

Briefing on the Financial Results for the Fiscal Year Ended March 2022 and the Long-Term Vision: Commentary on the Long-Term Vision and Medium-Term Management Plan presented by Takehiro Sugiyama, President and Representative Director

*The page numbers used here correspond to the page numbers in the Results Briefing Materials for Financial Results for Fiscal 2022 (Ended March 2022) And Materials for Long-Term Vision.

<Long-Term Vision: *Toward 2040*>

1. Long-Term Vision for 2025 in Review (P25-)

[P25]

•Back in 2017, which marked the tenth anniversary of Hankyu and Hanshin's integration, we unveiled a Long-Term Vision for 2025 (fiscal 2026). Since then, the business climate has changed at a pace beyond what we had envisaged when formulating the vision. Accordingly, we have decided to update the vision.

[P26]

•After unveiling the original Long-Term Vision, we defined strategies for achieving the vision and started working on action plans for these strategies. Until COVID -19 struck, we were generally on course with these strategies.

[P27]

•For example, in Strategy 3, which was to strengthen competitiveness by thoroughly pursuing brand optimization and differentiation, we succeeded in growing earnings in our flow businesses. Similarly, in Strategy 1, which was to make our railway the absolute best among the Kansai networks, we celebrated the completion, in February 2022, of the Umeda 1-1 Project, which symbolizes the union between Hankyu and Hanshin.

•However, after the COVID outbreak, the business climate changed drastically, overturning our underlying assumptions and putting our earnings targets out of reach.

2. Changing business climate (P28-)

[P28]

•The first major change is the rapid societal changes driven by COVID. These include changes in where people live and work. Examples are shown on this slide, and we expect further changes along these lines in the future.

[P29]

•The second major change is growing interest in SDGs and the 2050 carbon neutrality goal. Most crucially, the Government of Japan has upgraded its 2030 carbon reduction target, and companies are increasingly expected to strengthen governance in a way that contributes toward a sustainable world.

[P30]

- Thirdly, we face market changes occurring over the medium to long term. Some of these changes are causes for concern. Examples include population decline, rising construction costs, high land prices in Tokyo, and an inbound tourism market that will take time to recover. For each case, we have a strategy to deal with the problem, as you can see on the right of the slide.

[P31]

- Other market changes are more positive. Take, for example, the shift to the next-generation MaaS. This shift should drive demand for travel even as the population shrinks.
- Another positive change is economic growth in ASEAN countries. We target this region in our Real Estate segment, so economic growth here is great news for us.

[P32]

- As noted here, just under the middle of the slide, COVID has driven up the value of real experiences and content. As this example illustrates, although many of the changes pose challenges, they also present plenty of growth opportunities. In this spirit of optimism we updated the long-term vision.

3. Thinking Behind Updated Vision (P33-)

[P33]

- We will continue working on the large-scale projects in Osaka, including Shibata 1, and new transport connections. Current estimates suggest that these projects will turn a profit in the 2035–2040 period and then serve as a significant growth driver.
- However, this period lies far into the future. To provide a roadmap to growth, the updated vision defines FY2031 as a milestone between then and now. By setting targets for that milestone year, the vision clarifies our commitment to sustainable corporate growth as we move toward 2040.

4. Outline of Long-Term Vision (P35-)

[P35]

- The updated vision retains the same slogan as before: Enhancing line-side areas and expanding fields. First, we create and provide the diverse values, such as safe, comfortable urban life and inspiring experiences. These values will enhance line-side areas and expand our portfolio, leading to better customer satisfaction and sustained business growth.
- Second, we meet the expectations of customers, communities, and other stakeholders in terms of supporting a sustainable future. In these ways, we ultimately become a well-balanced, sophisticated corporate group that grows alongside the community in Kansai.

[P36]

- This slide shows a general image of the vision. The vision involves four strategies, which I will discuss later. These strategies will deliver the values of safe, comfortable urban life, inspiring experiences, and high-

quality business support. Alongside the four strategies, we will work on the Hankyu Hanshin DX Project and initiatives linked with the SDGs and the 2050 carbon neutrality target. These efforts, together with the values created by our four strategies, will enable us to sustainably enhance corporate value and contribute to a sustainable society.

[P37]

- We use operating income as a measure of profitability. Before COVID, we were earning over ¥100 billion in operating income. For the milestone year of FY2031, we aim to achieve ¥130 billion, primarily by growing earnings in existing businesses. We also hope to add something extra onto this sum through the DX project.
- Beyond then, our large-scale projects will progressively reach completion and enter service. Consequently, they will turn a profit and start driving further growth sometime between 2035 and 2040.

5. Summary of Growth Strategy (P39-)

[P40]

<Strategy 1: Make our railway the absolute best among the Kansai networks>

- Since our mainstay business centers on the communities served by our railways, enhancing value in these line-side areas is critical to our growth. Therefore, the first strategy, shown here, forms the linchpin of the long-term vision.
- This slide elaborates on the strategy. Note that it mentions the Umeda Vision. Osaka-Umeda is the most strategically critical area for us, so we have formulated the Umeda Vision to raise the value of the area. I will say more on the Umeda Vision later.

[P41]

<Strategy 2 : Make our contents as compelling as possible>

- One of our strengths is that we offer unique and compelling content such as Hanshin Tigers and Takarazuka Revue. Building on this strength, we will explore other content we could offer—things that we have not regarded as potential content until now. Travel content is one example.
- Alongside this, we will actively integrate digital technology to expand our customer base.

[P42]

<Strategy 3 : Expand the coverage of our line-side business model>

- As part of the strategy, we will work to expand our Real Estate business overseas. Specifically, we will expand the scale of our residential real estate sales, short-term-revenue (fix-and-flip) development, and real estate leasing businesses in the economically up-and-coming ASEAN countries. This effort should yield a stable source of operating income.

[P43]

<Strategy 4 : Increase market share by providing high value-added services>

- To underpin our business portfolio, we will grow our information services business and International

Transportation segment through the actions described on this slide.

6. Umeda Vision (P47-)

[P47]

- There are four main background factors to the Umeda Vision.
- First, opportunities have arisen to develop Kansai, and Osaka in particular, into globally competitive locations.
- For Kansai one such opportunity is the upcoming Expo 2025. Another is the casino resort project for 2029. Projects such as these are drawing attention to Kansai, including from overseas.
- Meanwhile, initiatives are underway to raise the profile of Osaka City as a truly international city. For example, Osaka City has been designated as a National Strategic Special Zone for piloting super-city initiatives, and the prefectural and municipal governments have unveiled a public-private strategy to make Osaka a global financial hub.
- The second factor is a set of plans to strengthen transport networks and infrastructure, making Osaka-Umeda a node linking Kansai with the wider world. These projects will increase the importance of Osaka-Umeda as a transport hub.
- The projects are intended to link Osaka-Umeda with new transport connections. They include the underground JR Osaka Station, scheduled to enter service in spring 2023, along with the planned Naniwasuji Line, Naniwasuji Connection Line, and the Shin-Osaka Connection Line. If the plans materialize, they would significantly enhance air and land access to Osaka-Umeda, increasing the prospects for Osaka-Umeda to channel the dynamism of the country and the world.

[P48]

- The third factor is that Osaka-Umeda is set to play a trailblazing role in addressing social challenges.
- Osaka's prefectural and municipal governments have chosen Umekita Phase II as a critical location for the super-city project. The locale will be center for industry, academia, and government collaboration in creating new industries that will address social and environmental challenges to sustainability, and a model area for pioneering data-driven digital transformation.
- The prefectural and municipal governments also have a strategy to make Osaka a global financial hub. If this strategy succeeds in enhancing the international profile of Osaka and Kansai, it will further increase the potential of the locale to draw in from around the world the talent and capital necessary to grow startups that will create the new industries.
- Having attracted knowledge from around the world, Osaka-Umeda will be a trailblazer in addressing social and environmental challenges to sustainability.
- The fourth factor is that Osaka-Umeda has certain characteristics that make it an unmatched urban locale.
- Osaka-Umeda stands out from other urban locales in Japan in that it features a compact and well-balanced cluster of office, retail, and entertainment functions, all within walking distance. By leveraging this rare advantage, we could ensure that the area accommodates the diverse needs of the new normal. This would make Osaka-Umeda an attractive destination for people around the world.

•In view of these four factors, we realized that Osaka-Umeda has the amazing potential for development and growth; it has the potential to drive the development of Kansai and become an international city that beats the competition.

[P49]

•Umeda Vision envisages Osaka-Umeda as an international hub. To achieve this vision, we have set the six basic policies listed here.

[P50]

•As well as these six basic policies, our efforts to achieve the Umeda Vision will include pressing on with our series of projects to redevelop our assets in the Osaka-Umeda area. These projects include Shibata 1 Development, which follows Umeda 1-1 Project and Umekita Phase II Development Project. These redevelopment projects together with the six basic policies will enhance the attractiveness of Osaka-Umeda as an urban space.

7. Contribute to SDGs, 2050 Carbon Neutrality Goal (P45)

[P45]

•We have reset our carbon reduction target to align it with that of the government's.
•The table at the bottom of the slide shows our non-financial KPIs. We will work toward these goals going forward.

8. Financial Policy (P46)

[P46]

•This slide shows our financial strategy. It includes an interest-bearing debt to EBITDA ratio of 5–6. One component of the financial strategy is to keep capital cost in mind, which is particularly necessary from a governance perspective. To meet the expectations that markets and other stakeholders place in us, we aim to maintain or improve capital efficiency. To that end, our businesses will go further in controlling capital costs. For this, our benchmark will be ROIC, which is operating income divided by invested capital.
•We will also provide stable and generous shareholder returns, maintaining a reasonable D/E ratio. Through these measures, we aim for a ROE in the 7% range over medium to long term.

<Summary of the Medium-Term Management Plan>

1. Medium-Term Management Plan: Time Period Covered, Context (P54)

[P54]

•Our new Medium-Term Management Plan outlines a set of actions to achieve our medium-term objectives on the road toward the Long-Term Vision. This “medium-term” is a period of four years: The first year is FY2023 and the endpoint is FY2026. In setting this four-year period, we were mindful of the targets set in

our Long-Term Vision for the milestone year of FY2031.

- The four-year period will be a time for returning to pre-COVID growth and for laying the foundations necessary to achieve the Long-Term Vision.

[P55]

- The first year of the plan, FY2023, falls in the Crisis Recovery Phase, which we extended from FY2022. This means the current year, like the previous one, is a time to focus on recovering performance in our existing businesses. By taking measures to improve profit/loss and capital allocation, we will recover performance as soon as possible, improve financial health, and provide leeway for investing toward growth.

2. Medium-Term Earnings Targets (P56)

[P56]

- Our earnings target for FY2023 is to regain two thirds of the pre-COVID profit level.
- The next target, which we aim to achieve in FY2024 or FY2025, is to get operating income back to the pre-COVID level of ¥100 billion. Then, for the endpoint year of FY2026, we aim for operating income of ¥115 billion. This will put us in range of the FY2031 milestone, which is ¥130 billion with something extra.

3. Key Actions to Achieve Medium-Term Targets (P57)

[P57]

- Our Medium-Term Management Plan contains four broad actions.

[P58]

- The first is to strengthen earnings structure. Take railway operation revenue, for example. Even when the COVID is over, ridership revenue is unlikely to return to pre-COVID levels, so if our railway operations fail to adapt, earnings will decline.
- Our recovery measures for improving earnings in our railway operations will include updating service schedules to reflect the changes in travel demand, improving efficiency in rail operations, and introducing premium seating by 2024. The same applies for other businesses too; for each of our business segments, our medium-term plan contains measures for strengthening earnings structure.

4. Operating Income Projections, Cash Flow and Capital Investment (P63-)

[P63]

- This slide shows our projections for operating income and the factors behind these projections. For the segment-specific projections, see pages 19 to 24 of the separate document.

[P64]

- This slide shows our cash flow projections for the medium-term period. We project a cumulative EBITDA of approx. ¥640 billion. Cash out is projected at approximately ¥730 billion.
- This will create approximately a ¥90 billion shortfall. We will borrow additional funds to cover this.

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•Of the cash out, approximately ¥560 billion will be in capital investment. Our capital allocation strategy is to reign in maintenance CapEx (investing in maintenance and renewal of existing infrastructure) and allocate more to growth CapEx (projects for higher future growth). Growth CapEx combined with our strategic investment framework will amount to approximately ¥320 billion.

5. Performance Indicators (P66)

[P66]

•Taking these projections into account, our performance for FY2026 is as shown here.

<Some organizational changes (P62)>

[P62]

•Currently, we are overhauling the Hotels segment. In the Real Estate segment, we plan to close two dilapidated hotels, Hotel new Hankyu Osaka and Senri Hankyu Hotel, and use the sites of the hotels more effectively, in a way that helps develop the area.

•The Hotels segment will be consolidated into the Real Estate segment in FY2023. This consolidation will enable more effective management of community-development projects, multipurpose developments, and similar projects.

<Returns to Shareholders (P73)>

[P73]

•Our policy on shareholder returns is to deliver steady dividends to shareholders, as measured by a total payout ratio of 30%, and steadily acquire treasury stock, while working to enhance our operating foundation.

•In order to keep the dividend at the stable level, the FY2022 annual dividend will be the same as that of FY2021. That is, it will be ¥50 per share. We plan to pay ¥50 per share for FY2023 dividend too.