

# Message to our shareholders 2014

H<sub>2</sub>O RETAILING CORPORATION

## **Contents**

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**To Our Shareholders**

**“GP24 Plan” for the next stage**

**Reconstruction of Hanshin Umeda Main Store**

**Merger with Izumiya Co., Ltd.**

**Expansion into China**

**Settlement Report & Corporate Data**



## The opening chapter in a new growth phase for the H2O Retailing Group

First, I would like to thank all of our shareholders for their support over the past year. In fiscal 2013, the department store business performed soundly. Sales grew at the Hankyu Umeda Main Store, which steadily increased customer flows through its doors through its overwhelmingly varied product lineups and its ability to make itself known across a very broad area. This combined with a surge in demand before an increase in Japan's consumption tax. The supermarket business also increased sales, by accelerating the opening of new stores. A further boost came from the extension of the business hotel Ours Inn Hankyu at JR Oimachi Station in Tokyo, which opened an annex of 288 twin rooms (the Twin Hall) in March 2014, to complement its existing Single Hall (1,100 single rooms). It has proved a hit with businessmen and tourists. As a result of the foregoing, record highs were booked in fiscal 2013 in sales, operating income and ordinary income, all on a consolidated basis.

We plan to further expand market share in the Kansai area over the coming 10 years by leveraging synergies with Izumiya Co., Ltd., which we absorbed through management integration in June 2013. We have also set up operations in the city of Ningbo in east China, and are expanding the scale of our business there. We therefore regard the current fiscal year as the opening chapter in a new growth phase for the H2O Retailing Group. I would like to thank our shareholders for their continued support and encouragement in this endeavor.



**Atsushi Suzuki**  
President and Representative Director

# “GP24 Plan” for the next stage

## The long-term “GP24 Plan”

To ensure growth for the Group into the future, we have compiled a long-term business plan for the coming 10-year period.

Under the “GP14 Plan,” in which fiscal 2014 is the final year, we aimed to build up an overwhelming lead for Hankyu Hanshin Department Stores in the Kansai retail market. Now that the pathway to this goal is clear, we have compiled the new “GP24 Plan” for the next stage of our growth. We aim to become a general lifestyle provider capable of meeting the full range of everyday needs of consumers in the Kansai market.

Hankyu



GP

(Growth & Profit)

2014

2024

### GP14 Plan

**Strengthen the Department Store Business**

### GP24 Plan

**Grow Group businesses**

**Develop businesses overseas**

**Build up an overwhelming lead in the Kansai area for the Hankyu Hanshin Department Stores**

Aim to gain an overwhelming position in the Kansai market’s department store business through the reconstruction of the Hankyu Umeda Flagship Store.

**Make other businesses equal in strength and scale to the department store business**

Becoming a general lifestyle provider for the full range of everyday and not-so-routine needs of consumers in the Kansai market



Hankyu Department Store scheduled to open in Ningbo, China (2018)

## Developments during the GP14 Plan

2005

Launch of the project to rebuild the Hankyu Umeda Flagship Store



Sanda Hankyu opens

2008

Hankyu Men’s Osaka opens



Nishinomiya Hankyu opens

2011

Hakata Hankyu opens



Hankyu Men’s Tokyo opens

2012



Grand opening of new Hankyu Umeda Flagship Store

2014



Reconstruction of Hanshin Umeda Flagship Store starts

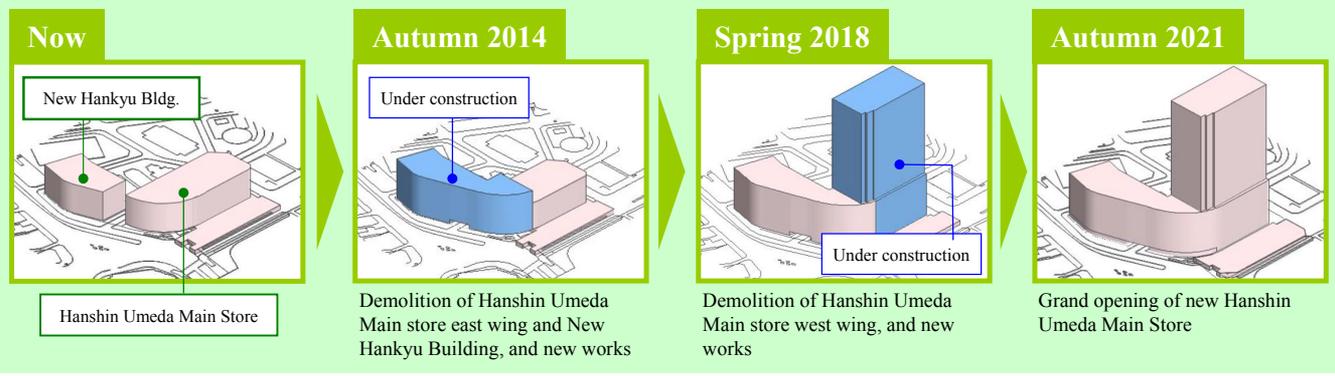
# Reconstruction of Hanshin Umeda Main Store

## Grand opening scheduled for autumn of 2021

### A twin-towered megastore with a Japanese stamp

Due to the influx of a range of retailers, the Osaka Umeda area, the main earnings platform of the H2O Retailing Group, has become one of the most competitive retail markets in Japan. Against this backdrop, we completed the rebuilding of the Hankyu Umeda Main Store in autumn 2012, giving us by far the largest store in the Umeda district. Sales are growing steadily. To ensure long-term expansion and growth into the future, the Group considers it essential that both Hankyu and Hanshin main stores uphold their overwhelming regional dominance. For this reason, the decision was taken to rebuild the Hanshin Umeda Main Store.

By drawing on the know-how built up during the reconstruction of the Hankyu Umeda Main Store, we plan to adopt a model in which business operations continue at the store during the rebuilding process. We plan to open Phase I in the spring of 2018, with full opening scheduled for autumn 2021.



**With the rebuild of the Hanshin main store, together with Hankyu Umeda main store and Hankyu Men's Osaka, we are establishing an overwhelming lead in the fiercely competitive Osaka Umeda area.**

### Hankyu Umeda Main Store



Wedding at SHUKUSAI Plaza (February 2014)



New York Fair 2013 (May 2013)

### Hankyu Men's Osaka



In-store events are held every March and September.



Also popular are events that showcase the dedicated craftsmanship.

# Merger with Izumiya Co., Ltd.

## Building up a commanding market share in the Kansai area

### Dominance through supermarket network

Not only department stores but also supermarkets now face an even fiercer competitive environment, due to the increase in convenience stores and drugstores, coupled with the growth of online shopping and other changes in purchasing channels. While expanding its scale of business in Kansai, where it already has a dominant position, the Group has teamed up with new partner Izumiya Co., Ltd. in so doing we are avoiding duplication with the existing Hankyu Oasis network in the Osaka-Kobe belt and the north Osaka region. By leveraging the store networks of both chains, reconfiguring their logistics hubs and drawing on delicatessen and processing centers and other infrastructure, we plan to expand our offerings of daily food products to a pool of customers based on 7 million cardholders. Through daily customer updates on food-related matters, we also aim to team up with department stores and home delivery operators to offer services that go beyond shopping and improve the quality of life materially and culturally.



### Providing Quality Goods at Reasonable Prices

Izumiya, which has stores all over the Kansai area, is loved by locals not merely for bargain prices, but also for its commitment to supplying worry-free, safe food of high quality at low prices. Its stores are always tailored to local community needs. (121 stores as of May 31, 2014)



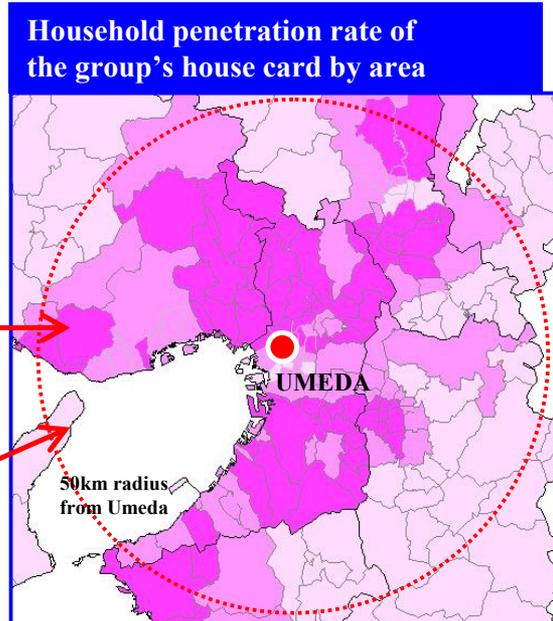
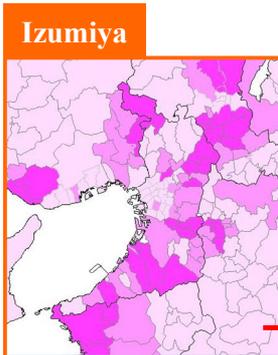
#### Daily Qanat

Based on a concept of regional lifestyle convenience in a single hall, Daily Qanat stores offer a wide range of food and other daily necessities.



#### Izumiya Super Centers

Clothing, foods and household items are grouped together on a single floor at Super Centers, enabling one-stop shopping at everyday low prices.



Household penetration rate of the group's house card:



### The finest foods for high-quality lifestyle

At Hankyu Oasis, we are developing a new type of store, with an eye on the needs of the coming generation. We offer the foods you need for a high-quality lifestyle, delivered with freshness and specialization. (72 stores as of May 31, 2014)



### Adding a metropolitan touch

As we accelerate store openings in the Osaka city area, we are adding small sales spaces of approximately 700m<sup>2</sup> which aim for an upmarket urban feel. The product lineup is highly specialized, and a wide range of affordable wines, an essential accessory for dining, is also available.

# Expansion into China

## Hankyu Department Store planned for Ningbo

### Opening scheduled for 2018 in the Group's first full-fledged overseas venture

Given the population decline in Japan, due to the falling birth rate and rise in numbers of aged, the competitive environment facing department stores in Japan is expected to steadily worsen in future years. To assure long-term growth into the future centered on core retailing operations, the Group sees it as essential to draw on its decades of expertise in retail facility development and operation and look beyond Japan. We need to open stores in fast-maturing overseas markets.

Our first opening is scheduled for Ningbo, a city in Zhejiang Province in the People's Republic of China. With the seventh highest GDP per capita in the country, Ningbo has a large, affluent population, and a large number of Japanese companies. It is also well known as a globally leading port, which served as the disembarkation point for delegations sent from Japan during the Tang Dynasty. The municipal government of Ningbo has launched a large-scale development project involving the relocation of municipal offices. We plan to open a store (floor area around 160,000 m<sup>2</sup>) in the middle of this new site, which has tremendous development potential.



#### Ningbo Eastern New City development Project

Project Area: about 1,600 ha (16km<sup>2</sup>)    Number of Residents: 170,000 (estimate)  
 Total project cost: 200 billion RMB    Working population: 200,000 (estimate)

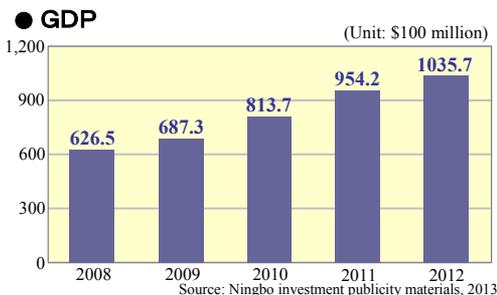
### About Ningbo

Located some 230km south of Shanghai, its GDP continues to soar. The city is expected to show further growth.



Population:  
 Around **7.6 million**

Volume of  
 containers handled:  
**No. 6** globally



### TOPICS

## Development of specialty stores More appealing products and services for customers

Drawing on our experience in operating department stores, we are creating new kinds of specialist stores that provide a wide range of highly differentiated products and services we developed ourselves. The main products and services are cosmetics, footwear and other female fashion, and total pet care.

#### Hankyu Hello Dog Co., Ltd.



In addition to selling fashionable wearables and food products for pet dogs since its opening in autumn 2008, Hankyu Hello Dog has earned the appreciation of many customers for its dog hotel, (training) kindergarten, run and other in-shop facilities for dogs. In March 2014, the sales area was refurbished and dog-beauty and -spa facilities were installed. In the care corner for ageing dogs, our specialist staff are at hand at all times, to help in deepening customer bonds with their pets, which are already seen as beloved family members. Dog fashion and food lines have also been strengthened.

#### Carnet Co., Ltd.



There are four Carnet stores, in Tokyo and Yokohama, providing original quality footwear items. Carnet ladies footwear stores are popular with office workers for their dedication to craftsmanship and for going the extra mile to really satisfy customer needs. The staff, from designer to sales clerk, all share the same passion of creating original products that the customers can feel, and which the staff themselves would really like to wear. At the Yokohama Joinus store, a new Lulud brand outlet opened in May 2014, supported by female office workers going to and from work.

# Settlement report & Corporate data

## Settlement report (from 1<sup>st</sup> April, 2013 to 31<sup>st</sup> March, 2014)

### Consolidated statements of operation

	Amount	(Millions of yen)	
		Comparison with the previous term	
<b>Sales</b>	576,852		109.8%
Cost of sales	420,837		110.0%
Selling, general and administrative expenses	138,700		105.2%
<b>Operating income</b>	17,313		162.3%
Non-operating income	3,181		106.7%
Non-operating expenses	2,334		100.9%
<b>Recurring income</b>	18,160		160.2%
Extraordinary income	126		1.8%
Extraordinary loss	11,462		159.1%
<b>Income before income taxes</b>	6,824		60.4%
Income taxes-current	5,433		143.4%
Income taxes-deferred	1,068		79.5%
Minority interests	26		-
<b>Net income</b>	295		4.8%

### Consolidated Balance Sheets

	Amount	Comparison with the previous term	(Millions of yen)		
			Amount	Comparison with the previous term	
Current assets	92,027	+26,608	Current liabilities	141,603	+50,903
Noncurrent assets	285,689	-8,216	Long-term liabilities	53,835	-28,365
Total	377,716	+18,392	Net assets	182,277	-4,144
			Total	377,716	+18,392

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

	Amount	(Millions of yen)	
		Comparison with the previous term	
Sales	810,000		140.4%
Operating income	20,000		115.5%
Recurring income	20,100		110.7%
Net income	10,000		3382.8%

## Outline of the company

(as of 31<sup>st</sup> March, 2014)

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 : 206,740,777

Number of shareholders: 15,699

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

## Board of directors

(as of 24<sup>th</sup> June, 2014)

Chairman, Representative Director and CEO	Shunichi Sugioka
President and Representative Director	Atsushi Suzuki
Representative Director	Naoya Araki
Representative Director	Haruya Shijo
Outside Director	Yohsaku Fuji
Director	Kazuo Sumi
Director	Kazutoshi Senno
Director	Keiji Uchiyama
Director	Yutaka Wada
Director and Managing Executive Officer	Tadatsugu Mori
Director and Managing Executive Officer	Katsuhiro Hayashi
Director and Executive Officer	Hiroyasu Kuromatsu
Standing Corporate Auditor	Toshimitsu Konishi
Outside Corporate Auditor	Hideyuki Takai
Outside Corporate Auditor	Toshihisa Takamura
Outside Corporate Auditor	Masashi Muromachi