

Message to our shareholders 2013

H2O RETAILING CORPORATION

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The Hankyu Umeda Flagship Store is now fully open for business

From here on, the H2O Retailing Group expects to post strong business results



The momentum of the Hankyu Umeda Flagship Store will drive the entire Group forward

First of all, I would like to thank all our shareholders for the invaluable support you have given us over the years.

In October 2012 the Phase II section of the Hankyu Umeda Flagship Store in the Umeda area of Osaka—the flagship store of our department store business—opened for business ahead of the reopening of the store as a whole, and we have been posting steady sales growth since then. Our principal branch stores, including HANKYU MEN'S TOKYO, Nishinomiya Hankyu, and Hakata Hankyu, have been recording sales figures in excess of the previous year. As a result, for the business term under review, ended 31st March 2013, the Group's revenues and earnings both posted year-on-year gains.

During the reporting period Hanshoku Co., Ltd. opened five new stores and refurbished existing stores to take advantage of the rising population of Japan's city-centre areas, whose popularity has recently been recovering. In response to increasingly severe competition, the company has also been making sure that its new store prototype matches customer needs. The Ours Inn Hankyu business hotel, located in front of Oimachi Station in Tokyo, has also been doing good business, recording a higher occupancy rate than the previous year.

In fiscal 2013 the H2O Retailing Group plans to leverage the customer pulling power of its Hankyu Umeda Flagship Store to further expand its market share in the Kansai Region.

I ask the Company's shareholders for your continued support and encouragement in our further endeavours.



Jun Wakabayashi
President and Representative Director

Developments during the reporting term, and future outlook



Hankyu Umeda Flagship Store
(9F Shukusai Plaza)



Hankyu Umeda Flagship Store
(3F D.EDIT)



Department Business

With the completion of the Hankyu Umeda Flagship Store, the Group is ready to move on to a new growth stage

At the Hankyu Umeda Flagship Store, whose grand opening after reconstruction was held last autumn, we have taken up the challenge of injecting new value into the department store concept by transforming the store into a "Lifestyle Theater."

We aim to create a place that offers visitors an exciting time, full of wonderment, discovery, emotional experience, and yearning—a store that people will really want to visit. Symbolic of this concept is the Shukusai Plaza, on the 9th Floor of the store, which is an innovative space that attracts customers strongly. Compared with the former Umeda store prior to reconstruction, we have seen an increase in store visits by elderly couples and family groups spanning three generations. The Great Staircase serves as a space from which customers can watch various events, and is always bustling with people chatting or just hanging out, whatever the time of day. And we have taken the opportunity afforded by the reconstruction and refurbishment of the Umeda store to realise the concept of being an "information retailer." At the core of this is the idea of identifying uniquely valuable aspects of each product and communicating these to our customers in an easy-to-understand way. In this way, we can more effectively motivate customers to make purchases.

By putting these ideas into practice, we aim to establish a new type of department store model suited to the needs of the 21st Century.

Meanwhile, we have commenced a program of reorganising and redesigning the Group's branch stores, which are located in suburban districts, from the viewpoint of creating sales floors and other sales spaces that will stimulate greater demand for the merchandise on display, so that the stores become more deeply rooted in the life of their local community. We plan to achieve this by identifying and targeting various day-to-day customer needs, and at the same time developing services and ways of adding extra value to our products to meet needs arising at different stages of our customers' lives.

In the autumn of 2012 we redesigned Tsuzuki Hankyu to appeal to local female customers seeking more fashionable items for day-to-day wear.

During the reporting period we expanded the sales floorspace at our Hankyu and Hanshin main stores in Umeda as well as at the HANKYU MEN'S OSAKA by around 150,000 square metres in total. This gave the Group an overwhelming presence in the Umeda district, and we expect it to serve as an engine that will drive the growth of our retail market share in the Kansai region.



Hankyu Umeda Flagship Store
(1F Ladies' Handbags)



Mosaic Mall Kohoku・Tsuzuki Hankyu



Tsuzuki Hankyu (1F Lifestyle Floor)



Hakata Hankyu (4F Ladies' Apparel)

Supermarket Business

Actively opening new Hankyu Oasis supermarkets in city-centre locations

In fiscal 2012 the business performance of the Group's supermarket business were favorably impacted by a vigorous program of new store openings and renovation work in the Hankyu Oasis chain, as well as good business results posted by our subsidiaries producing and selling boxed lunches, delicatessen and other ready-to-eat dishes, as well as breads and pastries. During the current fiscal year, too, we will be speeding up the pace of opening of new stores specialising in high-quality food products, with the opening of seven new outlets on the drawing board. All these new stores will focus on the key concepts of "specialisation," "lively ambience," and "information transmission." Our aim is to leverage our experience in store design and operation to produce outlets that go to the next level. In these stores, we seek to differentiate ourselves even more strongly from other retailers through the development of products that proclaim the originality of the Oasis chain, particularly private brand label goods. Our efforts to redesign these stores do not stop at surface appearance: we have also established a staff training centre to improve employees' skill levels and all-round knowledge. We will continue to provide our customers with high-quality food products selected with great care and a prime emphasis on safety.



Hankyu Oasis (Tenroku)



Hankyu Oasis (Kobe Asahi-dori)



Hanshoku Training Center

Group Initiatives

Growth of new business

In response to recent socioeconomic changes, including retail competition that transcends conventional boundaries between different business categories, as well as the demographic trend toward a declining birthrate and a rising proportion of elderly people, the H2O Retailing Group aims to maintain its expansion, employing M&A where appropriate. Our goal is to facilitate continued growth by ensuring that the Group is capable of flexible adaptation to whatever social changes may occur.



Kazokutei Udon no uta
(in Hankyu Umeda Flagship Store)



Hankyu Fruits Gathering
(in Ecute Shinagawa)

The Hankyu Umeda Flagship Store

– a Lifestyle Theatre

At the Hankyu Umeda Flagship Store, recently reopened after reconstruction, we offer visitors a space where they can stroll leisurely around, immersing themselves in a cultural ambience full of wonderment, discovery, learning, emotional experience, and fun. The Shukusai Plaza on the 9th Floor is particularly popular with visitors, and is always crowded.



1. The Takarazuka Revue (Snow Troupe) perform "Me and My Girl"
2. Christmas tree presented by Franck Muller - moving clock face motif
3. The English Garden at the 2012 British Fair
4. The Adidas virtual reality running experience (the "Giant Shoe")
5. Interactive lecture by members of the National Bunraku Theatre
6. Car specially decorated using MT masking tape
7. Kumamoto Prefecture's Kumamon mascot, at a Kyushu food fair



Using multiple information transmission spaces including the Event Hall, Shukusai Plaza, and Hankyu Umeda Gallery on the 9th Floor, and the Coto Coto Stages on each floor to coordinate the transmission of information to our visitors throughout the entire store

At the Hankyu Umeda Flagship Store, we not only hold foreign product promotion events—such as our British Fair and Italian Fair, which were well-received, and events related to particular dates and seasons like Xmas and Valentine's Day—we also hold coordinated events all over the store, notably in the Shukusai Plaza on the 9th Floor, but also at the Coto Coto Stages (24 event spaces located around the store) and other venues. In this way, we have turned the entire store into an "information transmission space." This information is displayed to visitors in real time on large screens on each floor, and especially on the massive 6-metre by 2-metre "Big Vision" screen on the 1st Floor.

French Fair 2013

The theme of the French Fair was "Provence"

This Fair, lasting one week throughout the entire store, highlighted the characteristic use of colour of the inhabitants of the Cote d'Azur (French Riviera), which always has a feeling of light, and the gaiety of their lifestyle.

Shukusai Plaza

In a recreation of the sights and sounds of a Parisian open-air market—where antique items such as, buttons, as well as paintings, were on sale—large numbers of visitors enjoyed live performances of French accordion music, and took part in folk dancing.



Event Hall

Event Hall

Culinary craftsmen such as patissiers (pastry chefs) showed off their skills and introduced visitors to the true taste of French cuisine.



Event

Shukusai Plaza

Hankyu Umeda Gallery

Event

We offered a hands-on French bakery class where members of the public can try making brioches brushed with olive oil in the style of the south of France.



Hankyu Umeda Gallery

The 267-Year-Old History of Gorgeous DMC Needlework. Visitors to this exhibition were able to appreciate the long and fascinating history of embroidery arts in France.



Settlement report & Corporate data

Settlement report (from 1st April, 2012 to 31st March, 2013)

Consolidated statements of operation

	Amount	(Millions of yen)	
			Comparison with the previous term
Sales	525,154		103.9%
Cost of sales	382,624		104.5%
Selling, general and administrative expenses	131,859		101.8%
Operating income	10,670		107.2%
Non-operating income	2,981		103.1%
Non-operating expenses	2,312		91.1%
Recurring income	11,338		110.0%
Extraordinary income	7,159		701.6%
Extraordinary loss	7,204		84.8%
Income before income taxes	11,293		398.3%
Income taxes-current	3,789		270.4%
Income taxes-deferred	1,343		341.2%
Minority interests	-40		-
Net income	6,200		586.6%

Consolidated Balance Sheets

	Amount	Comparison with the previous term	(Millions of yen)		
				Comparison with the previous term	
Current assets	65,418	+2,111	Current liabilities	90,700	+1,808
Uncurrent assets	293,905	+21,982	Long-term liabilities	82,201	+4,717
Total	359,323	+24,093	Net assets	186,422	+17,567
			Total	359,323	+24,093

Projection performance (from 1st April, 2013 to 31st March, 2014)

	Amount	(Millions of yen)	
			Comparison with the previous term
Sales	570,000		108.5%
Operating income	15,000		140.6%
Recurring income	15,200		134.1%
Net income	8,600		138.7%

Outline of the company

(as of 31st March, 2013)

Company name : H2O RETAILING CORPORATION

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

Incorporated : 7th March, 1947

The company renamed as H2O Retailing Corporation on 1st October, 2007

Common stock : ¥17,796,659,575

Total number of issued and outstanding shares : 206,740,777

Number of shareholders: 15,463

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

Board of directors

(as of 21st June, 2013)

Chairman, Representative Director and CEO

Shunichi Sugioka

President and Representative Director

Jun Wakabayashi

Representative Director

Naoya Araki

Director

Yohsaku Fuji

Director

Kazuo Sumi

Director

Kazutoshi Senno

Director

Keiji Uchiyama

Director and Managing Executive Officer

Tadatsugu Mori

Director and Executive Officer

Katsuhiro Hayashi

Standing Corporate Auditor

Toshimitsu Konishi

Corporate Auditor

Hideyuki Takai

Corporate Auditor

Toshihisa Takamura

Corporate Auditor

Masashi Muromachi