

# Message to our shareholders 2011

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

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# *To our shareholders*



**Jun Wakabayashi**

President and Representative Director

First, I would like to thank all our shareholders for their support.  
Below is our "Messages to our shareholders 2011."  
I hope it will help our shareholders understand our business better.

## *Top Interview*

*In this interview, President Wakabayashi explains the business strategies set out in the Group's long-term business plan, Grand Prix 10 (GP10) Plan ver.3, which H2O Retailing is using to stay ahead of the competition.*

### ***Please tell us about the recently announced GP 10 Plan ver. 3.***

**Wakabayashi:** We announced GP 10 Plan ver.3 on 12th May, but before I talk about this updated version, I would like to briefly explain our original intent in creating GP10 Plan.

The retail market in Japan is set to continue to shrink due to the declining birth rate and aging population. In this kind of environment, we decided that it was essential we have a stable operational base capable of generating steady earnings to achieve long-term Group growth.

Toward this, we set the goal of establishing this operational base in the Kansai business area by increasing our market share by focusing investment on the region's retailing sector. Our long-term business plan GP 10 Plan sets out how we are to achieve this goal.

We have implemented a range of initiatives in accordance with the plan, including reconstructing the Hankyu Department Store Umeda Main Store; opening suburban department stores, such as Nishinomiya Hankyu, and food supermarkets; and expanding our home-delivery service. The plan has only four years left to run and our ultimate goals are now in sight, so we created GP 10 Plan ver.3 for this final phase of the plan, from fiscal 2011 to fiscal 2014.

### ***So what is new in GP10 Plan ver. 3?***

**Wakabayashi:** Since the financial crisis in the autumn of 2008, consumer purchasing behaviour has greatly changed, as has our business environment. The plan's fundamental philosophy remains the same, but we have set new numerical targets that take into account these changes.

Through GP 10 Plan ver.3, we aim to achieve a consolidated operating profit of ¥30 billion by fiscal 2014. Achieving this target will assume the establishment of a high-earnings business model for the Group, with an operating profit margin of approximately 5%, a return on equity of about 10%, and an equity ratio in excess of 50%. We consider these targets to be the prerequisites for putting the Group on a stable financial footing and making it one of the leading retail groups in Japan.

## Grand Prix 10 (GP10) Plan ver.3

[Fiscal 2011—2014(2011/04—2015/03)]

### Earning Targets for 2015/03

Consolidated operating profit **¥ 30bn**

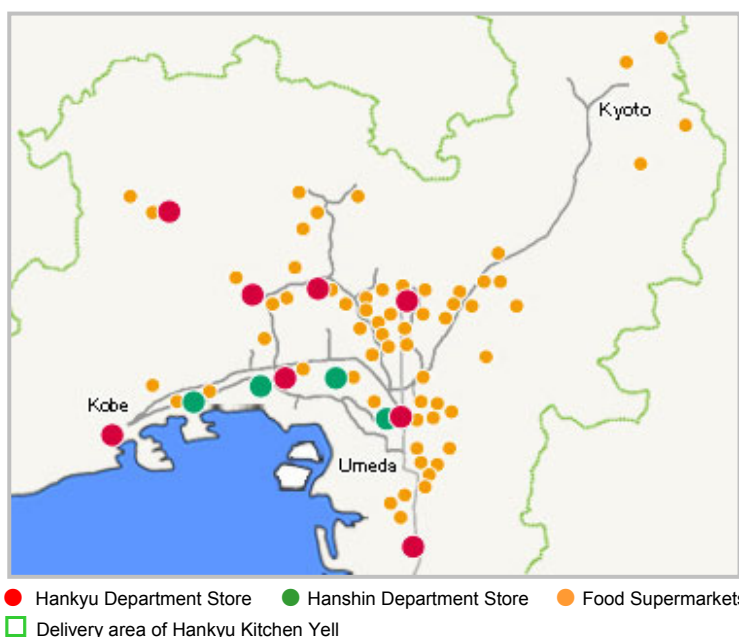


### Management benchmark 2015/03

OP margin : approx.5%  
ROE : approx.10%  
Equity ratio : excess of 50%

**Basic Strategy** Focusing investment in the retailing sector in the Kansai business area

**Main Initiatives** (1)Creation of a Group flagship store  
(2)Expanding market share in the Kansai business area



***A number of commercial establishments have opened in Umeda since the start of the year and competition in this area seems certain to intensify.***

**Wakabayashi:** That's right. But we have known that this would be the case for the last several years. For this reason, we formulated GP10 Plan in fiscal 2004 and began preparing a variety of initiatives.

Indeed, it is precisely to ready ourselves for this intensified competition that we are reconstructing the Hankyu Department Store Umeda Main Store. The Hankyu Department Store Umeda Main Store has been the number one store in the area for many years. But we anticipated that competition in Umeda would intensify and decided that the old building could not compete at the required level, so began its reconstruction in fiscal 2005.

The management integration of Hankyu Department Stores, Inc., and Hanshin Department Store, Ltd., took place under these circumstances, and I think that one of the benefits of the integration has been a significant improvement in our competitiveness in Umeda. Through their main stores, both companies have built up an overwhelming position as the number one store operators in the area. But the real challenge still lies ahead. In order to successfully meet it, we are not only reconstructing the Hankyu Department Store Umeda Main Store, but also allocating roles to the Hankyu and Hanshin department stores' Umeda Main Stores based on their individual strengths. In this way, we are taking to the next level our framework to enable both stores to maximize customer shopping convenience. So in Umeda, we are utilizing the 150,000m<sup>2</sup> combined floor space of both the Hankyu and Hanshin department stores' Umeda Main Stores to build an overwhelming position as the number one store in the area.

# Top Interview

***Please tell us about the second of your main initiatives; expanding market share in the Kansai business area.***

**Wakabayashi:** We will use the prestige of both of our flagship main stores to expand our business in suburban area and the Group will provide the same high level of service whether customers are using the Umeda stores or our outlets in their local areas.

Towards this, we are also strengthening our department stores, food supermarkets and home-delivery service in conjunction with our initiatives in Umeda. We believe that by prioritizing the strengthening of our competitive superiority in the suburbs, we will generate synergies that will help us win in the competition in Umeda.

To draw out these synergies, we are not only opening new stores but have also reviewed the philosophy underpinning our store card. One example of this is our October 2009 launch of an Emerald STACIA Card in conjunction with Hankyu Hanshin Holdings, Inc.

***You are moving ahead with a number of initiatives, but next on the horizon is the opening of the new Hankyu Department Store Umeda Main Store.***

**Wakabayashi:** Reconstructing the Hankyu Department Store Umeda Main Store in the middle of a major city, while still continuing to stay open for business, has been an extremely difficult construction project. But we have made steady progress while keeping safety as our number one priority. Some shareholders may have felt concerns about the reconstruction, but we have been busy with the north side of the building and if we continue at our current pace then we expect to complete it as planned by the third quarter of fiscal 2012.

Some of our competitors have already completed their own new stores before that time, but we also know what kind of department stores we will be competing against. We will leverage floor space of 84,000m<sup>2</sup> and use high-quality, high-end items and services and leading-edge retail amenities to attract customers not only from Kansai business area but also from all over western Japan, solidifying the store's overwhelming position as the number one store in the area.

We hope that our shareholders are looking forward to its opening as much as we are.



*The west side of the new Hankyu Department Store Umeda Main Store (artist's impression)*

## Opening of Hakata Hankyu on 3<sup>rd</sup> March 2011



### Store Data

Sales area : approx.42,000m<sup>2</sup>  
 Address : Hakataeki Chuogai 1-1, Hakata Ward, Fukuoka City  
 Tel. (092)461-1381  
 Opening hours : B1F-4F 10:00-21:00 ; 5F-8F 10:00-20:00  
 Open : 365 days a year

We opened Hakata Hankyu on 3<sup>rd</sup> March 2011, our first store in Kyushu. Hakata Hankyu is a large-scale department store with a sales area of 42,000m<sup>2</sup>, making it the third biggest in the Group after the Hankyu and Hanshin department stores' Umeda Main Stores.

On the grand-opening day, customers formed long queues outside the store and it is estimated approximately 220,000 people visited JR Hakata City, including Hakata Hankyu.

Moreover, the full opening of the Kyushu Shinkansen (bullet train) line on 12<sup>th</sup> March has contributed to the large number of store visitors from throughout the Kyushu region, particularly on holidays and the spring vacation period. As a result, Hakata Hankyu has made an excellent start and sales for the first month exceeded forecasts.

Going forward, Hakata Hankyu will continue to cooperate with all the tenants of the JR Hakata Station building and push ahead with initiatives to ensure that it becomes a mainstay store in the Kyushu region.

### Introducing some of Hakata Hankyu's sales areas with special features



### HAKATA SISTERS 2F, M3F, 3F

"HAKATA SISTERS" is a space for the fashion conscious young women of Hakata to drop in and enjoy on their way from college or work. In addition to fashion areas with the most up-to-date brands, customers can also enjoy a range of other amenities, including a cafe and the USTREAM Studio offering the latest information.

### UMACHIKA!

### B1F

The store's basement floor is home to the largest food hall in Kyushu, featuring nationally popular outlets with no other presence in the Kyushu area and many local delicacies. In addition to the confectionery sales area offering the most popular brands from all across the country and the Marché (market) with rows of fresh produce, visitors to the Hankyu Umaka Shokudo food court can choose to eat at Hanshin's famous *ikayaki* (grilled squid pancakes) stand or many others offering some of Kyushu's most appetizing dishes.



### CHARMING PLAZA

### 8F

"Charming Plaza" brings together on one floor non-categorized items of interest to the young-at-heart senior, ranging from fashion and cosmetic products through to items for day-to-day use, such as walking sticks. Moreover, the Charming Stage has been established within the sales area to help senior customers make friends by providing opportunities for presentations and displays of hobbies.



### COTO COTO STAGE

The Coto Coto Stage provides a space for customers to discover and actually use and experience various items that might be helpful in their daily lives. They are given information about the various products, how to use them, and ways of combining and coordinating them. There are 20 such stages located throughout the building.



## Start of operations at Hankyu Oimachi Garden(Phase 1) on 16th March 2011

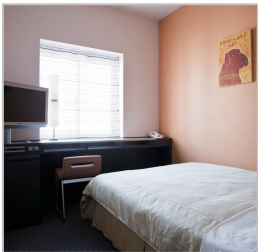
The redevelopment project near the JR Oimachi Station began in the spring of 2008, and in March 2011 we launched Phase 1 operations at this multi-purpose commercial facility. Hankyu Oimachi Garden includes a business hotel and the Hankyu Department Stores Oi Food Hall. Phase 2 construction is underway toward its completion in 2014.



### Ours Inn Hankyu

Each of the rooms has been designed on the themes of 'getting a good sleep' and 'feeling refreshed' and features a high-quality Simmons' bed. We also offer three women-only floors to ensure that female customers can enjoy a safe, comfortable stay. Moreover, the hotel is strongly earthquake resistant as it has been designed for seismic isolation.

**1,100 guestrooms (singles only)**  
**Overnight stay : ¥5,500 (including tax)**



### Oi Hankyu Food Hall

The new Oi Hankyu Food Hall offers a wide range of fresh products and other produce for customers to enjoy from within its 2,000m<sup>2</sup> sales area. The fresh fruit and vegetables delivered directly from the market and the various produce that change according to the time of day have proven to be immensely popular among customers.



**Different goods are offered depending on the time of day**  
 For example, they can choose from a range of goods such as box lunch for lunch and pre-cut vegetables or semi-prepared foods to enhance an evening meal.

## Extending our home-delivery service to the entire country

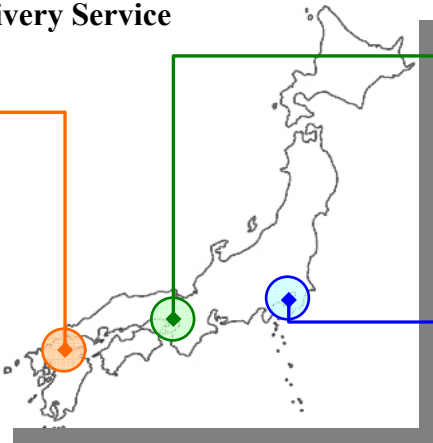
The members of our Hankyu Kitchen Yell home-delivery service enjoy a variety of products delivered straight to their doors, from fresh foods through to produce from our department stores' basement food halls. Since launching the service in 2002, in the Kansai region we have steadily expanded the delivery-service area and the business itself. We have established Hankyu Kitchen Yell Tokyo Inc. and are now in the middle of full-fledged preparations prior to the launch of the service in the Tokyo metropolitan area in the autumn of 2011. In addition, in April of this year we made EveryD.com, Inc., a home-delivery business operating in Kyushu under "Orange Life" brand, into a subsidiary. In the future, we will expand and enhance our home-delivery service in the Kansai area (Hankyu Kitchen Yell Kansai Inc.), the Tokyo metropolitan area (Hankyu Kitchen Yell Tokyo Inc.), and the Kyushu area (EveryD.com, Inc., Orange Life Business Division).

### The H2O Retailing Home Delivery Service

#### Orange Life

##### The Kyushu Area

The Orange Life brand is a recognized home-delivery service centred on the north of Kyushu (Fukuoka Prefecture and Saga Prefecture). In the future, we will utilize the expertise of Hankyu Kitchen Yell to provide even more appealing products and services to the region.



#### Hankyu Kitchen Yell (Kansai)

##### The Kansai Area

Since the launch of the service in 2002, we have steadily expanded our delivery area and today member numbers have swelled to 38,000. We will continue to meet the needs of each of these customers.

#### Hankyu Kitchen Yell (Tokyo)

##### The Tokyo Metropolitan Area

We are on course to launch as scheduled our home-delivery service in the Tokyo metropolitan area in the autumn of 2011.

# Settlement report & Corporate data

## Settlement report (from 1<sup>st</sup> April, 2010 to 31<sup>st</sup> March, 2011)

### Consolidated statements of income

(Millions of yen)

	Amount	Comparison with the previous term
<b>Net sales</b>	465,033	98.9%
Cost of sales	355,875	99.1%
Selling, general and administrative expenses	118,602	96.2%
<b>Operating profit</b>	10,555	131.5%
Non-operating profit	3,064	87.4%
Non-operating expenses	2,409	125.0%
<b>Recurring profit</b>	11,210	116.7%
Extraordinary gain	779	35.5%
Extraordinary loss	6,143	101.8%
<b>Profit before income taxes</b>	5,846	101.4%
Current income taxes	1,884	151.8%
Deferred income taxes	892	58.6%
Minority interests	-40	-
<b>Net profit</b>	3,109	103.1%

### Consolidated Balance Sheets

(Millions of yen)

	Amount	Comparison with the previous term
Current assets	86,332	-2,303
Fixed assets	257,855	+1,791
<b>Total</b>	<b>344,187</b>	<b>-512</b>

	Amount	Comparison with the previous term
Current liabilities	118,390	+35,769
Long-term liabilities	74,359	-28,152
<b>Net assets</b>	<b>151,437</b>	<b>-8,128</b>
<b>Total</b>	<b>344,187</b>	<b>-512</b>

## Projection performance (from 1<sup>st</sup> April, 2011 to 31<sup>st</sup> March, 2012)

(Millions of yen)

	Amount	Comparison with the previous term
Sales	497,000	106.9%
Operating profit	6,200	58.7%
Recurring profit	7,100	63.3%
Net profit	400	12.9%

## Corporate data

### Outline of the company (as of 31<sup>st</sup> March, 2011)

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: 15,873

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

### Board of directors (as of 23<sup>rd</sup> June, 2011)

Chairman, Representative Director and CEO

Shunichi Sugioka

President and Representative Director

Jun Wakabayashi

Representative Director

Nobuaki Nitta

Director

Yohsaku Fuji

Director

Kazuo Sumi

Director

Kazutoshi Senno

Director

Keiji Uchiyama

Director

Shigeru Yasukawa

Director and Executive Officer

Tadatsugu Mori

Director and Executive Officer

Katsuhiko Hayashi

Standing Corporate Auditor

Toshimitsu Konishi

Corporate Auditor

Hideyuki Takai

Corporate Auditor

Takeshi Nakagawa

Corporate Auditor

Toshihisa Takamura

Executive Officer

Yasuhiro Imai