May, 2021

Hankyu Hanshin Holdings, Inc.

Main Questions and Answers during the Briefing on Earning Results for the Fiscal 2021 (Year Ended 31st March 2021)

*Please be aware that this document is not a verbatim account of everything that was said during at the question and answer session held during the briefing. The Company has made additions and modifications, and summarised the content as it judged appropriate.

*Please also note that the information presented here is based on the briefing held on May 21.

[Questions about the Company in general]

<< Strategic direction of businesses >>

Q. In the Travel, International Transportation, and Hotels businesses, you embarked on a program of structural reform some time ago. How has the pandemic impacted the reform process in each business? Your Urban Transportation and Entertainment businesses are predicated on physical travel or physical attendance, which the pandemic has undermined, so do you think you will need to reform these businesses too?

A. To start with the Travel business, we started structurally reforming this business in fiscal 2018. In fiscal 2020, the reform program started to pay off: For the first three quarters of that year, we achieved ¥4.5 billion in operating income. It's true that circumstances are tough now because of the pandemic, but I believe that once the situation abates, we'll see the structural reform taking effect again and driving business growth. Our Travel business owns few travel agency stores and thus enjoys relatively low fixed expenses compared to its industry peers. Given this, the key to improving its profitability is to go further and faster in digitizing its services—to do more online. Take travel advertising, for example. The travel business has traditionally advertised tours through physical media like newspapers, but it could cut down on costs by placing more tour ads online. It can also use online advertising to reach out to young people (in addition to middle-aged and senior demographics, the main target up until now) and grow its revenue.

Regarding the International Transportation business, for some years now we have worked on two strategic priorities. First, we want to build a more balanced portfolio by growing the ocean transportation business alongside the logistics business and further enhancing the competitiveness of air transport. Second, we want to shift away from the focus on Japan as the origin or destination for shipments by increasing the volume of shipments to and from locations elsewhere in Asia. Both these tasks require us to expand the amount of volume handled, so that's what we have been focusing on. We see no reason to change the direction of reform in this business. This program will take some time, but we will steadily rack up results and make the business more profitable.

As for the Hotels business, here too we were already working on a reform program back in pre-pandemic times, but the pandemic has prompted us to accelerate the process, and so we are now proceeding at full pace with a comprehensive reform program that covers operational, personnel, and financial aspects—as shown on page 40. Regarding the operation of full-service hotels, as I mentioned during the supplementary briefing at the start, we had for some time been mulling the fate of these hotels and exploring how we could make better use of the assets in order to secure the profitability one would expect from such prime real estate. Eventually, we decided that now was the time to announce the closure of Hotel new Hankyu Osaka and Senri Hankyu Hotel.

In the second part of your question, you asked about the businesses that are predicated on real-world travel and attendance. As regards the Urban Transportation business, until now our top strategic priority in this business has been to generate new ridership demand by helping grow the resident and non-resident populations in areas served by our lines. However, we also recognize that this kind of project cannot be achieved overnight, so in the meantime, we're taking action to increase revenues and cut down on costs. One idea we have to increase revenues is to provide premium seating (seats reserved for a surcharge), which will cater to the rising demand in the new normal for more space and privacy in rail travel. Another idea concerns the customer data we hold; we can use this data for digital marketing in order to generate new travel demand. One idea for cutting down on costs is to use robotics and IoT-driven technology to streamline station operations and maintenance work. These actions will help reduce our break-even point.

As for the Entertainment business, we believe that the demand for in-person attendance of baseball games and shows will remain strong in the new normal, so our primary focus will be to further enhance the stadium and theater experience. But alongside that we will also develop digital content. In the case of Takarazuka Revue, for example, we have used the Internet to livestream shows and provide online shopping. We'll continue working on digital services with a view to boosting our revenue capacity.

<< Cost structure reform >>

Q. How will you reform the cost structure in each business to succeed in the post-pandemic landscape?

A. As mentioned during the supplementary briefing at the start, we fully recognize that the new normal has far-reaching strategic implications for our organization. The Urban Transportation business, for instance, will be affected by a decline in travel demand. For our businesses to maintain or improve their profit levels in the new normal, they must reduce their break-even point. To that end, we'll use digital technology and implement a digital transformation to streamline the business' workflows and enhance productivity (save labor).

<< Shareholder returns >>

Q. Why did you decide to keep the dividend per share at the same level?

A. Back in April 2020, when a state of emergency was declared, the outlook was very opaque. Hence, we left the dividend forecast undecided when announcing the financial results in May 2020. It later transpired that we would avoid the worst-case scenario (a prolongation of the situation in April and May), so when it came to announcing the 1Q results in August 2020, we announced that we would maintain the full-year dividend of ¥50 per share.

There are two main reasons for keeping the dividend at this level. First, we believe that the pandemic's impact will be transitory from a medium- to long-term perspective (while there will be no complete return to pre-pandemic conditions, there will be a substantial recovery). Second, we have a reasonable financial footing.

For fiscal 2022, we expect to set the dividend at the same level again on the assumption that performance will exceed that of fiscal 2021.

[Business-specific questions]

Urban Transportation

Q. Do you have plans to change rail and bus fares?

A. For trains and buses, fares are set based on fully distributed cost (FDC) pricing. In the case of the railway business, fare increases are unlikely at this stage given the recent performance trends and outlook for Hankyu and Hanshin lines.

We recognize that the topic of fares, including the use of peak and off-peak fares, can be quite contentious. When introducing a new fare system, the critical factor is how acceptable it will be to customers and the general public, so we'll always keep in mind public receptivity when exploring improvements to fares.

Real Estate

Q. Do you have any idea at this stage for what you will do with the site of Senri Hankyu Hotel once the hotel closes?

A. As mentioned on page 43, plans are already underway to redevelop the vicinity around Senri-Chuo Station, which is adjacent to the hotel. Another point to consider is that the dilapidated state of Hankyu Senri Chuo Building, an office complex on the north side owned by our group. We need to take these factors into account and explore ideas for better community development that will enhance the overall appeal of the Senri Chuo area.

As mentioned on page 71, for the past 10 years, we have worked to develop the Nishinomiya-Kitaguchi area as an attractive locale through a variety of measures, including opening a large-scale shopping facility, Hankyu Nishinomiya Gardens. Senri Chuo is another key strategic area for us, so as in Nishinomiya-Kitaguchi, we'll confer with local government and other stakeholders to make sure that the redevelopment plan will be broadly supported.

Q. What is your forecast for the performance of the real estate leasing business in fiscal 2022? What is the current situation with offices?

A. The forecast for the leasing business for fiscal 2022 is as stated on page 62. That is, we forecast higher revenue from operations, but lower operating income, compared to fiscal 2021.

The revenue growth is attributable to the recovery from the effects of the pandemic as well as increased contributions from newly completed projects, such as the Umeda 1-1 Project and LOGiSTA Logicross Ibaraki Saito. As for why there is less operating income, one reason is that we are recording pandemic-related losses as operating expenses, rather than as extraordinary losses as we did in fiscal 2021. Another factor is the increase in depreciation cost associated with the newly completed projects. Note, however, that operating income would be up year-on-year if the COVID-19-related losses in fiscal 2021 were recognized as operating expenses.

As for your question about offices, as shown on page 91, vacancy rates have risen in the Umeda area, from 0.93% in March 2020 to 3.36% in March 2021. Across our group as a whole, however, the increase has been only slight, from 0.7% to 1.7%. In other words, occupancy rates remain high.

Demand remains firm for our office spaces in the Osaka-Umeda area. Although some offices have relocated or downsized, we continue to attract new tenants.

<u>International Transportation</u>

Q. For the International Transportation business, you have forecasted a decline in revenue and income. How do you explain this forecast in light of the fact that freight rates continue to rise and automobile related cargo—which accounts for a large share of the freight you handle—continues to perform well?

A. You're right about the current trends, but we nonetheless released this forecast because demand looks likely to trend low relative to the previous period, when East Asia saw emergency demand, and because we cannot tell how long present trends will last.