November, 2020
Hankyu Hanshin Holdings, Inc.

Supplementary Briefing and the Main Questions and Answers during the Briefing on Earning Results for the First Half of 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 November 12.

1. Supplementary Briefing

<< Outlook >>

◆ **Scenario for resumption of business activities**

・During the briefing on earning results held in May, we announced our outlook for the phased resumption of business activities across the group. The scenario consists of three broad phases.

[Phase 1]
・In Japan, the public gradually resume local travel. Physical distancing rules gradually ease.
・In tandem with this trend, operations resume to some extent in the group businesses that are closely connected with people's lives: the Urban Transportation, Real Estate, and Entertainment businesses.
・Once local travel has more or less returned, the public starts traveling longer distances. At this point, the Travel and Hotels businesses see some uptick, but only to a limited extent.

[Phase 2]
・Travel resumes both in Japan and across the globe.
・International travel resumes (e.g. foreign tourists travel to Japan, Japanese travel abroad). Reflecting this trend, the Travel and Hotels businesses start recovering.

[Phase 3]
・Business activities in Japan and other countries recover to a significant extent. At this point, the COVID-19 crisis has largely abated.
・However, there is a lasting socioeconomic impact, with a shift to new lifestyles and business practices (e.g. more e-commerce, more telework). Though the crisis has abated, there is no complete return to the pre-COVID-19 normal.
・Accordingly, our task for this phase is to adapt to the new socioeconomic landscape.

・Japan is currently in phase 1. Local travel has resumed, longer distance travel is increasing, and physical distance rules are gradually easing.
・It remains entirely unclear how the recovery in this phase will progress. Suffice it to say, Japan is unlikely to move to phase 2 during the current period, and that it will take around two or three years to get to the final phase.

◆ **Full-year forecast for fiscal 2021**

・Although the outlook remains opaque, we have forecasted our performance for fiscal 2021 based on certain assumptions regarding the characteristics of each businesses, their recent earning performance, and the impacts of COVID-19 (see page 28 of the Results Briefing Materials).

・Our forecasts for the Travel and Hotels businesses are particularly sobering, so we have added a supplementary explanation on these businesses below.

Travel:

・Domestic travel is on a recovery trajectory thanks to the Go To Travel campaign, but demand for international travel will remain weak for the time being.

・On the other hand, we have been structurally reforming the Travel business since fiscal 2018, and these efforts are beginning to bear fruit. In the 3Q of fiscal 2020, for example, we saw a cumulative operating income of 4.5 billion yen.

・Given that demand will remain weak for some time, our focus for the time being will be on maximizing business efficiency and profitability by reducing non-fixed and personnel expenses. Once we reach phase 2 (once travel demand reemerges across the globe), we should see a recovery in international travel. From that point on, we will build on our existing reforms and take the reform process forward to further strengthen profitability.

Hotels:

・Even before the outbreak of the pandemic, the Hotels business faced tough circumstances. These included an increasingly crowding market, especially in the Kansai area. COVID-19 has compounded these problems, leaving the business in a tough position. Since inbound tourism will take time to recover, circumstances will remain tough for some time.

・Thus, although there is little chance of revenue recovering soon, we must still work to improve profitability as soon as possible. To that end, wholesale structural reform is an urgent necessity, and we are actively working on plans to accomplish this task.

・In view of the above circumstances, the forecasts take into account the need to provide for the risk of asset impairment, including possible impairment losses in the Hotels business and the reversal of deferred tax assets.

・By taking the above actions, we hope to see a recovery in as possible after the start of fiscal 2022.

・To give further details about current performance, railway revenue is steadily recovering. In October, ridership on Hankyu and Hanshin lines was about 15% less compared to the same period last year. Other businesses, likewise, are generally performing slightly better than the assumptions underlying our forecasts implied.

<<Responses to COVID-19 impact>>

◆ **Actions to improve income and cash flow**

・To improve income, we will reduce our supply of products and services to reflect the diminished demand, cut or defer expenses in each business, and control fixed expenses. Alongside this, we will proceed with a group-wide recovery plan. This plan amounts to over 30 billion yen in the current fiscal year and some of this fund comes from employment adjustment subsidies.

・To improve cash flow, we will reduce capital expenditure (especially that for maintenance and renewal) and put investments on hold. We will also rein in investment in for-sale property and equity as much as possible.

・Investment has now been scaled back by 40 billion yen compared to the initial (pre-COVID) budget. However, the period under review will nonetheless see a full-year expenditure of 118.7 billion yen (¥37.6

billion higher than in the previous period) due to heavy spending commitments on ongoing projects, including the Umeda 1-1 Project, the project to rebuild Kobe Hankyu Building, and the Umekita Phase II Development Project.

◆ **Financial position**

・There are no financing problems at all. We have secured ample liquidity by taking out long-term finance and flexibly using short-term finance. We have also extended our back-up line of credit and taken other measures to ensure smooth financing.

<<Fiscal 2021 dividend>>

・Since we have avoided the worst-case scenario (in which the state-of-emergency conditions of April and May would continue throughout the fiscal year), we will maintain our commitment to stable dividends in fiscal 2021. Specifically, as announced on August 12, 2020, the annual dividend per share will be 50 yen, as it was in fiscal 2020.

<<Toward our long-term vision for fiscal 2026 (Hankyu Hanshin Holdings Group's Long-term Vision for 2025 (fiscal 2026)>>

・We set out our long-term vision with the aim of being an organization that achieves sustainable growth in a changing world.
・We are now seeing a shift in lifestyles and ways of doing business. However, since our long-term vision was formulated on the assumption that such changes were always going to occur sooner or later, our strategic direction will remain fundamentally unchanged.
・That said, COVID-19 will likely accelerate the shift, so we must work all the more urgently toward our vision.
・The COVID-19 impact means that we will endure reduced earnings in the short term, so in the interests of financial health, we need to make some cutbacks in costs and spending. Nonetheless, since we remain committed to the goal of sustainable growth, we will keep investing in future growth as actively as we have done previously, although we will carefully weigh up each prospective investment.

<<Adapting to a new normal>>

・As mentioned in the description of phase 3, even after the COVID-19 crisis abates, socioeconomic activities will not completely recover to pre-COVID levels. The same applies to our business performance.
・To ensure that we can continue on the path of sustainable growth against this backdrop, we must waste no time in developing adaptation measures.
・Take, for example, the COVID-driven rise in contactless transactions. This trend, coupled with advances in digital technology, has spurred a sharp rise in demand for online services. Until now, we have enjoyed a competitive edge by offering products and services that involve real-world interfaces with customers; customers physically board our trains and other vehicles, visit and shop in our retail facilities, attend our baseball games and stage shows, go on our travel tours, and stay at our hotels. Undoubtedly, we must continue honing our strengths here and enhancing the kind of value that you only get with real-world experiences. However, the digital customer experience will be increasingly crucial in the years ahead, and so we must identify the kind of online products and services that people want.
・To give an example of online experiences, in July, Takarazuka Revue started offering payable livestreams of some of its stage shows. The theater troupe plans to expand these livestreams. It will continue trialing this new approach while also examining a range of other ideas, including ideas for attracting new audiences to real-world shows.

2. Questions about the Company in general

<<Outlook>>

Q. According to your full-year forecast for fiscal 2021, 2H will see a positive operating income of 2.7 billion yen. There also seems to be a slight uptick in current performance. Assuming that the recovery continues at a similar pace, do you expect to be in the black in the next fiscal year?

A. We do indeed expect positive income in 2H. Mind you, as I explained earlier, this and other performance forecasts are based on certain assumptions, and our actual performance may vary widely from forecasts depending on how the COVID-19 situation plays out. Due to this uncertainty, we can give no precise performance forecasts for the next fiscal year. That said, if the recovery process in phase 1 proceeds smoothly, then we have a reasonable chance of making a profit in fiscal 2022. We will announce the full-year forecast for fiscal 2022 in May 2021. As was the case this year, the forecast will be based on certain assumptions about the economic situation at that time, including the economic recovery from COVID-19. I'm optimistic that we'll be able to announce that we forecast a profit.

<<Responses to COVID-19 impact>>

Q. What progress did you make in your recovery plan in 1H, and what is your plan for the next fiscal period and beyond?

A. As I said, our recovery plan amounts to over 30 billion yen (some of which comes from subsidies) in the current fiscal year. Over 20 billion of this comes from cost reductions, and we made around half of this in 1H.

As to whether or not we continue these cost reductions in the next fiscal year, this will depend on how well our earnings recover. If earnings fail to recover by then, we may need to continue cutting costs and reigning in investment. That said, we will need to look at the specifics, as some parts of the plan can be continued in the future while others can't.

Q. You mentioned that you have scaled back the full-year investment budget by 40 billion yen. Can you give more details?

A. The cuts will primarily be in maintenance and renewal.

To explain this further, due to the present adversities, we are reducing or postponing spending as much as possible, without compromising safety. On the other hand, we remain committed to the goal of sustainable growth, and so we will keep actively investing toward this goal. We are in the midst of large projects such as Umeda 1-1 Project, the project to rebuild Kobe Hankyu Building, the Umekita Phase II Development Project, and the Kita-Osaka Kyuko Railway Line Extension Project. Our investment in these projects will continue as planned.

<<Shareholder returns>>

Q. What is your policy for dividends going forward?

A. The plan remains unchanged from what we announced last August. As a rule, we aim to deliver steady dividends to shareholders, as measured by a total payout ratio of 30%, and steadily acquire treasury stock. This remains the case at the moment.

<<Business-specific questions>>

Urban Transportation

Q. How is COVID-19 impacting earnings in Urban Transportation, and in light of this impact, what will you do to secure profit?

A. Commuter ridership is currently down by over 10% from the same period last year due to the rise in working from home among other things. However, many of the businesses that asked employees to work from home did so as an emergency measure, and once they start assessing the benefits of working from home, the trend may become slightly less widespread. Commuter revenue should then recover to some extent.

It's also worth noting that the work-from-home trend is less widespread in the Kansai area than it is in the Tokyo metropolitan area. This is because it offers fewer benefits in the Kansai area, where commutes are comparatively shorter and less congested than they are in the capital region. If this present trend is anything to go by, then we should see a difference emerging between the two regions in the extent to which the work-from-home trend catches on.

However, the rise in working from home is an undeniable reality and it will inevitably hurt our revenue. The basic strategy for dealing with this situation is clear: create new travel demand. We have always aimed to make our railway the absolute best among the Kansai networks. To that end, the most essential task is to build vibrant communities along our lines in order to increase resident and mobile populations. We will continue this effort to stimulate further travel demand. At the same time, however, we must reduce our break-even point. For example, if fewer people are riding our trains during commuting hours, we would consider adjusting the timetable to enable a reduction in rolling stock and or a reduction in other costs. Another option would be to use digital technology. As technology advances, we may be able to use IoT, AI, and robotics to streamline processes such as maintaining railway and rolling stock assets or communicating information to passengers. I believe that a combination of these initiatives should enable us to offset revenue loss to some extent.

Real Estate

Q. What is the current situation with offices? How are you getting on with the leasing of office buildings under development, such as in the Umeda 1-1 Project?

A. In the Umeda area in Osaka, where many of our office properties are located, demand has outstripped supply for some years due to an undersupply of large-scale offices. Even since the COVID-19 outbreak, we have seen no major rise in cancelations. Even if such a trend emerges in the future, it would currently have no major impact on our leasing business.

As for the ongoing projects, we are actively leasing space in these projects, including the 1-1 Umeda project, and progress has gone well. Therefore, we have no major concern at the moment, although we do need to keep an eye on possible impacts in the future.

Q. What is the current situation with your overseas real estate operations? What is the outlook?

A. For overseas real estate, we have focused on real estate sales in ASEAN markets. More recently, we expanded into leasing operations.

COVID-19 has impacted socioeconomic activities in ASEAN countries too, but our projects in these countries have generally made good progress. ASEAN economies have demonstrated consistent growth over the long term. It only took them two or three years to return to growth after the financial crisis of 2008. In these markets, the economic damage of COVID-19 has been less extensive than the financial crisis was, so demand should recover here relatively quickly.

We want to get our overseas real estate business to a reasonable level of profit as soon as possible. Although this goal may take some more years to accomplish than initially expected, we will maintain our active efforts to grow this business.

Entertainment

Q. What is the current situation with payable livestream service that Takarazuka Revue recently launched? What is the outlook?

A. The businesses across our group have focused on offering products and services that involve real-world customer interfaces. However, as I said at the start, in the new normal, we will still need to enhance the kind of value you only get offline, but we must also place more focus on delivering customer needs online. This applies to all our businesses, not only those in the Entertainment business.

I cited Takarazuka Revue's livestream service as an example of this new approach, but I should stress that this service remains at the trial stage; we are still monitoring the response. There seems to be a strong demand for such online services, suggesting that this could be a decent source of revenue for us. However, if Takarazuka Revue does go further ahead in the online market, this would not imply a major shift away from real-world services. Offline theater will always remain the core Takarazuka Revue experience. Providing a service online is beneficial in that it allows you to reach new audiences who have never attended a Takarazuka Revue show in person. Another important benefit is that you can broadcast shows to people who are unable to attend in person due to limited seating capacity. Thus, we will make our best efforts to grow our businesses in the new normal by combining online and offline services.

Hotels

Q. Can you describe your structural reforms in the Hotels business?

A. With the recovery in inbound tourism still far off, efforts to achieve a recovery in the Hotels business remain mired in difficulties. Accordingly, we identified areas that need fixing and are now urgently looking at structural reforms covering operational, personnel, and financial aspects with a view to making businesses in the business self-sustaining.

Let me elaborate on each aspect. Regarding the operational aspect, we operate a range of hotels, including full-service hotels and accommodation-specialized hotels. We will assess each hotel's business prospects in terms of the income outlook. Based on this assessment, we will decide the hotel's future, such as whether it remains an indispensable asset for us.

Regarding the personnel aspect, we will first run a business process inventory to see where we could improve productivity. We will then work to streamline processes to enable leaner operation.

As for the financial aspect, we have already incorporated some impairment loss into our forecast for fiscal 2021 to cover the risk of asset impairment. In the months ahead, we will analyze the situation to get a clearer picture.

In each aspect, we will proceed with reform as fast as we can, but please understand that the reforms will inevitably take some time.

Q. How has the Go To Travel campaign affected the Hotels business?

A. The benefits of the Go To Travel campaign will be limited in our case. The campaign is designed to boost demand for travel to tourist destinations and resorts, whereas many of our hotels are full-service ("city") hotels and accommodation-specialized hotels in urban area, which are generally fall outside the scope of the campaign. Still, occupancy rates have improved compared to August and September. There does seem to be an effect, albeit a limited one, in those hotels that are more rurally located and those that boast high-end amenities. To give a geographic breakdown, hotels in the Kansai area have seen a reasonable boost from the campaign, while those in the Tokyo metropolitan area have benefitted less and continue to feel the pinch.