Supplementary Briefing on the Long-Term Management Plan presented by Yasuo Shimada, President and Representative Director, Group CEO

*Page numbers refer to the page numbers in the Long-Term Management Plan Briefing Materials.

[Introduction]

- The Group continues to deliver robust results, and it may seem that there are no pressing challenges ahead.
- However, in recent years, the business environment has seen increased uncertainty. Five to six years ago, few could have predicted the COVID-19 pandemic, the dramatic shifts in global affairs, or the rapid evolution of AI. Moving forward, I increasingly believe that we are entering an era where the norm will be to expect the unexpected.
- The Group provides products and services that serve as daily essentials for a great many people, particularly in line-side areas. However, if we fail to adapt to the changes that lie ahead, we may find that the 'everyday lives' of the people we support could be greatly disrupted.
- Continuing to deliver enriched lifestyles grounded in values of 'safety and comfort' and 'dreams and excitement' remains one of the Group's most important responsibilities. To fulfill this mission, we must reaffirm the value we have provided to society thus far and the weight of the responsibility that comes with delivering it reliably. At the same time, we must embrace transformation in response to an ever-evolving environment.
- Until now, the Group has pursued revenue maximization based on the belief that each of our businesses should operate independently with strong brand power where the collective strength of the Group lies in the sum of its individually robust businesses. However, in light of various structural shifts such as a declining birthrate and aging population, we have come to recognize that this approach alone may no longer be sufficient to navigate the changes ahead.
- As we enter a phase of advancing line-side large-scale projects, particularly centered around the Osaka-Umeda area, it is essential that we articulate a clear vision for the future we aspire to create. To achieve this, we must further accelerate Group-wide value creation by strategically allocating capital, talent, and other management resources as effectively as possible, while also maintaining a global perspective.
- In this, we face the significant challenge of balancing increased investments toward growth with improved capital efficiency, that is, achieving a high benchmark of 8% ROE. By meeting this target, we are determined to transform ourselves into an 'excellent company' that goes beyond the traditional scope of a private railway company.

[Background on formulation]

Value Creation Trajectory and Future Direction（P6)

- Since our founding over 100 years ago, the Group has continued to enhance the value of line-side communities mainly through the Urban Transportation, Real Estate, and Entertainment, while expanding our business beyond line-side areas, as part of our commitment to taking the lead in proposing ideas for a better way of living, one step ahead of the times.
- We aspire to remain a corporate group that proposes sustainable and fulfilling lifestyles by supporting and enriching people's lives.

Review of the Medium-Term Management Plan (P7)

- Steady progress is being made toward achieving our profit targets for FY2026 under our Medium-Term Management Plan, which covers the period from FY2023 to FY2026.
- Further, several years ago we began effectively positioning ourselves for the future by proactively expanding our growth investment capacity in anticipation for FY2027 and beyond.

Recognizing Changes in the Business Environment (P8)

- Changes in the business environment are accelerating beyond expectations, and stakeholder expectations and demands are also rising. We anticipate that this rapid transformation will only continue to intensify going forward.
- In capital markets in particular, where progress towards economic globalization continues unabated, there is an expectation that public companies deliver an ROE of at least 8%. To continue providing new satisfaction and value to our customers, we must achieve a balance between expanding growth investments and improving capital efficiency to achieve sustainable growth.

Formulation of Long-Term Management Plan (P9)

- We brushed up the current Long-Term Vision and formulated the Long-Term Management Plan in light of these circumstances.
- Until now, our management plans have primarily been formulated using an bottom-up forecasting approach, which accounts for individual business plans. However, our new Long-Term Management Plan represents a shift in mindset, adopting a 'backcasting' approach that starts by defining the future we aspire to create and then working backward to identify how to bridge the gap from our current state.

[Overall Picture and Strategy]

Positioning of the Long-Term Management Plan and Approach to Strategy Formulation (P11)

- Our Long-Term Management Plan outlines the Group's overarching policy for achieving the future for the Group that we aspire to. Aligned with the strategic direction of our businesses, it serves as a foundation for reallocating limited management resources and serves to integrate (1) our business strategy, (2) our financial strategy, and (3) our human resources strategy.
- We plan to outline our plan for FY2026, the final year of the Medium-Term Management Plan, in May. In this, we are looking at achieving a business profit target of ¥118 billion.

Vision for the Future We Want and Our Vision for Future Line-side Communities (P12,13)

- The vision for the future we want, as outlined in our Long-Term Management Plan, is centered around the realization of a society that facilitates encounters and connections between a great many people and provides well-being rich in happiness and vitality. This vision has been founded on the perspectives of our employees, the Group, and our customers and society.
- P13 provides a visual breakdown of our vision for future line-side communities.

Toward Realization of a Sustainable Society (P14)

- In addition, by expanding the circle of resonation and co-creation through providing sustainable, quality products and services and continuing to be the choice of customers, our Group will realize a society where people can naturally choose sustainable actions.

Business strategy： Direction of Initiatives for Realizing Medium and Long-Term Growth （P15,16）

・ The Group possesses strong competitive advantages and robust cash-generating capabilities in line-side areas. However, with demographic trends, such as the declining birthrate and aging population, poised to create a more challenging business environment for line-side areas, it will be essential to strike a balance between digging deeper into existing markets, mainly line-side communities while continuing to take on new challenges. To achieve this, the strategic allocation of management resources will become increasingly critical.

・ To advance these initiatives, we have defined four strategic directions, along with a corresponding policy for the focused allocation of management resources in alignment with each of these directions.

・ Specific details concerning core operations and the approach we seek to take to advance these initiatives are described on P16.

・ Our initiatives will include digging deeper into customers in line-side areas, while also attracting global vitality through inbound travel, among others. We will also work to enhance the appeal of existing content, cultivate new content offerings, and pursue community=building initiatives that extend beyond our core areas, including global expansion. We also aim to strengthen our business solutions capabilities, including through M&A in the information services business. Furthermore, we intend to develop new solutions that leverage the full integrated strength of the Group.

・ Through these initiatives, we aim to continue deepening existing markets while taking on new challenges. At the same time, we will leverage the expertise developed in line-side areas to expand into new fields, establishing a positive cyclical loop where measures that find success in these new fields are fed back into line-side areas, maximizing synergies across the Group.

Financial Strategy: Restructuring of Group Portfolio Based on Return and Cash Generation Ability（P17,18）

・ Changing perspective slightly, we have organized our approach by plotting our returns, ROIC, on the vertical axis, and EBITDA, our cash generation capacity, on the horizontal axis to develop a clear outline for how value is created and how capital is generated and reinvested.

・ Core businesses such as the urban transportation and the leasing and development businesses may not yield a high ROIC, but they possess strong cash-generating capabilities. In the near term, the cash generated from these businesses will be allocated to projects that enhance competitiveness in line-side areas, such as the Shibata 1 Projects.

・ Conversely, businesses that deliver a high ROIC, such as Entertainment and Travel, will have their cash flows strategically allocated to growth drivers, including our real estate (global) business, M&As in the information services business, and the development of new business domains.

・ This strategic, Group-wide allocation of capital is based on a comprehensive view of our overall business portfolio, through which we aim to achieve our ROE target of 8%.

・ Moving forward, we hope to establish a sustainable cycle outlined on P18 where the successful completion of large-scale projects, in addition to our urban transportation and leasing and development businesses further enhance cash generation. This cash will then be reinvested into growth businesses, high-ROIC businesses, and the cultivation of new business domains.

Financial Strategy: Policy on Allocation of Funds to Improving Growth and Capital Efficiency (P19)

- We have outlined a cash allocation policy that seeks to facilitate growth over the medium to long-term and improve capital efficiency.
- For the period from FY2026 to FY2031, cash outflows are set to primarily center around growth investments, which are expected to total approximately ¥750 billion in short-term and long-term investments. Specifically, short-term growth investments expected to contribute to profits by FY2031 have been outlined for our global Real Estate business, among others. Long-term growth investments are set to focus on the Shibata 1 project, and M&A activities in the information services business, to name a few. Additionally, some ¥570 billion has been set aside for investments into maintenance and renewal that fall within the scope of depreciation, and investment to maintain the revenue base, such as the enhancement of station functions.
- Further, in addition to providing returns to shareholders by increasing its total payout ratio to 50% beginning in FY2026, the Company is set to proceed with the sale of ¥240 billion in assets, focusing on the real estate segment, in order to enhance asset efficiency and manage its balance sheet. The timing and details surrounding such a sale are yet to be determined.
- With regard to cash inflows, in addition to EBITDA, while the Company plans to borrow to cover any cash shortages following the aforementioned asset sales, the D/E ratio is expected to be kept at around 1.3x.

Human Resources Strategy: Secure and Enhance Human Capital and Allocate to Promising Areas (P20)

- Human resources are the source of our Group's growth, and we are committed to securing a diverse and highly capable workforce, actively deploying talent in growth areas, and systematically developing the next generation of leaders through structured training and development programs as part of efforts to achieve our Long-Term Management Plan.
- Additionally, we will strive to foster a more engaged and motivated workforce by continuing to invest in human resources through initiatives aimed at improving employee benefits and enhancing loyalty.
- We will put a particular focus on "Empowering individuals", furthering initiatives aimed at empowering women in the workplace and promoting health management.

Initiatives Aimed at Promoting Environmental Conservation (P21・22)

- As part of efforts toward achieving a sustainable society, we are working towards addressing social issues through our business activities, particularly in relation to global environmental challenges – a social issue that is of high interest to our stakeholders – by establishing strategic directions, and setting new KPIs, for addressing emerging focus areas such as biodiversity, natural capital preservation, and resource circulation, in addition to our ongoing carbon neutral efforts.
- Additionally, to effectively reduce greenhouse gas emissions to zero by FY2051, we have set a new reduction target of "60% by FY2036 (compared to FY2020 figures)" in light of a broader global push toward net-zero emissions.

Conceptual Image of Growth in Business Profit Aimed at Realizing Our Vision (P23)

- We anticipate that achieving an ROE of 8% by FY2031 will require a business profit of ¥160 billion. Meanwhile, the Company will continue to focus on maintaining its financial soundness, with a D/E ratio of 1.3x, and net interest-bearing debt/EBITDA ratio in the 6x range.
- Achieving a business profit of ¥160 billion will prove to be a challenging target should we opt to simply grow our existing businesses. To bridge this gap, we will focus on maximizing the benefits of our growth investments while actively developing new revenue sources by leveraging our Group's integrated strengths.
- By FY2041, we aim to have our large-scale projects contribute to our bottom line, reaching an ROE of 8%, and a business profit of over ¥200 billion while maintaining financial soundness.

Management Indicators (Financial and Non-Financial) (P24)

- The projected financial position for FY2031, based on the assumption of achieving 8% ROE, are outlined in the accompanying table. While our aim is to meet these targets as early as possible, and by FY2031 at the latest, the Group is looking to develop new business domains and fundamentally transform the business structure to one capable of sustainably maintaining an ROE of 8%, a process that will require a certain amount of time.
- While temporary factors may result in ROE sporadically exceeding 8%, the Company does not intend to implement short-term measures in order to meet this target, such as the acquisition of treasury stock.
- In addition to financial indicators, we will continue to set and pursue non-financial KPIs. In particular, with regard to environmental conservation, we have updated our greenhouse gas (GHG) reduction targets and introduced new KPIs such as the ratio of renewable energy in our electricity usage, along with newly established monitoring indicators. Through these efforts, we remain committed to contributing to the realization of a sustainable society.

Capital Policy (Strengthening Shareholder Return) (P25)

- As described earlier, we seek to control our balance sheet through a capital policy that strengthens shareholder returns.
- Specifically, we will implement a stable dividend policy by setting a baseline annual dividend of ¥100 per share. In addition, we will pursue the flexible acquisition of treasury stock while accounting for our cash flow situation, aiming for a total payout ratio of around 50%.

[Initiatives Aligned with Business Strategy]

Pursuing Large-scale Projects to Make Our Line-Side Communities the Absolute Best (P30)

- In the Osaka-Umeda area, the Group's largest business hub, we held the grand opening of the South Building of Grand Green Osaka in March, and we are already seeing substantial foot traffic. We will continue to advance the planning of the Shibata 1 Project and further enhance the area's appeal as a hub for international exchange.
- Additionally, to further strengthen our transportation network, we are moving forward with discussions and planning for new lines such as the Naniwasuji Connection Line and the Shin-Osaka Connection Line, as well as projects such as the proposed New Mukogawa Station.

Accelerating Development of the Line-side Community Business Model for Other Purposes (P31)

- In our overseas Real Estate segment, we will further expand and establish ourselves in developed countries while maintaining our focus on ASEAN countries and pursuing new initiatives.
- When considering this area moving forward, while we will maintain our focus on the ASEAN region, we will also look at diversifying our portfolio across developed countries. We also intend to increase our share of stock businesses with a view to establishing stable revenue streams.
- In addition, with regard to railway services in the Philippines, we aim to enhance our presence by offering unique value that only our Group can provide.

M&A in the Information Services Business (P32)

- We have succeeded in expanding the information services business outside the Group based on expertise of electrical and communications technologies that we have cultivated in the railway operation business. The business provides solutions across a broad range of fields, including transportation, building management systems, and Internet services.
- With the rapid development of AI, IoT, robotics, and other new technologies in recent years, the information services business is expected to see increased demand and undergo rapid market growth in the years ahead.
- Amidst this backdrop, we look to achieve dynamic growth as a means of expanding the information services business by looking at M&As and other opportunities.

The Aims of the Hankyu Hanshin DX Project (P33)

- We have seen a steady increase in the number of members to our Group-wide ID (HH cross ID), which serves as a platform for our DX initiatives, reaching 1.15 million members by the end of FY2025.
- Based on this, we will look to expand on opportunities to provide 'dreams and excitement' through the unwavering need for 'real-life experiences' and 'interaction and communication with people' while deftly integrating digital and real-world experiences.

Initiatives in Governance (P35, 36)

- As announced on January 14, we are further strengthening the Group's governance structure. Specifically, we are appointing directors and audit and supervisory board members from outside the Group to key core subsidiaries and establishing risk management frameworks tailored to the characteristics of each business to ensure effective oversight and control.
- These efforts include plans to incorporate the Takarazuka Revue sometime around July 2025. We will look to further enhance its governance structure by filling its Board with a majority of directors from outside the Group.
- Authority is delegated to operating companies to accelerate the pursuit of business strategy, based on the premise of strengthening the Group governance system.

Looking ahead, we will continue to engage in robust communication with our investors and all stakeholders, as we work as a unified Group to further enhance our corporate value. We sincerely ask for your continued understanding and support.