

Hankyu Department Stores, Inc.

Messages to Our Shareholders 2006



Exterior view of New Hakata Station Building



Exterior view of new Umeda Main Store

Hankyu



President and Representative Director
Nobuaki Nitta

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※Fiscal Year 2005:1st April 2005-31st March 2006

To Our Shareholders

In fiscal year 2005, our Group expanded the scale of its business by launching Sanda Hankyu and six supermarkets and we started the reconstruction of the Umeda Main Store in September 2005.

Also, the initial year of our long-term business plan, the Grand Prix 10 (GP10) Plan, got off to a strong start.

Specifically, we achieved sales growth at existing branch stores and decided to introduce a new store in Hakata.

In accordance with the GP10 Plan, we formulated the H06 Medium-Term Three-Year Action Plan (for fiscal years 2006-2008) to begin our efforts to build a business infrastructure suitable for our growth strategy and to strengthen internal controls this fiscal year as we continue to expand our market share in the Kansai market.

We will thus move forward in a bid to accomplish the goals in our GP10 Plan. On the other hand, the reconstruction of Umeda Main Store is expected to cause a temporary dip in profits over the next few years.

However, based on the highly profitable structure that we have established, we aim to offset the impact of the Umeda Main Store reconstruction with earnings from the entire Group, including our food and property management businesses, and to maintain stable dividends.

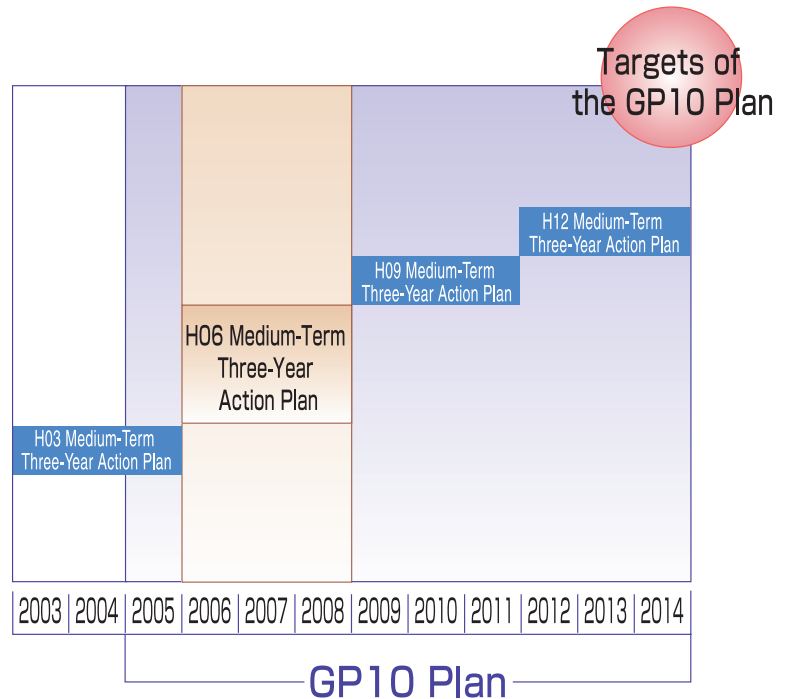
Your continued support would be greatly appreciated.

The Hankyu Department Stores Group's H06 Medium-Term Three-Year Action Plan

The retail industry today is entering a period of historic change. In addition to the changes in the social environment such as the rising average age of the population, the declining number of children born, and the polarisation of income, we confront intensifying competition that is crossing industry and sector borders, as well as shakeouts from industry reorganisation.

To ensure the future development and growth of our Group and a sustainable improvement in corporate value in this challenging environment, we created the GP10 Plan, a long-term business plan through fiscal year 2014 which outlines our future growth strategy.

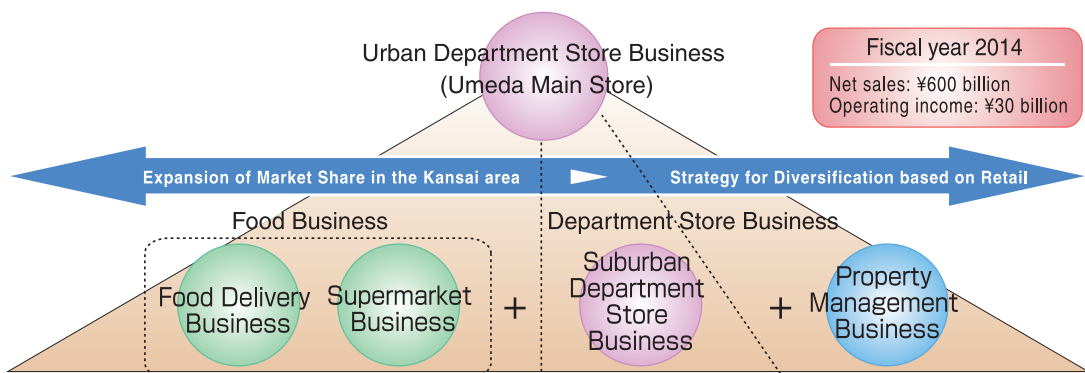
As a first step towards accomplishing the objectives of the long-term GP10 Plan, we developed the H06 Medium-Term Three-Year Action Plan.



Overview of the GP10 Plan

The corporate philosophy of our Group is to continue to be indispensable to the local community by providing local residents with a lifestyle model. At present, our operations are primarily in the Kansai area, with a focus in the Hokusetsu district (northern part of Osaka Prefecture), the location of our Umeda Main Store.

As its key targets, the GP10 Plan calls for market share expansion and the achievement of market dominance through the focused development of the department store, food, property management and other retail-based businesses in the Kansai market. We have been striving to realise our corporate philosophy.



※Fiscal Year 2014: 1st April 2014-31st March 2015

1 Expansion of the Scale of the Department Store Business

1 Umeda Main Store Reconstruction Project

The Umeda Main Store is located in the Osaka Kita district. Following the redevelopment of the area known as Osaka Station North Yard and after other companies introduce a new store and increase the floor space of their existing store, the total floor area for large-scale retail shops in this district will reach around 470,000 square metres, or about 1.3 times the current level, by 2011, making Osaka Kita Japan's most hotly contested commercial area.

It is under these circumstances that we began the Umeda Main Store reconstruction project in 2005, and the store is scheduled to fully reopen in the spring of 2011. The goal of this project is to maintain our overwhelming position as the No.1 store in this area.

As part of the renovation of our flagship store, we

will enhance the spirit of innovation, culture and trend-setting that is appropriate for a city-centre department store. In addition, we will actively attempt to develop unconventional merchandise and services that can attract shoppers from a broader geographical area.

The Umeda Main Store has been divided into two reconstruction work areas so that it may remain open during the renovation period. For the next five years while reconstruction work is underway, the store will operated in difficult business circumstances. We shall continue a concerted effort.



Umeda Main Store under construction



A conceptual view of the new Umeda Main Store

2 Development of New Suburban Department Stores

As community-based stores serving small and medium-sized markets, suburban department stores are operated to meet the expectations of customers in their respective markets. When establishing such a store, we take into account the characteristics of the location and the surrounding environment, including the independent stores and anchor stores in the shopping centres of the suburban area.

Sakai Kitahanada Hankyu, opened in Sakai, Osaka in October 2004, is the prototype for anchor stores in shopping centres. Opened in September 2005, Sanda Hankyu is designed to cover a smaller market than Sakai Kitahanada Hankyu. It is a pilot model for joint operation, with the fashion segment run by Hankyu Department Stores, Inc. and the

food segment by Hankyu Oasis, Inc.

In the future, we will improve our existing stores by employing the expertise gained from the operation of these two prototypes in an effort to increase the level of customer support, and develop new suburban department stores that will continue to evolve in line with varied local conditions.



Sanda Hankyu with Hankyu Oasis Sanda Ekimae Store

■ Introduction of a New Store in Nishinomiya

Nishinomiya is a city with a population of approximately 500,000 located between Osaka and Kobe. Including the neighbouring city of Ashiya, this area, with its upmarket residential district stretching through the hills, has some of the highest business potential in the Kansai region.

Incorporating Nishinomiya into our store network which includes Senri, Kawanishi and Takarazuka, with the Umeda Main Store at its centre, we will move closer to our goal of market dominance in the Kansai area.

The new store in Nishinomiya will be launched as a suburban department store that not only meets the demands of local consumers but also accentuates a sense of urban style. We will strive to develop the store so that it will attract consumption that usually flows into Kobe.



A conceptual view of Hankyu Nishinomiya Shopping Centre (tentative name)

Nishinomiya Hankyu (tentative name)
 (within Hankyu Nishinomiya Shopping Centre)
 Sales floor area: Approximately 25,000 m² (Floors 1-4)
 Scheduled opening: Second half of fiscal year 2007

Overview of Hankyu Nishinomiya Shopping Centre (tentative name)
 (Constructed on the site of the former Hankyu Nishinomiya Stadium)
 Leased floor area: Approximately 100,000 m²
 Number of shops: Approximately 250, including a cinema complex and general supermarket

3 Introduction of New Store in Hakata

On 3rd April 2006, we reached an agreement with Kyushu Railway Company (JR Kyushu) regarding the introduction of a new store in the New Hakata Station Building, which is to be opened in the spring of 2011, in Hakata-ku, Fukuoka.

For the future growth strategy of the Group outlined in the GP10 Plan, Hakata is an extremely attractive location. The whole city of Fukuoka, the 21st century gateway to Asia, is enjoying an increase in international exchange and the city is expected to draw customers from across the Kyushu region once the Kyushu Shinkansen service begins

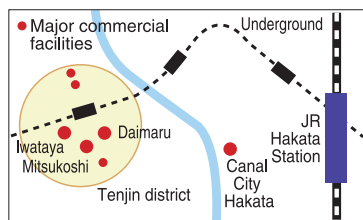
operation between Hakata and Kagoshima. Based on our Group's trend-setting capabilities centring on fashion through its department stores at railway terminal stations, we will strive to create a new 21st-century model for railway terminal department stores.

By actively pursuing synergy with speciality shops in the same building, we will create a commercial zone different from the competing Tenjin district, which boasts the leading commercial concentration in Kyushu.



Exterior view of New Hakata Station Building

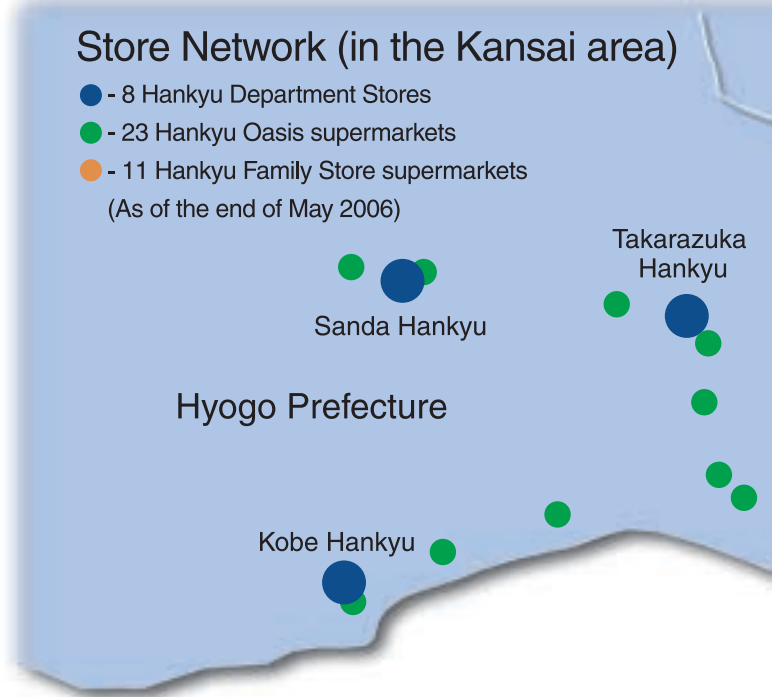
Hakata Hankyu
(tentative name)
Sales floor area: Approximately 40,000 m² (Floors B1-8)
Scheduled opening: Spring 2011



JR Hakata Station and the Tenjin district

Store Network (in the Kansai area)

- - 8 Hankyu Department Stores
 - - 23 Hankyu Oasis supermarkets
 - - 11 Hankyu Family Store supermarkets
- (As of the end of May 2006)



2 Expansion of the Scale of the Food Business

1 Development of System to Ensure Coordinated Growth of the Food Business

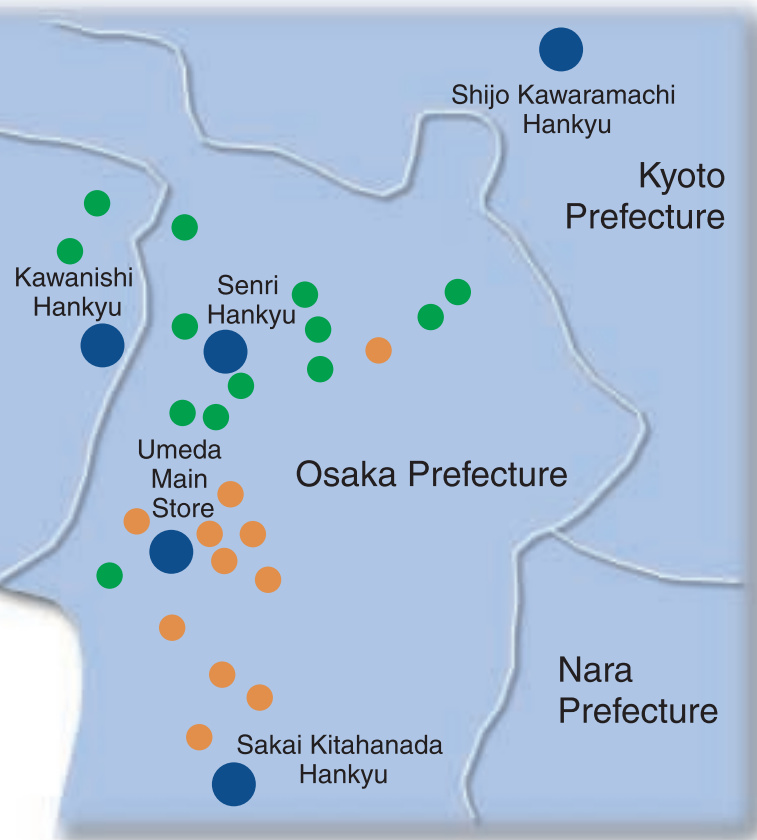
Positioned as another pillar of the GP10 Plan, the food business comprises sales, procurement and manufacturing. We will work to expand the scale of this business, primarily in the supermarkets area, which plays a central role in the sales function. Concurrently with this expansion, we will develop a

system that ensures an effective link with procurement and manufacturing and coordinated growth of the food business as a whole. Through this we aim to maximise the profitability of the entire food business.

2 Introduction of More Supermarkets

To boost our market share and establish market dominance in Kansai, we plan to expand the scale of the business in suburban areas and in urban

centres separately. With the advantage of a distinctive range of selections unique to supermarkets affiliated with department stores, Hankyu Oasis will aggressively open new supermarkets in suburban areas and Hankyu Family Store will open stores in city centres. The basic floor area will be 2,000 m² for suburban stores and 700 m² for urban locations. The GP10 Plan sets a target of launching four Hankyu Oasis supermarkets and two Hankyu Family Stores each year. Both companies will endeavour to increase the number of stores. Considering the possibility of expanding the scale of the business through mergers and acquisitions, the Group targets the operation of 100 supermarkets in fiscal year 2014, the final year of the GP10 Plan.



3 Integration of Procurement Operations for Enhanced Efficiency

With the aim of strengthening our business foundation to support more rapid expansion, the Group will establish new large-scale distribution centres and further boost integrated procurement

by Hankyu Fresh Yell Co., Ltd. These initiatives should improve the procurement ratio, reduce logistical costs and bring the inventories at individual supermarkets into balance.

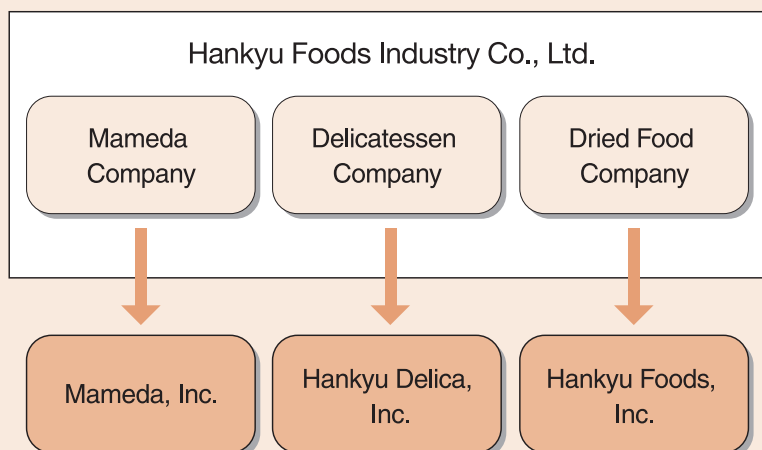
4 Integration of Manufacturing and Sales Functions to Increase Efficiency

Hankyu Foods Industry Co., Ltd. abolished its internal company system and spun off its various functions as separate companies to clarify each of the individual businesses. In the manufacturing business, the Ikeda Plant will be renovated and

other plants and production lines will be improved to boost production efficiency and establish a structure to provide rapid economical support for the expansion of the supermarket business.

■ Corporate Divestiture of Hankyu Foods Industry Co., Ltd.

Hankyu Foods Industry Co., Ltd. had been a three-Internal company structure: the Mameda Company, the Delicatessen Company and the Dried Food Company. Based on the belief that it would be effective for future business expansion to split the company, the Mameda Company was reorganised into Mameda, Inc., the Delicatessen Company into Hankyu Delica, Inc. and the Dried Food Company into Hankyu Foods, Inc. on 1st June 2006.



3 Construction of Business Infrastructure Suitable for Growth Strategy

1 Establishment of Internal Control System

To attain corporate growth, we believe it is vital to expand business scale and create a system of internal controls suitable for this expansion. As the Group executes the growth strategy based

on the GP10 Plan, we will work to reinforce internal control systems that support business growth and to establishment a system for compliance and risk management.

2 Reorganisation of Group Management Structure

In order to accomplish the goals of the GP10 Plan and achieve effective and rapid growth in individual businesses, we will reorganise our group management structure. In the food business centred on supermarkets, the decision-making for opening new stores etc. will be made independent

to boost the initiative and agility of the function. To push the growth strategy forward in a speedier, more determined manner, the food business will be separated from the central department store business and newly reorganised into a food business group.

3 Expansion of Shared Services

We will adopt the practice of sharing services to the fullest extent possible to optimise the operations in the entire Group. Specifically, accounting, human resources and other common core corporate functions will be unified and transformed into

services. We will establish a system that allows each company in the Group to concentrate solely on its own business to secure efficiency in group management.

4 Establishment of Group's Personnel System to Lower Costs and Raise Productivity

The expansion of business scale increases personnel expenses, which are accounted as a fixed cost. We will recruit new personnel in accordance with our medium- and long-term personnel plan, review the allocation of personnel

to existing stores to optimise the distribution, increase the flexibility of the personnel system, make more active use of part-time workers and take other steps to boost personnel cost efficiency.

5 Emphasis on Human Resource Development

In order to come out on top in future competition, we will foster the development of creative and ambitious personnel with strong practical skills. To improve the capacity of our employees to respond immediately to issues and take action we plan to enhance our sales trainer workshop, which cultivates those who are responsible for designing sales areas in our stores, and our Meister system

which aims to train younger staff through the passing on of skills and techniques. We have launched a training facility, Hankyu Maishima School, to encourage mutual exchange and skill development among the personnel in our Group. We plan to take full advantage of this school to develop the human resources sought by our Group.

Settlement Report (from 1st April 2005 to 31st March 2006)

Consolidated Statements of Operations (Millions of yen)

Item	Amount	Comparison with the previous term
Net sales	381,285	98.9%
Cost of sales	268,044	98.5%
Selling, general and administrative expenses	98,649	102.1%
Operating income	14,592	86.4%
Non-operating income	2,610	113.1%
Non-operating expense	1,150	75.2%
Recurring income	16,052	90.9%
Extraordinary profit	5,456	67.8%
Extraordinary loss	8,159	81.1%
Income before income taxes	13,349	85.3%
Current income taxes	4,295	58.8%
Deferred income taxes	1,002	-
Minority interests	130	114.3%
Net income	7,922	87.0%

Non-consolidated Statements of Operations (Millions of yen)

Item	Amount	Comparison with the previous term
Net sales	299,820	98.1%
Cost of sales	215,938	98.2%
Other operating revenue	2,851	116.2%
Selling, general and administrative expenses	75,072	101.2%
Operating income	11,661	82.4%
Non-operating income	1,969	112.3%
Non-operating expense	943	78.9%
Recurring income	12,686	86.3%
Extraordinary profit	5,479	69.1%
Extraordinary loss	7,347	80.4%
Income before income taxes	10,818	80.1%
Current income taxes	3,060	48.6%
Deferred income taxes	1,261	-
Net income	6,497	77.5%

Consolidated Balance Sheets (Millions of yen)

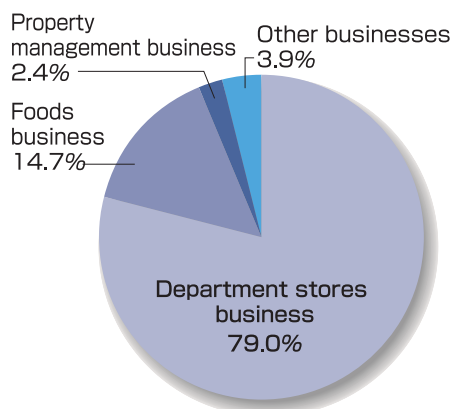
Item	Amount	Change at the end of previous term	Amount	Change at the end of previous term	
Current assets	85,612	△9,093	Current liabilities	73,852	△7,011
Fixed assets	190,563	+19,149	Fixed liabilities	61,938	+229
			Minority interests in consolidated subsidiaries	1,817	+105
			Shareholders' equity	138,568	+16,733
Total	276,175	+10,056	Total	276,175	+10,056

Non-consolidated balance sheets (Millions of yen)

Item	Amount	Change at the end of previous term	Amount	Change at the end of previous term	
Current assets	79,671	△9,622	Current liabilities	46,638	△6,558
Fixed assets	140,982	+24,963	Fixed liabilities	47,622	+7,635
			Shareholders' equity	126,394	+14,263
Total	220,653	+15,340	Total	220,653	+15,340

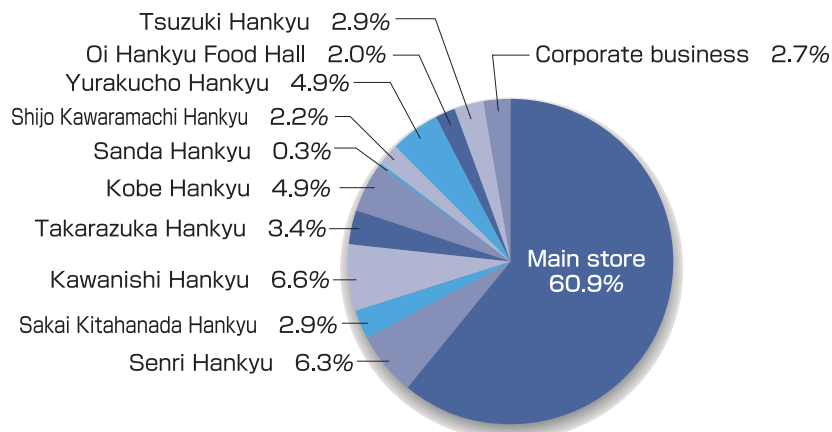
Consolidated

Sales composition ratio by business segment

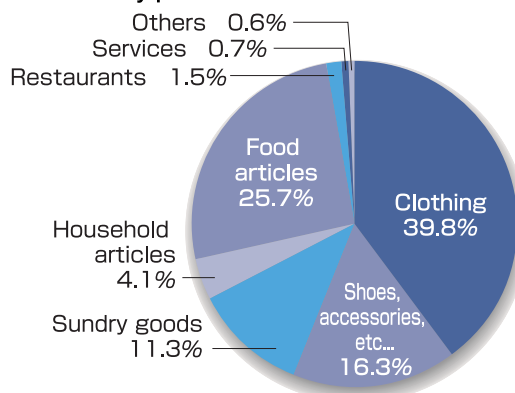


Non consolidated

Sales composition ratio by store



Sales composition ratio by product



Projection of Performance (from 1st April 2006 to 31st March 2007)

Consolidated

(billions of yen)

	Amount	Comparison with the previous term
Net sales	361.0	94.7 %
Operating income	11.0	75.4 %
Recurring income	11.6	72.3 %
Net income	6.6	83.3 %

Non-consolidated

(billions of yen)

	Amount	Comparison with the previous term
Net sales	279.0	93.1 %
Operating income	8.0	68.6 %
Recurring income	8.6	67.8 %
Net income	5.3	81.6 %

■ Hankyu Bakery Co., Ltd.

Hankyu Bakery Co., Ltd. is engaged in two businesses: the bread business and the Japanese-style confectionery business.

From April 2005, new branches of the popular bakery chain “Baked Q” were opened within 5 stores of Hankyu Oasis. By taking advantage of the synergy with department stores and supermarkets, the company accomplished its new business expansion.

In the Japanese-style confectionery business, Hankyu Bakery has increased its wholesale marketing to Hankyu Oasis and Hankyu Family Store to achieve consistent sales growth.

■ Baked Q

Popular products include the outstanding “Parisienne”, an authentic French bread made with proprietary yeast, and elaborate Danish pastries.



■ Kitanojaya

A wide range of Japanese-style cakes and sweets are available, ranging from traditional items such as ohagi and daifuku to seasonal confectionery delights including kuzumochi, warabimochi and minazuki-uiro. These items, found regularly in department stores, are available in Hankyu Oasis and Hankyu Family Store supermarkets as well.



Hankyu Sennan Green Farm Y.K.

Hankyu Sennan Green Farm Y.K. was set up in September 2003 to provide safe leafy vegetables from a farm run by the Hankyu Department Stores Group to consumers and to promote the practice of local consumption of locally produced goods (i.e., consuming in Osaka the products that are produced in Osaka).

Two years ago, agricultural products from this farm were recognised as organically grown by a third-party organisation authorised by the government. Currently, the farm offers baby leaves, Japanese mustard spinach (komatsuna), spinach, potherb mustard (mizuna), butterhead lettuce (saradana) and others under the brand name Hankyu no Yasai (Hankyu's Vegetables) to consumers via Hankyu Department Stores, Hankyu Oasis, Hankyu Family Store and Hankyu Kitchen Yell.



Hankyu Sennan Green Farm Y.K.,
an agricultural production corporation
Location: 2012 Hatashiro, Sennan, Osaka Prefecture



Aka to Ao, food section on B1 of the
Umeda Main Store



Hankyu Sennan Green Farm



Organic JAS Mark

The Organic JAS Mark may be placed solely on organic food that has been produced in compliance with strict production criteria. Vegetables produced at Hankyu Sennan Green Farm are authorised to bear the Organic JAS Mark by Wakayama Organic Certified Association (WOCA).



QUALITA: Food Safety Network

To enable consumers to enjoy safe food without concern, the Hankyu Department Stores Group examines food product information provided by food manufacturers based on its unique quality standard. Information on specific allergens contained in food and ingredients and additives in processed food products is published on the website. For agricultural products, responsible buyers for the Group check the methods introduced by farmers and examine cultivation records.

Hankyu Maishima School

The Hankyu Maishima School was set up at Maishima, Konohana-ku, Osaka, on 1st April 2006 as a training facility with the objective of

- (1) fostering the development of creative and ambitious employees, and
 - (2) heightening the social and cultural status of employees through mutual exchanges and skill development among the employees of the Hankyu Department Stores Group.
- Located in an extraordinary natural environment, the school offers a broad range of practical training focusing on communication among the employees. The training is therefore centred on discussions.

Employees talk with one another and conduct self-assessment to acquire strong practical skills so that they can play significant roles in their respective workplaces.



The simulation room is equipped with the same lighting, mannequins and furniture as the actual sales areas within the stores. By using this equipment, trainees are able to learn to display products effectively and in a way that appeals to customers, and to serve customers better in a practical way.



In the training rooms on the ground floor, desks are arranged in various patterns and whiteboards are placed all along the walls. In this way, any ideas can be immediately jotted down and trainees can have discussions based on these notes. Training that is not one-way is possible.

Facilities

Outline of the Company (as of 31st March 2006)

Company name: HANKYU DEPARTMENT STORES, INC.

Address of the main store: 8-7, Kakuda-cho, Kita-ku, Osaka

Incorporated: 7th March 1947

Capital: ¥17,796,659,575

Total number of issued and outstanding shares: 187,688,301

Number of shareholders: 17,988

Website address: <http://www.hankyu-dept.co.jp>

Board of Directors (as of 28th June 2006)

<Board of Directors and Corporate Auditors>

Chairman and Representative Director:

Shunichi Sugioka

President and Representative Director:

Nobuaki Nitta

Representative Director, Senior Managing Executive officer:

Jun Wakabayashi

Director, Senior Managing Executive officer:

Kohei Yanagisawa

Director: Kazutoshi Senno

Director, Executive Officer: Tadatsugu Mori

Directors: Kohei Kobayashi

Yousaku Fuji

Standing Corporate Auditor: Toshimitsu Konishi

Corporate Auditors: Tadashi Yamada

Tomohiko Sasaki

Hideyuki Takai

<Executive officers (not including those holding Director positions as well)>

Managing Executive Officers:

Akira Maekawa

Kimihiko Kitabe

Executive officers: Keiji Uchiyama

Satoshi Kouchi

Makoto Namimatsu

Naoya Araki

Toshifumi Okajima

Atsushi Suzuki

Norifumi Morii

Note for Shareholders

Fiscal year: Starts on 1st April and ends on 31st March of the following year

General annual shareholders' meeting: Held each June

Record dates for determination of dividends: 31 March for year-end dividends

30 September for interim dividends

Method of public notice: Electronic public notice, or if this is not possible due to unavoidable circumstances, notice is published in the Nihon Keizai Shimbun

Electronic public notices are posted on the following website: <http://www.hankyu-dept.co.jp/koukoku/>

Transfer agent: Mitsubishi UFJ Trust and Banking Corporation

1-4-5 Marunouchi, Chiyoda-ku, Tokyo

Administrative office (contact):

Transfer Agent Division, Osaka Branch

Mitsubishi UFJ Trust and Banking Corporation

3-6-3 Fushimi-cho, Chuo-ku, Osaka 541-8502

Tel: 0120-094-777

Representatives of Transfer Agent:

Mitsubishi UFJ Trust and Banking Corporation, head office and branches in Japan

Nomura Securities Co., Ltd., head office and branches in Japan

Requests for application forms related to stocks are accepted 24 hours a day at the following telephone numbers and on the website of Mitsubishi UFJ Trust and Banking Corporation.

0120-244-479 (Transfer Agent Division, Head Office)

0120-684-479 (Transfer Agent Division, Osaka Branch)

Website: <http://www.tr.mufg.jp/daikou/>

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