

# Message to our shareholders 2008

## H2O RETAILING CORPORATION

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# To our shareholders



**Jun Wakabayashi**

President and Representative Director

On 1st October 2007, the Group relaunched itself as H2O Retailing Group after our management integration with The Hanshin Department Store, Ltd.

In fiscal 2007, the Hankyu Department Stores' MEN'S emporium, opened in February 2008 and the Group's other stores and food supermarkets all performed robustly. Boosted by the inclusion of The Hanshin Department Store, Ltd.'s results from the second half, the Group posted record high sales, operating income, recurring income and net income. However, we expect the operating environment to gradually become more difficult with the arrival of competitors using other retail formats and increased pressure from demographic trends (a rising elderly population and falling birthrates). Under these conditions, the Group has taken measures to strengthen its business base and broaden its scale of operations based on the GP10 Plan compiled in 2004 for the ten years up to 2014. As the integration with The Hanshin Department Store has necessitated revision of this plan, we have relaunched it as GP10 Plan ver. 2.

Based on GP10 Plan ver. 2, we have set ourselves a final-year target of consolidated operating income of ¥40.0 billion.

However, reduced sales area due to reconstruction of the Hankyu Department Umeda Main Store, a core project in the plan, means that sales are likely to decline, particularly over the three years from fiscal 2009 to fiscal 2011. We will treat stable profitability over this period as a priority for the Group as a whole.

I would like to take this opportunity to thank our shareholders for their further support in these endeavours.

## H2O Retailing's basic philosophy

To remain indispensable to the local communities through our activities of providing a model of lifestyle to local residents

## Reason for the name change

Based on the Group's philosophy of continuing to be indispensable to the local community, we chose the symbol for water, which is indispensable to the global environment.

## About our logo



Our logo is intended to express the beauty of water, a universal element and the source of all life. The typeface we have used has an orthodox beauty. Together they convey a sense of neutrality and substance. The shape of the logo is intended to suggest a spirit of boldness enabling us to survive in the fierce competition of the retail sector. It also expresses the determination of H2O Retailing to progress to the next level.

# "Hankyu MEN'S" OPENED



On 1 February, 2008, Japan's biggest MEN'S Emporium was created at the new commercial hub of Umeda in Osaka. Hankyu Department Stores MEN'S Emporium is the largest menswear emporium in Japan, and has already impressed customers since its opening with its vastly superior lineups and services

Concept : making guys nice

Project manager Eiji Komori, Executive Officer, here explains the concept and its attractions.

## Why a menswear emporium now?

With the launch of reconstruction of the Umeda Main Store, we had decided to open a store at "Hep Navio" commercial complex to secure sufficient sales space, but initially there was much discussion of how this space should be used.

Within the department store sector, the market for menswear has been in decline for over 10 years. With the market approaching maturity, we began to think that the time was ripe for offering a comprehensive men's fashion range in a systematic way. We were confident it would work. This led to the creation of the MEN'S Emporium.

## What makes the MEN'S Emporium special?

The concept of the Emporium is "making guys nice." We aimed to cater to fashion-conscious males of all age groups through three concepts: "authentic," "cultured" and "cutting-edge" style.

By making full use of the ample 16,000m<sup>2</sup> at our disposal, we tried to think of ways of providing relaxed spaces and services. We have also arranged layouts not only by age group but also by style. Our goal is not merely to sell fabric such as menswear items and accessories; we also want to offer ideas, through a café with a bookstore and a "men's beauty" corner.

## How have things gone since opening?

Since opening on 1st February, we have been able to attract a very large number of customers and sales have surpassed initial forecasts. We have made a good start.

We had good sales on the first floor, where we stock the miscellaneous items that are crucial to fashion, and the fifth floor, where we offer trendy casual wear, a new departure for department stores. For example, we drew a wide range of customers into the first-floor mens' footwear section with selections priced from ¥20,000 to ¥200,000, with a relatively large stock at the affordable end of the range.

At the same time, we have seen a striking rise in the number of new customers. People who normally do their shopping in specialty stores rather than department stores, and people from Chugoku and Shikoku area, outside the Kyoto-Osaka-Kobe area, have visited the store, and this new customer base has helped increase sales, I believe.

We will continue to make the store a menswear fashion nerve centre and constantly come up with new designs. Readers who visit the Umeda area are cordially invited to drop by.



Eiji Komori

Executive Officer,  
Manager of MEN'S Emporium business  
of Hankyu Department Stores



# "Hankyu MEN'S" OPENED



The Emporium's floors are laid out by style, with range-leading fashion items on the first floor.

## First floor: Men's accessories

*High-class miscellaneous fashion items from around the world, with the accent on "authentic style" and quality*

On this floor, we carry a huge stock of men's footwear, bags, leather goods, shirts, and neckties, all rigorously selected for the authenticity and quality. We have also made a name for ourselves as Japan's first specialty store with menswear outlets of Lois Vuitton and Bulgari.

## Fifth floor: Cool trendy styles

*This floor stocks trendy casual items that are cool and edgy*

A wide range of youth styles are presented in four zones centred on stores that have never had outlets at department stores. Female customers also enjoy its range of audio devices, stationery articles and accessories.



## Fourth floor: Authentic styles

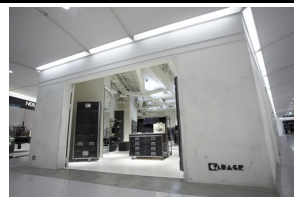
*A basic wardrobe for the man whose taste rises above fashion trends*

This floor contains complete basic wardrobes for business, formal and casual dress situations. Sales areas include fruits of collaborations between promising young tailors and Hankyu Department Stores, Inc. Also has a full range of large-size menswear.

## Third floor: Gentleman's styles

*A floor dedicated to international traditional styles*

Classic, traditional styles from around the world are gathered together under one roof, including a Tom Ford outlet, only the second in the world opened by the designer outside New York. The floor also contains a café with a bookstore.



## Second floor: International styles

*At the cutting edge of global fashion*

Leading menswear fashion brands are gathered here including the Garage D. Edit line created jointly by Hankyu Department Stores and the stylist Tsuyoshi Noguchi.

## Basement one: Contemporary style/Men's beauty

*Trendy casual attire for the discriminating adult, and men's beauty products and services*

This floor contains special corners for trendy casual wear and underwear, as well as health and nutrition products that support men's beauty. We have created a new sales space offering everything from cosmetics and supplements to barber and nail salon services.



**Store data** Address : 7-10, Kakukda-cho, Kita-ku, Osaka  
Telephone : 06-6361-1381  
Business hours : 10:00-20:00(Sun, Mon & Tue)  
10:00-21:00(Wed-Sat)

# Our long-term business plan “GP10 Plan ver.2”

To assure lasting development, growth and creation of enterprise value, the Group has been taking measures since April 2005 to strengthen its fundamentals and expand its business to achieve its goals under a long-term business plan, GP10 Plan, for the period to fiscal 2014. However, with the integration of the managements of Hankyu Department Stores and The Hanshin Department Store on 1st October 2007, the plan has been revised and relaunched as GP10 Plan ver. 2.

## FY2014 target

Sales target (consolidated): ¥700-¥800 billion

Operating income target (consolidated): ¥40 billion

## Rationale

Through this long-term business plan the Group intends to realise its corporate philosophy of “To remain indispensable to the local communities through our activities of providing a model of lifestyle to local residents,” and building enterprise value on a sustainable basis.

## Basic policies

### Expand market share by concentrated development of retail businesses throughout the Kansai commercial business area

In the Kansai business area, we aim to increase our share of consumption within the area by focusing on retail businesses development centred on department stores and supermarkets.

## Measures

### (1) Build a megastore in Umeda

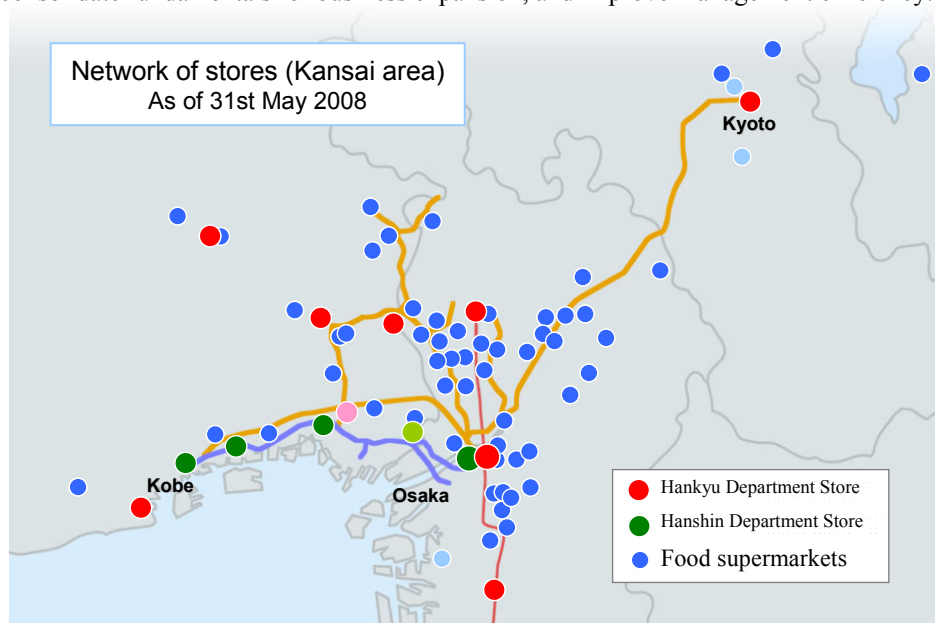
Create a high-profit structure through establishment of a city centre mega main store combining Hankyu and Hanshin main stores.

### (2) Make Kansai our core operational area

With the “Mega main store” as our flagship, expand market share for the Group in the Kansai business area by combining different retail businesses such as suburban department stores, food supermarkets and home-delivery services to generate growth and encourage customers to shop within the Group using the Group’s different retailers to satisfy their various needs.

### (3) Streamline the Business Structure

Leverage the benefits of management integration with Hanshin as soon as possible, continue measures to consolidate fundamentals for business expansion, and improve management efficiency.



## Expanding the network of stores between Osaka and Kobe Hanshin Mikage opens 20th March 2008

On the 20th March 2008, Hanshin opened its third satellite store, Hanshin Mikage, within the “Mikage Classe”, commercial facility that began operation on 20th March 2008 at Mikage Station on the Hanshin line (Kobe, Hyogo Prefecture).

In addition to offering popular ranges of food and drink products from the Umeda Main Store, the new outlet will stock lineups of women's fashion and sundries tailored to the tastes of the local community.

### Overview of the Store

Address: 3-2-1 Mikage-nakamachi, Higashinada-ku, Kobe  
Telephone: 078-330-8000  
Business hours: 10:00-21:00  
Business area: 5,900m<sup>2</sup>  
Annual sales target: ¥5 billion



## New Hankyu Oasis with “the tomato logo”

### In March 2008, Hankyu Oasis, Inc. opened its first store in Shiga Prefecture

In March 2008, Hanshoku Group opened its first food supermarket in Shiga. With its new logo, Hankyu Oasis Kusatsu is the first store to be opened under a collaboration between Hankyu Oasis and Hankyu Nissho Store.

Looking ahead, we intend to broaden our business area to include Kyoto and southern Osaka, and accelerate the pace of store openings.

## Popular bread range broadened to include Danish pastries and sweet rolls Hänsel store opens at Hankyu Oasis

Hankyu Bakery Co., Ltd. has offered its popular freshly-baked bread products at “Baked Q” outlets at Hankyu department stores and Hankyu Oasis outlets. Now, in a joint venture with Hänsel Co., Ltd., a subsidiary of Hanshin Department Store, a purveyor of popular sweet-dough items, we have opened the in-store bakery “Hänsel” at the Kusatsu and Momoyamadai stores of Hankyu Oasis. In future, we will open more new Hänsel outlets as we develop the bakery business.



## Joint Development with Valor Co., Ltd. Strengthen private brand products

On 28th January 2008, Hanshoku Co., Ltd., an intermediate holding company specialising in supermarket operation, entered a business alliance with Valor Co., Ltd., which operates food supermarkets and home centres mainly in the Tokai and Hokuriku regions. Under the alliance, the two companies aim to jointly develop private brand products and supply each other with them. The jointly developed private brand products will be marketed by Hankyu Oasis, Hankyu Family Store and Hankyu Nissho Store.

These moves will strengthen supermarket business lineups and profitability.



# Settlement report & Corporate data

## Settlement report (from April 1, 2007 to March 31, 2008)

Consolidated statements of income		
(Millions of yen)		
	Amount	Comparison with the previous term
<b>Net sales</b>	471,617	119.1%
Cost of sales	334,687	119.8%
Selling, general and administrative expenses	119,814	117.7%
<b>Operating income</b>	17,114	115.9%
Non-operating income	3,051	117.0%
Non-operating expenses	2,125	167.3%
<b>Recurring income</b>	18,040	112.0%
Extraordinary income	2,819	183.0%
Extraordinary loss	3,954	118.6%
<b>Income before income taxes</b>	16,905	118.2%
Current income taxes	6,821	120.9%
Deferred income taxes	628	96.2%
Minority income	5	-
<b>Net income</b>	9,450	116.7%

Consolidated Balance Sheets					
(Millions of yen)					
	Amount	Comparison with the previous term		Amount	Comparison with the previous term
Current assets	111,349	+26,484	Current liabilities	100,114	+26,582
			Fixed liabilities	73,677	+9,342
Fixed assets	226,429	+28,535	Net assets	163,986	+19,094
Total	337,778	+55,019	Total	337,778	+55,019

## Projection performance (from April 1, 2008 to March 31, 2009)

(Millions of yen)		
	Amount	Comparison with the previous term
Sales	545,000	115.6%
Operating income	17,500	102.3%
Recurring income	18,400	102.0%
Net income	9,600	101.6%

## Corporate data

### Outline of the company (as of March 31, 2008)

Company name : H2O RETAILING CORPORATION

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

Incorporated : March 7, 1947

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

Capital : ¥17,796,659,575

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

Number of shareholders: 16,904

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

### Board of directors (as of June 24, 2008)

Chairman, Representative Director and CEO	Shunichi Sugioka
President and Representative Director	Jun Wakabayashi
Representative Director	Nobuaki Nitta
Outside Director	Yosaku Fuji
Director	Kazuo Sumi
Director	Hideo Nishikawa
Director	Kazutoshi Senno
Director	Kohei Yanagisawa
Director and Senior Corporate Officer	Yoshio Honda
Director and Corporate Officer	Tadatsugu Mori
Standing Corporate Auditor	Toshimitsu Konishi
Outside Corporate Auditor	Hideyuki Takai
Outside Corporate Auditor	Takeshi Nakagawa
Outside Corporate Auditor	Toshihisa Takamura