9%
Ordinary Income	8,000	103.6%	24,900	108.0%
Profit attributable to owners of parent	2,900	45.8%	14,100	100.3%

Note: Amounts have been rounded down to the nearest million yen, and percentages have been rounded to the nearest indicated digit.

Shareholder benefit programs

Base dates: Complimentary coupons are issued to shareholders who own at least 1 unit (100 shares) and who are included on the shareholder registry as of March 31 and September 30 every year (twice a year).

Coupons: (1) Complimentary coupons for shareholders
(2) Complimentary coupons for new members of Hankyu Kitchen Yell for shareholders

Issuance standards

Number of shares owned	Number of complimentary coupons for shareholders	Number of complimentary coupons for new members of Hankyu Kitchen Yell for shareholders
100 to 499	5 coupons	1 coupon
More than 500	10 coupons	1 coupon
More than 500 for more than 3 continuous years*	Above coupons plus 10 additional coupons	—

Issuance dates

Target shareholders	Date mailed	Valid until
Shareholders as of March 31	Late June of year in question	December 31 of year in question
Shareholders as of September 30	Late November of year in question	June 30 of following year

*Limited to shareholders who own at least 500 shares (on or before August 31, 2014; at least 1,000 shares) on all base dates (March 31 and September 30) during the last three years and who have continued to use the same shareholder number.

Benefits of complimentary coupons for shareholders

Coupons entitle the holder to the following discounts, which apply to purchases of products, food, or drinks at the indicated stores (does not apply to some products or stores):

Hankyu Hanshin Department Stores	10%	Kazokutei (restaurants)	20%
*Foods and restaurant/coffee shop products	5%	Carnet (women's footwear),	
Hankyu Oasis, Izumiya, Qanat, Hayashi branches	5%	Fruit Gathering (beauty products) branches	10%

Sale and purchase of shares in quantities of less than 1 unit

The company's shares are sold in units of 100 shares. Shares in smaller quantities (from 1 to 99 shares) cannot be purchased or sold through stock markets, do not entitle the owner to exercise voting rights at shareholders' meetings, and are not eligible for shareholder benefit programs.

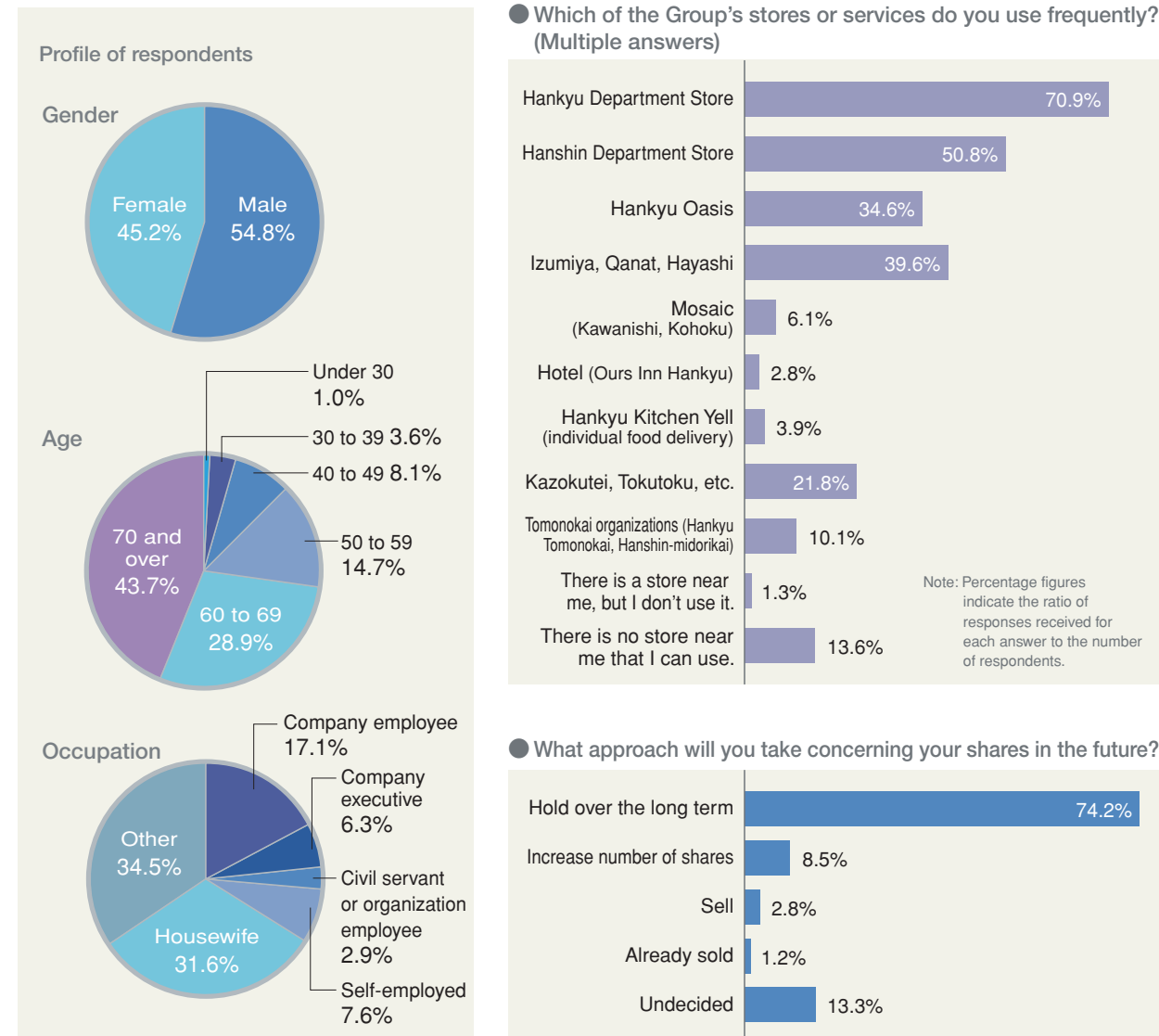
To eliminate these inconveniences, the company has put in place programs that allow shareholders to sell shares in quantities of less than 1 unit to the company or to add to existing holdings of company stock by purchasing shares in quantities of less than 1 unit from the company.



*The company does not charge any fee for buying back or selling shares in quantities of less than 1 unit. (However, some brokerages and other companies may charge a commission.)

*For more information, including about how to use these programs, please see the "Shareholder Memo: Note (1)" on the back of this pamphlet.

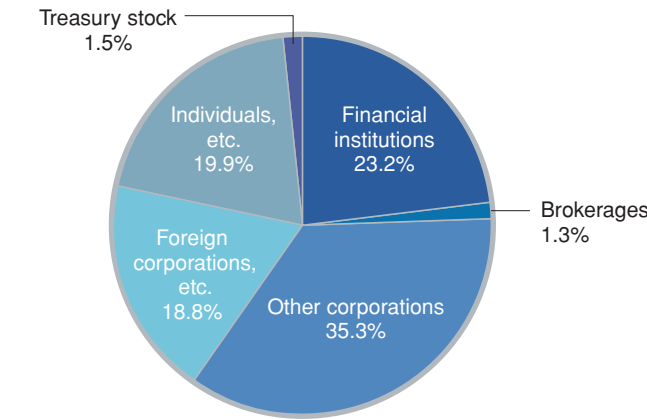
We would like to thank all of the shareholders who cooperated with the shareholder questionnaire we conducted last November. We received a total of 2,629 responses. A summary of some of the results follows.



*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 shareholders25,606

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	8.38
Takashimaya Co., Ltd.	6,259	5.07
Japan Trustee Services Bank, Ltd. (trust account 9)	3,761	3.05
The Master Trust Bank of Japan, Ltd. (trust account)	3,636	2.95
Japan Trustee Services Bank, Ltd. (trust account)	3,604	2.92
Izumiya Kyowakai Assn.	2,505	2.03
Pictet and Cie (Europe) S.A.	2,170	1.76
H ₂ O Retailing Group Employees' Shareholding Association	1,647	1.34
JP Morgan Chase Bank 380684	1,522	1.23

Notes 1: The company owns 1,819,577 shares of treasury stock.
2: Each shareholder's stake has been calculated after subtracting treasury stock from the total number of outstanding shares.

Company profile (as of June 22, 2016)

Name H₂O Retailing Corporation
Head office address 8-7 Kakuda-cho, Kita-ku, Osaka
Established March 7, 1947
Capitalization ¥17,796,659,575

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

Executives (as of June 22, 2016)

President and Representative Director	Atsushi Suzuki
Representative Director	Naoya Araki
Representative Director and Senior Managing Executive Officer	Katsuhiro Hayashi
Director and Senior Corporate Advisor	Shunichi Sugioka
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
Executive Officer	Hiroyasu Kuromatsu
Executive Officer	Kenji Uno

Shareholder Memo

Fiscal year	From April 1 to March 31
Regular shareholders' meeting	Every June
Finalization of shareholder eligibility for year-end dividend	March 31
Finalization of shareholder eligibility for interim dividend	September 30
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 <i>Nikkei</i> .)

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.