

Message to our shareholders 2012

H2O RETAILING CORPORATION

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To Our Shareholders

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The new Hankyu Umeda Flagship Store that offers wonderment, discovery, learning, emotional experience, yearning and fun.

Making department stores into exciting places like theatres ; somewhere that people would really like to visit



Grand Opening of Hankyu Umeda Flagship Store Scheduled for Late November 2012

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

Fiscal 2011 saw continued new store openings and expansion of existing store floorspace by our competitors in Osaka's Umeda district. We were initially apprehensive that this would lead to intensified competition, but better-than-expected sales at both Hankyu Umeda Flagship Store and Hanshin Umeda Flagship Store enabled us to hold down the adverse impact of this competition to a minimum.

Additionally, sales have been maintaining a firm trend at Hakata Hankyu in Fukuoka, Kyushu, and at Oi Hankyu Food Hall in Tokyo's Oimachi – both opened in March 2011 – as well as at HANKYU MEN'S TOKYO, which reopened in the autumn of 2011 after complete refurbishing. During the term we made the Kyushu-based home delivery business Hankyu OrangeLife Inc. and also made the restaurant chain operator Kazokutei Co., Ltd. (which operates mainly in Kansai) into a subsidiary. Consequently, sales for the fiscal 2011 term posted an improvement over the previous year.

In late November of this year, we are scheduled to hold the grand opening of Hankyu Umeda Flagship Store. Under the concept of being a "lifestyle theatre," the store will offer customers a wonderful way to pass the time.

I ask our shareholders to give us their continued support and encouragement as we move into our new growth phase.



Jun Wakabayashi

President and Representative Director

The Hankyu Umeda Flagship Store — “Lifestyle Theatre” where visitors can have a wonderful, exciting time.

For our department stores to survive and prosper in the face of competition from all quarters in this mature society, we believe that we must go back to the roots of the department store concept, and work out how to recreate the magical department store experience of old.

In days gone by, people would leisurely stroll about the store, immersing themselves in a cultural ambience compounded of wonderment, discovery, learning, emotional experience, and yearning. And the experience of purchasing goods in a department store was really exciting. This is what we want to bring back. Therefore, in the remodeling of the store we incorporated this into the store concept of offering customers the opportunity for a new and better lifestyle that was attainable “just around the corner”

To turn the store concept into reality, at the Hankyu Umeda Flagship Store we have designed and created an “information transmission space” on an unprecedented scale.



Naoya Araki

*Hankyu Hanshin Department Stores Inc.
President and Representative Director*

Hankyu Umeda Flagship Store to be at centre of bustling Umeda shopping area

The 9th Floor of the Hankyu Umeda Flagship Store is approximately in the middle of the 15 floors that comprise the store, from Basement No.2 to the 13th Floor. This floor has been designed to epitomise the overall store concept of being a “lifestyle theatre.” The 9th Floor provides a spacious atrium, which we call the Festival Plaza, with a ceiling height of 16 metres – reaching up four storeys to the 12th-Floor level – where visitors can gather and relax. Around this are arranged the Hankyu Umeda Hall, the Hankyu Umeda Gallery, and other areas that will serve as spaces for the transmission of “lifestyle culture” information. We believe that the Festival Plaza will take its place among Osaka's major attractions.



The 9th Floor — centre for creating and disseminating new value via a variety of media

The Hankyu Umeda Hall will be used to hold fashion shows and seminars to communicate the values of things and the ideas behind their creation, as well as lectures, parties, promotional events and so on.

The Hankyu Umeda Gallery will be used for cultural festivals and to display and sell artistic products that make everyday life more colorful.

The Art Stage will be used to display the works of up-and-coming young artists from Kansai region who have discovered by the Company.

On the 9th Floor, the Hankyu Umeda Hall, the Hankyu Umeda Gallery, and other areas will serve as vehicles for the transmission of information about a wide variety of cultural and artistic genres.

Coordination of activities throughout the store

In addition to the Hankyu Umeda Hall and the Hankyu Umeda Gallery, we plan to hold various events at the Event Hall on the 9-10th Floors, the Diamond Hall on the 13th Floor, the Rooftop Plaza, and at mini stages (Coto Coto Stages) on each floor. By coordinating our activities throughout the store, we will be able to present fuller information than has been possible up to now. For example, at overseas lifestyle and culture fairs, such as the British Fair, in addition to major conventional merchandise shows at event halls, we will also hold art exhibitions at the Hankyu Umeda Gallery and concerts or fashion shows at the Hankyu Umeda Hall, and there will be street performances and food stalls at the Festival Plaza. At the Rooftop Plaza we will hold parties at night, while mini-seminars will be given at the Coto Coto Stages. A digital signage system will enable customers to view these activities from each floor of the store. Thus, we will be able to transmit to visitors a wide range of information on the lifestyles, cultures and art scenes of each country that we feature in our shows.

Sales target of ¥213 billion for first year of operation following reopening of Hankyu Umeda Flagship Store

In these ways, we aim to offer visitors to the store an exciting shopping experience by enhancing our capabilities in the sphere of “lifestyle culture” information transmission, while at the same time reinforcing our traditional hospitality. We believe this approach will attract a larger numbers of customers and lead to a higher average purchasing value per customer.

13F	Restaurants, Rooftop Plaza, Diamond Hall	
12F	Restaurants	
11F	Babies' and Children's Wear, Kimono	
10F	Hobbies, Event Hall	
9F	Hankyu Umeda Hall, Hankyu Umeda Gallery, Festival Plaza, Event Hall	
8F	Sportswear, Men's Wear	
7F	Household Utensils, Furniture & Interior Items, Artworks, Watches, Eyeglasses	
6F	Ladies' Wear, Crystal Salon (members only)	
5F	Ladies' Wear, International Boutiques	
4F	Ladies' Wear	
3F	Ladies' Wear, International Boutiques, Ladies' Shoes	
2F	Cosmetics, International Boutiques	
1F	Ladies' Accessories	
B1F	Food Items	
B2F	Food Items	

A “theatre-like department store” that offers wonderment, discovery, learning, emotional experience, yearning, and fun.

The concept on which the store’s design has been based is that of a “theatre-like space.”

The new Hankyu Umeda Flagship Store offers customers a space where they can enjoy themselves by strolling leisurely around, immersing themselves in a cultural ambience.



9F Festival Plaza & News Vision

Large electronic display screens will be installed on the walls of this festival plaza. We help to communicate the visual art culture of the Kansai to the wider world.



9F Hankyu Umeda Hall

This is a multi-purpose hall with seating for 408. we plan to lease out the use of this hall to a wide range of companies and organisations, taking full advantage of the store’s excellent location.



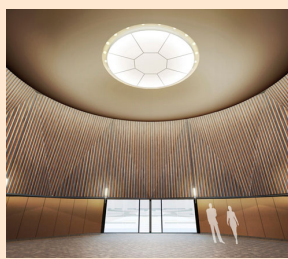
1F Main Entrance

The concourse, which has also been rejuvenated in the process of rebuilding the store, is an open space 16.5 metres wide and 9 metres high. Visitors arriving at the store’s Main Entrance will encounter a spacious and impressive area featuring attractive ironwork. We have show windows that colourfully delineate the history of the previous store.



13F Rooftop Plaza

On the roof of Hankyu Umeda Flagship Store, we have designed a 1,000m² space for rest and relaxation, centred on the Symbol Tree. Spaces on the rooftop can also be hired out for parties, with catering supplied by the restaurants in the store. The Rooftop Stage is ideal for staging various entertainment events, such as concerts.



13F Diamond Hall

An elegant, octagonal structure, the Diamond Hall is very eye-catching amidst the Rooftop Plaza. It is designed for special hospitality events.

CLOSE UP

2

We plan to present informational events at many different locations, principally at the 20 event spaces located around the store. These events, which we call Coto Coto Stages, will convey to our customers the utility value of goods and background information on them.

The Coto Coto Stages are mini-events aimed at stimulating discovery, learning, and hands-on experience, which will generate demand for products, and they will be used to tell our customers things they didn't know about products sold in the store. We have already used such Coto Coto Stage events at Nishinomiya and Hakata Hankyu, and at Hankyu Umeda Flagship Store we plan to build on this experience and realise a further scaling-up and expansion of the range of information imparted. Events staged will include seminars, talk shows, demonstrations, and customer-participation events. In these ways, the Coto Coto Stages will transmit up-to-date information every day, offering our customers an experience available only at Hankyu Umeda Flagship Store.

Below is a selection of some of the Coto Coto events offered at Nishinomiya and Hakata Hankyu

Health

Running clinic
Advice on choosing shoes
for healthier feet

Men's and Women's Wear

Taking care of men's shoes
How to choose a stylish hat

Foods

Wine course for beginners
How to brew tea properly

Kids & Maternity

Reading picture books
with your child
Baby massaging class



CLOSE UP

3

60 Digital Signage displays throughout the store



We will install 60 digital signage displays throughout the store in areas used by our customers, such as on the sides of escalators or near the lifts. These displays will provide timely communication of store events.

The store's main entrance on the 1st Floor will feature a 6-metre by 2-metre LED screen, which will use dynamic images to communicate to visitors the latest information about in-store activities and goods on sale.

CLOSE UP

4

Improved store access, for smoother customer movement

Direct access to the store's Basement 1 from the subway (Midosuji Line) ticket gate of Umeda Station has been made barrier-free (no floor-level differences). We have installed a gate on the connecting portion between the store's 2nd Floor and the walkway leading to Osaka Station (JR Lines) to improve the ability of shoppers to circulate in the area.



1st Floor – Main Entrance



2nd Floor – Walking connecting to
Osaka Station (JR Lines)



Outside footpath on west side

Inheriting the Spirit of the Former Store

In the restaurant on the 13th Floor we have recreated architectural designs that were originally featured in the former store's concourse.

The concourse of the former store was originally constructed in 1929, the year in which Hankyu Department Stores was established. Since that time the concourse has served as a major symbol of Osaka's Umeda district, and has been very popular with the people of Osaka. During the recent rebuilding work, we have carefully preserved and repaired the design work of the original architect, Chuta Ito, notably the famous glass mosaic mural. This design and others have been transferred to the 13th Floor of the new Hankyu Umeda Flagship Store. Our artisans encountered numerous difficulties in restoring these artworks, such as in the painstaking work of removing the glass mosaic mural and restoring it correctly at the new location. We received the assistance of experts in archaeology and the preservation of cultural assets, thanks to which we were able to restore these works to their original state of pristine brightness. They have been transferred from the original bustling location, to be reborn on the walls of a large restaurant where customers can enjoy them at their leisure.



The architectural designs of the former
concourse are recreated on the 13th Floor

Settlement report & Corporate data

Settlement report (from 1st April, 2011 to 31st March, 2012)

Consolidated statements of operation

	Amount	(Millions of yen) Comparison with the previous term
Sales	505,588	108.7%
Cost of sales	366,121	109.0%
Selling, general and administrative expenses	129,508	109.2%
Operating income	9,957	94.3%
Non-operating income	2,891	94.3%
Non-operating expenses	2,538	105.4%
Recurring income	10,309	92.0%
Extraordinary income	1,020	130.9%
Extraordinary loss	8,494	138.3%
Income before income taxes	2,835	48.5%
Income taxes-current	1,401	74.4%
Income taxes-deferred	393	44.1%
Minority interests	-16	-
Net income	1,057	34.0%

Consolidated Balance Sheets

	Amount	(Millions of yen) Comparison with the previous term
Current assets	63,307	-23,024
Uncurrent assets	271,922	+14,067
Total	335,230	-8,957

	Amount	(Millions of yen) Comparison with the previous term
Current liabilities	88,891	-29,499
Long-term liabilities	77,484	+3,124
Net assets	168,854	+17,417
Total	335,230	-8,957

Projection performance (from 1st April, 2012 to 31st March, 2013)

	Amount	(Millions of yen) Comparison with the previous term
Sales	530,000	104.8%
Operating income	10,000	100.4%
Recurring income	10,400	100.9%
Net income	5,400	510.9%

Outline of the company (as of 31st March, 2012)

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: 15,561

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

Board of directors (as of 22nd June, 2012)

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

Shigeru Yasukawa

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