Progress of the Medium-Term Management Plan

Making steady progress to reach our management goals ahead of schedule

The concept behind the Medium-Term Management Plan

On the occasion of the management integration of Hankyu and Hanshin, the Group formulated and announced the six-year Hankyu Hanshin Holdings Group 2007 Medium-Term Management Plan (fiscal 2008–fiscal 2013), for which we established yearly adjusted estimates and implemented initiatives to achieve the plan's targets. This plan was intended to clarify the Group's vision for improving its enterprise value across the board in fiscal 2013, during which the Group completed such major projects as the rebuilding of the Umeda Hankyu Building.

Following the plan's implementation, however, the operating environment deteriorated in the wake of Lehman Brothers' collapse. This delayed improvements in the Group's financial standing and has unfortunately made it impossible to reach the initial goal of bringing down the interest-bearing debt/EBITDA ratio to around seven times during the period of the plan.

Nevertheless, in order to increase value along Group railway lines and shore up its financial standing—which is indispensable for maintaining sustainable growth—we decided in May 2012 to extend the Medium-Term Management Plan to fiscal 2016. This decision was made with the idea that despite initial targets being behind schedule, we must remain firm to the direction initially established by the plan. Based on this, we announced our renewed commitment to achieving the initial goal of improving the interest-bearing debt/EBITDA ratio to around seven times and, in turn, are diligently working to carry forward this plan.

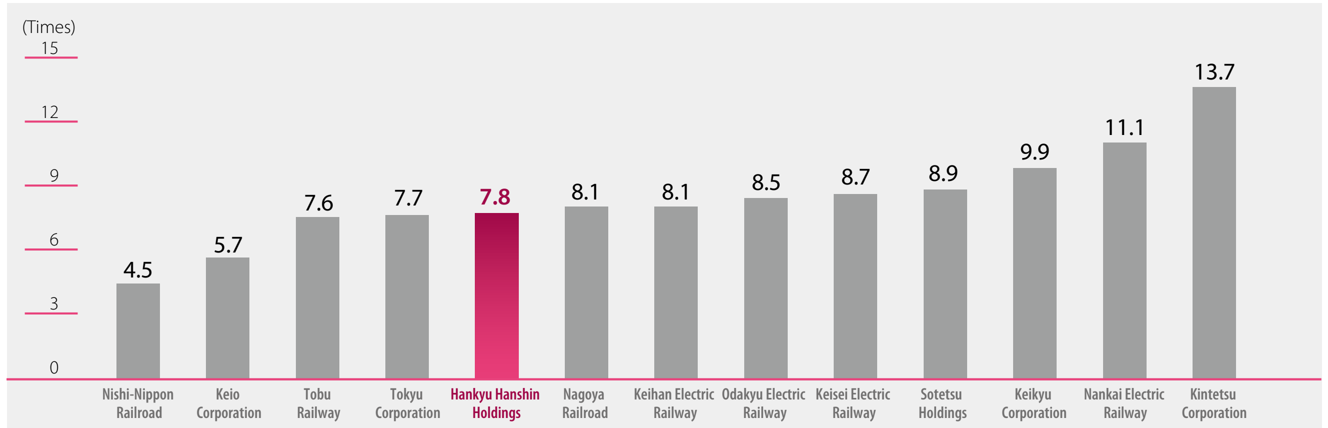
Why has the Group set the goal of improving the interest-bearing debt/EBITDA ratio to around seven times?

To answer this question, I will once again explain the management indicators that the Group is aiming for.

The Group's mainstay railway and real estate leasing businesses generate stable cash flows. Yet, these businesses are characterized by the need to own large amounts of fixed assets, which saddles the Group with a commensurate amount of interest-bearing debt. It is extremely difficult to pinpoint in a general way the ideal interest-bearing debt/ EBITDA ratio within the private railway sector in Japan.

However, in light of the current outstanding balance of interest-bearing debt exceeding ¥1 trillion, our business must have firm financial foundations that make it resistant to interest-rate fluctuation and other risks. One very basic benchmark in setting this ratio is to improve the interest-bearing debt/EBITDA ratio to a minimum level among other major private railway operating companies. As you can see from the figures below, this is how we arrived at a target of around seven times.

■ Interest-Bearing Debt/EBITDA Ratios for Major Listed Private Railway Operators (Fiscal 2013)



* Interest-bearing debt/EBITDA for each company has been calculated by Hankyu Hanshin Holdings Group.

Estimates adjusted from the Medium-Term Management Plan: fiscal 2016 forecast

Current estimates indicate that we will achieve our goals slightly ahead of schedule and forecasts have been adjusted accordingly.

Operating income for the fiscal 2016 target year is forecast to surpass the previous plan (¥83.0 billion) by ¥2.0 billion to ¥85.0 billion, reflecting currently robust railway operation revenue and higher rental income mainly from the Umeda Hankyu Building. In addition, interest-bearing debt is projected to shrink ¥20.0 billion compared with the previous plan (¥1 trillion) to ¥980.0 billion primarily thanks to a detailed review of investment amounts and periods intended to further upgrade our financial standing, extend operating cash flows and improve the financial account balance. As a result, the interest-bearing debt/EBITDA ratio in fiscal 2016 is expected to exceed the previous plan's target of 7.0 times to 6.8 times. We are steadily taking steps to reach these management goals as early as possible.

Over six years have passed since the management integration of Hankyu Holdings, Inc. and Hanshin Electric Railway Co., Ltd. in 2006. In light of changes in the environment in which each core business operates, certain core businesses have been restructured from fiscal 2014 onward.

■ Consolidated Performance and Key Performance Indicators during the Medium-Term Management Plan Period

(¥ billion)

(FY)	2008 Results*1	2009 Results	2010 Results	2011 Results	2012 Results	2013 Results*4	2014 Estimate	2016 Plan*4
Operating income	90.7	77.8	70.1	64.7	73.8	87.9 [78.0]	84.0	85.0 [83.0]
EBITDA	145.2 <143.2>*2	135.3	133.2	127.1	133.5	145.1 [137.0]	142.0	143.0 [142.0]
Effects of integration*3	2.2	4.6	7.1	7.9	8.8	9.7 [9.7]	—	—
Interest-bearing debt/EBITDA	8.8 times	9.4 times	9.6 times	9.8 times	8.9 times	7.8 times [8.5 times]	7.7 times	6.8 times [7.0 times]
Interest-bearing debt	1,271.1	1,275.6	1,282.6	1,251.7	1,183.6	1,126.6 [1,160.0]	1,100.0	980.0 [1,000.0]
Debt/equity ratio	2.7 times	2.8 times	2.7 times	2.6 times	2.3 times	2.0 times [2.2 times]	1.9 times	1.5 times [1.6 times]
ROE	0.1%	4.4%	2.3%	3.8%	7.9%	7.4% [6.0%]	7.5%	7.2% [6.5%]

*1 The department store business (The Hanshin Department Store, Ltd. (currently Hankyu Hanshin Department Stores, Inc.) and its four subsidiaries ("Hanshin Department Store Group")) was treated as a consolidated subsidiary up to the first half of fiscal 2008.

*2 Figures in < > exclude those of the department store business (the former Hanshin Department Store Group)

*3 Calculations based on EBITDA. As some time has passed since the management integration between the former Hankyu Holdings Group and Hanshin Electric Railway Group, the integration boost effect is factored in only up to fiscal 2013.

*4 Figures in [ ] are those announced in May 2012 for the previous plan.