

Hankyu Department Stores, Inc.

Messages to Our Shareholders 2005



Hankyu



As directed by the chairman and the president, our new management system was launched on 1st April. Rebuilding of our flagship store in Umeda will begin in earnest.

Q To start with, Mr. Sugioka, I would like to ask why you introduced the new management system at this time.

Chairman Sugioka ● The reconstruction project of our flagship store in Umeda, which has been planned since last year, will begin in earnest in our efforts to have it completed by 2011. Management is about to enter a new stage for achieving our “GP10 Plan” that we announced last year.

Given the current situation, we revised our conventional management system to make it more adaptable, because rebuilding of the main store in Umeda means not only renovating the building physically, but also adding totally new operations under current management that will eventually determine the future of the Hankyu Department Stores. We needed to contemplate the possible structuring of our management system so that it could adapt more quickly with business changes.

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Shunichi Sugioka,
Chairman and Representative Director

Nobuaki Nitta,
President and Representative Director

After judging that it would be suitable for the chairman and the president to share overall responsibilities, we decided to adopt the new management system as of 1st April, when the new fiscal year began.

Q Please tell us how management responsibilities will be shared between the chairman and the president.

Sugioka ● I am principally in charge of starting up new businesses, including the reconstruction of the main store in Umeda and opening new branch stores, while Mr. Nitta is principally in charge of reinforcing current business operations.

Q Next, I would like to ask Mr. Nitta, what is your view on future department stores?

President Nitta ● When I consider the future market, developing high quality and high added value is the only path that department stores should take.

Although it may sound familiar, I believe meeting customer expectations by offering high quality products, services, and store environments, and continually offering them, is the most important job for department stores.

The low profit structure of department stores, however, is an obstacle to accomplishing that. Building a balanced structure that absorbs the costs involved is essential to achieving high added value.

In other words, making department stores attractive by employing the synergy of developing high quality, high added value, and a high profit structure, should be the way of the future for department stores.



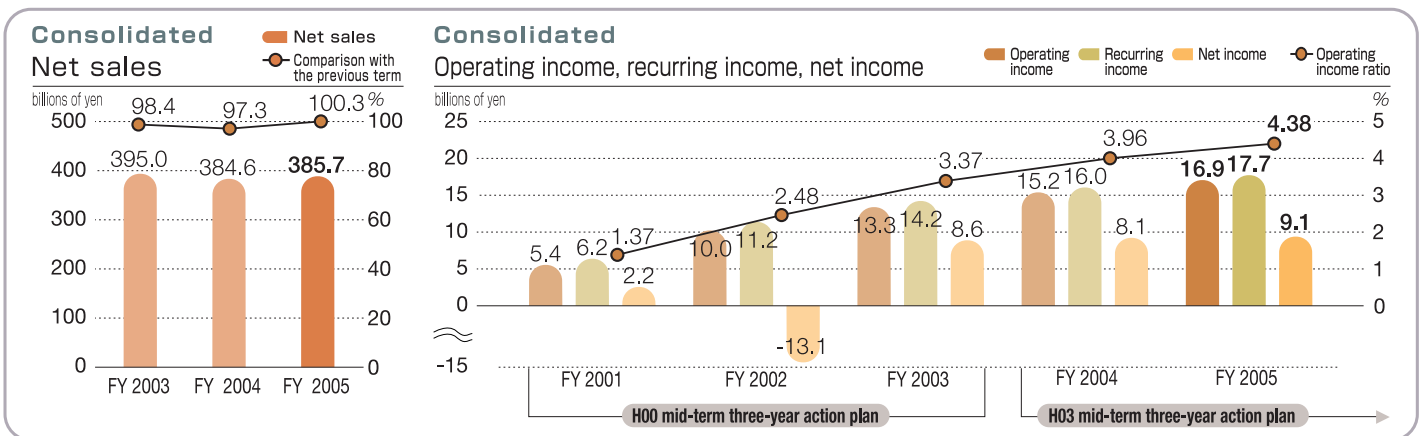
Could you tell us about the business results of this past fiscal year?

Nitta ● During the previous term, we used the fruits of management reforms carried out to date to proactively concentrate on fulfilling our growth strategy, with steps such as opening Sakai Kitahanada Hankyu as our new branch, as well as opening new stores and increasing the market space in our supermarket business.

As a result, we were able to achieve record profits in operating income, recurring income and net income, both on a consolidated and non-consolidated basis.

We accomplished these results by achieving an increase in consolidated sales for the first time in three years, although a small one, and by making continuous efforts to improve gross profit and to lower costs.

The ratio of operating income to sales on a consolidated basis reached 4.4%, meaning that we have built an outstandingly high profit structure for a company in the retail sector.



* Fiscal year 2005: 1st April 2004-31st March 2005



Could you tell us about the future strategy of the company?

Sugioka ● Yes, I would like to explain this. We cannot be overly optimistic regarding the business environment the Group now faces.

We will see more and more drastic changes in the years ahead, brought about by changes in the consumer market, such as the declining birthrate, the emergence of an aging society, the retirement of the baby-boom generation, and by increasingly severe competition from inroads of foreign retailers into the Japanese market and shakeouts from restructuring of

the department store industry.

Given these conditions, to survive this fierce industry competition and continue to improve our corporate value in the future, last year we developed the GP10 Plan that defines the company's long-term business strategies.

Starting this fiscal year, we will carry out various policies designed to achieve net sales of ¥600 billion, and operating income of ¥30 billion, as stated in the GP10 Plan objectives.

Q Could you specifically describe the details of your GP10 Plan?

Sugioka ● The gist of the GP10 Plan is to narrow our target market, expand market share by intensely developing business from a variety of angles within that market, and then proceed to become a dominant player in it.

Specifically, we will narrow our market to the Kansai commercial area, focusing mainly on Hokusetsu, northern part of Osaka and its suburbs and develop businesses revolving around the retail sector with regard to department stores, foods and groceries, new suburban department stores, property management, and retail-related goods and services.

First, for department stores, in each commercial area we will classify stores by type, and seek to improve profitability by offering a detailed line-up of products and services adapted to the characteristics of the specific location of each store.

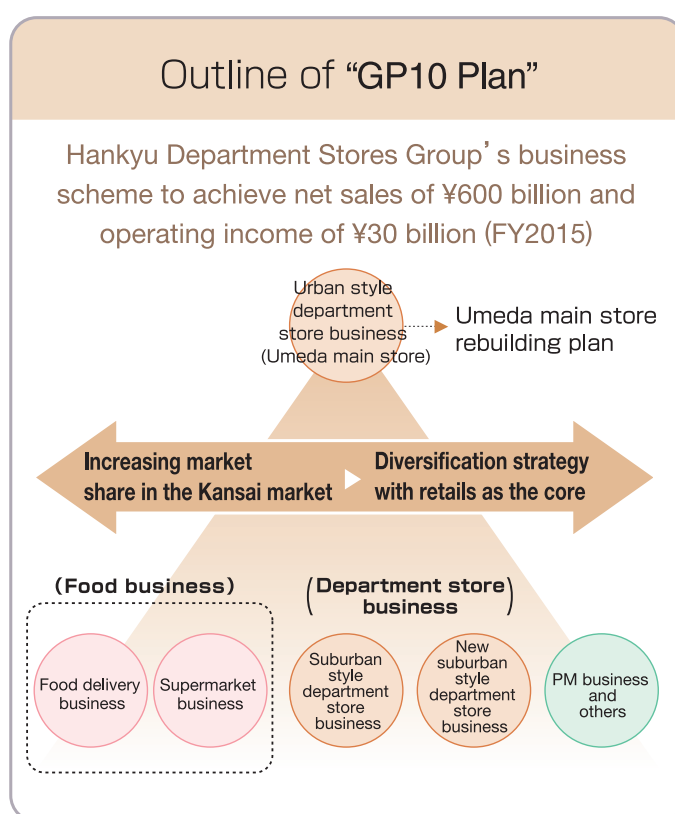
Next, we will develop our food business by dividing it into two main parts: supermarkets and delivery service to individuals.

As for the supermarket business, we will establish a high profit structure by continuing to open new stores every year while organizationally linking up with the Group's food processing subsidiary.

The food delivery business to individuals, while increasing members within the service area, will develop a new Internet business that focuses on the Kansai area by making use of our current order and distribution systems, thereby approaching customers whom we are not able to provide services with present businesses.

In addition, in the property management business that we are developing as a new, major source of income, we will work on expanding services as well as improving the values of current facilities.

This year we will commence the reconstruction of the Umeda main store that will be the core of the urban style department store business, and the driving force of the whole plan as well.



Q Full renovation of the flagship store in Umeda will start soon. What is your assessment about the concerns of a decline in business results, due to the reduction of market space?

Nitta ● Because the market space will shrink during the renovation starting this year, we will not be able to avoid a decline in revenues.

However, we will confine the sales decline to a range that can be covered by the fruits of our structural reforms that have been undertaken during the last few years.

Additionally, we will minimize the negative effects with steps such as maintaining approximately 70% of

the present market space by increasing the market space at each site, as well as maintaining approximately 90% of the present market space for fashion goods, which is profitable.

In addition, we will proactively concentrate on strengthening the profitability of branch stores, and opening new branches and new supermarket stores, so that the Group as a whole may cover any decline in business results.

Q Finally, could you tell us your aspirations as the new president?

Nitta ● I believe it is my most important mission to ensure the profitability of our current businesses during the reconstruction of our flagship Umeda store.

Undertaking the many unprecedented experiences brought about by this reconstruction will strengthen the employees, and the company as well.

Being united as a Group, using the best of our expertise, we will concentrate on implementing various policies to maintain profitability during the Umeda main store renovation and to achieve our GP10 Plan. I would like to request from all of you, our shareholders, your continued support.



▶ About a new building

The new building has received permission for a floor area ratio of 1,800%, the highest in Japan, as a result of the easing of floor area restrictions. The total floor area will be very large, with about 250,000 square meters, from B2 in the basement to the 41st floor, reaching a total height of 187 meters. The building will mainly have two parts.

The skyscraper part of the building from the 14th to the 41st floors will be office floors, and Hankyu Department Store will occupy the lower part of the building from the B2 floor to the 13th floor. The site of the new building will not be different from that of the current building, but 10 floors (from B1 to the 9th floor) will be made into 15 floors (from B2 to the 13th floor), and, by increasing the effectiveness ratio (market space divided by total floor area), the market space will have 84,000 square meters, which will put it in the top class in terms of building scale of department stores in Japan.



Hankyu Department Store

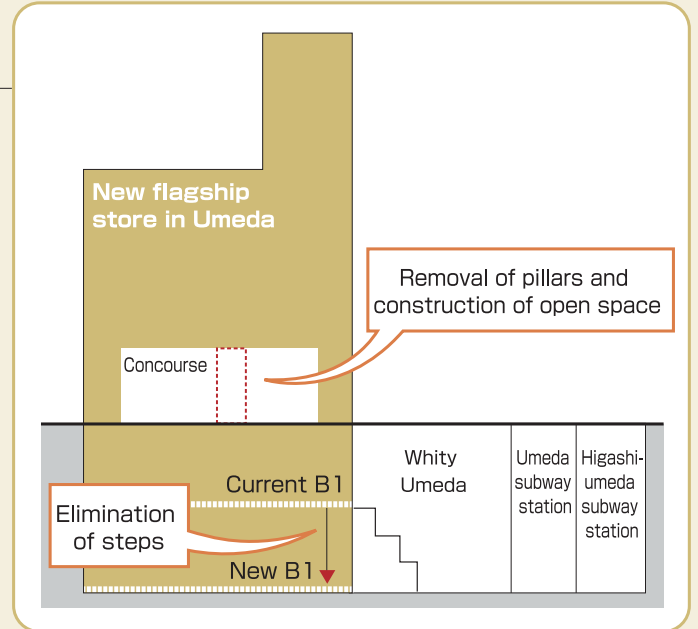
| | | Current Status | After reconstruction |
|--------------------------|-------------------------|---|---|
| Umeda Hankyu Building | Number of floors | B2 to 12F | B2 to 41F |
| | Height | Approximately 45m | Approximately 187m |
| Hankyu Department Stores | Number of floors | B1 to 9F | B2 to 13F |
| | Total area market space | Approximately 116,000m ² Approximately 61,000m ² | Approximately 140,000m ² Approximately 84,000m ² |

► **Improvement of passages surrounding the flagship store in Umeda**

The planned rebuilding of the Umeda main store will also create pleasing urban spaces in a concourse that is one of Osaka’s main attractions. The concourse will be barrier-free, which will bring more people to visit and spend time around the Umeda main store and its environs.

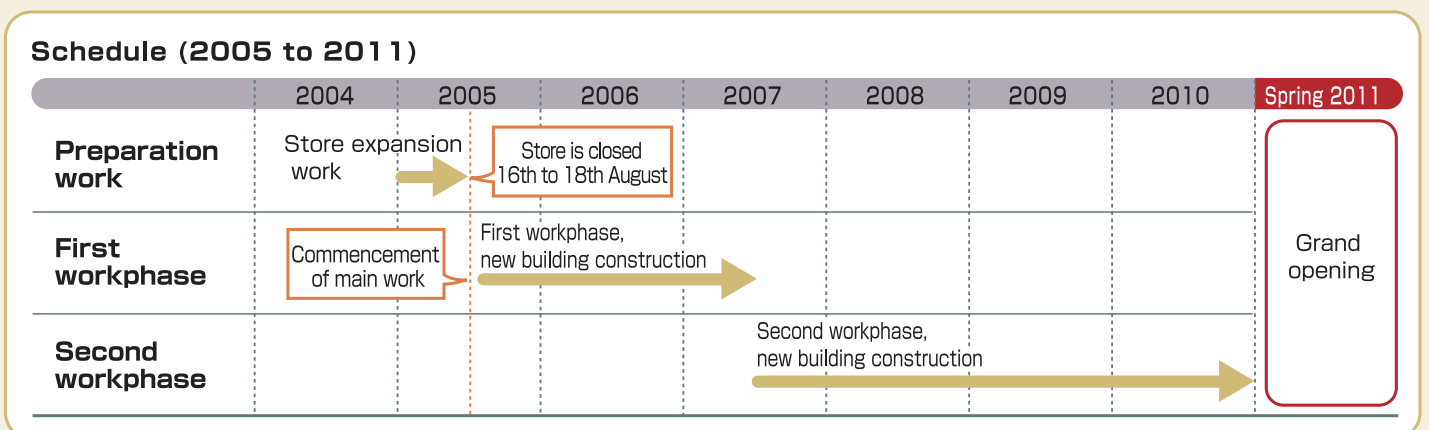
Eliminating the height difference between the B1 floor and the surrounding underground passageways will allow for a smoother flow of people. In addition, by lowering the floor, the ceiling will become higher, which will allow us to make market shops more flexibly.

On the 1st floor, the pillars on the center of the concourse will be removed, and it will have a liberating, two-story open-air design. We will also build large plazas at the north and south ends of the concourse, which will make for a lively atmosphere for people to gather. We will move the current stairs that go to the B1 floor at the south end of the concourse to the center of the concourse and also install escalators there.



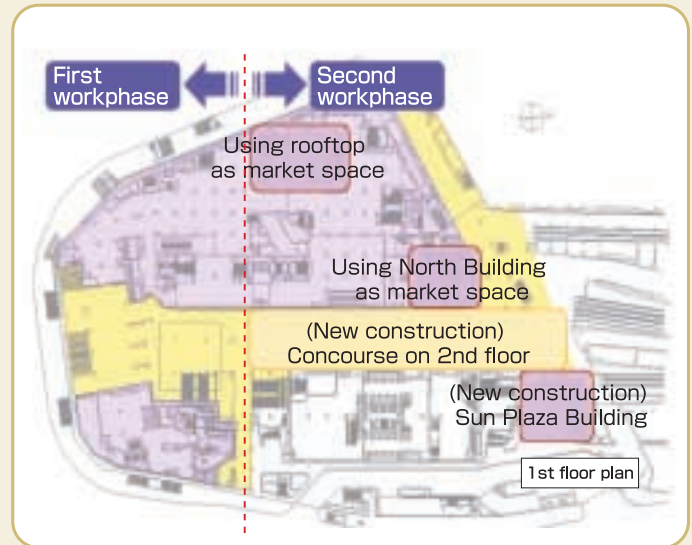
On the second floor we will expand and upgrade the connecting pedestrian bridge to the JR and Hanshin railways, and we will build a large entrance there. We will also install elevators, which will make walking through and visiting the area smoother and more convenient.

► **Schedule and method**



The total construction will be divided into two stages. The southern side will be completed in the first stage, and the northern side will be completed in the second stage. During the construction the Umeda main store will continue operations.

To maintain the market space during the first stage of construction, we are now installing new facilities in 1) the Hankyu Sun plaza 2) the second floor of the concourse 3) the “Backyard” in the current north building and on the 9th floor roof. Some market shops will be moved there after construction of the above is completed in the middle of August. Then we plan to first begin general construction of the southern side.



▶ Business during reconstruction period

Currently floors for women’s wear that are separated will be put close together, which will make shopping easier. We will also exact in setting up customer service spaces such as a members’ room and the VIP salon. During the renovation the total market space will be reduced, so we will try to make maximum use of the limited space and do our best to offer products and services that meet customer expectations.

Market area configuration during the first workphase (plan)

| Main building | | |
|----------------|-------------------------|---|
| 9 _F | Living | Service facilities |
| 8 _F | Children's wear | Toys Stationery Watches/docks and glasses Restaurants |
| 7 _F | Event floor | Gardening Men's wear |
| 6 _F | Men's wear | |
| 5 _F | Women's wear | Service facilities |
| 4 _F | International boutiques | Jewels and ornaments Drapery |
| 3 _F | Women's wear/underwear | |
| 2 _F | Women's wear | Cosmetics Women's hosiery Service facilities Women's shoes Cosmetics |
| 1 _F | Handbags/purses | Accessories Seasonal sundry goods Entrance Concourse (Hankyu Express) |
| B1 | Food | |

Hankyu
Department
Store

Settlement Report (from 1st April 2004 to 31st March 2005)

Consolidated Statements of Income (Millions of yen)

| | Amount | Comparison with the previous term |
|--|----------------|-----------------------------------|
| Net sales | 385,675 | 100.3% |
| Cost of sales | 272,210 | 100.1% |
| Selling, general and administrative expenses | 96,582 | 99.1% |
| Operating income | 16,883 | 110.9% |
| Non-operating income | 2,307 | 92.4% |
| Non-operating expense | 1,528 | 89.6% |
| Recurring income | 17,662 | 110.3% |
| Extraordinary profit | 8,044 | 328.3% |
| Extraordinary loss | 10,056 | 270.6% |
| Income before income taxes | 15,650 | 106.1% |
| Current income taxes | 7,307 | 426.5% |
| Deferred income taxes | △ 878 | - |
| Minority interests | 114 | 125.2% |
| Net income | 9,107 | 112.4% |

Non-consolidated Statements of Income (Millions of yen)

| | Amount | Comparison with the previous term |
|--|----------------|-----------------------------------|
| Net sales | 305,744 | 97.9% |
| Other operating revenue | 2,454 | 162.0% |
| Cost of sales | 219,859 | 97.8% |
| Selling, general and administrative expenses | 74,190 | 97.0% |
| Operating income | 14,149 | 113.0% |
| Non-operating income | 1,753 | 102.6% |
| Non-operating expense | 1,196 | 107.2% |
| Recurring income | 14,706 | 112.2% |
| Extraordinary profit | 7,932 | 418.6% |
| Extraordinary loss | 9,140 | 801.8% |
| Income before income taxes | 13,498 | 97.4% |
| Current income taxes | 6,290 | 861.6% |
| Deferred income taxes | △ 1,178 | - |
| Net income | 8,386 | 104.1% |

Consolidated Balance Sheets (Millions of yen)

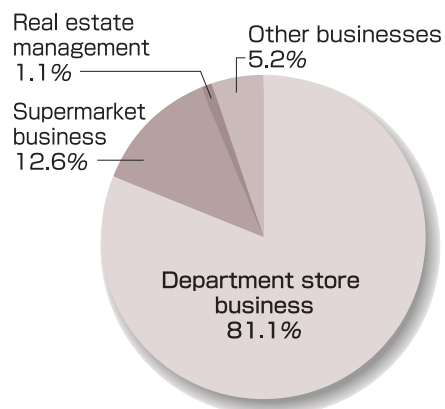
| | Amount | Comparison with the previous term | Amount | Comparison with the previous term | |
|----------------|----------------|-----------------------------------|---|-----------------------------------|---------|
| Current assets | 94,705 | +23,155 | Current liabilities | 80,863 | +13,211 |
| Fixed assets | 171,414 | +5,935 | Fixed liabilities | 61,710 | +7,302 |
| | | | Minority interests in consolidated subsidiaries | 1,711 | +92 |
| | | | Shareholders' equity | 121,835 | +8,485 |
| Total | 266,119 | +29,090 | Total | 266,119 | +29,090 |

Non-consolidated balance sheets (Millions of yen)

| | Amount | Comparison with the previous term | Amount | Comparison with the previous term | |
|----------------|----------------|-----------------------------------|----------------------|-----------------------------------|---------|
| Current assets | 89,293 | +18,729 | Current liabilities | 53,196 | +9,630 |
| Fixed assets | 116,020 | +12,677 | Fixed liabilities | 39,987 | +14,556 |
| | | | Shareholders' equity | 112,130 | +7,220 |
| Total | 205,313 | +31,406 | Total | 205,313 | +31,406 |

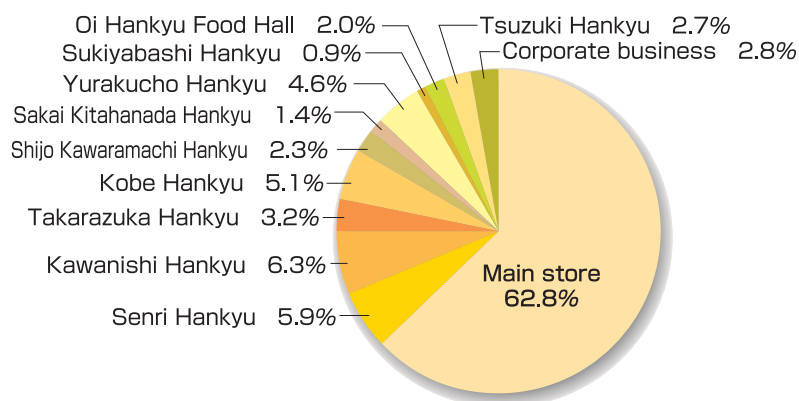
Consolidated

Sales composition ratio by business segment

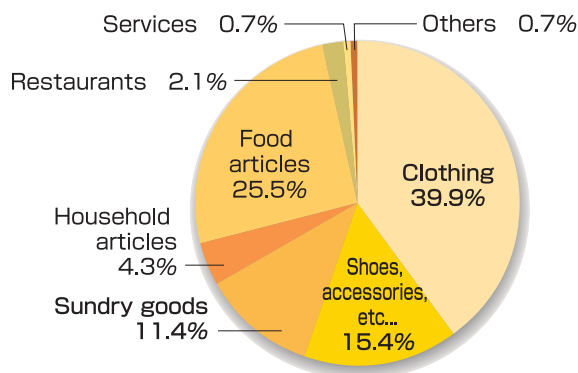


Non-consolidated

Sales composition ratio by store



Sales composition ratio by product



Projection of Performance (from 1st April 2005 to 31st March 2006)

Consolidated

(Billions of yen)

| | Amount | Comparison with the previous term |
|------------------|--------|-----------------------------------|
| Net sales | 368 | 95.4 % |
| Operating income | 10 | 59.2 % |
| Recurring income | 11 | 62.3 % |
| Net income | 6 | 65.9 % |

Non-consolidated

(Billions of yen)

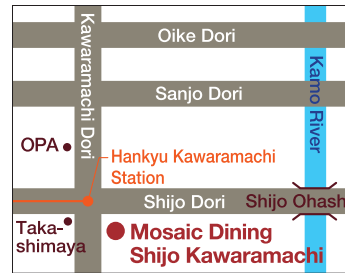
| | Amount | Comparison with the previous term |
|------------------|--------|-----------------------------------|
| Net sales | 282 | 92.2 % |
| Operating income | 7.3 | 51.6 % |
| Recurring income | 8.2 | 55.8 % |
| Net income | 4.8 | 57.2 % |

Renewal of 7th and 8th floors of Kyoto Sumitomo Bldg. where Shijo Kawaramachi Hankyu is located

Mosaic Dining Shijo Kawaramachi Opened on 18th March 2005

“Seven-Eight Meishoku-gai (Gourmet Street)” on the 7th and 8th floors of the building Shijo Kawaramachi Hankyu occupies was reborn as “Mosaic Dining Shijo Kawaramachi” on 18th March 2005 under the management of Hankyu Shopping Center Development, one of our wholly owned subsidiaries.

In “Mosaic Dining Shijo Kawaramachi,” various unique restaurants are gathered in order not only to share the customers in their 20’s and 30’s with the department store, but also to attract customers who wish to have pleasant time in the restaurants.



Mosaic Dining Shijo Kawaramachi

Address: 7/8th floors, Kyoto Sumitomo Building, 68, Shijo Kawaramachi, Higashiirushincho, Shimogyo-ku, Kyoto
Number of stores: 16
Business hours: 11:00 am to 11:00 pm
Regular holidays: Open 7 days a week

Taking advantage of its great location as the “front entrance to Kyoto,” Mosaic Dining provides high-quality and sophisticated, yet casual dining scenes by gathering unique and different stores (from Kyoto, first time in Kyoto, hearts of Kyoto).

● Concept

16 restaurants, including 11 new stores, are now open!

Esperto



Three Japanese master chefs of Italian cuisine, Mamoru Kataoka from Al Porto in Nishiazabu, Tsutomu Ochiai from LA BETTOLA da Ochiai in Ginza and Yoshimi Hidaka from Acqua Pazza in Hiroo compete against each other using foods of peculiar tastes and vegetables of Kyoto with their particular sensitivity.

Kyogyuso



The specialties of Kyogyuso include Pulgogi (seasoned BBQ beef) and “fried Udon noodles” finished with juice from the BBQ beef.

Harvest



Approximately 60 types of healthy dishes using safe and sound foods are served in an all-you-can-eat style.

Minokichi



Minokichi allows you to enjoy “Kyoto-style” tea-ceremony dishes while you relax and have a view of streets of Kyoto, even if you dine alone, in a Japanese style drawing room, at the counter and various other types of seats.

Sanda Hankyu

This fall 2005, Hankyu department store and Hankyu Oasis will open in front of JR Sanda station.

Sanda Hankyu and Hankyu Oasis store in Sanda will open in a redeveloped building, “Sanda Ekimae Ichiban-kan” (nicknamed “Kippy Mall”, 6 floors), located in front of the station in Sanda city, a bedroom community in Hyogo Prefecture with a population of 110,000 people (to be opened on 15th September 2005).

Trains run by Kobe Electric Railway Co., Ltd., as well as those on JR West Fukuchiyama Line, pass through Sanda Station. These two new stores will be open as the main tenants of the redeveloped building conveniently located next to the station.



Overview

- First floor: Hankyu Oasis: 1,200 m², sales target of approximately ¥1.5 billion a year
- Second floor: Hankyu Department Store: 2,100 m², sales target of approximately ¥1 billion a year

Hankyu Kitchen Yell

We deliver prepared dishes and sweets sold on the basement floor of our department store to your home!

Hankyu Kitchen Yell makes your life easier through home delivery of food articles and other items necessary in your daily life. We will deliver high-quality products, from the season’s food articles to sundry goods, at reasonable prices three times a week. Cooking kits that allow you to cook dishes with ease and take into consideration your nutrition balance, prepared dishes and sweets sold on the basement floor of the department store are popular as well as carefully-selected meats, fresh fish and vegetables.



Home delivery service areas

Outline of the Company (as of 31st March 2005)**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:** 17,830**Website address:** <http://www.hankyu-dept.co.jp>**Board of Directors** (as of 29th June 2005)**<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

Directors, Managing Executive Officers:

Kohei Yanagisawa

Kazutoshi Senno

Directors: Kohei Kobayashi

Yosaku Fuji

Standing Corporate Auditor: Toshimitsu Konishi**Corporate Auditors:** Tadashi Yamada

Tomohiko Sasaki

Hideyuki Takai

<Executive officers (not including those holding Director positions as well)>**Executive officers:** Kiyoshi Takimoto

Keiji Uchiyama

Akira Maekawa

Satoshi Kouchi

Makoto Namimatsu

Kimihiro Kitabe

Shuji Yagi

Mitsumasu Goto

Naoya Araki

Toshifumi Okajima

Note for Shareholders

Fiscal year-end: 31st March

General annual shareholders' meeting: Held within three months after the fiscal year-end

Record dates for determination of dividends: 31st March and 30th September

Newspaper Notices: Nihon Keizai Shimbun

Website address showing balance sheets and statements of operations

<http://www.hankyu-dept.co.jp/koukoku/index.html>

Register transfer agent: UFJ Trust Bank Limited

1-4-3, Marunouchi, Chiyoda-ku, Tokyo

Official work handling division (contact):

UFJ Trust Bank Limited

Transfer Agent Division, Osaka Branch,

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

Tel: 0120-094-777 (Toll Free in Japan)

Notifying branches:

UFJ Trust Bank Limited, 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 telephone numbers and Websites of the following UFJ Trust Bank as well.

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

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

Website: <http://www.ufjtrustbank.co.jp>

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