

# Message to our shareholders 2015

H2O RETAILING CORPORATION

## **Contents**

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**To Our Shareholders**

**Mid-term 3 year Plan**

**Department Store Business**

**Hankyu Oasis/Izumiya/100 yen bakery**

**H2O Santa charity network**

**Settlement Report & Corporate Data**

## *To our shareholders*



First, I would like to thank all of our shareholders for their support over the past year.

In fiscal 2014 (from 1st April, 2014 to 31st March, 2015), while it was expected that the impact of the consumption tax hike would be prolonged, we managed to achieve results that exceeded initial expectations. The department store business experienced a clear recovery trend from July as a result of the Hankyu Umeda Main Store and other urban center stores' fine-tuned product lineups and strengthened ability to make itself known across a broad area, which offset the negative effect of decreased floor area as a result of reconstruction work for the Hanshin Umeda Main Store.

In the supermarket business, sales at existing stores since June have exceeded the same period of the previous year, and we also accelerated the opening of prototype stores mainly in city centers. In addition, we actively expanded the network of small specialty stores such as those for women's shoes and cosmetics and 100 yen bread and pastry. The hotel Ours Inn Hankyu, which is operated by The Oi Development Co., Ltd., also maintained a high occupancy rate and performed strongly.

Furthermore, the merger with Izumiya Co., Ltd. contributed to the results for the 10 months from last June. As a result of the foregoing, record highs were booked in fiscal 2014 in sales, operating income, ordinary income, and net income, all on a consolidated basis. From the current fiscal year, the Group will be pursuing further development to integrate consumer businesses in areas of the Kansai region where it enjoys a dominant position, with the aim of enhancing the quality of life for people living in the region. The Group will also work to promote large-scale projects such as overseas store openings. Through these initiatives, the Group will advance to a new stage in an aim for long-term growth.

I would like to thank our shareholders for their continued support and encouragement in this endeavor.



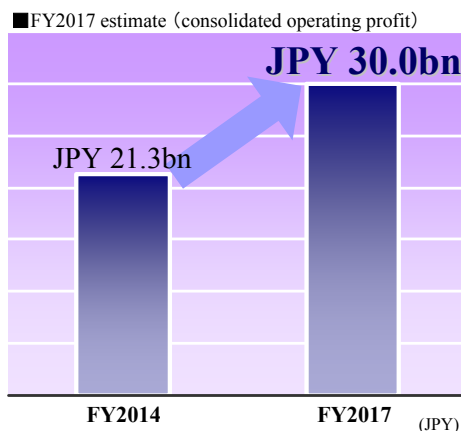
**Atsushi Suzuki**

President and Representative Director

# Mid-term 3 year Plan “GP10- II Phase1”(FY2015-FY2017)

## “GP10- II Phase1” (FY2015-FY2017)

To ensure growth for the Group into the future, we have compiled a long-term vision for the coming 10-year period. Under the “GP 10-I (FY2005 to FY2014),” in which fiscal 2014 was the final year, we worked to strengthen our presence as a dominant retail group in the Kansai region through efforts including the reconstruction of the Hankyu Umeda Main Store, the opening of Hankyu Men's Osaka and Nishinomiya Hankyu, and the expansion of operations through the aggressive opening of Hankyu Oasis grocery supermarkets. We have also developed the new long-term business plan for the upcoming 10-year period ending in fiscal 2024 called “GP 10-II (FY2015 to FY2024)” and set new targets aimed at growth into an integrated consumer business with a broader store network and more diverse channels. By promoting three key initiatives for the next 3 years starting from this fiscal year as “GP10-II Phase 1,” we would like this to serve as a foothold for growth over the next 10 years.



	FY2014 (results)	FY2017 (estimate)
Sales	844.8bn	950.0bn
Operating Profit	21.3bn	30.0bn
Ordinary Profit	21.2bn	29.5bn

### Key Initiative I: "Increase profits through improvement of management efficiency"

With respect to existing businesses, not only expanding the business by opening new stores and renovating but also will be taking various measures to build up a lean group, realizing that the growing asset size due to mergers and acquisitions has been our new issue to face. The measures include reviewing operational efficiency of assets after the merger with Izumiya in order to maximize our profits from existing businesses by streamlining or consolidating underperforming and redundant businesses and by sharing infrastructures group-wide. In addition, we will build a solid financial position to be able to swiftly take advantage of potential alliance and M&A opportunities in coming years.

### Key Initiative II: "Integrating consumer businesses to enhance the quality of Kansai people's life"

We are seeking to capture full range of everyday and not so routine needs of about 20mn customers in the area by integrating consumer businesses to enhance the quality of Kansai people's life.

We are planning to achieve this goal by reorganizing the group's retail network, which has been expanded across Kansai region after the merger with Izumiya and by reallocating stores in the segment/format that best fit to the individual area.

In addition, to connect the stores and customers organically, we plan to issue new house card with electronic money and credit card functions in 2016, using each store's points in other stores in the group as well by integrating reward points system into one. Furthermore, we can create "easy to accumulate, and make the best use" system for customers in the Kansai area by working together with the Hankyu Hanshin Holdings Group which conducts business of urban transportation and retailing.



### Key Initiative III: "Promote long-term and large-scale projects"

Looking ahead to the further profit growth in FY2018 and future, we will commit to both "Hanshin Umeda Flagship Store Reconstruction Project" and "Opening of Hankyu Department Store in Ningbo, China".

In February 2015, the reconstruction of Hanshin Umeda Flagship Store has begun in order to strengthen our presence in the Kansai area.

Opening "Ningbo Hankyu Preparatory Office" is the first step for the global business to open Hankyu Department Store in Ningbo, China in the fall of 2018. The office is currently working on store designing, marketing etc. Our long-term experience and know-how in merchandising, promoting and operating department stores are deployed fully for this project. All of them are for the goal to build the largest department store in Ningbo with the floor area of approximately 160,000 sq m in total.

# Department Store Business

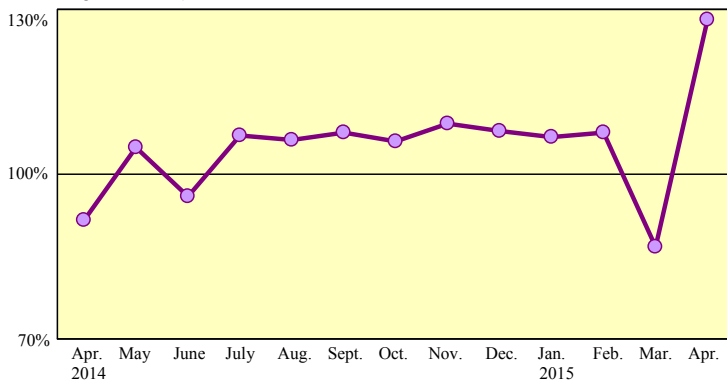
## Hankyu Umeda Main Store, steadily growing the number of visiting customers and sales



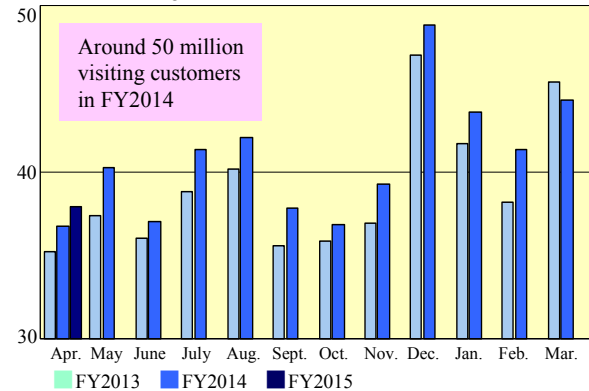
British Fair (2014)

Three years have passed since the grand opening of the Hankyu Umeda Main Store. By strengthening its overwhelmingly varied product lineups and its ability to make itself known across a very broad area in the Kansai area where it has a dominant position, it has continued to offer not only goods but the cultural values that underpin those goods within a maturing market, making it recognized as a “department store like a theater” with many features that create excitement and a desire to visit. In addition, the number of visiting customers has steadily grown as a result of efforts to communicate with customers not only in Kansai but also in the Chubu and Shikoku area and overseas, particularly in Asia. Sales at Hankyu Main Store including Hankyu Men's Osaka were strong, at 102.9% of sales in the previous fiscal year.

■ Sales growth rate (YOY)



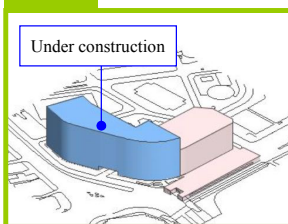
■ Number of visiting customers (million)



## Full-scale launch of the Hanshin Umeda Main Store reconstruction project

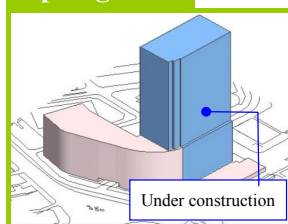
In order to strengthen our presence in the Kansai area, full-scale reconstruction was commenced in February 2015 for Hanshin Umeda Main Store, the second store in terms of scale following the Hankyu Umeda Main Store. Although it is operating with a small portion of usual sales floor which is approximately 60% today, we are working to live up to the expectations of customers with its uniquely designed floors such as food section, which is one of the strongest points of Hanshin Department Stores, and by offering various customer services.

### Now



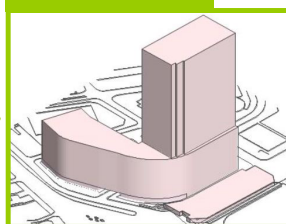
Demolition of Hanshin Umeda Main store east wing and New Hankyu Building, and new works

### Spring 2018



Demolition of Hanshin Umeda Main store west wing, and new works

### Autumn 2021



Grand opening of new Hanshin Umeda Main Store





# Hankyu Oasis/Izumiya/100 yen bakery

## Pursuing even more dominance in supermarkets

Following our merger with Izumiya Co., Ltd. in June 2014, we have commenced various joint efforts with Hanshoku Co., Ltd. in such areas as procurement and production. Izumiya and Hanshoku opened a total of nine stores during fiscal 2014. There are plans to open an additional ten stores in fiscal 2015.



## Reopening of Izumiya Shin-Omiya Store in June as a new prototype store!

During fiscal 2014, we made intensive efforts to strengthen our financial position by optimizing balance sheet, and have sorted issues toward maximizing the synergies from the merger with Izumiya. During fiscal 2015, we will work to materialize these efforts. Focused on the grocery supermarket business and with a product lineup formed by matching Izumiya's management philosophy of "Goodly Goods at a Nice Price" with the modern era in an innovative manner, we will promptly establish a new prototype store in a fresh and competitive store format, and deploy this prototype to existing stores.



## Further expansion! 100 yen bakery

Sale of the 100 yen bread and pastry, which has been offered by Hankyu Bakery, has been expanded to sales outlets including Hankyu Oasis and Hankyu B&C Planning. It has become very popular at both of these outlets. Stores for the product have also gradually opened at Izumiya, starting with the Koryo Store in November of last year.

## Sales commenced at Izumiya in addition to Hankyu Oasis

Sales of the 100 yen bread and pastry that became popular at Hankyu Oasis were also started at Izumiya under the name of Delicious Selection of 100 Yen Bread and Pastry: Hankyu Bakery Koubou. The broad product lineup of delicious and reasonably-priced bread and pastry has become popular among Izumiya's customers, and sales have been strong at all stores where available.



**Total  
32 stores**

**Kyusyu area  
11 stores**

**Kinki area  
20 stores**

**Tokai area  
1 stores**

## Expansion of stores at shopping centers

100 yen bread and pastry from Hankyu Bakery is also baked in kitchens within stores and sold directly. In addition to standard bread varieties, limited-time bread using seasonal ingredients is also offered, so that over 60 varieties are available at all times. During fiscal 2014, we have opened 12 stores in the Kinki region as well as Fukuoka Prefecture and Aichi Prefecture, and plan to open 10 in fiscal 2015.



## H2O Santa charity network that allows everyone to become someone's Santa

H2O Santa is the general name given to H2O Retailing Group's social contribution activities. These activities aim to bring together various social contribution organizations and general people, and expand the circle of charity.

### Introduction of social contribution organizations

With a focus on organizations that continue small-scale but meaningful activities, we introduce these activities and conduct fund-raising activities at dedicated corners set up at the “SHUKUSAI Plaza” on the ninth floor and the shared space on the twelfth floor of Hankyu Umeda Main Store.



#### ①. Kokkyo Naki Kodomotachi - Children without Borders of Japan (certified NPO)

The Mobile Children Center is a renovated bus that serves as a library bus for children living in temporary housing.

#### ②. Terra Renaissance (certified NPO)

Establishes schools to provide former members of children's armies in Africa with opportunities to return to society.

#### ③. Sanriku Volunteer Divers (NPO)

This NPO still continues work that mainly consists of pulling up debris that became submerged in large volumes off the coast of Sanriku as a result of the Great East Japan Earthquake.

#### ④. JHDAC (NPO)

Collects hair donations in order to provide free wigs to children who have no hair either due to having been born without hair or having lost their hair due to a disease.

### Donation

There are charity guide corners on the ninth floor and twelfth floor of the Hankyu Umeda Main Store, where eight organizations are introduced every month. We also issue the H2O Santa Newsletter as a publication supporting social contribution activities.

### Employee volunteers

Starting from November 2014, over 70 employees have participated in volunteer activities. The awareness of employees towards social contribution has been improved through participation in various activities including reading picture books to children who have poor vision or are blind, and providing swimming instruction to children with disabilities. Some voices of the employees that actually participated in volunteer activities are introduced below.

### Launch of the H2O Santa NPO Festival that brings together customers and social contribution organizations (February 15 to 24)

A total of 48 stage events introducing the activities of NPOs were held, including demonstrations of guide dog training, interviews to communicate the voices of organization members who are active in the field to customers, and concerts supporting charity organizations. The NPO Festival was a big success, full of fun programs including NPO quizzes that allowed participants to enjoy learning about social issues by simply visiting organization booths, raffles for H2O Santa badges, and a charity auction for the fashion doll Blythe to contribute to reconstruction efforts in Tohoku. Customers provided a lot of valuable feedback, such as: “I didn't even know that these types of social problems existed out in the world. It was a very valuable learning experience.”

A charity auction was held for the popular fashion doll Blythe, wearing original clothing with the cooperation of participating brands. Demonstration dogs from the Japan Guide Dog Association also visited the event. PR activities for the event were conducted while providing customer with the opportunity to play with the dogs.

# Settlement report & Corporate data

## Settlement report (from 1<sup>st</sup> April, 2014 to 31<sup>st</sup> March, 2015)

### Consolidated statements of operation

(Millions of yen)		
	Amount	Comparison with the previous term
<b>Sales</b>	844,819	146.5%
Cost of sales	603,401	143.7%
Selling, general and administrative expenses	220,059	157.6%
<b>Operating income</b>	21,358	123.4%
Non-operating income	3,720	117.0%
Non-operating expenses	3,859	165.4%
<b>Recurring income</b>	21,219	116.8%
Extraordinary income	10,846	8593.8%
Extraordinary loss	14,483	126.4%
<b>Income before income taxes</b>	17,582	257.6%
Income taxes-current	6,801	125.2%
Income taxes-deferred	(780)	-
Minority interests	(25)	-
<b>Net income</b>	11,586	3919.5%

\* Consolidated results for the fiscal year include those of Izumiya business from June 2014 to March 2015.

### Consolidated Balance Sheets

(Millions of yen)					
	Amount	Comparison with the previous term		Amount	Comparison with the previous term
Current assets	139,905	+47,878	Current liabilities	173,826	+32,222
Noncurrent assets	491,971	+206,282	Long-term liabilities	206,391	+152,556
Total	631,877	+254,160	Net assets	251,659	+69,381
			Total	631,877	+254,160

## Projection performance (from 1<sup>st</sup> April, 2015 to 31<sup>st</sup> March, 2016)

(Millions of yen)		
	Amount	Comparison with the previous term
Sales	900,000	106.5%
Operating income	23,000	107.7%
Recurring income	22,600	106.5%
Net income	13,000	112.2%

## Outline of the company (as of 24<sup>th</sup> June, 2015)

Company name : H2O RETAILING CORPORATION

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

Incorporated : 7<sup>th</sup> March, 1947

The company renamed as H2O Retailing Corporation on 1<sup>st</sup> October, 2007

Common stock : ¥17,796,659,575

Total number of issued  
and outstanding shares : 125,201,396

Number of shareholders: 23,211

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

## Representatives and Executives (as of 24<sup>th</sup> June, 2015)

President and Representative Director	Atsushi Suzuki
Representative Director	Naoya Araki
Representative Director	Haruya Shijo
Representative Director and Senior Managing Executive Officer	Katsuhiro Hayashi
Director and Senior Corporate Advisor	Shunichi Sugioka
Outside Director	Naoshi Ban
Outside Director	Makoto Yagi
Director	Kazuo Sumi
Director	Kazutoshi Senno
Director	Keiji Uchiyama
Director	Yutaka Wada
Director and Managing Executive Officer	Tadatsugu Mori
Standing Corporate Auditor	Toshimitsu Konishi
Outside Corporate Auditor	Hideyuki Takai
Outside Corporate Auditor	Toshihisa Takamura
Outside Corporate Auditor	Masashi Muromachi
Executive Officer	Hiroyasu Kuromatsu