Hankyu Hanshin Holdings

Annual Report 2007

Creating New Ways to Inspire and Satisfy

Group Management Philosophy

Mission:

What we are trying to achieve

Serenity and well-being, inspiration and dreams — by delivering these to our customers, we will create satisfaction and make a positive contribution to society.

Values:

What is important to us

◎**Customers Come First**

Everything we do is for the customer. That's where it all starts.

◎**Integrity**

Build trust by always acting with integrity.

◎**Foresight & Creativity**

With our progressive spirit and flexible thinking, we can create a new sense of value.

◎**Respect for People**

Each of our employees is an invaluable resource.

Contents

Forward-looking Statements

The reader is advised that this report contains forward-looking statements regarding the future plans, strategies, and earnings performance of Hankyu Hanshin Holdings, Inc., which are not statements of historical fact but constitute estimates or projections based on facts known to the Company's management as of the time of writing. Actual results may therefore differ substantially from such statements.

Figures are rounded up/down unless otherwise specified in the notes.

Financial Highlights (consolidated)

	2006 Hankyu Holdings (Millions of yen)	2007[*2] Hankyu Hanshin Holdings (Millions of yen)	2007[*2] Hankyu Hanshin Holdings (Thousands of U.S. dollars)[*1]
For the year :			
Revenues from operations	¥ 486,155	¥ 743,377	$ 6,299,805
Operating income	64,842	87,003	737,314
Net income	25,326	36,619	310,331
Capital investments	52,091	53,795	455,890
At year-end :			
Total assets	1,609,117	2,366,694	20,056,729
Total shareholders' equity	360,222	522,286	4,426,153
Amounts per share (in yen and dollars) :			
Net income—basic	25.36	31.84	0.27
Net income—diluted	25.22	—	—
Cash dividends applicable to the year	5.00	5.00	0.04

[*1] The U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥118=U.S. $1, the approximate Tokyo foreign exchange market rate as of 30th March 2007.
[*2] The Hanshin Electric Railway is included in the scope of consolidation with effect from the second quarter of fiscal 2006.

Scope of consolidated accounts of Hankyu Hanshin Holdings

2007	Q1	Q2	Q3	Q4
Former Hankyu Holdings, Inc., and its consolidated subsidiaries	Consolidated	Consolidated	Consolidated	Consolidated
Hanshin Electric Railway, Co., Ltd., and its consolidated subsidiaries	Not Consolidated	Consolidated	Consolidated	Consolidated

Within the scope of consolidation for FY2007

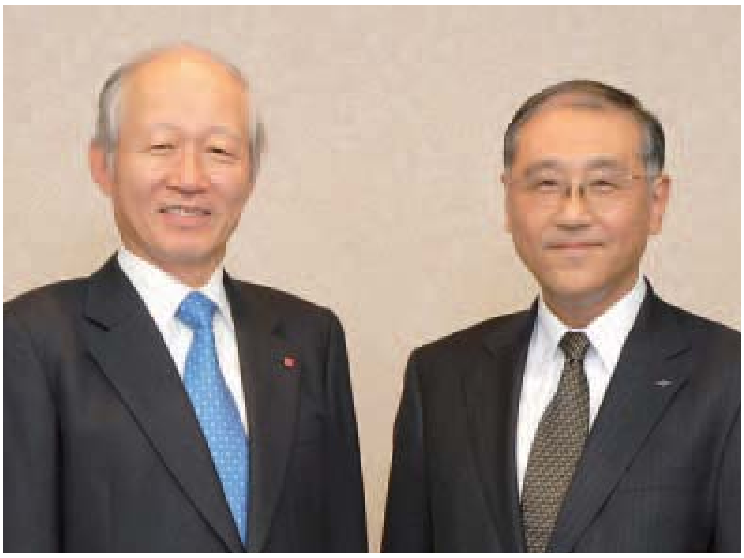
For reference: Financial Highlights (on the assumption of merger with Hanshin at the beginning of the term; 12-month basis)

(Millions of yen)

	2006[*3*4]	2007[*5]	YoY comparisons
For the year:			
Revenues from operations	¥ 799,396	¥ 813,613	+1.8%
Operating income	90,130	94,800	+5.2%
Net income	31,730	40,507	+27.7%

[*3] The above figures have been calculated for convenience of comparison, and have not been audited by the Group's accounting auditor KPMG AZSA & Co.
[*4] The figures shown are simple additions of the figures for Hankyu Holdings and Hanshin Electric Railway for the term ended March 2006.
[*5] The figures shown have been calculated on the assumption that Hankyu Holdings and Hanshin Electric Railway merged at the start of the term.

To Our Stakeholders



Kazuo Sumi
President

Shinya Sakai
Representative director

As a result of the management integration of Hankyu Holdings, Inc. with Hanshin Electric Railway Co., Ltd., a new holding company came into existence on 1st October 2006 under the name of Hankyu Hanshin Holdings, Inc. However, the present annual report, the first under the new management, retrospectively includes the business performance of Hanshin Electric Railway and its consolidated subsidiaries with effect from 27th June 2006.

The management integration of the two corporate entities was followed immediately by the establishment of the Management Integration Committee and a number of subcommittees dedicated to particular operating divisions or specific themes, which reported to the Committee. Under the lead of this network of committees, the management and staff of the Group worked to devise measures to integrate and strengthen all the Group's operations. The Hankyu Hanshin Holdings Group 2007 Medium-Term Management Plan (from fiscal 2008 to fiscal 2013) was drawn up to delineate the Group's path for raising its enterprise value still further: the plan was announced in March 2007. Under this six-year plan, the Group aims to achieve continuous growth by abiding by the recently released new Group management philosophy. The plan contains specific strategies and numerical targets, and clarifies the direction that the Group's management must take (for details see P.8-11).

During fiscal 2007 (ended March 31, 2007), in parallel with the work of drawing up this medium-term management plan, the four main operating companies of the Group — Hankyu Corporation, Hanshin Electric Railway Co., Ltd., Hankyu Express International Co., Ltd. and Hankyu Hotel Management Co., Ltd. — worked to further raise the competitiveness of their core operations and to improve collaboration among them. As a result of these efforts, the Group's business performance for fiscal 2007 on a consolidated basis (which includes the figures for Hanshin Electric Railway Co., Ltd. and its consolidated subsidiaries from the second quarter of the term onward), showed good performances by all six core operations, resulting in large year-on-year gains in both revenues and earnings for the Group as a whole, for an all-time high.

To increase Group management efficiency, we continued our overhaul of the Group in fiscal 2007 to focus resources on selected businesses. From 2008 onward, we will center the department store business on Hankyu Department Stores Group, and strengthen competitiveness by integrating businesses such as Travel and International Transportation and the property management and building maintenance businesses of the Real Estate business, under the direct control of Hankyu Hanshin Holdings. These steps are aimed at boosting profitability.

Particularly notable large-scale initiatives underway at the moment in the Group's core businesses include the reconstruction of the Umeda Hankyu Building, the development of the former site of the Hankyu Nishinomiya Baseball Stadium, the first phase of redevelopment of the Northern Railway Yard of Osaka Station, work to extend the Hanshin Nishi-Osaka Line, and renovation work on the Hanshin Koshien Stadium. These projects are making steady progress, and when completed, they will make a significant contribution to raising the Group's enterprise value.

From here onward, the reins of management of the Hankyu Hanshin Holdings Group are in the hands of the holding company Hankyu Hanshin Holdings, Inc., who will do their best to realise maximum synergy from the combination of the businesses of the two partners to the management integration. Through the efficient allocation of management resources, we aim to raise the Group's enterprise value and do everything else needful to fulfill the expectations of our shareholders and market investors in general.

We look forward to the continued support and encouragement of our stakeholders in our future efforts.

Outline of the Management Integration

With effect from 1st October 2006, a management integration was carried out between Hankyu Holdings, Inc. and Hanshin Electric Railway Co., Ltd., as a result of which the two parties to the merger came under the umbrella of the newly created holding company Hankyu Hanshin Holdings, Inc.

Hankyu Hanshin Holdings, Inc. was set up not merely to manage the business operations of the two corporate groups, but to create an integrated strategic direction for the unified enterprise while respecting the different corporate cultures that have grown up over the last 100 years or so. The holding company exercises overall control of the business operations carried out by the Group companies, principally the core operating companies Hankyu Corporation, Hanshin Electric Railway, Hankyu Express International, and Hankyu Hotel Management.

The Integration Process

April 2006 Start of discussion regarding the integration of Hankyu Holdings and Hanshin Electric Railway

Hankyu Holdings			
Hankyu Corporation	Hankyu Express International	Hankyu Hotel Management	

Hanshin Electric Railway

30th May 2006 Takeover bid for Hanshin Electric Railway commenced by Hankyu Holdings

19th June 2006 Takeover bid completed

27th June 2006 Hanshin Electric Railway becomes a consolidated subsidiary of Hankyu Holdings

Hankyu Holdings			
Hankyu Corporation	Hanshin Electric Railway	Hankyu Express International	Hankyu Hotel Management

(Hankyu Holdings holds 63.71% equity stake in Hanshin Electric Railway)

29th Sept. 2006 Hankyu Hanshin Holdings announces Group management philosophy

1st Oct. 2006 Managements of Hankyu Holdings and Hanshin Electric Railway integrated, and Hankyu Hanshin Holdings established

Hankyu Hanshin Holdings			
Hankyu Corporation	Hanshin Electric Railway	Hankyu Express International	Hankyu Hotel Management

(Hankyu Holdings holds 100% equity stake in Hanshin Electric Railway)

1st Oct. 2006 Launch of Hankyu-Hanshin-Daiichi Hotel Group

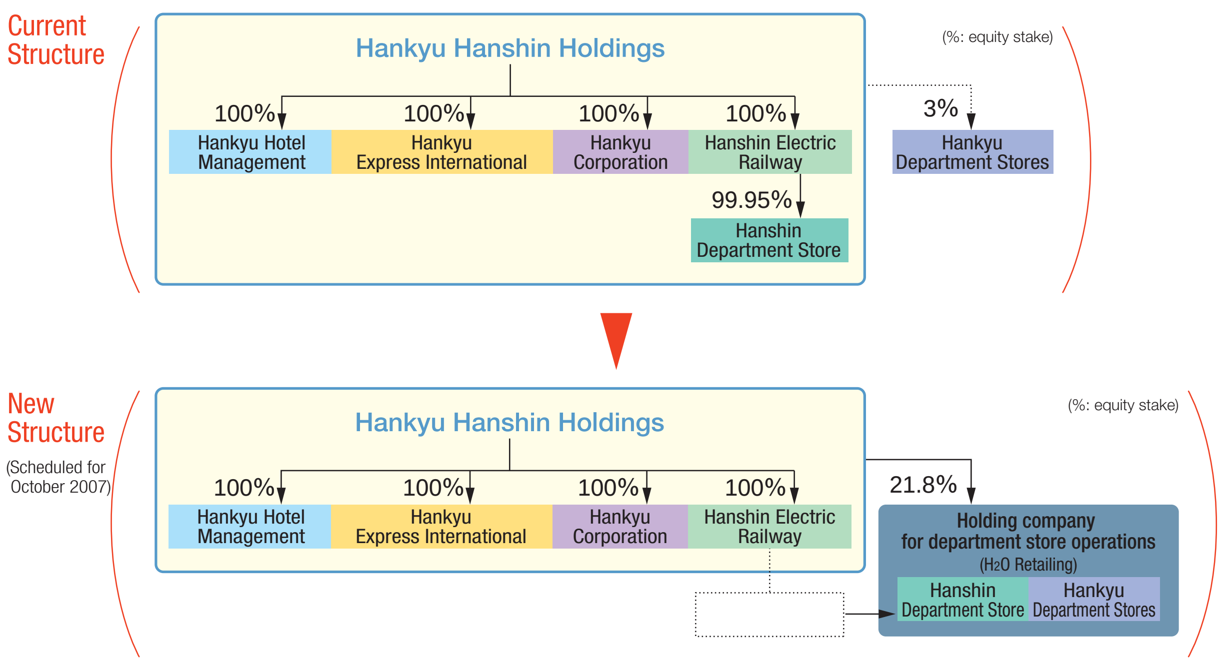
26th March 2007 Hankyu Hanshin Holdings Group 2007 Medium-Term Management Plan announced (see P.8-11)

Reorganisation of the groups following merger
(please see P.13, “Interview with the President, Q3” for details)

Department Store Business

To raise the enterprise value of Hankyu Department Stores, Inc. and Hanshin Department Store, Ltd., the management of the two stores were integrated under the joint holding company.

Strengthening Alliance with Hankyu Department Stores Group




Hankyu Department Stores (Umeda, Osaka)
(Artist’s conception of Umeda Store on reopening after rebuilding work in second half of FY2012; in the foreground)


Hanshin Department Store (Umeda, Osaka)

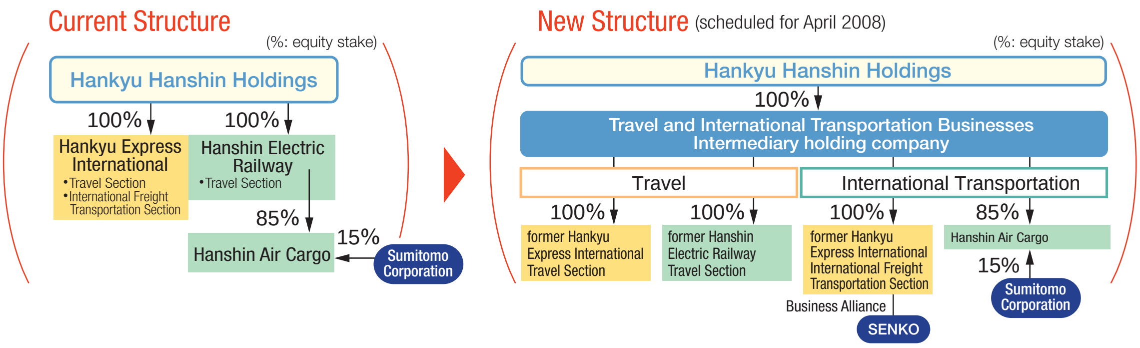
Travel and International Transportation Business

Under the umbrella of the intermediary holding company, operating companies engaged in the travel agency business and the international freight transportation business will be established. Collaboration with the respective divisions of the former Hankyu and Hanshin groups engaged in these businesses is being strengthened to achieve greater competitiveness.

Reorganisation of Travel and International Transportation Business

Summary of Reorganisation (details currently under discussion)

Four operating companies have been set up (under the umbrella of an intermediary holding company established to supervise operating companies in the travel and international freight transportation businesses) to provide successors to the travel and international freight transportation businesses of Hankyu Express International Co., Ltd., to the travel business of Hanshin Electric Railway Co., Ltd., and to the freight transportation business of Hanshin Air Cargo Co., Ltd.



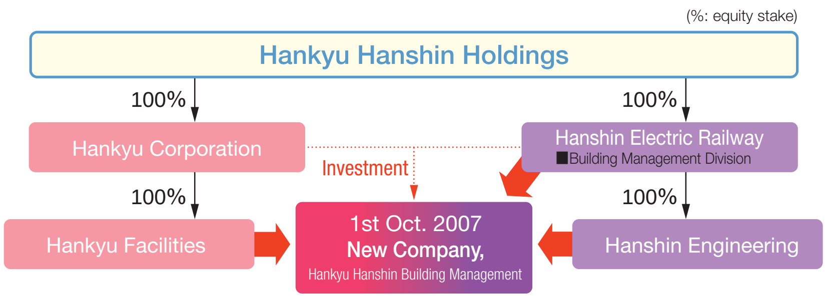
Real Estate Business – Property Management and Building Maintenance Division

Divisions engaged in the same businesses will be amalgamated, and through the creation of an optimally efficient joint organisational system, we will be able to leverage the differing strengths of the former divisions and their established customer networks to create a powerful marketing system, raise service quality levels and take more orders from customers outside the Hankyu Hanshin Holdings Group.

Real Estate Business — Reorganisation of Property Management and Building Maintenance Division

Summary of Reorganisation (details currently under discussion)

Hankyu Facilities, Hanshin Electric Railway's building management division, and Hanshin Engineering are to be integrated into one new property management and building maintenance company, Hankyu Hanshin Building Management, in which Hankyu Corporation and Hanshin Electric Railway will have equity investments.

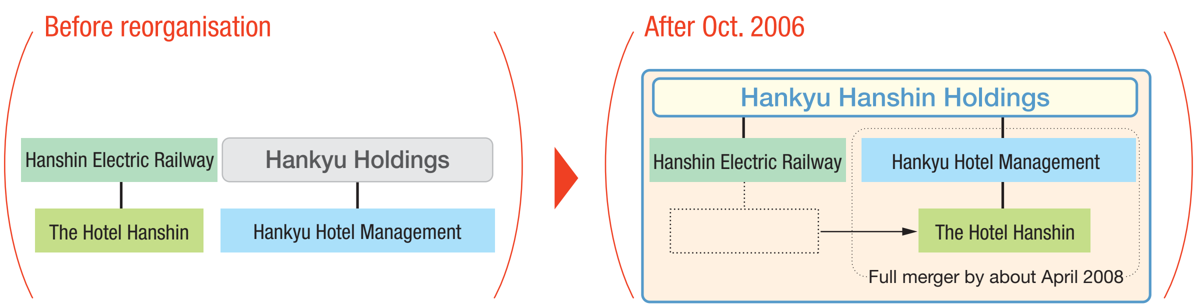


Hotel Business

In October 2006 the Hanshin Group's HOTEL HANSHIN joined the hotels arm of the Hankyu Hanshin Holdings Group, which has made a fresh start under the name Hankyu-Hanshin-Daiichi Hotel Group.

■ Sept. 2006	The Hotel Hanshin, Ltd. becomes wholly-owned subsidiary of Hankyu Hotel Management Co., Ltd.
■ Oct. 2006	Hankyu Dai-ichi Hotel Group reorganised as Hankyu-Hanshin-Daiichi Hotel Group
■ June 2007	Rokko Oriental Hotel (Nada-ku, Kobe: 60 rooms) ends operations
■ April 2008 (not decided)	Full merger scheduled between Hankyu Hotel Management Co., Ltd. and The Hotel Hanshin, Ltd.

Reorganisation of Hotel Business

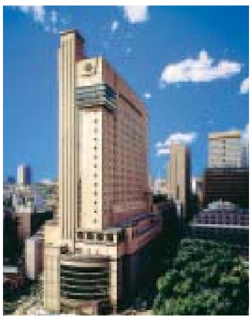


(equity stake is 100% both pre and post reorganisation)

Hankyu-Hanshin-Daiichi Hotel Group*			
	Direct management by Hankyu Hotel Management	14 hotels	3,101 rooms
	Other (Franchisees, etc.)	29 hotels	5,118 rooms
		43 hotels	**8,219 rooms**

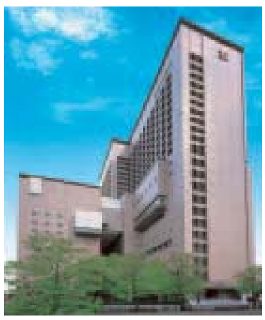
(As of 31st March 2007)

* Excluding The Ritz-Carlton, Osaka (Kita-ku, Osaka: 292 rooms), and Rokko Oriental Hotel (operations terminated in June 2007)



Dai-ichi Hotel Tokyo (Minato-ku, Tokyo)

Hotel new Hankyu Osaka (Kita-ku, Osaka)



HOTEL HANSHIN
(Fukushima-ku, Osaka)

Hankyu Hanshin Holdings Group 2007 Medium-Term Management Plan

In March 2007, the Hankyu Hanshin Holdings Group released its first medium-term management plan after the business integration of the two groups. Currently, the Group is pursuing major projects such as the rebuilding of the Umeda Hankyu Building and the extension of the Hanshin Nishi-Osaka Line. These projects should be largely completed by the end of fiscal 2013, and to reveal the overall profile of the group by that year, we have drawn up our current medium-term management plan, from fiscal 2008 to fiscal 2013 inclusive.

To realise in a concrete manner the Management Philosophy of the Hankyu Hanshin Holdings Group — peace of mind and convenience, dream fulfillment and passion — over the medium-to-long term, and thereby enable the Group to achieve unity and sustainable growth, we have adopted the following three basic Group strategies.

Basic Strategy for the Group

①Strengthen fundamental competitiveness and profitability, business by business

▶Strengthen fundamental competitiveness, business by business

(1) Build value along our railway lines and revitalise the Umeda area

Deliver a safer and more convenient society and lifestyle, and better services

(2) Strengthen the Hankyu and Hanshin brands

Create and expand services and content that provide dream fulfilment and passion
⇒Generate sustainable growth

Realise synergies across the Group, break down barriers between businesses

- Strengthen functions across the Group, develop shared services and card businesses, etc.
- Promote collaboration among businesses

②Rigorously pursue and identify merger benefits

- Create demand and build profitability through a stronger business base and new services
- Streamline business management and back-office operations

③Improve the financial position and return on assets

- Reduce interest-bearing debt through sale or disposal of low-yield assets
- Bring idle assets and development projects onstream quickly and cut development costs
- Restrain capital investment in development projects
- Turn around or exit under-performing and loss-making businesses quickly

* For medium-term plans relating to each core business, please refer to the each Future Business Strategy in the Overview of Core Businesses (P.24-43).

▶ Strengthening Fundamental Competitiveness

Build value along our lines and revitalise the Umeda area

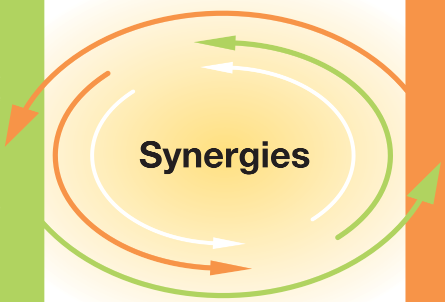
Deliver a safer and more convenient society and lifestyle, and better services

Urban Transportation
High-quality services through safe transportation and strong route networks

Real Estate
Revitalise our service areas and the Umeda area using our expertise in building communities

Retailing
Fully develop stations and service areas through competitive formats

A strong brand enhances the image of our service areas



A better image for our service areas builds brand strength

Pursue growth through synergy among core businesses

Strengthen the Hankyu and Hanshin brands

Create and expand services and content that provide dream fulfilment and passion

Entertainment & Communications
Optimise the brand value of the Hanshin Tigers/Koshien and Takarazuka to maximise profits over the whole value chain from live events to media performance

Travel
Expand the range of high-value-added products through differentiation

International Freight Transportation
Build a competitive lead through advanced logistics systems and service networks

Hotels
Consolidate our position as a strong chain operator

Hankyu Railway

Hanshin Tigers

Hanshin Electric Railway

©Takarazuka Revue Company

Numerical targets (consolidated basis)

We booked a one-time increase in interest-bearing debt in line with our investments for future growth. We aim to bring the balance of interest-bearing debt below ¥1.1 trillion by fiscal 2013, and to bring the interest-bearing debt / EBITDA ratio below average levels for major private railway companies, while boosting our profitability and ability to create cash flows taking due consideration of financial soundness and capital efficiency. (please see P.15, "Interview with the President, Q5" for details)

EBITDA

Substantial growth by expanding each business segment, taking full advantage of the merger

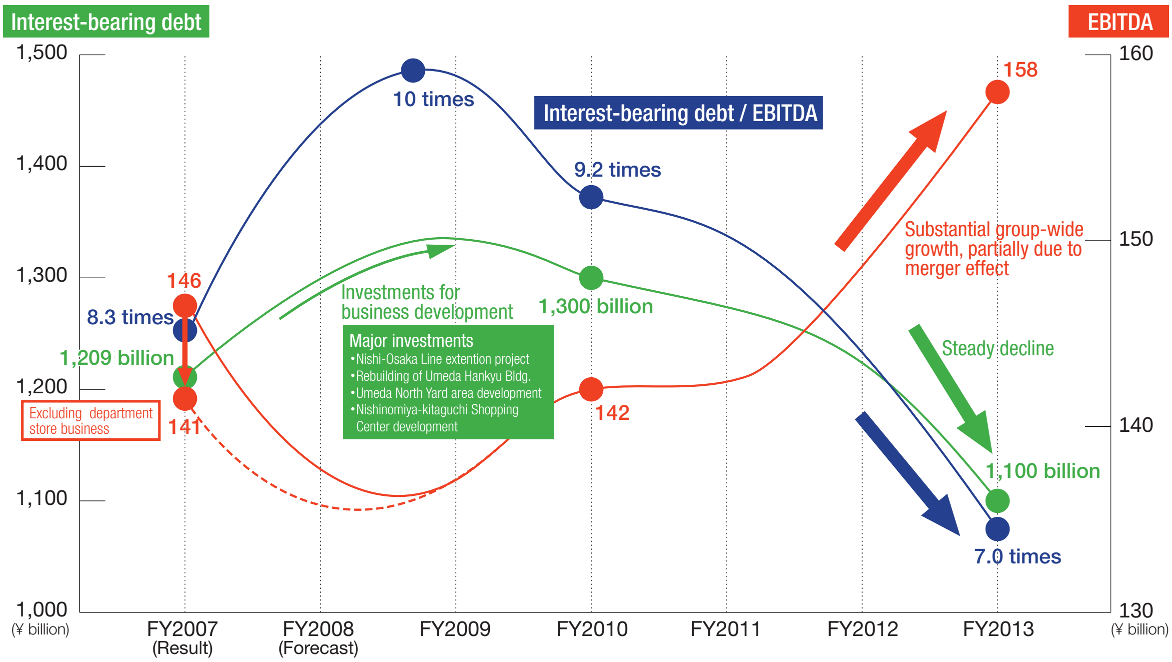
FY2013 operating income target: ¥100 billion

Interest-bearing debt

Despite one-time increase due to investments for business developments, the balance will decline thanks to earnings growth and gains on sale of assets, primarily low-performing and low-yield assets

Interest-bearing debt / EBITDA

Steadily decline to a level superior to those of other major private railway companies (8.4 times for FY2006 simple average)



* Figures for fiscal 2007 are calculated on the assemption of a merger on 1st April 2006.
** Red dotted line represents EBITDA excluding department store operations up to the first half of FY2008.

Management indicators		Targets for FY2013
Operating income	Earnings from core businesses	¥100 billion
EBITDA*1	Cash flow generation capability	¥150 billion or more
Effects of integration	Quantitative effects of management integration	EBITDA = ¥5 billion or more (per year from FY2010)
Interest-bearing debt/EBITDA	Financial soundness	Around 7 times
Interest-bearing debt	Repayment of all TOB funds	¥1,100 billion or less
Debt/equity (D/E) ratio*2	Financial soundness	Less than two-fold
ROE*3	Capital efficiency	6.0% or more

*1 EBITDA = operating income + depreciation expenses + amortization of goodwill attendant on merger of Hankyu and Hanshin
*2 D/E ratio = Interest-bearing debt/equity
*3 ROE = net income/equity (i.e. average net assets attributable to shareholders for the year)

Major performance indicators

(¥ billion)

	FY2007 *1	Targets for FY2008 *2	Targets for FY2010	Targets for FY2013
EBITDA	146.5 (141.5) *3	135.0 (132.8) *3	142.0	158.0
Effects of integration	—	2.2	5.2	5.4
Interest-bearing debt/EBITDA	8.3x	9.7x	9.2x	7.0x
Interest-bearing debt	1,209.4	1,315.0	1,300.0	1,100.0
Debt/equity (D/E) ratio	2.4x	2.5x	2.3x	up to 2x
ROE	—	6.0%	5.0%	more than 6.0%

*1 Results for fiscal 2007 are calculated assuming that the management integration had occurred at the beginning of the fiscal year.
*2 Until the first half of fiscal 2008, the department store business falls within the scope of consolidation (including equity-method affiliates).
*3 Figures within brackets do not include the department store business.

Business performance (consolidated basis)

(¥ billion)

	FY2007*	Targets for FY2008*	Targets for FY2010	Targets for FY2013
Revenues from operations	743.3	750.0	740.0	770.0
Operating income	87.0	80.0	79.0	100.0
Recurring profit	74.8	61.0	55.0	78.0
Net income	36.6	35.0	28.0	42.0

* Until the first half of fiscal 2008, the department store business will be operated by a consolidated subsidiary.

Capital expenditure

(¥ billion)

	FY2005 - FY2007	Targets for FY2008 - FY2010	Targets for FY2011 - FY2013
Three-year total	165.0	308.0	200.0
Average per year	55.0	103.0	67.0

Benefits of Integration

Numerical targets for core businesses reflect synergy effects, in terms of expansion of sales and cost reductions, for which quantitative estimates are available at the time of estimation (please see P.12, "Interview with the President, Q2" for details).

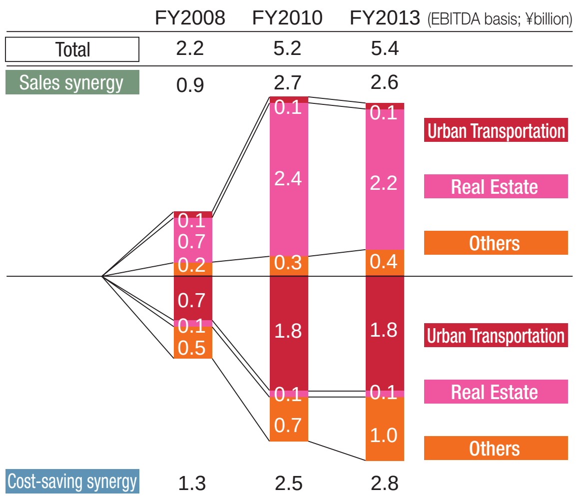
■ Sales Synergy

- Strengthen alliances within Urban Transportation, use companies of both Groups
- Collaborate in condominium unit sales business
- Link up on detached house business
- Open retail outlets at facilities of both companies
- Use joint sales promotion of travel products using stores as well as direct mailing and websites

■ Cost-savings synergy

- Effective use of HR and know-how
- Strengthen purchasing at each business
- Withdraw from duplicated facilities and rationalise duplicated businesses
- Streamlining and system harmonisation at support departments

■ Benefits of Business Integration



Notes: Sums given are those which can be calculated at the current time.
Figures may not total exactly due to rounding.

We seek to sustain growth and to contribute to the community as a highly competitive corporate group.

In October 2006, Hankyu Holdings, Inc. and Hanshin Electric Railway Co., Ltd. amalgamated in the first merger involving two major private railway groups in postwar Japan. We interviewed Kazuo Sumi, president of Hankyu Hanshin Holding, Inc., the company created out of the merger, and asked him about the merger's significance for future growth, how its effects will manifest themselves, strategies for operational restructuring, and the company's Medium-Term Management Plan.

Building on our individual management foundations to bolster corporate value as a single entity

Q1 What do you think is the significance of the merger of the Hankyu Group and the Hanshin Group?

I think there is real historic significance in this team, which was formed by two major private railway groups in the Kansai region that both have a history of about 100 years. We have many things in common. Both groups are based in Osaka's Umeda district, a major centre for offices and commercial facilities. Both groups have built diverse operations covering such fields as real estate, retailing, travel, international freight transportation, hotels, culture and sports, with urban transportation as the basis. In particular, the Hanshin Tigers and the Takarazuka Revue both enjoy enormous fan bases and boast national name recognition. The two groups also share a business model in which comprehensive operational development helps to raise the value of areas served by railway lines, and to expand demand for rail services.

We are developing commercial and other large facilities such as hotels around the Umeda district, the site of a number of large urban redevelopment projects. In addition, we share the Hanshin (Osaka-Kobe) area, the most promising residential zone in the Kansai region. According to one questionnaire on preferred residential areas that a group of major condominium developers conduct every year, 19 out of the 20 most favoured areas (the exception is the Tezukayama district in 19th place) are served by railway lines operated by both groups (refer to attached Table of P.30). We can take advantage of these strengths and develop new businesses in areas served by our lines. We firmly believe that the consolidation and integration of the business know-how, personnel and other strengths of the Hankyu and Hanshin groups, along with cooperation and partnership in our diverse areas of operations, will lead to better urban development than separate management efforts by Hankyu and Hanshin.

The declining population and ageing of society characterise our challenging operating environment. In my view, the greatest significance of this business integration lies in managing joint and integrated businesses, bolstering competitiveness and consistently enhancing enterprise value, building on the brands developed by the two groups.

Rapidly achieving synergies by combining the knowledge of the two groups

Q2 What kind of effects do you expect the merger to have in Urban Transportation and other segments? What effects were identified in fiscal 2007, the initial year for the merger, and what operations were integrated?

We expect to boost both the competitiveness and profitability of our respective operations through an exhaustive pursuit of efficiency and cost reduction effects (or cost synergies), in addition to the revenue effects (sales synergies) of new business developments, which have been enabled by the merger. In the Medium-Term Management Plan developed recently, we projected effects totalling ¥5.4 billion in fiscal 2013, the final year of the plan. In the course of examining actions to integrate Hankyu and Hanshin, we incorporated only those effects that were very achievable at the time of examination and that could be quantitatively estimated

Kazuo Sumi
President
Hankyu Hanshin Holdings, Inc.

(refer to Chart on P.11). Sales synergies primarily incorporate revenue-positive effects in the real estate business. As a specific example, we could expand our business area by including the Hanshin Group as a participant or collaborator in the condominium subdivision business of Hankyu's real estate operations, which are already firmly established. Or we could strengthen the fundamentals and competitiveness of the detached house business through an alliance of both Groups, for example using Hanshin Group's know-how to market single-family residences in Hankyu Group subdivision lots, increasing supply of units. Cost synergies principally refer to the cost savings in the urban transportation business. We intend to steadily reduce our costs by comprehensively reviewing our expenditures and making effective use of our personnel and know-how. Moreover, we are dedicated to realising synergies beyond those described in the Medium-Term Management Plan, by continuing to introduce new initiatives that are currently under consideration or in the planning stage.

I would like to briefly introduce several of our initiatives in fiscal 2007.

First, in the Urban Transportation segment, we took steps to increase convenience for our customers by revising timetables for the Hankyu Kobe Line, the Hankyu Takarazuka Line and the Hanshin Main Line. We also launched the PiTaPa IC commuter pass service on the Hankyu and Hanshin lines in July 2006. In addition, we stepped up efforts to overhaul our line operations, for example by opening new bus routes to provide direct access between separate railway lines operated by either Group.

In the Real Estate segment, we launched an initiative to improve the attractiveness of the neighbourhoods around Umeda, where the terminal stations for both Hankyu and Hanshin railways are located, through joint shopping-centre promotion. We also began jointly developing condominiums in areas served by Hankyu and Hanshin lines, mobilising the know-how of the two groups, which both boast abundant experience in real estate development.

In the Entertainment and Communications segment, we began advertising the Hanshin Tigers at the Hankyu Umeda Station and the Takarazuka Revue at the Hanshin Umeda Station as part of joint sales promotions using each other's facilities. We also stepped up alliances and tie-ups aimed at increasing customer numbers, for example by reciprocally discounting admissions at Mt. Rokko and Takarazuka recreational facilities.

In the Travel segment, we shared our sales channels by commencing joint sales of special products such as Hanshin Tigers support tours, in addition to each group's original brand package travels.

Our Hotels segment made a new start as the Hankyu-Hanshin-Daiichi Hotel Group. With the addition of HOTEL HANSHIN, the group grew in size to 44 hotels with more than 8,200 guest rooms. In April 2008, we will merge Hankyu Hotel Management Co., Ltd. with The Hotel Hanshin, Ltd. to further strengthen our sales capabilities, increase operational efficiency, and thus maximise the effects of the merger.

As explained above, our integrated management has been steadily producing real results in each segment. We expect these achievements to lend greater momentum to the development of our business.

Bolstering competitiveness and showing our collective strength through operational restructuring

Q3 The Medium-Term Management Plan calls for the merger to be used as an opportunity to restructure the organisation to facilitate operations. Please explain the restructuring objective.

For Hankyu Hanshin Holdings, the key objective of operational restructuring is to achieve sustainable growth by taking full advantage of its competitive strengths.

Let me start by discussing the integration of Hankyu Department Stores, Inc. and The Hanshin Department Store, Ltd. Managing the two department stores together by taking advantage of their individual brands, we aim to make ourselves formidable competitors in the Umeda district, where large-scale redevelopment projects are in progress and other department stores are planning to open or refurbish their branches. With this management integration, The Hanshin Department Store Group will move outside the scope of our consolidation. However, we will be stepping up cooperation with the department store group through the integration, because our equity stake in the pure holding company of the department store group (which will be called H_2O Retailing) will rise to more than 20%, and the holding company will become an equity method affiliate of Hankyu Hanshin Holdings, Inc.

Let us now turn to the adoption of the intermediate holding company system in the Travel and International Transportation segment. We have decided to split Hankyu Express International into two companies to manage these operations separately. This will increase our competitiveness by speeding up decisions for each operation and introducing systems suited to the characteristics of the business. With this split, we will step up cooperation with the travel and international freight transportation divisions of both groups. We will seek to draw benefits from the merger and improve our competitiveness through initiatives such as reciprocal travel package sales, joint purchases, joint cargo pickup and delivery, and joint warehouse use. We expect to expand earnings by operating each business in tandem with the other (see P.6).

In the integration of property management and building maintenance divisions in the Real Estate segment, we are developing the optimum system for joint operation. This system will make effective use of the two groups' respective operational strengths and customer networks (see P.6).

In the Hotels segment, which made a new start as the Hankyu-Hanshin-Daiichi Hotel Group, we will seek to quickly establish ourselves as a leading hotel chain operator (see P.7).

We will place the new organisation that is created through the restructuring of these operations on the right track at the earliest possible stage, and at the same time, strive to demonstrate greater collective strength as a Group.

Record earnings achieved, with strong performances in six core businesses

Q4 Please share your impressions of the consolidated business results for fiscal 2007, the first year of the integrated organisation.

Our consolidated results for fiscal 2007 include the results of the Hanshin Group, which were added to the figures for the former Hankyu Holdings from the second quarter onward. (Results of Hanshin for only nine months from July were consolidated.) As a result, both revenues and earnings increased sharply from the consolidated results of the former Hankyu Holdings reported in fiscal 2006. Revenues from operations achieved impressive year-on-year growth of 52.9%, rising to ¥743.377 billion. Operating income rose 34.2% year on year, to ¥87.003 billion, and net income climbed 44.6%, to ¥36.619 billion. Each of these earnings figures represented a new record high.

The Hankyu and Hanshin groups also did well if we assume consolidation of Hanshin Electric Railway occurred at the beginning of the term. Consolidated revenues and earnings increased from the simple aggregate totals of the results that the former Hankyu Holdings and Hanshin Electric Railway reported in fiscal 2006 (see P.2).

Looking at individual businesses, in Urban Transportation, railway operations by both Hankyu and Hanshin are performing exceptionally well, with Hanshin showing a year-on-year increase in revenues from passenger operations in fiscal 2007 and Hankyu showing signs of at last getting back into positive territory in real terms (that is, after factoring in the one-time increase that followed the derailment disaster on JR West's network in 2006). In real estate operations, subdivision operations (condominiums) have had an exceptionally good year amid buoyant demand in a recently resurgent real estate market. In Entertainment and Communications, Hanshin Tigers, despite not winning the Central League title this year, fought a strong campaign to the end, enabling us to attract even more spectators than in fiscal 2006 when the Tigers won the title. We expect this strong performance to continue into fiscal 2008 and beyond.

We expect large-scale projects to progress satisfactory during the last three years of the medium-term management plan, with performance indicators showing significant improvement

Q5 In your latest Medium-Term Management Plan, you have adopted numerical targets for fiscal 2013. Please explain the key points regarding these targets, including changes in management indexes and capital investment plans during the planned period.

In our new Medium-Term Management Plan, we adopted numerical targets for our earnings capacity, cash flow generating capacity and balance of interest-bearing debt. These are, respectively, ¥100 billion in consolidated operating income, at least ¥150 billion in consolidated EBITDA, and ¥1,100 billion or less in interest-bearing debt.

This plan is characterised by two stages, the first covering the period to fiscal 2010 and the second continuing until fiscal 2013. In the first three years, we plan to invest a total of some ¥300 billion in operations centring on real estate and urban transportation, where development investment will be concentrated in anticipation of future growth. We anticipate that a number of indexes will be temporarily aggravated by the adverse effects of changes in depreciation (the abolition of residual value) — including anaemic earnings and a rise in interest-bearing debt.

The subsequent three years will be the harvest period. In other words, the effects of integration worth ¥5 billion or more will be manifest each year, thanks to sales and cost synergies. Earnings expansion attributable to the operation of a series of large projects, including the rebuilding of the Umeda Hankyu Building, will add to the integration effects and enable us to achieve our target of ¥150 billion or more in consolidated EBITDA in fiscal 2013.

In the meantime, we plan to reduce interest-bearing debt in stages to ¥1,100 billion or less at the end of fiscal 2013. This will be done through the sale of assets centring on low-operational-level, low-return assets, as well as by reaping the benefits of the factors to bolster revenues already mentioned. With respect to the ratio of interest-bearing debt to EBITDA, we aim to realise a substantial improvement from 8.3 times at the end of fiscal 2007 to 7.0 times at the end of fiscal 2013, by balancing the expansion of EBITDA with the reduction of interest-bearing debt (see P.10).

Expect improvement in service area value from Hanshin Nishi-Osaka Line extension and new stations

Q6 Please explain growth strategies for respective segments based on the Medium-Term Management Plan. Could you explain the strategies for the Urban Transportation segment?

In terms of expanding our railway network, I'm looking forward to the extension of the Hanshin Nishi-Osaka Line to the Namba district (Nishi-Kujo to Kintetsu Namba stations), a project being undertaken by Hanshin Electric Railway Co., Ltd. When the extended section opens for service, currently slated for the spring of 2009, reciprocal through-train operations with Kintetsu Line will create a wide-area railroad network linking Kobe, Osaka and Nara. The extension will bring two of Osaka's commercial centres, the Kita district in the north (centred on Umeda) and the Minami district in the south (centred on Namba), into Hanshin's service area. In addition, all three new stations to open on the extended section will connect to existing lines. The project will bring significant new vitality to Hanshin's service area. We have decided to name the new line the Hanshin-Namba Line between Amagasaki with Kintetsu Namba, where it incorporates the existing Nishi-Osaka Line.

Our railway operator, Hankyu Corporation, is also planning to open two new stations, tentatively named Settsu New Station and Minami Nagaokakyo New Station, on the Hankyu Kyoto Line, in line with local governments' urban development plans and the improvement of the highway network. We intend to link the opening of the two stations to improved value in the Kyoto Line service area, while also increasing the number of passengers embarking and disembarking.

At the same time, the touch-free PiTaPa IC-card payment service provided under the Through-Kansai wide area network for the Kansai area is now also accepted by Kobe Electric Railway, Kintetsu Corporation and Kyoto Municipal Transportation Bureau. This marks the effective completion of our introduction of IC cards to the Kansai railway network. Up to now, Hankyu and Hanshin's card strategies have focused on encouraging use of HANA Plus and CoCoNet cards including PiTaPa functions separately. But the expansion of the PiTaPa usage area presents a major business opportunity, and through the current management integration we have decided to launch, in second half of fiscal 2008, a joint card product: the Stacia card. Looking ahead, we aim to further strengthen marketing and build up the customer base of the entire Group, by ramping up Stacia card subscriptions and expanding "point-service" programs from daily transportation to shopping, dining and hotel transactions involving credit (see also P.18).

Major new projects will lift earnings from development activities for whole Group

Q7 What is the status of large-scale projects, which are anticipated to become major revenue sources in the future?

In fiscal 2008, construction work on our large-scale development projects – a major earnings driver – will go into full swing, including work on the rebuilding of the Umeda Hankyu Building and the development of the site where the Hankyu Nishinomiya Baseball Stadium once stood. Fiscal 2008 will be an important year for our Real Estate segment.

In addition, we will be taking part in the advance block development (70,000m^2) in the project at Northen Railway Yard of Osaka Station, a prime location immediately north of JR Osaka Station. Development work will be completed by the end of 2011. Ultimately, 240,000m^2 will be developed. This will give birth to a new hub of excitement in Osaka.

This development will take place in Umeda. The district is a major base of operations for both the Hankyu and Hanshin groups. By strengthening cooperation between the two groups, we will be able to provide – as a single entity – broader attractions and services (with greater customer circulation) in this inner city district.

In the Entertainment and Communications segment, the Group has a large number of promising projects, including renovation of the Hanshin Koshien Stadium, scheduled for completion in the spring of 2009. We expect these projects to have positive implications for overall Group operations by reinvigorating local communities in Umeda and areas served by our lines, increasing the population in our railway service areas, and encouraging more passengers from remote areas.

Better margins at the core hotel business and higher revenues for retail operations

Q8 What comment do you have regarding the development of the hotel and retail business?

In the hotel business, we aim to unify customer data-management systems through our overhaul. Through this move, we aim to enhance the operating margin by reducing costs through more efficient marketing and increase the appeal of established hotels, as well as a find ways to ensure the success of the REMM brand of accommodation - (rather than function-) oriented hotels scheduled for launch in Hibiya in November 2007 — a priority under our integration. In April 2008, we also plan an opening in Akihabara, also in Tokyo. We believe these projects will boost our operating margin.

In the retail operations, we have increased the number of outlets and boosted sales for the Book 1st. chain of bookstores. In October 2007, we will open outlets in Kyoto (Kawara-machi) in the Kansai area and in Shibuya (Bunkamura) in Tokyo. In November 2008, we plan to open a more than 3,300m^2 large-scale flagship store in Shinjuku in Tokyo. We will continue to aggressively expand the brand going forward.

While raising enterprise value, our goal is a stable dividend based on a balanced approach to retained earnings and future growth

Q9 Please explain the dividend policy and projections for consolidated results for fiscal 2008.

Our basic policy is to strengthen our management foundations and financial standing so as to be able to pay annual dividends at a stable rate of at least ¥5 per share.

We paid an annual dividend for the term under review (year-end dividend) of ¥5 per share, to maintain the stability of our dividend payments. Under this policy, we anticipate that our annual dividend for the current term will remain unchanged at ¥5 per share. We are resolved to meet the expectations of our shareholders by continuing to increase our enterprise value, and by maintaining a stable dividend and keeping our share price at a level commensurate with the rising enterprise value.

We will place The Hanshin Department Store, Ltd. group outside the scope of our consolidation on 1st October 2007. Despite this, revenues from operations should rise to ¥750 billion in the current term, thanks to the full-term consolidation of Hanshin Electric Railway Co., Ltd. and its consolidated subsidiaries, whose performance will be included in the scope of consolidation on a 12-month basis. As for earnings, we expect operating income to total ¥80 billion, and net income at ¥35 billion — lacklustre levels in each case. The forecasts reflect the adverse effects of factors including the increase in depreciation expenses (removal of residual value) in line with the tax reforms mentioned above.

Raising enterprise value with rapid progress, enabled by the collective commitment of the Hankyu Hanshin Holdings Group

Q10 Finally, please share your ambitions for the future and convey a message to stakeholders.

Fiscal 2008 is the first year of our current Medium-Term Management Plan, our first after the merger. We are determined to execute such basic Group strategies as improving the competitiveness of each of our operations, bolstering earnings levels, and rapidly reaping the benefits of the merger to position us to reach fiscal 2008 financial goals. In line with this, we will strive to extend cooperation among Group members, win the trust of customers by offering more convenient and attractive products and services, and bolster solidarity among Group members.

To achieve our goal of improving enterprise value, we must become a corporate group that —

- is trusted by society
- is capable of sustaining growth
- realises a high level of satisfaction among its shareholders, employees and other stakeholders

Our new Group management philosophy can be considered a guideline for turning ourselves into a corporate group that satisfies these conditions. In particular, four keywords – peace of mind, convenience, dream fulfilment, and passion – clearly indicate the directions we should take and the values we should seek in our day-to-day operations. We strongly urge all Group members to adopt these keywords as their goals and make every effort to achieve them.

To ensure that our corporate activities are fair and appropriate, we have also set up a Group Auditing Department within Hankyu Hanshin Holdings, Inc. This department is continuing the work of establishing internal controls, evaluating the state of its operation and making improvements. We intend to bolster our internal controls and proactively fulfil our corporate social responsibilities by stepping up compliance and internal audit activities.

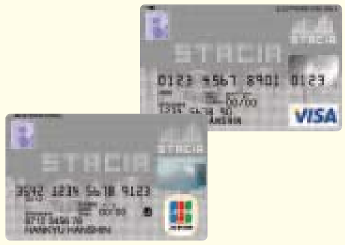
We remain committed to increasing our enterprise value and achieving further growth under a shared management philosophy by mobilising all the resources of the Hankyu Hanshin Holdings Group.

IC cards : Toward the issuance of a new Group card targeting 700,000 holders of smart cards (incorporating an IC chip) by fiscal 2011

Up to now, both companies have offered PiTaPa ticket and small-sum settlement services on their HANA PLUS Card (Hankyu) and CoCoNet (Hanshin) cards, with the HANA PLUS Card additionally including a bonus-point accumulation feature – measures which have lifted sales for the whole Group. Now, in line with the integration of our businesses, we are issuing a new Group card, Stacia Card, in the second half of fiscal 2008, to strengthen our Group marketing and customer base.

■ Basic Card Strategy

By expanding the number of holders of cards issued by the Group, members of the public will be encouraged to utilise the Group's transportation network and other services.



■ Issuance of new Group card in second half of FY2008

- New cards are to be issued as a means of encouraging greater usage of the Group's services as soon as possible.
- Cards without credit card functions (i.e. PiTaPa function only) will be added to the card lineup.
- A system will be established to promote the Group's marketing through the issuance of a series of Group cards.

■ Customers to receive more points on payment for use of Group's services

- Points to be given when customers use the Group's rail or bus services (including buying train passes)
- We aim to promote sales turnover at Group amenities by increasing the total of points awarded by 2-10 times when our credit cards are used for payment at our shopping centres, travel agencies, hotels and retail outlets (Book 1st., leisure and entertainment facilities, etc.) in the Umeda area and in other areas served by our lines.

■ Fiscal 2011 Targets

- Cardholders: approx. 700,000 (up from 230,000 in fiscal 2007)

* Total for fiscal 2007 is for holders of HANA PLUS and CoCoNet cards

PiTaPa used for the Through Kansai transportation network

PiTaPa-Surutto Kansai's IC card system

Features of PiTaPa

- Contactless post-paid card settlement service
- Frequent-user discounts on transportation fares can be earned
- Card also functions as credit card for small-amount payments at member retail outlets (shops, restaurants and bars)
- Train pass IC card also introduced to card lineup

From July 2006 : Hankyu, Hanshin, Nosé and Kita-Osaka Express lines
From April 2007 : Interchangeable IC-card train passes for Hankyu and Hanshin lines
Nankai and Semboku Rapid Railway lines

Main railway companies accepting the cards

○ The PiTaPa transportation network will be essentially completed during fiscal 2007

Aug. 2004 : Hankyu, Nosé and Keihan lines
Jan. 2006 : Joint use of PiTaPa and JR West's ICOCA cards begins
Feb. 2006 : Hanshin lines, Osaka Municipal Transportation (subway and bus), the Kita-Osaka Kyuko Railway line, Hankyu Bus services (phased introduction), and on the Osaka Monorail
July 2006 : Nankai, Sanyo Railway, Kobe Rapid Transit Railway, Kobe Shin Kotsu and Semboku Rapid Railway
Oct. 2006 : Kobe Municipal Transportation (subway), and Hokushinkyuko Railway line
April 2007 : Kintetsu, Kobe Electric Railway, and Kyoto Municipal Transportation (subway)

Corporate Governance and Compliance

As part of our ongoing commitment to remaining a corporate group that is trusted and valued by its stakeholders and respected as a corporate citizen, we have taken steps to reinforce the pillars that support our corporate governance system. We plan to implement full-scale audits of business operations and accounting across the board. Moreover, we are also working on effective implementation of our system of internal controls, based as it is on our commitment to compliance-based management.

The basic idea of corporate governance

We understand that strengthening corporate governance is important for us to remain a corporate group that is trusted by all our stakeholders, particularly our customers. We seek to bolster corporate governance by improving management transparency and soundness as well as through rigorous compliance with laws and regulations, and timely and appropriate disclosure of corporate information.

Corporate governance system

(1) Reinforcing the Management Supervisory Functions and the establishment of a Group Management Committee

The Board of Directors consists of 18 members, three of whom are external appointments. In addition to these three external directors, an additional eight directors serving on a non-regular basis perform supervisory and oversight functions as their main duties.

We have also established a Group Management Committee in which executives responsible for each of our core businesses participate. The committee deliberates on important matters such as the management strategies for the Company and the corporate group as a whole, as well as management planning issues. When Group companies act on matters that have material implications for Group management, for instance when operating companies are planning to make an investment that exceeds a specified amount, they are required to seek prior approval from the Company.

(2) Group Management Policy

Under a pure holding company system centered on Hankyu Hanshin Holdings, Inc., four core operating companies work towards the best interests of the corporate group as a whole.

Each business unit is given autonomy extending to the scope of management planning related to its businesses.

It is the responsibility of the corporate group as a whole to deliver a return to all of its shareholders and investors. We are striving to maintain a good balance of management information disclosure across our business projects, while increasing our management transparency.

Moreover, fund procurement has come under one roof – that of Hankyu Hanshin Holdings – and based on the overall strategy of the holding company (the maximum amount for fund procurement) said funds will be allocated to each business unit by the holding company. In addition to minimizing procurement costs, this approach strengthens the governance of the corporate group.

(3)Auditing

The Company has six statutory auditors, including four outside auditors, who audit the performance of directors and the businesses and financial position of the Company and Group companies.

Four staff members are appointed to assist the auditors in the performance of their duties. As a rule, the auditors meet once a month so that they can discuss and debate issues and come to executive decisions.

The Group Audit Division, the internal audit organization, in addition to reviewing the audit plans and reports, also oversees all of the internal audit processes (including the workings of the whistle-blowing system) for the corporate group as a whole. Moreover, in addition to receiving regular reports from the accounting auditors (as stipulated in the Corporation Law), this Division also acts as an observer when the corporate group is subject to a visiting audit.

(4)Ensuring Transparency in Accounting Audits

In accordance with the Corporation Law and the Securities and Exchange Law, we have entered into an agreement with KPMG AZSA & Co. to carry out accounting auditing. There are no special interests that compromise the relationship between the external auditors (including employees belonging to the auditing firm) and the Company.

Measures are also in place to ensure that no employees of the said auditing company are engaged in accounting audits of the Company beyond the ordinary period of duration.

(5)Promotion of Compliance-Focused Management

Through our business activities, we have learned the importance of carrying out business tasks in the proper and appropriate manner. The corporate group believes that the establishment, operation and review of an internal control system are of great importance. Compliance management is being emphasised as a key part of this system of internal controls, and by establishing the following measures, we are working to increase awareness with regard to compliance.

- Establishment of compliance management divisions
- Creation and distribution of a compliance manual
- Running compliance-related seminars and workshops

(6)Compensation for Directors and Auditors

The following table shows the compensation for the Company's directors and statutory auditors for the term ended 31st March 2007.

(¥ million)

	Internal	External	Total
Directors (17)	85	28	113
Auditors (7)	10	8	18
Total	95	36	132

(rounded down to the nearest ¥1 million)

Environmental Preservation Activities

In October 2006, Hankyu Hanshin Holdings, Inc. established an Environmental Committee (Committee Chairman: President of Hankyu Hanshin Holdings, Inc.) to set up a system to promote environmental preservation activities across the corporate group. The Environmental Committee is charged with oversight of the environmental activities of the core operating companies as well as companies supporting their businesses.

(1) Issuance of an Environmental Report by Hanshin Electric Railway Co., Ltd.

The Hanshin Electric Railway Co. Ltd. produced their 2006 Environmental Report to acquaint all persons involved with the details of the varied environmental programs that the Hanshin Group had undertaken in line with its Environmental Protection Philosophy.

This report was broken down by business unit to make it easier to understand. It covers environmental protection policies and activities relating to the company's railway, bus, and taxi operations, as well as its businesses in the fields of real estate, sports and leisure and travel.

*Please visit our website to access the 2006 Environmental Report.

http://www.hanshin.co.jp/company/csr/environment/report2006.html

(2) Hankyu Express International Co., Ltd. and the Amanohashidate Hotel, Ltd. Awarded ISO14001 Certification

The internationally recognised environmental management certification ISO14001 was awarded to the International Transportation Division of Hankyu Express International Co., Ltd. (specifically the Narita Cargo Centre, the Atsugi Cargo Centre and the Western Japan Logistics Centre) on 30th June 2006; and to the Amanohashidate Hotel, Ltd. on 24th July 2006.

Moreover, several other businesses in the Group were awarded the same certification, including Shojaku Plant of Hankyu Corporation, Amagaski rail yard of Hanshin Electric Railway, the Building Administration Division of Hankyu Facilities, the Hotel New Hankyu Osaka and the Hotel New Hankyu Annex. In addition to these businesses, many other business units have made their own changes and improvements to their environmental protection management systems.

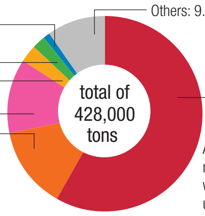
(3) Establishment of the Green Purchasing Regulations

Green procurement (purchase of environment-friendly products) has been spreading steadily throughout Japan. As part of our commitment to make effective use of natural resources, on 1st April 2006 the corporate group established a set of Green Purchasing Regulations promoting the responsible purchasing of environmentally friendly office supplies and other products.

Our priority going forward is to reduce as much as possible the environmental burden generated by the products and services that we purchase, and this policy will continue to proliferate across our many companies and business units.

(4) Disclosure of our Groupwide CO_2 Emissions

Every year, the corporate group compiles data on its CO_2 emissions across all business units. From fiscal 2007 onwards, this data was made available on the internet. Please note that our current figures reflect the situation as of the end of March 2006, and accordingly, data for the Hanshin Group is not included, as the integration with the Hanshin Group did not take place until October of 2006.



Our CO_2 emissions for fiscal 2006 (per business unit)

As the corporate group consists of numerous business units and locations, we were unable to obtain data for some units and locations in time for printing.

Our Basic Stance on CSR (Corporate Social Responsibility)

In addition to our pursuit of profitability across the range of our businesses, we are also aware of the need to balance this with the fulfillment of our social and environmental responsibilities, which include cultural contributions, environmental preservation, and the importance of respecting the rights of the individual. To strengthen CSR, it is necessary to find the right balance between social and cultural contributions, environmental preservation and respect for employee rights.

Overview of Core Businesses

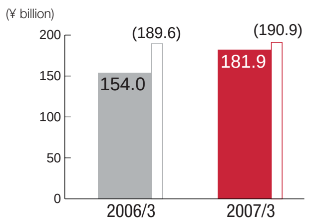
Urban Transportation

The Urban Transportation business, centred on Hankyu Corporation and Hanshin Electric Railway Co., Ltd., operates railway, bus and taxi services forming an extensive transportation network throughout the Kansai area. Its mission is to provide safe, comfortable and highly convenient transportation services in our service area, the Kyoto-Osaka-Kobe region. We are encouraging the use of IC cards as an important business development tool. Through the Nishi-Osaka Line Extension Project, now underway, we are also creating a wide area railway network linking Kobe, Osaka (Minami) and Nara.

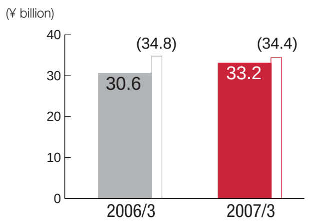
Total length of lines operated:

Hankyu Corporation	146.5 km
Hanshin Electric Railway	45.1 km

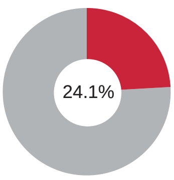
Revenues from operations



Operating income



Share of total revenues from operations



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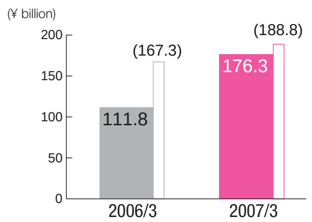
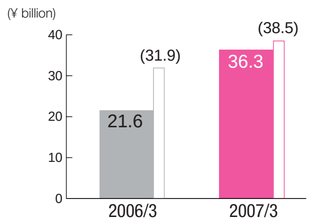
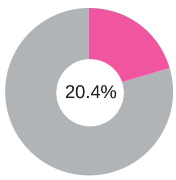
Real Estate

Consisting of real estate leasing, trading and management businesses, the Real Estate business derives its core earnings from rental properties and its condominium business. Centred on the Hankyu-Sanbangai and Herbis OSAKA developments in the Umeda area of Osaka, this business is engaged in major attractive projects (such as the rebuilding of Umeda Hankyu Building, and the development of Nishinomiya-Kitaguchi area) aimed at reinvigorating areas served by our lines, drawing on our track record in creating value along our lines through development projects.







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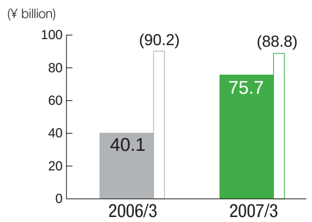
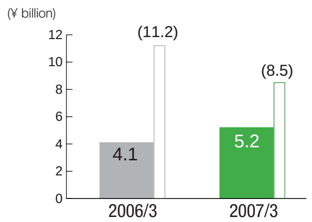
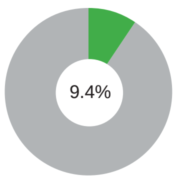
Entertainment and Communications

This segment consists of the sports business, centred on baseball interests (the nationally popular professional baseball team “Hanshin Tigers” and the Hanshin Koshien Stadium); the stage revue business (Takarazuka Revue); the advertising agency business, which uses advertising spaces on railways and other public transport; and the publishing business, which deals mainly with magazines. The Entertainment and Communications business aims to realise dreams and bring excitement to its customers all over Japan through a wide range of live entertainment.







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Retailing

This segment comprises the department store business (The Hanshin Department Store's Umeda store in Osaka as well as the chain operated by The Hanshin Department Store, Ltd.); retailing, which spans a wide range of outlets in areas served by our lines, such as bookshops, convenience stores and cosmetics and accessory stores; and the food and drink business operated by Creative Hankyu Co., Ltd. Our Book 1st. chain has also opened stores in the Tokyo area. We plan to place the department store business outside the scope of consolidation when The Hanshin Department Store, Ltd. is integrated into Hankyu Department Stores, Inc. in October 2007.

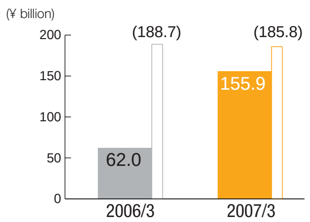
Travel and International Transportation

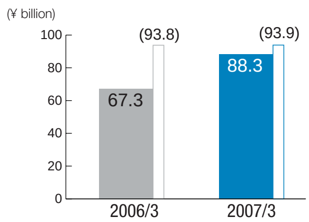
In the travel business, Hankyu Express International Co., Ltd. offers the Trapics brand of products tailored to customers' vacation styles, based on development of appealing products and rigorous quality management. Hanshin Travel service offers the high-quality Friend Tour line of package tours, with a focus on European destinations and customised tours for business travellers. The international transportation business offers high-quality logistics services through Hankyu Express International and Hanshin Air Cargo. Based on our competitiveness in delivering what the customer needs, we are focusing on expanding logistics operations in East Asia centred on China.

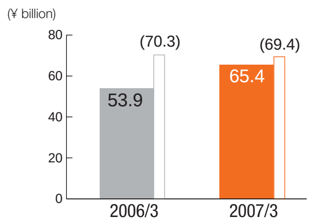
Hotels

Hankyu-Hanshin-Daiichi Hotel group operates 43 hotels, consisting of 14 directly managed by Hankyu Hotel Management Co., Ltd., and 29 belonging to chains operated by franchise. It is one of Japan's most important hotel chains, with approximately 8,200 guest rooms. It offers a wide range of hotel formats, from general-purpose "city hotels" to hotels for businessmen (with very limited function facilities), and is particularly strong as a hotel operator with many directly-managed hotels in the Tokyo and Kansai areas. In addition to chain operations, it also manages the new and already very popular The Ritz-Carlton, Osaka, an international luxury brand with which it has formed an alliance.

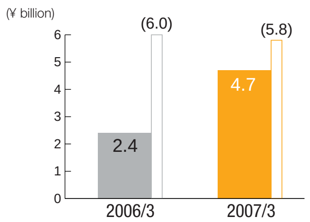
Revenues from operations

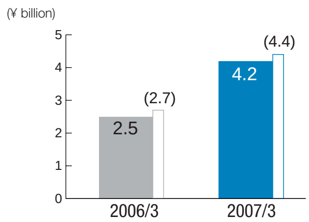


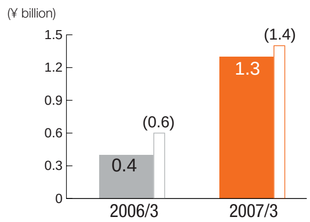




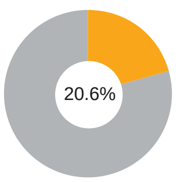
Operating income

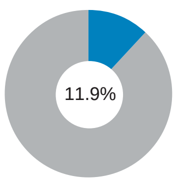


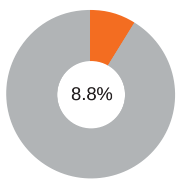




Share of total revenues from operations







P.38-39 >>>

P.40-41 >>>

P.42-43 >>>

Numerical values are by segment.
Revenues from operations represent amounts prior to consolidation adjustments; that is, revenues from outside customers plus intersegment transfers and transactions

- For the term ended 31st March 2006, consolidated results for Hankyu Holdings are shown and consolidated results for Hankyu Hanshin Holdings (with consolidation of the Hanshin Group dated from the second quarter) are given for the term ended 31st March 2007
- Figures in brackets for the term ended 31st March 2006 are simple additions of the results of Hankyu Holdings and Hanshin Electric Railway, while figures in brackets for the term ended 31st March 2007 assume consolidation of Hanshin Electric Railway at the beginning of the term (12-month period)

Breakdown of revenues from operations for each segment show proportions of such revenues from outside customers in the term ended 31st March 2007 (with consolidation of the Hanshin Group dated from the second quarter). Others represent 4.8% of the total

I

Urban Transportation

Core companies : Hankyu Corporation, Hanshin Electric Railway

Overview of the year ended 31st March 2007

Management integration helps upgrade transportation networks, while IC cards stimulate demand

PiTaPa IC card payment service encourages use of railways

In July 2006, the HANA PLUS PiTaPa IC commuter pass was introduced by Hankyu Corporation, Nosé Electric Railway Co., Ltd., and Kita-Osaka Kyuko Railway Co., Ltd., while the CoCoNet PiTaPa IC commuter pass was launched by Hanshin Electric Railway Co., Ltd.

Through measures such as offering payment by PiTaPa at automatic bicycle parking facilities in station precincts, we are increasing the appeal and practical value of IC cards, bringing more people onto our railways.

Measures to attract passengers to our other facilities in our service areas

Measures to attract customers to areas served by our stations include the issue of the Hankyu and Hanshin version of the "Ii Koto" ticket for seasonal promotions.

Safety measures and barrier-free facilities

To increase the safety of railway transportation, we have upgraded automatic train-stop (ATS) systems on the Hankyu Kobe line, and are taking measures to ensure that station facilities and railway cars are barrier-free.

Increasing convenience and cutting journey times through timetable changes

We have revised our timetables to bring our customers still greater convenience. From October 2006, Hankyu Railway's expresses and commuter expresses have stopped at Hankyu Shukugawa station, while Hanshin Electric Railway expresses are now stopping at Hanshin Koroen station. From March 2007, Hankyu expresses have stopped at Hankyu Awaji station. Due to the above-mentioned ATS upgrade, Hankyu Corporation has been able to shorten journey times between Hankyu Sannomiya and Umeda from 28 minutes to 27 minutes, without compromising safety.

Progress on the Nishi-Osaka Line Extension Project (Hanshin Namba Line)

Hanshin Electric Railway has been preparing for the opening in spring 2009 of the Nishi-Osaka Line extension (Nishikujo — Kintetsu Namba stations, with main works undertaken by Nishi-Osaka Railway Co., Ltd., a third-sector company, with financing from Hanshin Electric Railway). It has also been carrying out improvement works at Amagasaki station, where the Nishi-Osaka Line (Nishi Kujou to Amagasaki) meets the Hanshin Main Line, and adjacent areas.

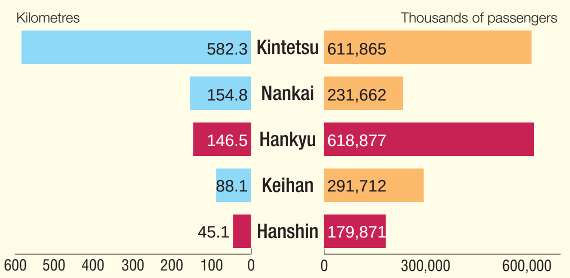
We have decided to call this line the Hanshin Namba Line, comprising the line between Amagasaki and Kintetsu Namba, including the existing Nishi-Osaka Line.

New bus routes between Hankyu and Hanshin stations

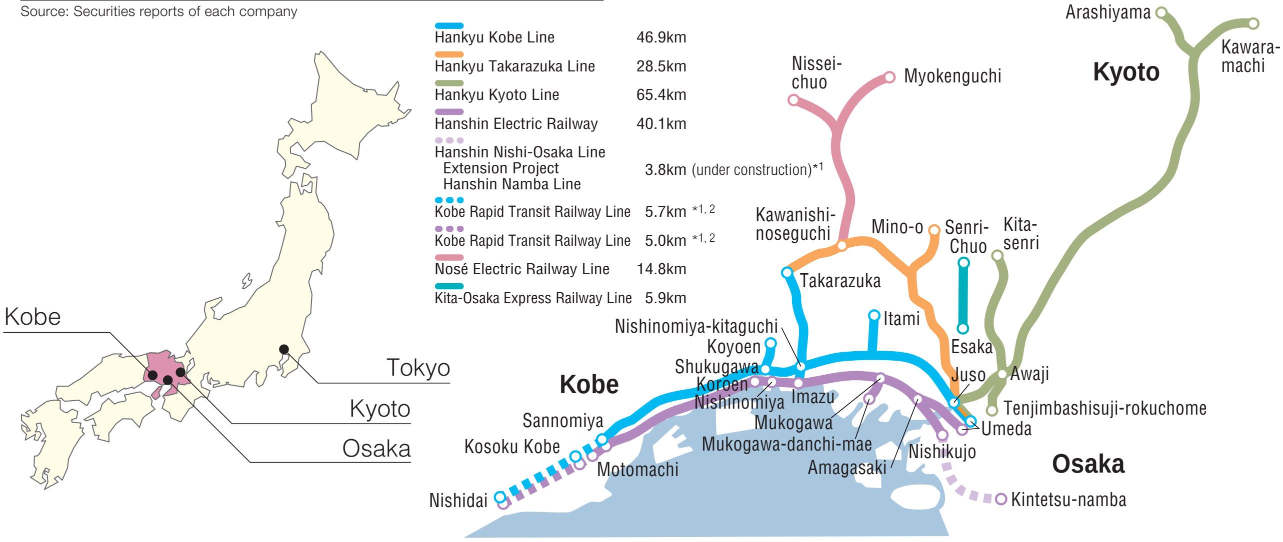
In bus operations, Hankyu Bus and Hanshin Bus have established new routes linking Hankyu Nishinomiya-Kitaguchi station and Hanshin Nishinomiya station, further enhancing customer convenience.

Hanshin Bus

Five Kansai private railways: total distance operated and total number of passengers (fiscal 2007)

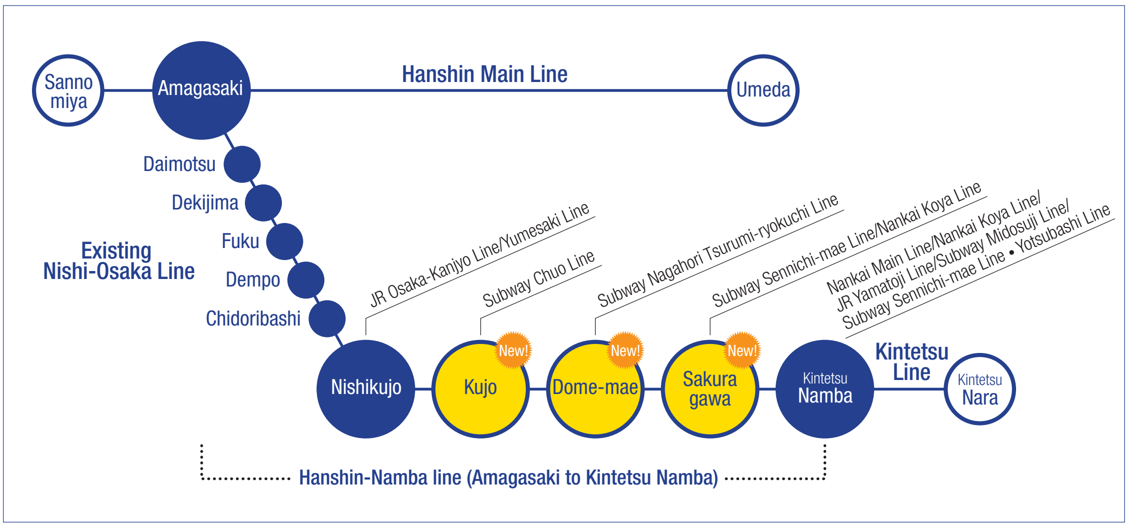


Source: Securities reports of each company



*1 Tier 2 Railway Operations
*2 Some 3.5km of the Kobe Rapid Transit Railway line is shared by several operators (Kosoku Kobe to Nishidai)

■ Hanshin Namba Line



Business Performance

Despite a dent in revenues as passengers returned to JR West after the tragic derailment in 2005 on their Fukuchiyama line, Hankyu Corporation's operating performance picked up on a rise in non-commuter passengers.

Meanwhile, Hanshin Electric Railway Co., Ltd. enjoyed healthy growth in revenues, drawing in residents of condominiums and other developments along areas served by its stations.

■ Business performance (consolidated) in the term ended 31st March 2007

Revenues from operations: ¥181.9 billion (up ¥27.8 billion year-on-year)
Operating income: ¥ 33.2 billion (up ¥ 2.6 billion year-on-year)

(Note) Hanshin Group's first-quarter results are not included (i.e. consolidated figures cover only 9 months of Hanshin's business year). Year-on-year comparisons are against the results of Hankyu Holdings, Inc. on a consolidated basis for the year ended 31st March 2006.

For reference only: Below is a results calculation assuming that the Hanshin Group had integrated its management with Hankyu Holdings, Inc. at the beginning of the fiscal term (i.e. consolidated results assuming a full 12-month period).
Revenues from operations: ¥191.0 billion (up ¥1.3 billion year-on-year)
Operating income: ¥ 34.4 billion (down ¥0.4 billion year-on-year)

(Note) For the previous term, the simple sum of the results of Hankyu Holdings, Inc. and Hanshin Electric Railway Co., Ltd. on a consolidated basis in the year ended 31st March 2006 is employed.


Hankyu Railway


Hanshin Electric Railway


Hankyu Bus

Future Business Strategy

Safer, more convenient and appealing transportation services through combined technologies and expertise

☐ Basic Strategies

While addressing the issues of declining population and intensifying competition in areas served by our stations, as well as structural change in demand and markets (such as providing barrier-free environments), we will adopt the following three priority policies to build competitiveness for sustainable growth and increase value along Group railway lines.

(1) Provide services of real value to our customers

(2) Rigorously commit to low-cost operation

(3) Provide safe, high-quality transportation services that are trusted by the community

Policies to be launched in the year ended March 2008

Increase value along Group railway lines

- ◯ Hankyu Corporation and Hanshin Electric Railway will deepen their collaboration over fares (frequent passenger discount tickets etc)
- ◯ Expand services available with IC cards
  - Launch of commuter passes valid on both Hankyu and Hanshin Lines
  - Increase the number of Hankyu Bus routes using IC cards
- ◯ Strengthen collaboration in public relations and advertising, using each others' retail and entertainment facilities in areas served by our stations

Expand the network

- ◯ Steady progress on the Nishi-Osaka Line Extension Project (scheduled to begin operations in spring 2009)
- ◯ Open new stations on Hankyu Railway lines: Settsu-shineki (tentative name), Minami Nagaokakyo-shineki (tentative name)
- ◯ Consider improvements to bus routes operated jointly by Hankyu and Hanshin

Share and enhance technology and know-how

- ◯ Shared use of facilities
- ◯ Joint project ordering, and harmonisation of specifications for equipment
- ◯ Exchange of personnel

Infrastructure upgrades along our lines

- ◯ Continue works on elevated lines in areas served by stations along Hankyu and Hanshin lines
- ◯ Promote safety improvement policies
- ◯ Barrier removal at stations earmarked for upgrades

Real Estate Core companies : Hankyu Corporation, Hanshin Electric Railway

Overview of the year ended 31st March 2007

Strong performance driven by the condominium business

Good year for condominium projects and housing projects

Sales were strong in the condominium business at Geo Saito Nozomioka (Ibaraki, Osaka Prefecture), Geo Park Square Ikeda (Ikeda, Osaka Prefecture), THE TOWERS DAIBA (Minato-ku, Tokyo) and St. Place Osaka (Miyakojima-ku, Osaka), and in the housing-lot sales business (Geo Park Square Ikeda Premium (Ikeda, Osaka Prefecture), Hankyu Takarazuka Yamatedai (Takarazuka, Hyogo Prefecture), Kobe Hanayamate project (Kita-ku, Kobe,) and Shioya Tobiodai (Tarumi-ku, Kobe).

Business was also robust in real estate leasing

We took measures to attract tenants and lower management and operation costs at all of our rental properties and commercial facilities, including Umeda Hanshin Daiichi Building (Herbis OSAKA; Kita-ku, Osaka). In addition, these measures partially offset the loss of revenues at Umeda Hankyu Building due to rebuilding works. We also broadened our profit base by aggressively undertaking operation and management of office buildings and commercial facilities from companies outside the Group.

Business performance (consolidated) in the term ended 31st March 2007

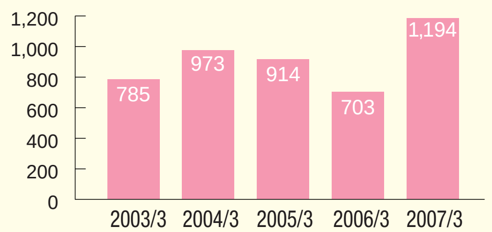
Revenues from operations: ¥176.3 billion (up ¥64.5 billion year-on-year)
Operating income: ¥ 36.3 billion (up ¥14.7 billion year-on-year)

(Note) Hanshin Group's first-quarter results are not included (i.e. consolidated figures cover only 9 months of Hanshin's business year). Year-on-year comparisons are against the results of Hankyu Holdings, Inc. on a consolidated basis for the year ended 31st March 2006.

For reference only: Below is a results calculation assuming that the Hanshin Group had integrated its management with Hankyu Holdings, Inc. at the beginning of the fiscal term (i.e. consolidated results assuming a full 12-month period).
Revenues from operations: ¥188.8 billion (up ¥21.5 billion year-on-year)
Operating income: ¥ 38.5 billion (up ¥ 6.6 billion year-on-year)

(Note) For the previous term, the simple sum of the results of Hankyu Holdings, Inc. and Hanshin Electric Railway Co., Ltd. on a consolidated basis in the year ended 31st March 2006 is employed.

Numbers of Condominiums Sold*1
(Total for Hankyu Corp., Hankyu Realty*2 and Hanshin Electric Railway)*3



*1 Indicates the number of units calculated using the equity method.
*2 Hankyu Realty became Hankyu Corporation's consolidated subsidiary in the term ended 31st March 2003.
*3 Hanshin Electric Railway became a consolidated subsidiary in the term ended 31st March 2007.

Future Business Strategy

We will provide safe and convenient basic infrastructure that supports community lifestyles, while creating new value in areas served by our stations and enhancing enterprise and asset value.

☐ Basic Strategies

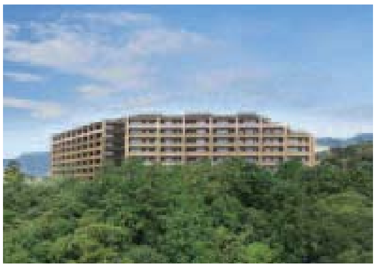
Leveraging our strengths in building our brand and trust in the Kyoto-Osaka-Kobe area, in planning and development of attractive commercial facilities in the Umeda area, and in value creation in areas served by our railways through urban development projects and high quality housing, we have adopted the following priority strategies.

○ By leveraging our expertise in community building, provide safe and convenient basic infrastructure and providing services that support community lifestyles, we will
- Develop Nishinomiya-Kitaguchi (former Hankyu Nishinomiya Baseball Stadium area) and the area around Hanshin Mikage station
- Strengthen the condominium business and focus on the detached house business through collaboration between Hankyu and Hanshin

○ Enhance enterprise value and optimise cash flow by striking an appropriate balance between investments and returns

○ Raise our profile in the Umeda area, through renovations of established properties
- Undertake large-scale development projects such as the rebuilding of the Umeda Hankyu Building


Geo Tower Nishinomiya Kitaguchi (Nishinomiya, Hyogo)


Geo Grande Takarazuka Yamatedai (Takarazuka, Hyogo)


Geo Itami Gocho Premium (Itami, Hyogo)


HEP FIVE (Kita-ku, Osaka)


HERBIS ENT (Kita-ku, Osaka)

Policies to be launched in the year ended March 2008

Combine the expertise and brand strength of Hankyu and Hanshin in condominiums to boost earnings potential

- ◯ Broaden the business portfolio and strengthen the operating structure by providing a stable supply of approximately 1,200 condominium units per year (we plan to deliver 1,190 units during the year ending March 2008)
- ◯ Develop the Geo brand of condominiums
- ◯ Develop Hankyu and Hanshin joint projects (Geo Grande Rokko, Kobe)
- ◯ Leverage Hanshin's expertise to strengthen the house-building business

Large-scale projects that have got fully underway

- ◯ Launch of full-scale works in the reconstruction of Umeda Hankyu Building and development of Hankyu Nishinomiya Baseball Stadium site (see P.31 and P.33)
- ◯ With the extension of the Osaka Monorail Saito Line in March 2007, accelerate housing development in response to the opening of Saito-Nishi station
- ◯ Develop new office building construction projects in Akihabara (Tokyo) and Tsukiji (Tokyo) and Kawaramachi (Kyoto)

Reorganise property management and building maintenance business

- ◯ We aim to streamline Group management by creating a new comprehensive property management and maintenance company with the registered trade name Hankyu Hanshin Building Management Co., Ltd., to be financed by Hankyu Corporation and Hanshin Electric Railway Co., Ltd. The new company, to be formed in October 2007, will integrate the operations of Hankyu Facilities Co., Ltd., Hanshin's building operation business and Hanshin Engineering Co., Ltd.

■ Street Survey into Preferred Living Areas (Kansai region)

represents areas along Hankyu and Hanshin Lines

Preferred Living Areas

Rank	Place	(Location)
1	Ashiya	(Ashiya City, Hyogo Prefecture)
2	Nishinomiya	(Nishinomiya City, Hyogo Prefecture)
3	Kobe	(Kobe City, Hyogo Prefecture)
4	Shukugawa	(Nishinomiya City, Hyogo Prefecture)
5	Okamoto	(Kobe City, Hyogo Prefecture)
6	Kyoto	(Kyoto City, Kyoto Prefecture)
7	Takarazuka	(Takarazuka City, Hyogo Prefecture)
8	Ibaraki	(Ibaraki City, Osaka Prefecture)
9	Toyonaka	(Toyonaka City, Osaka Prefecture)
10	Senri-Chuo	(Toyonaka City, Osaka Prefecture)
11	Mikage	(Kobe City, Hyogo Prefecture)
12	Takatsuki	(Takatsuki City, Osaka Prefecture)
13	Minoh	(Minoh City, Osaka Prefecture)
14	Umeda	(Osaka City, Osaka Prefecture)
15	Suita	(Suita City, Osaka Prefecture)
16	Sannomiya	(Kobe City, Hyogo Prefecture)
17	Kurakuen	(Nishinomiya City, Hyogo Prefecture)
18	Kitasenri	(Suita City, Osaka Prefecture)
19	Tezukayama	(Osaka City, Osaka Prefecture)
20	Rokko	(Kobe City, Hyogo Prefecture)

Improved Imaged Areas

Rank	Place	(Location)
1	Saito	(Ibaraki and Minoh Cities, Osaka Prefecture)
2	Nishinomiya	(Nishinomiya City, Hyogo Prefecture)
3	Sanda	(Sanda City, Hyogo Prefecture)
4	Amagasaki	(Amagasaki City, Hyogo Prefecture)
5	Kobe	(Kobe City, Hyogo Prefecture)
6	Tomigaoka	(Nara City, Nara Prefecture)
7	Ikoma	(Ikoma City, Nara Prefecture)
8	Seishin-Chuo	(Kobe City, Hyogo Prefecture)
9	Takatsuki	(Takatsuki City, Osaka Prefecture)
10	Yamada	(Suita City, Osaka Prefecture)

Source: Survey of 3rd August, 2006 by Sumitomo Real Estate and 7 other major real estate firms

Major development projects

In the year ended March 2008, we will finally launch full-scale construction at large development projects along areas served by Hankyu and Hanshin stations. Below is a progress report on projects that underpin the growth of the real estate business, from the bustling Hankyu Umeda area and JR Osaka station area projects to major commercial/entertainment facilities in the Osaka and Kobe areas and community-building projects that emphasise harmony with nature.

Building a new pillar of real estate operations

■ Rebuilding of Umeda Hankyu Building

This is one of the projects through which we are commemorating the 100th anniversary of the establishment of Hankyu. We aim to construct a multiple-use commercial building on a scale that will make it a landmark in the Umeda area, with barrier-free connections with surrounding facilities and enhanced pedestrian traffic flows.

The application of the Urban Renaissance Special Measures Law, enabling 800% relaxation of floor-area ratios, means that we can build to a floor-area ratio of 1,800%. At Umeda we plan one of Japan's largest department stores, a high-rise building that will dwarf rivals in the neighbourhood in terms of earthquake-resistance and profitability, with 2 floors below ground and 13 floors above; offices will occupy floors 17-41. We expect this project to develop into a major pillar of the real estate business going forward, giving the Umeda area prestige as a commercial centre and greatly increasing its rental area.

Artist's impression of completed new Umeda Hankyu Building

Artist's impression of the concourse of the new building

■ Project overview (planned)

	Current building	Planned building
Scale	2 floors below ground, 12 floors above ground	2 floors below ground, 41 floors above ground, and a rooftop level
Height	45m	187m
Total area	112,600m^2	252,000m^2
Floor-area ratio	1,000%	1,800%

Total investment : ¥57.5 billion
Grand opening: second half of fiscal year ending March 2012

Prime location developments in Osaka by cross-section of Group companies

Osaka Station North Area (Northern Railway Yard of Osaka Station) Development

This project will contribute significantly to the revitalisation of the economy of the Kansai area. In the preliminary development area (blocks A, B and C, totaling 7ha), the alliance of corporations in which Hankyu Corporation is participating was selected as scheduled developer for the entire project.

In the preliminary development area, we are involved in a project to build a "Knowledge Capital" zone (facilities for research into robots and IT), as well as commercial/office and hotel/residential facilities. With opening targeted for 2011, this project, drawing on our development record and expertise in the Umeda area, and bringing together the public organisations for urban development and railway and transportation that selected the contractors, Osaka city government, and an alliance of developer companies, will contribute to building an attractive setting and revitalisation of the Umeda area of Osaka.

Development concept: Create a community with a bright future founded on innovation and knowledge

Preliminary development of Northern Railway Yard of Osaka Station (with supplementary images)

Proposed project overview

* Subject to change depending on discussions with authorities

A Block **Total site area:** 1.1ha
Gateway for "Palace of Creativity" concept aimed at attracting people in the know
New functions: Commercial facilities, offices, centre of lifestyle information

B Block **Total site area:** 1.5ha
Main zone for "Palace of Creativity" centered on world-class "Knowledge Capital"
New functions: "Knowledge Capital" functions, commercial facilities, offices

C Block **Total site area:** 1.2ha
Hospitality zone of the "Palace of Creativity," a meeting place for bright minds to linger and exchange views
New functions: Hotels, rental housing, condominiums, commercial facilities

Group Representative:
A and C Blocks: Mitsubishi Estate
Block B: Orix Real Estate Corp.
Delivery of land: June 2007
Opening: 2011

Buildings associated with our group in Umeda area

After the Western section, development begins at the Eastern section

■ Chayamachi redevelopment

Following on from the NU chayamachi commercial facilities opened in the Western section in October 2005, we will launch a multi-purpose development project in the Eastern section, comprising a commercial and residential block, a school building and a services-oriented block. We plan to undertake management of the lower-level commercial facilities in the commercial wing, and sell off condominium units.

■ Project overview (planned)

Site area : about 5,130m^2
Total floor area : about 34,700m^2
Building size : 1 floor below ground, 31 floors above
Launch of operations of commercial facilities and transfer of residential facilities : Year ending March 2011

NU chayamachi

One of Japan's largest commercial facilities - a new landmark between Osaka and Kobe

■ Nishinomiya-Kitaguchi development project (Hankyu Nishinomiya Gardens)

In the year ending 31st March 2008, we are launching full-scale development of the Hankyu Nishinomiya Gardens large-scale commercial facility near Hankyu Nishinomiya-Kitaguchi station, which stands in the middle of a residential area between Osaka and Kobe. In the Nishinomiya-Kitaguchi station area, the Hyogo Performing Arts Centre on the south side and at the north exit the Kitaguchi-Minami Hankyu building were opened. Hankyu Realty Co., Ltd. is progressing with the construction of the Geo Tower Nishinomiya-Kitaguchi condominium block.

This project, aimed at creating a new community, is a part of the redevelopment of the former site of the Hankyu Nishinomiya Baseball Stadium. With Hankyu Department Store forming the core retail complex, and a multiplex cinema built by Toho Co., Ltd. and OS Co.,Ltd., we are creating a commercial and entertainment space that draws on the combined strengths of the Hankyu Hanshin Toho Group.

■ Project overview (planned)

Rental area : 100,000m^2
Number of retail outlets : approximately 250
Opening date : Autumn 2008

NISHINOMIYA
GARDENS

Creating an appealing community

Development of former Takarazuka Familyland site

In the year ended March 2006, we completed the commercial wing (total floor area 7,400m^2) and began development in the following fiscal year of a 50,000m^2 residential zone comprising roadside retail outlets, the Kwansei Gakuin Elementary School, condominiums and parks.

During the year ending March, 2008 and beyond, a range of retail outlets along major roads is scheduled to open. The Kwansei Gakuin Elementary School is scheduled to open in 2008. We plan to sell some 600 condominium units in two phases between 2008 and 2009. The project concept is “a status symbol home at a prestige address: Takarazuka.”

Project overview (planned)

Year ending March 2009:
Condominium unit sales, Phase I :
294 units completed
Year ending March 2010:
Condominium unit sales, Phase II :
Approximately 300 units completed


Geo Tower Takarazuka (Takarazuka, Hyogo)


Commercial Wing

Houses and land lots were sold out on the day of sales

Saito Development Project

The Saito project is a 21st-century public-private sector new-town development, located on approximately 743ha of hilly country between Ibaraki and Minoh cities, some 20km north of central Osaka. With harmony between human communities and nature as the theme, we intend this to be a cluster of international academic, cultural and research and development institutions, mainly in the life sciences. We also have in mind development of a new residential neighbourhood based on the concept of “building a new garden city”.

Up to the year ended 31st March 2007, we sold out all condominiums and residential lots, including at our newest condo development at Geo Saito Nozomioka (Phase I), on the same day they were marketed. In March 2007, the Saito-Nishi station on the Osaka Monorail Saito Line opened, meaning that Senri Chuo can be reached in 17 minutes and Umeda in 36 minutes (not including time needed to change trains). In the spring of 2007, the total population reached some 4,500 permanent residents, with a working population of some 1,000.

Project overview

(Condominiums to be marketed between year ending 2008 and year ending 2013)

Condominiums : Approximately 850 units
Detached homes (ordinary):
Approximately 250 lots
Land for amenity use (parks) : 8.7ha
As of 31st March 2007, we have only included designated properties.


Geo Saito Nozomioka (Ibaraki-shi, Osaka)


Hankyu Saito Garden Village Asagi (Ibaraki-shi, Osaka)

A new landmark in Kyoto　Setting the trends in fashion, lifestyle and dining

■ Kawaramachi development project “Kotocross Hankyu Kawaramachi”

The Shijo Kawaramachi project is a commercial building linking directly with the Hankyu Kyoto Line terminus in Shijo Kawaramachi, an ideal location for enjoying the bustle of Kyoto’s tourist and shopping areas. This commercial building has nine floors above ground and one below, and will also contain a directly managed Book 1st. store by Hankyu Corporation.

■ Project overview (planned)

Site area : 640m²
Rental area : 3,000m²
Building size : 1 floor below ground, 9 floors above
Tenants: 8 stores
Opening : October 2007

Perspective drawing of the Kotocross Hankyu Kawaramachi Building

Redevelopment of land owned by Hanshin Electric Railway

■ Nishinomiya City Uedahigashimachi development project

At 14,400m² of land owned by Hanshin Electric Railway Co., Ltd. adjacent to Mukogawa Danchimae station on the Hanshin rail network, the Hapia Gardens MUKOGAWA detached housing estate at the North entrance is being integrated with rental commercial facilities at the south entrance. Units went on the market in October 2006. The location next to commercial and station facilities, without raising environment or security concerns, has been highly praised for its convenience.

Development plan

Detached houses for sale

Site area : 8,900m²
Total number of units : 55

Rental commercial facilities

Site area : 5,500m²
Retail area : 2,000m²
Building size : 1 floor above ground
(rooftop parking facilities)
Opening : July 2007

Residential development area

Entertainment & Communications Core companies : Hankyu Corporation, Hanshin Electric Railway

Overview of the year ended 31st March 2007

Hanshin Tigers, Takarazuka Revue both have strong year

Hanshin Tigers post year-on-year increase in number of spectators

In the sports business, the professional baseball team "Hanshin Tigers" were aiming for their second consecutive Central League title, and a shot at the Japan Series. Their campaign, lasting to the end of the season, pulled the fans in. Total attendance for home games was 3,155,000, approximately 20,000 more people than in 2005, when the Hanshin Tigers won the Central League pennant.

Takarazuka Revue maintains high operating ratios

In stage promotions, we kept operating ratios (seats taken compared with tickets available) at a high level at Takarazuka Grand Theatre (Takarazuka, Hyogo Prefecture) and Tokyo Takarazuka Theatre (Chiyoda-ku, Tokyo), thanks to productions such as "Never Say Goodbye - Aru Ai no Kiseki" by Soragumi (Cosmos Troupe) and "Lucifer's Tears" by Yukigumi (Snow Troupe), and farewell performances by leading stars taking male role. Takarazuka Revue merchandise marketed by Quatre Rêves also sold well in the year.

©Takarazuka Revue Company

Umeda Arts Theatre stages a wide variety of productions

Umeda Arts Theatre (Kita-ku, Osaka) proved popular, with a wide range of performances such as "Copacabana" by Takarazuka Revue and "Elisabeth" by Vereinigte Bühnen Wien (United Stages Vienna), which staged a memorial production in Japan.

Expansion of cable television

As terrestrial digital broadcasting spreads, Bay Communications Inc. expanded our digital television services and launched our "cable-plus telephone" service, in measures to attract more customers.

Business performance (consolidated) in the term ended 31st March 2007

Revenues from operations: ¥75.7 billion (up ¥35.6 billion year-on-year)
Operating income: ¥ 5.2 billion (up ¥ 1.1 billion year-on-year)

(Note) Hanshin Group's first-quarter results are not included (i.e. consolidated figures cover only 9 months of Hanshin's business year). Year-on-year comparisons are against the results of Hankyu Holdings, Inc. on a consolidated basis for the year ended 31st March 2006.

For reference only: Below is a results calculation assuming that the Hanshin Group had integrated its management with Hankyu Holdings, Inc. at the beginning of the fiscal term (i.e. consolidated results assuming a full 12-month period).
Revenues from operations: ¥88.9 billion (down ¥1.4 billion year-on-year)
Operating income: ¥ 8.5 billion (down ¥2.8 billion year-on-year)

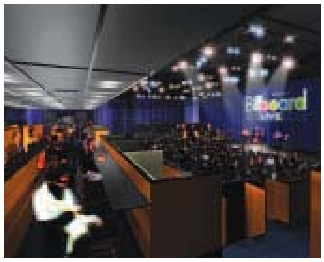
(Note) For the previous term, the simple sum of the results of Hankyu Holdings, Inc. and Hanshin Electric Railway Co., Ltd. on a consolidated basis in the year ended 31st March 2006 is employed.

Future Business Strategy

Basic Strategies

We are further strengthening our revenue base by maximising the appeal of our proprietary Hanshin Tigers, Koshien and Takarazuka brands, with their mission of fulfilling dreams and providing excitement. We are also focusing on increasing the excitement of live events, and the various media they use.

- Increasing the appeal of live events (Hanshin Tigers, Takarazuka Revue, Umeda Arts Theatre, "Billboard Live" club and restaurant, etc.)
  - Renovation of Hanshin Koshien Stadium (with reopening scheduled for March 2009)
- Upgrading and expansion of media we operate
  - Increase the number of channels offered, and strengthen content provision through enhanced mobile services
  - Enhance appeal of publishing, broadcasting and advertising products, and develop mixed-media operations
- Leverage our leisure facilities (Rokko mountaintop leisure facilities, Takarazuka Garden Fields, etc)
  - Strengthen alliances and partnerships with Group operations that attract large numbers of people



"Billboard Live" club and restaurant

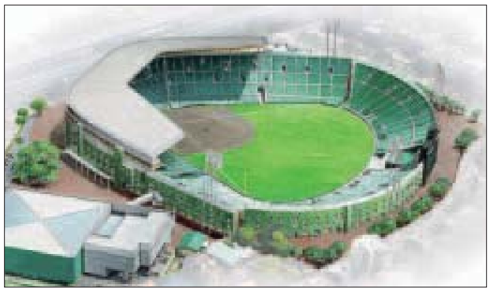
Policies to be launched in the year ended March 2008

Launch of refurbishment works at Hanshin Koshien Stadium

We plan two-phase works during the off-season, with completion scheduled for March 2009

Refurbishment concept

- Respecting history and tradition
  Ivy-lined outer walls and "silver umbrella" roof (covering all infield seats but leaving outfield seats and playing area open)
- Improved safety measures
  Structural strengthening against earthquakes
- Improved convenience
  Improvements to seating, installation of "Suite" seating (tentative name) and up-close front seating, installation of stores and toilets, etc, more facilities for wheelchairs, installation of lifts, etc
- Environmental measures
  Use well water and rainwater for pitch-watering, get the ivy to grow back, and consider introduction of solar-power facilities



Renovation of Hanshin Koshien Stadium

Renovation schedule

October 2007 to March 2008:	Works on the in field seating area
October 2008 to March 2009:	Works on the "Alps" and outfield seating, installation of "silver umbrella" roof cover
March 2009:	Reopening

Total cost of works

Approximately 20 billion

Overview of the year ended 31st March 2007

Addition of department store business generates higher revenues and earnings

Strengthening profitability of the department store business

In the department store business, chief measures to strengthen profitability were 1) expansion and enhancement of stock ranges at Hanshin department stores (marketing measure), and 2) opening of the Hanshin Department Store's Sannomiya branch (called the Sannomiya Hanshin Food Hall) within the M-INT KOBE commercial complex.

Opening new stores and strengthening the competitiveness of established stores

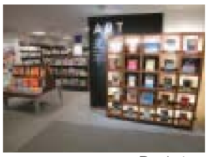
In our merchandise marketing business, we opened a range of new stores in the Umeda area such as the Freds bakery and café chain in stations, the Color Field Relax cosmetics chain and the An 3 S∧M mini-convenience store chain.

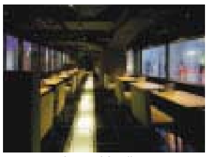
Outside areas served by our stations, we opened a new Book 1st. store in Hachioji, Tokyo, and at established stores continued refurbishment and extension of business hours - measures to make our stores more appealing and convenient and improve their competitiveness.


Freds café station


Color Field Relax


An 3 S∧M mini convenience store


Book 1st.


Aqua Kouji restaurant

Store refurbishment and new store openings in our restaurant and ready-to-eat meal business

In our restaurants and ready-to-eat business, we refurbished established stores, upgraded services and made format changes, as well as opening a new store in our Aqua Kouji chain of healthy eateries (Kita-ku, Osaka) and other new stores, chiefly outside of the areas served by our stations, under the Cook Deli Gozen delicatessen brand.


Cook Deli Gozen

Business performance (consolidated) in the term ended 31st March 2007

Revenues from operations: ¥155.9 billion (up ¥93.9 billion year-on-year)
Operating income: ¥ 4.7 billion (up ¥ 2.2 billion year-on-year)

(Note) Hanshin Group's first-quarter results are not included (i.e. consolidated figures cover only 9 months of Hanshin's business year). Year-on-year comparisons are against the results of Hankyu Holdings, Inc. on a consolidated basis for the year ended 31st March 2006.

For reference only: Below is a results calculation assuming that the Hanshin Group had integrated its management with Hankyu Holdings, Inc. at the beginning of the fiscal term (i.e. consolidated results assuming a full 12-month period).
Revenues from operations: ¥185.8 billion (down ¥2.9 billion year-on-year)
Operating income: ¥ 5.8 billion (down ¥0.3 billion year-on-year)
(Note) For the previous term, the simple sum of the results of Hankyu Holdings, Inc. and Hanshin Electric Railway Co., Ltd. on a consolidated basis in the year ended 31st March 2006 is employed.

Future Business Strategy

Enhancing value of areas served by our lines, and expanding operations into new areas

☐ Basic Strategies

We are committed to building value in areas served by our stations and achieving sustainable growth through expansion of operations outside areas served by our stations, by creating and strengthening our operating base in terms of product development capability and human resources. Here are the main policies we have adopted:

- ○ Revitalise our stores, our point of contact with our customers, and raise employee standards
  - Establish IT infrastructure to streamline and modernise store operation
- ○ Strengthen our capability as an organisation to support sustainable growth
  - Establish a logistics system to enhance product development capability, and create organisational frameworks to support store openings outside areas served by our stations
- ○ Find ways to generate synergies from the integration of Hankyu and Hanshin managements
  - Open new stores within each other's stations and properties
  - Strengthen partnerships in purchasing and product delivery to convenience-store chains, etc

Policies to be launched in the year ended March 2008

Accelerated expansion of the Book 1st. chain

- ○ 26 stores in the Kansai area, and 16 stores in the Tokyo area (as of 31st March 2007)
- ○ As we open new large-scale stores, we will continue to introduce point-of-sale systems to enhance services and streamline store operation
- ○ In October 2007, we plan to open a Kyoto store in the Kawara-machi Ekimae Hankyu Building (Kyoto: 1,420m^2) and in Bunkamura in Shibuya in Tokyo (Shibuya-ku, Tokyo: 670m^2).
- ○ In November 2008, we plan to open a Tokyo flagship store functioning jointly as a “gallery café” at Mode Gakuen Cocoon Tower in Shinjuku in Tokyo (Shinjuku store (tentative name)) (Shinjuku-ku, Tokyo: 3,600m^2)

Reorganisation of department store business (see P.5)

Overview of the year ended 31st March 2007

Overall earnings growth on strong performance by the travel business

Overseas and domestic travel operations perform well

In travel, overseas operations had a good year, with strong customer volume for European destinations and China and other Asian destinations despite a decline in airline seating availability and an increase in airfares due to soaring crude oil prices. In travel operations in Japan, we increased the number of customers for our package tours to the popular Tohoku (north Honshu) region of Japan and our bus tours, through aggressive advertising.

Capturing new customers through Hankyu-Hanshin collaboration

In measures to attract new customers, we marketed Hanshin Tigers fan club tours with reservation services through stores of both Hankyu Express International and Hanshin Travel Service. In November 2006, we also launched The Oyado online reservation service.

A good year for marine transportation in the international transportation business

Airfreight (exports) posted weak growth due to inventory adjustment at manufacturers of IT products and a shift to marine transportation for mainstay products. Volumes handled by our airfreight (imports) business also declined due to unseasonal summer weather and a warm winter, which affected demand for clothing and fresh produce. Against this backdrop, large-scale air shipments of game consoles for the end-of-year holiday period, and a strong performance in the shipping business (both exports and imports) notably in China trade ensured a solid year overall for international transportation operations.

Expansion of our overseas network

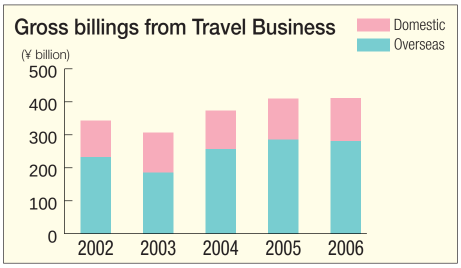
As part of our efforts to aggressively expand our overseas network, we launched operations at local units in Indonesia (May 2006) and in Beijing in China (October 2006).

Business performance (consolidated) in the term ended 31st March 2007

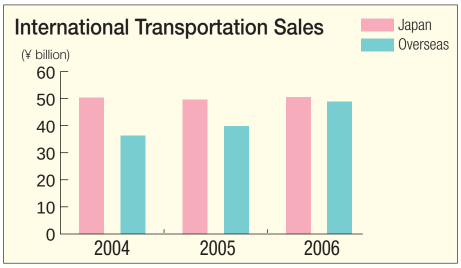
Revenues from operations: ¥88.3 billion (up ¥21.0 billion year-on-year)
Operating income: ¥ 4.2 billion (up ¥ 1.8 billion year-on-year)

(Note) Hanshin Group's first-quarter results are not included (i.e. consolidated figures cover only 9 months of Hanshin's business year). Year-on-year comparisons are against the results of Hankyu Holdings, Inc. on a consolidated basis for the year ended 31st March 2006.

For reference only: Below is a results calculation assuming that the Hanshin Group had integrated its management with Hankyu Holdings, Inc. at the beginning of the fiscal term (i.e. consolidated results assuming a full 12-month period).
Revenues from operations: ¥93.9 billion (up ¥0.0 million year-on-year)
Operating income: ¥ 4.4 billion (up ¥1.7 billion year-on-year)
(Note) For the previous term, the simple sum of the results of Hankyu Holdings, Inc. and Hanshin Electric Railway Co., Ltd. on a consolidated basis in the year ended 31st March 2006 is employed.



Transaction amount for the Travel segment consists of revenues from operations booked under financial accounting, plus sums equivalent to cost of sales.



Transaction amount for the International Transportation segment consists of revenues from operations booked under financial accounting, plus sums equivalent to cost of sales for export.

Future Business Strategy

Complete business restructuring resulting from management integration by April 2008, to boost competitiveness and raise earnings of both operations

☐ Basic Strategies

Travel

We aim to ensure steady profit growth and consolidate our customer base by broadening our range of high-value-added products

- Increase customer satisfaction
  - Show rigorous commitment to product quality and customer relationship management (using a database)
- Strengthen marketing capability (for tailor-made tours and corporate business)
  - Optimise brand management, strengthen marketing of tour group products and strengthen marketing of products for corporate customers
- Position the company for stable profit growth
  - Create and strengthen centralised purchasing, and overhaul back-office and management operations

International Transportation

We aim to achieve sustainable growth of our business through highly advanced logistics systems and networks

- Bolster the revenue base
  - Strengthen the revenue base in the airfreight (exports and imports), shipping and logistics businesses, and provide higher-quality services
- Enhance productivity
  - Achieve low-cost operations, and create synergies through alliances with warehousing and shipping companies
- Strengthen Group collective strength
  - Expand network of local units in the Asian region, especially in China
  - Establish a marketing network with five hubs (Japan, United States, Europe, East Asia and ASEAN)

Policies to be launched in the year ended March 2008

Reorganisation of the Travel and International Transportation businesses (see P.6)

The Travel business

- To supplement our conventional PC-based online services, we established in April 2007 a website (http://hankyu.travel) for access by mobile phone
- Strengthen package-tour operations by Hanshin Travel to meet diversifying customer needs
- Generate synergies by cross-marketing of package-tour products of Hankyu and Hanshin

The International Transportation business

- Take further steps toward a total logistics system by creating national logistics networks within China and other Asian countries, and by improving warehousing functions
- Leverage synergies through joint pickup and delivery of cargo

Hotels Core companies : Hankyu Hotel Management, Hanshin Electric Railway

Overview of the year ended 31st March 2007

Profits improving steadily thanks to upgraded sales force and guest room renovation

Strengthen competitiveness by reforming hotel management and refurbishing guest rooms

In April 2006, we launched centralised systems for reservation and day-to-day operational management, as part of integration of the managements of the Hankyu and Hanshin hotel chains. To strengthen competitiveness, we also took steps to refurbish facilities including the guest rooms at Dai-ichi Hotel Tokyo and Hotel New Hankyu Kyoto.

Beyond our own chains, we also carried out full-scale room refurbishments at The Ritz-Carlton, Osaka, an international luxury brand in which we participate through a joint venture.


Hotel Hankyu International
(Kita-ku, Osaka)

Addition of Hotel HANSHIN to Hankyu-Hanshin-Daiichi Hotel group

In September 2006, The Hotel Hanshin, Ltd. became a fully consolidated subsidiary of Hankyu Hotel Management Co., Ltd. In October of the same year, Hankyu Daiichi Hotel Group was relaunched as Hankyu-Hanshin-Daiichi Hotel group.


The Ritz-Carlton, Osaka
renovated hotel room

Promotional initiatives

Sales promotion activities included a celebration to mark the founding of Hankyu-Hanshin-Daiichi Hotel group, and the Happy Retirement Plan which offers package products at our hotels for members of Japan's baby-boom generation.

Business performance (consolidated) in the term ended 31st March 2007

Revenues from operations: ¥65.4 billion (up ¥11.6 billion year-on-year)
Operating income: ¥ 1.3 billion (up ¥ 0.9 billion year-on-year)

(Note) Hanshin Group's first-quarter results are not included (i.e. consolidated figures cover only 9 months of Hanshin's business year). Year-on-year comparisons are against the results of Hankyu Holdings, Inc. on a consolidated basis for the year ended 31st March 2006.

For reference only: Below is a results calculation assuming that the Hanshin Group had integrated its management with Hankyu Holdings, Inc. at the beginning of the fiscal term (i.e. consolidated results assuming a full 12-month period).
Revenues from operations: ¥69.4 billion (down ¥0.9 billion year-on-year)
Operating income: ¥ 1.4 billion (up ¥0.8 billion year-on-year)

(Note) For the previous term, the simple sum of the results of Hankyu Holdings, Inc. and Hanshin Electric Railway Co., Ltd. on a consolidated basis in the year ended 31st March 2006 is employed.

Future Business Strategy

Further consolidate our position as a chain operator

☐ Basic Strategies

The Hankyu-Hanshin-Daiichi Hotel group is building its management base around Hankyu Hotel Management, as it pursues its goal of consolidating its position as hotel chain operator. We adopted the following priority policies:

Create infrastructure for hotel chain operation

- Enhance chain operation capabilities through centralised reservations and integrated hotel management
- Develop new hotels and franchise/contracted management hotels

Establish an efficient business management system

- Prepare for opening of REMM Hibiya and REMM Akihabara hotels
- Reconfigure business portfolio to optimise all resources

Strengthen marketing capabilities of each hotel management company

- Strengthen marketing capability and establish a solid profit base

Policies to be launched in the year ended March 2008

Opening of REMM Hibiya

- With a focus on providing a luxurious night's sleep, we plan to open our first hotel under the REMM brand REMM Hibiya (Chiyoda-ku, Tokyo: 255 rooms, accommodation rather than function-oriented) in the theatre/hotel building Toho Theatre Creation Bldg.
- In April 2008, we plan to open the REMM Akihabara hotel (Chiyoda-ku, Tokyo: 260 rooms) in the TX Akihabara station development building (tentative name)

Optimising the synergies of integration

- In June 2007, we withdrew from operation of Rokko Oriental Hotel (Nada-ku, Kobe, 60 rooms)
- In April 2008, we plan to merge Hankyu Hotel Management and Hotel Hanshin

Artist's impression of completed REMM Hibiya

REMM Hibiya hotel room

Business Risks

The various categories of risk to which the business performance, stock price, financial position and other aspects of operations of the Hankyu Hanshin Holdings Group are subject are detailed below.

Legal risk

In accordance with the stipulations of Article 3 of the Railway Business Law, the Group must obtain permission, separately, from the Ministry of Land, Infrastructure and Transport to engage in each category of railway operations on each route that it intends to operate. Moreover, under Article 16 of the Law, a railway operator must obtain the Ministry's permission, separately, for the passenger fares it intends to set, and on each occasion when it wishes to change the fares. Consequently, there is a certain risk that the Group's railway operations may be constrained in some way by the Ministry's administration of these regulations.

Progress in large-scale development projects

The Group is working to utilise its working assets more effectively to facilitate the development of areas served by the Hankyu and Hanshin railway lines. To raise its asset effectiveness, the Group is pursuing the following initiatives: reconstruction of the Umeda Hankyu Building; development of the Chayamachi area of the Umeda district; development of Nishinomiya-Kitaguchi Station; development of the former Takarazuka Familyland site; further development of the International Culture Park "Saito" (a new town).

These projects are all believed to be key to the Group's future growth, and the Group's management will be working to complete these development projects as soon as possible. However, in the event of rapid and major changes in the business environment, such as in land prices or changes in direction in the urban development plans, the business performance and financial position of the Group could be adversely affected.

Interest-bearing debt

The balance of interest-bearing debt held by the Group as of the end of fiscal 2006, on a consolidated basis, was ¥1,209,382 million.

As a result of the acquisition of shares in Hanshin Electric Railway Co., Ltd. through a successful public tender offer in the form of a takeover bid on 27th June 2006, Hanshin Railway has become a consolidated subsidiary of Hankyu Hanshin Holdings. This has resulted in an increase in the balance of interest-bearing debt of the Group. On the other hand, management integration between Hanshin Electric and the Hankyu Corporation Group has led to an increase in cash flow, and the Group is not expected to have any significant difficulty in repaying its debts. Additionally, the Group is responding to this increase in the balance of interest-bearing debt as a result of the management integration with Hanshin Electric by diversifying its fund procurement methods, using all possible means to minimize the negative impact of interest rate movements. Be that as it may, in the unlikely event that interest rates rise suddenly and in excess of our projections, this could exert an adverse effect on the business performance and financial position of the Group.

Transfer of equity-method affiliate

In order to ensure greater convenience for users of the Hokushin Kyuko Railway Co., Ltd., an affiliate accounted for under the equity method, the company has agreed to a plan transferring that railway's facilities to Kobe Rapid Transit Railway Co., Ltd.

To facilitate the plan, in 2002 we provided Kobe Rapid Transit Railway Co., Ltd. with financing for part of the funds necessary to purchase the facilities. We will continue to provide assistance to ensure that Hokushin Kyuko Railway can conduct smooth and efficient operations as a second-tier railway operator based on the above-mentioned plan. However, the business performance and financial position of the Group could be affected by changes in this plan.

Financial Section

Contents

Six-Year Summary Six years in the period ended 31st March 2007

	Millions of yen						Thousands of U.S. dollars (Note)
	2002	2003	2004	2005	2006	**2007**	**2007**
For the year:							
Revenues from operations	¥ 424,831	¥ 477,719	¥ 471,483	¥ 476,623	¥ 486,155	**¥ 743,377**	**$ 6,299,805**
Operating income	37,848	48,068	47,999	58,768	64,842	**87,003**	**737,314**
Income (loss) before income taxes and minority interests	5,522	(145,063)	855	36,042	43,217	**65,306**	**553,441**
Net income (loss)	4,329	(89,318)	3,102	26,079	25,326	**36,619**	**310,331**
Capital investments	18,251	22,771	24,363	27,489	52,091	**53,795**	**455,890**
Depreciation and amortisation	30,777	32,109	30,106	29,974	29,612	**43,889**	**371,941**
At year-end:							
Total assets	¥1,572,815	¥1,754,211	¥1,715,806	¥1,670,911	¥1,609,117	**¥2,366,694**	**$20,056,729**
Total shareholders' equity	287,380	229,845	247,840	277,393	360,222	**522,286**	**4,426,153**
Total shareholders' equity/ total assets	18.30%	13.10%	14.44%	16.60%	22.39%	**21.70%**	
Per share data (in yen and dollars):							
Net income (loss) — basic	¥ 4.97	¥ (97.92)	¥ 3.32	¥ 28.11	¥ 25.36	**¥ 31.84**	**$0.27**
Net income — diluted	4.95	—	3.28	27.70	25.22	**—**	**—**
Shareholders' equity	329.90	251.05	270.72	299.48	343.45	**405.35**	**3.44**
Common stock price range (in yen and dollars):							
High	¥441	¥418	¥386	¥460	¥886	**¥817**	**$6.92**
Low	378	300	296	362	365	**502**	**4.25**

Notes: 1. The U.S. dollar amounts have been translated from Japanese yen, for convenience only, at the rate of ¥118=US$1.00

2. Effective 1st April 2002, the Company adopted the new accounting standard for earnings per share and the related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share," issued by the Accounting Standards Board of Japan on 25th September 2002). The amounts of net income (loss) per share for 2002 have not been restated. Diluted net income per share for the year ended 31st March 2003 is not presented because of the net loss.

3. Effective from the year ended 31st March 2007, the Company and its domestic consolidated subsidiaries have adopted the new accounting standard, the Accounting Standard for Presentation of Net Assets in the Balance Sheet (Statement No.5 issued by the Accounting Standards Board of Japan on 9th December 2005) and the Implementation Guidance for the Accounting Standard for Presentation of Net Assets in the Balance Sheet (the Financial Accounting Standard Implementation Guidance No.8 issued by the Accounting Standards Board of Japan on 9th December 2005), (collectively, the "New Accounting Standards").
By adoption of the new accounting standard for presentation of equity, minority interests and net unrealized gains on hedging derivatives were included in total shareholders' equity for the year ended 31st March 2007.

Consolidated Financial Review

Revenues from Operations

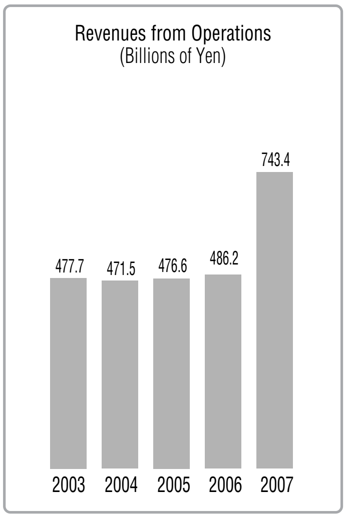
For the term under review (ended 31st March 2007) revenues from operations increased 52.9% to ¥743.4 billion (US$6,299.8 million), reflecting the inclusion of the results achieved by Hanshin Electric Railway Co., Ltd. and the companies under its scope of consolidation from the second quarter onward, as well as strong performances in our six core segments. A breakdown for each segment is provided below.

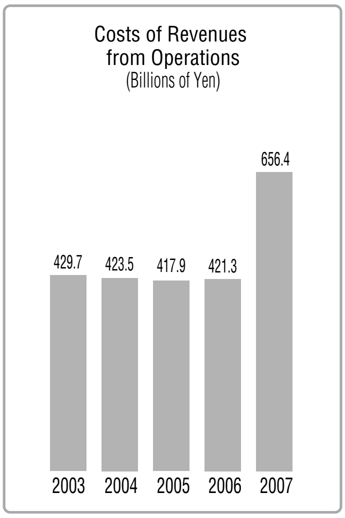
In the Urban Transportation Segment, in spite of a year-on-year decline owing to the nonrepetition of the one-time increase in passengers during the previous term caused by the tragic derailment in April 2005 of a train on the JR West Fukuchiyama Line, the number of individual ticket passengers (those not travelling on a season ticket) remained high for both Hankyu Corporation and Hanshin Electric Railway Co., Ltd. During the term under review, we revised our timetables and took steps to improve the level of passenger convenience by stopping limited express trains and rush-hour limited express trains at Hankyu Shukugawa Station, limited express trains at Hankyu Awaji Station, and area-restricted limited express trains at Hanshin Koroen Station. With regard to the PiTaPa IC card settlement service, Hankyu Corporation, Hanshin Electric Railway Co., Ltd., Nosé Electric Railway Co., Ltd. and Kita-Osaka Kyuko Railway Co., Ltd. each endeavoured to add value to the PiTaPa card by introducing IC commuter passes and expanding the scope of the PiTaPa settlement service to affiliated stores, such as retailing stores, eating and drinking establishments. At the end of March 2007, PiTaPa IC card users totalled approximately 238,000 per day, including holders of cards issued by both Hankyu Corporation and Hanshin Electric Railway Co., Ltd. As a result of the developments described above, revenues from operations in the Urban Transportation Segment increased 18.1% from the previous year to ¥181.9 billion (US$1,541.1 million).

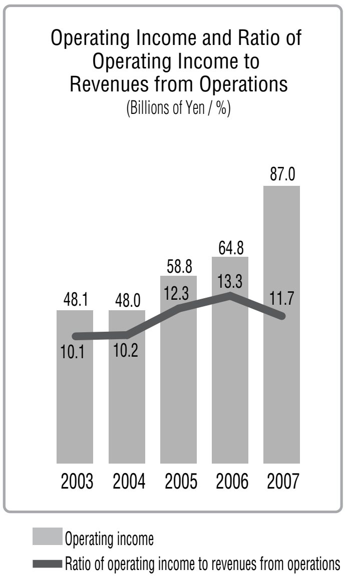
In the Real Estate Segment, we sold 1,194 condominium units and 147 residential land lots during the term under review. In condominium operations, we maintained strong sales and a stable supply in areas close to our railway lines, thanks mainly to the Geo condominium series. We also actively supplied properties in the Tokyo area. In addition, we rehabilitated old condominiums in the Senri New Town area. In leasing operations, we attempted to increase revenues in the face of the reconstruction of the Umeda Hankyu Building, which had adverse effects, by undertaking sales activities designed to attract tenants to our rental and commercial facilities. We also received orders for operating and managing office buildings and commercial facilities from customers outside the Hankyu Corporation Group, thanks to our vigorous activities, and concentrated on expanding our revenue base. As a result of these efforts, revenues from operations in the Real Estate Segment grew 57.7% year on year to ¥176.3 billion (US$1,494.4 million).

In the Entertainment and Communications Segment, both the Takarazuka Grand Theater and the Tokyo Takarazuka Theater achieved high operating ratios, thanks to farewell performances given by a retiring top Takarazuka Revue star, among other factors. Related merchandise also sustained favourable sales. In sports operations, the Hanshin Tigers professional baseball team, the defending Central League champion, stayed in the race for the pennant until the final stages of the season. Consequently, attendance at Tigers-sponsored games exceeded the figure recorded in the previous year, when the team won the Central League championship, and remained at impressive levels. As a result of the developments stated above, revenues from operations in the Entertainment and Communications Segment climbed 88.9% from the previous year to ¥75.7 billion (US$641.8 million).

In the Retailing Segment, we worked to make our existing stores more competitive with initiatives such as store renewal and service standard improvement. As a result of these measures, our existing stores, including Book 1st bookstores and asnas convenience stores,







posted higher sales than in the previous term. In department store operations, we sought to improve our earnings capabilities with such initiatives as the opening of the Hanshin Department Store's Sannomiya branch (called the Sannomiya Hanshin Food Hall) within the M-INT KOBE commercial complex. As a result of these developments, revenues from operations in the Retailing Segment jumped 151.6% year on year to ¥155.9 billion (US$1,321.2 million).

In the Travel and International Transportation Segment, our organized trips to Europe attracted steady numbers of customers. Travel to East Asian destinations, especially China, also recovered. In domestic travel operations, our organized trips to the Tohoku region and bus tours produced satisfactory results. In international transportation operations, air shipments failed to expand as our customers switched export methods for certain major products from air to sea, among other factors. However, our overall performance in international transportation operations remained strong, thanks to increased volumes of exports and imports by sea led by transactions with China. As a result of developments stated above, revenues from operations in the Travel and International Transportation Segment grew 31.2% from the previous year to ¥88.3 billion (US$747.9 million).

In the Hotel Segment, we renovated a number of our facilities, including the refurbishment of guest rooms, in a bid to boost their competitiveness. In addition to Hotel Hanshin, which joined the Hankyu Corporation Group through our management integration with Hanshin Electric Railway Co., Ltd., we opened the Tokyo Dai-ichi Hotel OKINAWA GRAND MER RESORT, our first hotel in Okinawa Prefecture, as part of our efforts to increase the number of affiliated hotels. As a result of the developments described above, revenues from operations in the Hotel Segment rose 21.5% year on year to ¥65.4 billion (US$554.5 million).

In our Other Business Segment, revenues increased 102.7% from the previous year to ¥44.1 billion (US$373.6 million). The result was attributable to factors such as the addition of Hanshin Kensetsu Co., Ltd. to the scope of consolidation.

As a result of the developments described above, the percentage of consolidated operating revenues accounted for by each segment was as follows: 24.1% for Urban Transportation, 20.4% for Real Estate, 9.4% for Entertainment and Communications, 20.6% for the Retailing Segment, 11.9% for Travel and International Transportation, 8.8% for Hotel, and 4.8% for the Other Business Segment.

Operating Income

Operating income increased 34.2% year on year to ¥87 billion (US$737.3 million) in the term under review, reflecting the substantial increase in operating revenues. A breakdown for each segment is provided below.

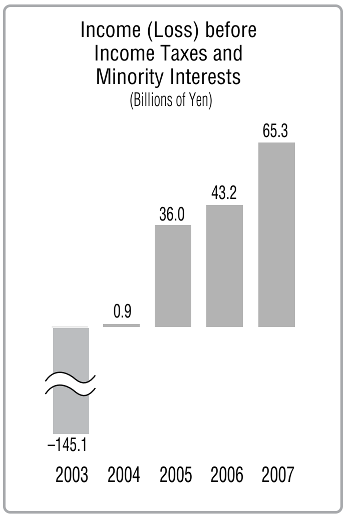
In the Urban Transportation Segment, operating income rose 8.5% year on year to ¥33.2 billion (US$281.3 million), even after passengers who had temporarily switched to using our line after the derailment tragedy in April 2005 had resumed using the JR West Fukuchiyama Line.

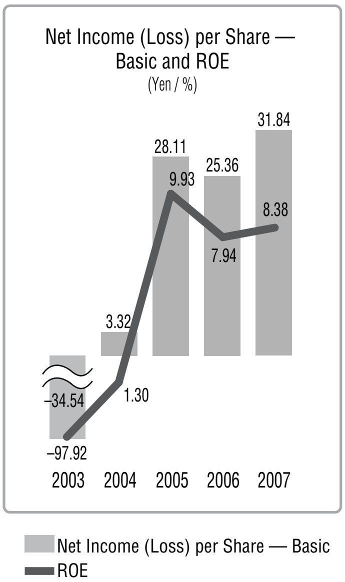
In the Real Estate Segment, operating income grew 67.9% from the previous year, to ¥36.3 billion (US$307.4 million) due to various factors including strong condominium sales.

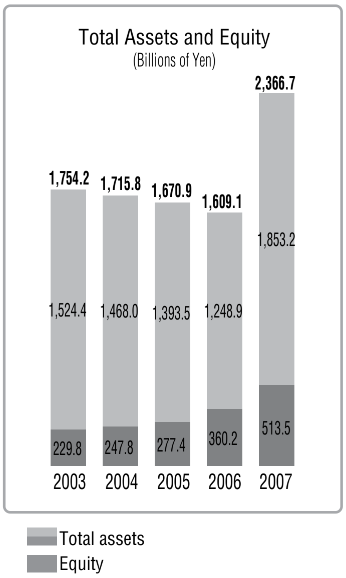
In the Entertainment and Communications Segment, operating income increased 26.7% to ¥5.2 billion (US$44.4 million), thanks primarily to contributions made by our stage revue shows.

In the Retailing Segment, operating income climbed 91.1% year on year to ¥4.7 billion (US$39.5 million), supported by increased revenues from department store operations centering on the new store opening.

In the Travel and International Transportation Segment, operating income expanded 72.2%, to ¥4.2 billion (US$36 million) as a result of factors including the steady number of customers in European travel operations.







In the Hotel Segment, operating income soared 203.6% from the previous year to ¥1.3 billion (US$11.3 million) as a result of aggressive sales activities.

The Other Business Segment recorded an operating loss of ¥17 million (US$144 thousand) owing to factors including increased expenses related to refunds for excessive interest rates and bad debt in consumer finance operations as a result of revisions to the Money Lending Business Law.

Other Income and Expenses

Net other expenses totalled ¥21.7 billion (US$183.9 million) in the term under review. Notwithstanding increased interest payments for loans made to fund a takeover bid (TOB) for Hanshin Electric Railway Co., Ltd., expenses stayed very close to the ¥21.6 billion reported in the previous term.

As a result of the above, income before income taxes and minority interests came to ¥65.3 billion (US$553.4 million), and net income totalled ¥36.6 billion (US$310.3 million).

Financial Position

1. Equity

Equity defined as net assets after deduction of minority interests grew ¥153.3 billion from the end of the previous term and totalled ¥513.5 billion (US$4,352 million) at the end of the term under review. The result was attributable to a share exchange with Hanshin Electric Railway Co., Ltd., conversion of convertible bonds, and increased retained earnings, fuelled by strong business performance. The Hankyu Corporation Group adopts consolidated ROE (return on equity) as an indicator of capital efficiency. The Group aims to raise its consolidated ROE to 6.0% or above in fiscal 2012.

2. Fund Procurement

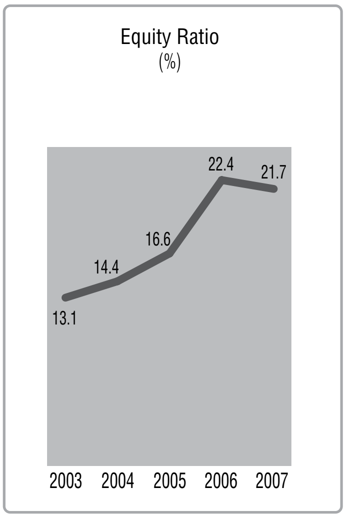
We borrowed ¥250 billion in June 2006 to buy shares in Hanshin Electric Railway Co., Ltd. Consolidated interest-bearing debt at the end of the interim period rose substantially in the short term, with the addition of such debts totalling ¥193.6 billion owed by the Hanshin Electric Railway Group accompanying the conversion of Hanshin Electric Railway Co., Ltd. into a consolidated subsidiary. However, as a result of the disposal of nonessential or low-operating assets owned by Hankyu Corporation and Hanshin Electric Railway Co., Ltd., and efforts to reduce interest-bearing debt using surplus Group funds, the balance of the consolidated interest-bearing debt came to ¥1,209.4 billion at the end of the term under review. The balance represented an increase of ¥319.8 billion from the end of the previous term.

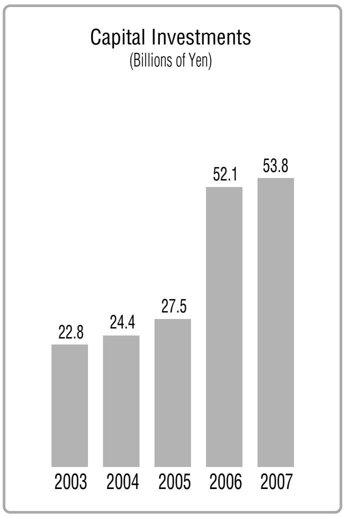
The Hankyu Corporation Group adopts the ratio of interest-bearing debt to earnings before interest, taxes, depreciation and amortization (EBITDA) on a consolidated basis (excluding financial businesses) as an indicator of financial soundness. The Group aims to bring the ratio to 7.0 or thereabouts in fiscal 2012.

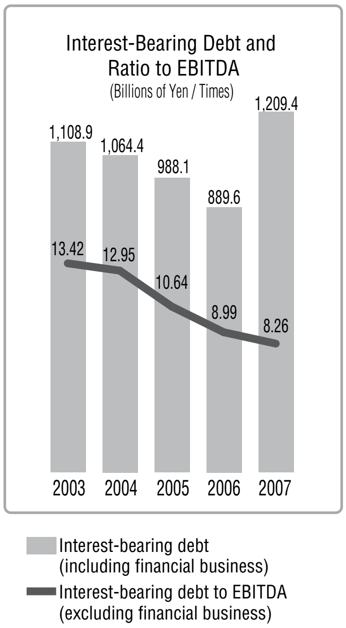
Cash Flows

Cash and cash equivalents increased ¥11.8 billion from the end of the previous term, reaching ¥40.2 billion (US$340.4 million) at the end of the term under review.

Cash flows from operating activities amounted to ¥79 billion (US$669.3 million). Cash flows from investing activities produced a net outflow of ¥199.6 billion (US$1,691.3 million). Cash flows provided by financing activities totalled ¥132.3 billion (US$1,121.1 million). The acquisition of shares in Hanshin Electric Railway Co., Ltd. was financed by bank loans. This was the primary factor behind these performance results for the term under review.







Note: EBITDA refers to the total sum of operating income and depreciation & amortisation expenses.

Consolidated Balance Sheets
As of 31st March 2006 and 2007

Assets	Millions of yen 2006	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2007
Current assets:			
Cash and cash equivalents (Note 18)	¥ 29,036	¥ **41,806**	$ **354,288**
Trade receivables	43,558	**95,945**	**813,093**
Short-term loans (Note 5)	37,581	**43,444**	**368,169**
Allowance for doubtful receivables	(4,877)	**(7,270)**	**(61,610)**
Inventories (Note 4)	162,181	**194,957**	**1,652,178**
Deferred tax assets (Note 16)	15,096	**18,778**	**159,136**
Prepaid expenses and other current assets	33,755	**37,821**	**320,517**
Total current assets	316,330	**425,481**	**3,605,771**
Investments and other assets (Note 5)**:**			
Investments in:			
Nonconsolidated subsidiaries and affiliates	107,679	**114,507**	**970,398**
Other securities	86,989	**140,855**	**1,193,686**
Long-term loans	47,074	**42,834**	**363,000**
Deferred tax assets (Note 16)	8,199	**6,939**	**58,805**
Other investments	57,543	**88,135**	**746,907**
Allowance for doubtful receivables	(10,471)	**(5,852)**	**(49,593)**
Total investments and long-term loans	297,013	**387,418**	**3,283,203**
Property and equipment (Note 5)**:**			
Land (Note 2 (j))	529,197	**777,338**	**6,587,610**
Buildings and structures	700,270	**1,093,585**	**9,267,670**
Rolling stock and buses	146,952	**199,387**	**1,689,720**
Machinery and equipment	88,067	**126,093**	**1,068,585**
Construction in progress	81,939	**88,180**	**747,288**
	1,546,425	**2,284,583**	**19,360,873**
Less accumulated depreciation	563,845	**(807,664)**	**(6,844,610)**
Property and equipment — net	982,580	**1,476,919**	**12,516,263**
Intangible assets (Note 5)	13,194	**76,876**	**651,492**
	¥1,609,117	**¥2,366,694**	**$20,056,729**

See the accompanying notes to the consolidated financial statements.

Liabilities and Net Assets	Millions of yen 2006	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2007
Current liabilities:			
Short-term borrowings (Note 5)	¥ 94,029	¥ 137,689	$ 1,166,856
Current portion of long-term debt (Note 5)	127,058	179,868	1,524,305
Trade payables	74,851	124,314	1,053,509
Accrued expenses	18,239	26,425	223,941
Income taxes payable	2,125	4,959	42,025
Advances received	37,489	52,848	447,865
Employees' savings deposits	14,301	12,529	106,178
Provision for restructuring costs	201	201	1,703
Other current liabilities (Note 16)	30,042	49,999	423,720
Total current liabilities	398,335	588,832	4,990,102
Long-term debt due after one year (Note 5)	661,528	891,825	7,557,839
Deferred tax liabilities related to land revaluation	6,825	6,825	57,839
Employees' severance and retirement benefits (Note 6)	42,477	64,405	545,805
Retirement benefits for directors and corporate auditors	455	554	4,695
Reserve for investment losses	25,557	29,785	252,415
Consolidation difference	2,980	2,769	23,466
Deposits from tenants (Note 7)	71,938	97,007	822,093
Other noncurrent liabilities (Notes 8 and 16)	36,472	162,406	1,376,322
Contingent liabilities (Note 9)			
Net assets (Note 10):			
Shareholders' equity:			
Common stock			
Authorised — 3,200,000 thousand shares			
Issued — 1,271,407 thousand shares	97,545	99,475	843,009
Capital surplus	24,985	150,062	1,271,712
Retained earnings	196,412	228,570	1,937,034
Less treasury stock, at cost:			
915,518 shares in 2006 and 4,536,540 shares in 2007	(331)	(2,301)	(19,500)
Total shareholders' equity	318,611	475,806	4,032,255
Accumulated gains from revaluation and translation adjustments			
Net unrealised holding gains on securities	38,817	34,583	293,076
Net unrealised gains on hedging derivatives	—	204	1,729
Surplus from land revaluation (Note 2(j))	2,604	2,604	22,068
Foreign currency translation adjustments	190	333	2,822
Total accumulated gains from revaluation and translation	41,611	37,724	319,695
Minority interests	2,328	8,756	74,203
Total net assets	362,550	522,286	4,426,153
	¥1,609,117	¥2,366,694	$20,056,729

Consolidated Statements of Income

Years ended 31st March 2005, 2006 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2006	2007	2007
Revenues from operations	¥476,623	¥486,155	**¥743,377**	**$6,299,805**
Costs of revenues from operations	417,855	421,313	**656,374**	**5,562,491**
Operating income	58,768	64,842	**87,003**	**737,314**
Other income (expenses):				
Interest and dividend income	831	1,018	**2,733**	**23,161**
Interest expense	(16,147)	(15,071)	**(19,726)**	**(167,170)**
Amortisation of consolidation difference	2,255	2,265	**1,517**	**12,856**
Gain on sale of securities	1,768	169	**780**	**6,610**
Equity in income of affiliates	2,825	4,003	**3,675**	**31,144**
Gain (loss) on disposal of property and equipment — net	15,216	(2,414)	**7,275**	**61,653**
Special allowance for doubtful receivables	(1,979)	(1,105)	**(763)**	**(6,466)**
Special reserve for investment losses	(3,104)	(4,893)	**(2,766)**	**(23,441)**
Loss on financial support to subsidiaries and affiliates	(1,000)	—	**(3,930)**	**(33,305)**
Gain on contributions for construction works — net (Note 2(i))	7,101	1,114	**2,680**	**22,712**
Loss on real estate for sale	(28,345)	—	**(3,399)**	**(28,805)**
Write-down of real estate for sale	—	—	**(2,321)**	**(19,670)**
Restructuring costs	(891)	(187)	**—**	**—**
Loss on impairment of fixed assets (Note 11)	—	(6,988)	**(869)**	**(7,364)**
Contribution to construction of Osaka Monorail Saito Line	—	(1,998)	**(4,346)**	**(36,831)**
Special early retirement benefits	(310)	—	**—**	**—**
Gain on transfer of professional baseball player to U.S major leagues	—	—	**3,091**	**26,195**
Provision for accruing interest on past consumer loans	—	—	**(1,992)**	**(16,881)**
Dividend from investment in silent partnership	2,397	6,222	**0**	**0**
Other — net	(3,343)	(3,760)	**(3,336)**	**(28,271)**
	(22,726)	(21,625)	**(21,697)**	**(183,873)**
Income before income taxes and minority interests	36,042	43,217	**65,306**	**553,441**
Income taxes (Note 16):				
Current	3,881	2,746	**9,314**	**78,932**
Deferred	5,626	14,839	**17,874**	**151,475**
Income before minority interests	26,535	25,632	**38,118**	**323,034**
Minority interests in income of consolidated subsidiaries	(456)	(306)	**(1,499)**	**(12,703)**
Net income	¥ 26,079	¥ 25,326	**¥ 36,619**	**$ 310,331**
	Yen			U.S. dollars (Note 1)
Net income per share — basic	¥28.11	¥25.36	**¥31.84**	**$0.27**
Net income per share — diluted (Note 2(u))	27.70	25.22	**—**	**—**
Dividends per share of common stock	3.00	5.00	**5.00**	**0.04**

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Years ended 31st March 2005, 2006 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2006	2007	2007
Common stock:				
Balance at beginning of year	¥ 75,969	¥ 75,969	¥ 97,545	$ 826,653
Stock issue of new share (Note 10)	—	19,895	1,930	16,356
Conversion of convertible bonds (Note 10)	—	1,681	—	—
Balance at end of year	¥ 75,969	¥ 97,545	¥ 99,475	$ 843,009
Capital surplus:				
Balance at beginning of year	¥ —	¥ 3,367	¥ 24,985	$ 211,737
Stock issued on share exchange	3,300	—	—	—
Stock issued of new share (Note 10)	—	19,812	125,097	1,060,144
Conversion of convertible bonds (Note 10)	—	1,679	—	—
Effect of sale of treasury stock	67	127	(20)	(169)
Balance at end of year	¥ 3,367	¥ 24,985	¥150,062	$1,271,712
Retained earnings:				
Balance at beginning of year	¥ 45,348	¥ 76,775	¥196,412	$1,664,508
Net income	26,079	25,326	36,619	310,331
Effect of changes in consolidated subsidiaries and investments accounted for by the equity method — net	517	871	788	6,678
Effect of sale of treasury stock	—	—	—	—
Disposal of deficit	—	—	—	—
Transfer from land revaluation	4,864	96,261	(1)	(8)
Appropriations:				
Cash dividends	—	(2,781)	(5,248)	(44,475)
Directors' and corporate auditors' bonuses	(33)	(40)	—	—
Balance at end of year	¥ 76,775	¥196,412	¥228,570	$1,937,034
Less treasury stock, at cost:				
Balance at beginning of year	¥ 877	¥ 700	¥ 331	$ 2,805
Net decrease	(177)	(369)	1,970	16,695
Balance at end of year	¥ 700	¥ 331	¥ 2,301	$ 19,500
Net unrealised holding gains on securities:				
Balance at beginning of year	¥ 21,026	¥ 21,423	¥ 38,817	$ 328,957
Net increase during the year	397	17,394	(4,234)	(35,881)
Balance at end of year	¥ 21,423	¥ 38,817	¥ 34,583	$ 293,076
Net unrealised gains on hedging derivatives:				
Balance at beginning of year	¥ —	¥ —	¥ —	$ —
Net changes during the year	—	—	204	1,729
Balance at end of year	¥ —	¥ —	¥ 204	$ 1,729
Surplus from land revaluation:				
Balance at beginning of year	¥106,608	¥100,815	¥ 2,604	$ 22,068
Transfer to retained earnings	(4,864)	(96,261)	—	—
Effect of change in the aggregate statutory income tax rate	(6)	—	—	—
Other — net	(923)	(1,950)	—	—
Balance at end of year	¥100,815	¥ 2,604	¥ 2,604	$ 22,068
Foreign currency translation adjustments:				
Balance at beginning of year	¥ (234)	¥ (256)	¥ 190	$ 1,610
Adjustments from translation of foreign currency financial statements	(22)	446	143	1,212
Balance at end of year	¥ (256)	¥ 190	¥ 333	$ 2,822
Minority interests:				
Balance at beginning of year	¥ 9,059	¥ 1,987	¥ 2,328	$ 19,729
Net increase (decrease)	(7,072)	341	6,428	54,474
Balance at end of year	¥ 1,987	¥ 2,328	¥ 8,756	$ 74,203

	Number of shares of common stock issued		
	2005	2006	2007
At beginning of year	917,744,452	927,867,655	1,049,538,126
Issue of new shares	—	121,670,471	214,209,324
Stock issued on share exchange	10,123,203	—	7,659,478
At end of year	927,867,655	1,049,538,126	1,271,406,928

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended 31st March 2005, 2006 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2006	2007	2007
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 36,042	¥ 43,217	¥ 65,306	$ 553,441
Depreciation and amortisation	29,974	29,612	43,889	371,941
Amortisation of consolidation difference	(2,255)	(2,265)	719	6,093
Equity in income of affiliates	(2,825)	(4,003)	(3,675)	(31,144)
Decrease in employees' severance and retirement benefits	(1,379)	(2,071)	(2,201)	(18,653)
Increase in allowance for doubtful receivables	251	3,071	(3,992)	(33,831)
Increase in reserve for investment losses	2,857	4,558	4,228	35,831
Interest and dividend income	(831)	(1,018)	(2,733)	(23,161)
Interest expense	16,147	15,071	19,726	167,170
Gain on sale of property and equipment	(22,668)	(333)	(12,592)	(106,712)
Loss on sale of property and equipment	6,741	1,108	866	7,339
Loss on disposal of property and equipment	—	1,639	2,189	18,551
Loss on impairment of property and equipment	—	6,988	869	7,364
Loss on revaluation of real estate for sale	—	—	2,321	19,669
Gain on sale of securities	(1,768)	(169)	(2,948)	(24,983)
Loss on sale of marketable and investment securities	—	—	1,882	15,949
Gain on contributions for construction work	(6,992)	(1,016)	(2,312)	(19,593)
Loss on deduction of property and equipment	—	240	2,262	19,169
Dividend from investment in silent partnership	(2,397)	(6,222)	—	—
Restructuring costs	891	—	—	—
(Increase) decrease in trade receivables	210	4,642	(25,612)	(217,051)
(Increase) decrease in inventories	18,318	(12,732)	850	7,203
Increase in trade payables	9,047	8,546	17,566	148,864
Other	4,057	1,395	(3,831)	(32,464)
Subtotal	83,420	90,258	102,777	870,992
Interest and dividends received	3,881	8,053	3,698	31,339
Interest paid	(16,253)	(13,885)	(20,161)	(170,856)
Income tax paid	(3,398)	(4,196)	(7,332)	(62,136)
Net cash provided by operating activities	67,650	80,230	78,982	669,339
Cash flows from investing activities:				
Purchases of property and equipment	(32,529)	(47,692)	(53,356)	(452,170)
Proceeds from sales of property and equipment	66,866	5,296	46,248	391,932
Purchases of investment securities	(2,116)	(9,067)	(7,595)	(64,364)
Proceeds from sales of investment securities	3,645	9,739	22,554	191,136
Purchases of investments in consolidated subsidiaries affecting scope of consolidation	—	—	(210,380)	(1,782,881)
Proceeds from sales of investments in consolidated subsidiaries affecting scope of consolidation	—	—	563	4,771
Net increase in short-term loans receivable	(12,388)	(8,123)	(5,351)	(45,347)
Long-term loans advanced	(1,694)	(1,038)	(874)	(7,407)
Proceeds from collection of long-term loans	3,227	873	6,322	53,576
Receipt of contributions for construction	3,361	2,228	5,542	46,966
Other	(4,196)	4,584	(3,252)	(27,559)
Net cash provided by (used in) investing activities	24,176	(43,200)	(199,579)	(1,691,347)
Cash flows from financing activities:				
Net increase (decrease) in short-term borrowings	(26,759)	(5,604)	35,362	299,678
Proceeds from long-term borrowings	147,108	139,487	241,463	2,046,297
Repayment of long-term debt	(157,484)	(223,802)	(82,991)	(703,314)
Proceeds from new shares issued	—	39,433	—	—
Redemption of bonds	(35,070)	(15,160)	(49,900)	(422,881)
Net increase (decrease) in commercial paper	(3,000)	7,000	(7,000)	(59,322)
Dividends paid	—	(2,781)	(5,248)	(44,475)
Dividends paid to minority shareholders of consolidated subsidiaries	(70)	(69)	(74)	(627)
Other	(198)	(464)	678	5,746
Net cash used in financing activities	(75,473)	(61,960)	132,290	1,121,102
Effect of exchange rate changes on cash and cash equivalents	(15)	446	99	839
Increase (decrease) in cash and cash equivalents	16,338	(24,484)	11,792	99,933
Cash and cash equivalents at beginning of year	34,955	52,370	28,375	240,465
Cash and cash equivalents of newly consolidated subsidiaries at beginning of year	1,077	489	—	—
Cash and cash equivalents at end of year (Note 18)	¥ 52,370	¥ 28,375	¥ 40,167	$ 340,398

See the accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Hankyu Hanshin Holdings, Inc.(the "Company") have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English, with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity, from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at 31st March 2007, which was ¥118 to $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

(a) Consolidation

The consolidated financial statements include the accounts of the Company and significant subsidiaries (together, the "Group" or "Companies") that meet the control requirements for consolidation. The consolidated financial statements comprise the accounts of 68, 65 and 96 subsidiaries for each of the three years in the period ended 31st March 2007.

The Company has adopted the equity method of accounting for investments in which the Company owns 20-50% or exerts influence over financial and operational policies 12,11 and 11 significant affiliates, respectively for the three years in the period ended 31st March 2007.

All significant inter-company transactions and accounts have been eliminated.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

The difference between the cost of investments in subsidiaries and affiliates and the equity in their net assets at the date of acquisition is amortised over five years. The difference derived from the management integration with Hanshin Electric Railway Co., Ltd is, in principle, amortised in equal amounts over twenty years.

Some subsidiaries and affiliates are consolidated with year-ends that differ from that of the Company. However, necessary adjustments have been made if the effect of the difference is material.

(b) Securities

The Companies classify securities as (1) securities held for trading purposes ("trading securities"), (2) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (3) equity securities issued by subsidiaries and affiliated companies, and (4) all other securities that are not classified in any of the above categories ("available-for-sale securities").

Trading securities are stated at fair market value. Gains and losses realised on disposal and unrealised gains and losses from market value fluctuations are recognised as gains or losses in the period of the change. Held-to-maturity debt securities are stated at amortised cost, net of the amount considered not collectible. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities are stated as explained below.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries or affiliated companies, or available-for-sale securities, declines significantly, such securities are stated at fair market value, and the difference between fair market value and the carrying amount is recognised as loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries or affiliated companies not on the equity method is not readily available, such securities are written down to net asset value with a corresponding charge in the statement of income in the event net asset value declines significantly. In these cases, the fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

The Companies have recorded their share of income held by limited-liability investment partnerships and of similar investments using the equity method.

(c) Allowance for doubtful receivables

The Companies provide for doubtful accounts principally at an amount computed based on past experience plus estimated uncollectible amounts based on the analysis of certain individual accounts.

(d) Inventories

Inventories are stated at cost, which is determined by the identified cost method for real estate for sale and principally by the moving average method for other inventories.

(e) Derivatives and hedge accounting

The Companies state derivative financial instruments at fair value and recognise changes in the fair value as gains or losses unless the derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from the changes in the fair value of the derivative financial instruments until the related losses or gains on the hedged items are recognised.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
   (a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognised in the statement of income in the period which includes the inception date, and
   (b) the discount or premium on the contract (the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognised over the term of the contract.
2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognised.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

(f) Reserve for investment losses

The reserve for investment losses is provided for possible losses in excess of investments and loans to affiliates based on an evaluation of the net assets of the investee and other factors.

(g) Provision for restructuring costs

Provision for restructuring costs is stated as of 31st March 2005 and 2006 at the estimated loss from the reconstruction of Nishinomiya Stadium.

(h) Property and equipment

Property and equipment are stated at cost. Depreciation of buildings acquired after 31st March 1998 is provided on the straight-line method, and depreciation of other property, is provided principally on the declining balance method. For certain railway facilities, depreciation is calculated by the replacement cost method, based on the estimated useful lives as set forth by Japanese tax regulations.

Maintenance and repairs, including minor renovations and improvements, are usually charged to cost of revenues as incurred, and major improvements are capitalised.

In addition, certain capital gains from sales of property are deferred to offset the cost of acquired property as permitted by the Corporation Tax Law of Japan.

(i) Contributions for construction works

Prior to the year ended 31st March 2007, contributions for the construction of railway facilities, for example building grade separations and widening railroad crossings, granted by the national and municipal governments and other corporations, are accounted for in the following manner:

1. If assets acquired with contributions are regarded as improving the economic value of the Company, for example grade separations, the assets are stated at the acquisition cost in property and equipment.
2. If assets acquired with contributions are not regarded as improving the economic value, the assets are stated in property and equipment after deducting the contributions from the acquisition cost.

Effective from the year ended 31st March 2007, a consolidated subsidiary of the Company, Hankyu Corporation, changed the method of accounting for contributions for construction works under which all assets acquired using the contributions are now stated in property and equipment at acquisition cost after deducting the amounts corresponding to the contributions. This change was made to unify accounting policy across the group following the management integration with Hanshin Electric Railway Co. Ltd., and to recognize the purpose of contributions for construction works, which is that a local authority grants property acquisition funds to serve the public interests and urban planning, etc, but a railroad enterprise constructs railroad facilities and acquires property. This change in the accounting policy has caused income before Income taxes to decrease by ¥754 million ($6,390 thousand).

Accumulated amounts of the deductions were ¥153,211 million, ¥153,260 million and ¥323,546 million ($2,741,915 thousand) at 31st March 2005, 2006 and 2007, respectively.

(j) Land revaluation

Pursuant to the Law Concerning Land Revaluation, two consolidated subsidiaries and an affiliate accounted for by the equity method revaluated land used for business activities on 31st March 2002.

With respect to valuation differences in two consolidated subsidiaries, amounts equivalent to taxes related to the valuation differences were included in "Deferred tax liabilities," amounts belonging to minority shareholders were included in "Minority interests," and amounts from which these are deducted were recorded as "Surplus from land revaluation" in shareholders' equity. For an affiliate accounted for by the equity method, the Company's share after deduction of taxes is included in "Surplus from land revaluation" in net assets.

The method of land revaluation

The revaluation of the land was determined based on real estate tax values in accordance with Article 2, Paragraph 3 of the Enforcement Ordinance Concerning Land Revaluation on 31st March 2002.

The excess of book values after revaluation over fair values at 31st March 2006 and 2007 were ¥5,757 million and ¥6,371 million ($53,992 thousand), respectively.

(k) Impairment accounting

In the year ended 31st March 2006, the Company adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on 9th August 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on 31st October 2003). This change in accounting method resulted in income before income taxes and minority interests of ¥6,988 million ($59,726 thousand) less in 2006 than it would have been if the new standard had not been adopted. The accumulated impairment losses were deducted from the cost of each fixed asset.

(l) Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective from the year ended 31st March 2007, the Company and its domestic consolidated subsidiaries have adopted the new accounting standards, the Accounting Standard for Presentation of Net Assets in the Balance Sheet (Statement No. 5 issued by the Accounting Standards Board of Japan on 9th December 2005) and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on 9th December 2005), (collectively, the "New Accounting Standards").

Under the New Accounting Standards, the balance sheet comprises the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities, minority interests and shareholders' equity sections.

The net assets section comprises three subsections, which are shareholders' equity, accumulated gains (losses) from revaluation and translation adjustments, and minority interests, as applicable. The net assets section includes items which were not included in the previously presented shareholders' equity section. The accumulated gains (losses) on valuation and translation adjustments section included net unrealized gains on hedging derivatives. Under the previous standards, minority interests were presented between noncurrent liabilities and the shareholders' equity.

The amounts posted under shareholders' equity and certain other balance sheet items for prior years ended March 2006 or before have been restated in accordance with the New Accounting Standards. As a result, minority interests amounting to ¥2,326 million are included in the net assets section as of 31st March 2006.

The adoption of the New Accounting Standards had no impact on the consolidated statement of income for the year ended 31st March 2007. If the new accounting standards had not been adopted and the previous standards had been applied to the shareholders' equity section, shareholders' equity as of 31st March, 2006 and 2007 would have been ¥360,222 million and ¥513,326 million ($4,350,221 thousand), respectively.

(m) Accounting Standard for Statement of Changes in Net Assets and reclassifications and restatement

Effective from the year ended 31st March 2007, the Company and its domestic consolidated subsidiaries have adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets"(Statement No. 6 issued by the Accounting Standards Board of Japan on 27th December 2005) and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on 27th December 2005), (collectively, the "Additional New Accounting Standards").

Previously, consolidated statements of shareholders' equity were prepared for purposes of inclusion in the consolidated financial statements although not mandatory in Japan.

As discribed in Note 2(l), Accounting Standard for Presentation of Net Assets in the Balance Sheet, reclassification was made for items previously posted under shareholders' equity and other balance sheet items to conform with the New Accounting Standards. Consolidated statements of changes in net assets for the years ended March 2005 and 2006 have been prepared in accordance with the New Accounting Standards to conform with the presentation for the year ended March 2007. These restatements had no impact on the Company's business results for the said periods.

(n) Software cost

Software is depreciated using the straight-line method over the estimated useful life of five years.

(o) Employees' severance and retirement benefits

The Companies provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions. The Companies provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of plan assets.

Prior service costs are recognised in expenses in equal amounts over 3 to 15 years, and actuarial gains and losses are recognised in expenses using the straight-line method over 4 to 15 years.

(p) Translation of foreign currencies

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

Financial statements of consolidated overseas subsidiaries are translated into Japanese yen at year-end rates, except that shareholders' equity accounts are translated at historical rates and income statement items resulting from transactions with the Company at the rates used by the Company. The Companies report foreign currency translation adjustments in accumulated gains from revaluation, translation adjustments and minority interests in net assets.

(q) Finance leases

Finance leases which do not transfer ownership are accounted for in the same manner as operating leases in accordance with Japanese GAAP. Some overseas consolidated subsidiaries capitalise finance leases.

(r) Bond and new share issue costs

Bond and new share issue costs are principally charged to income as incurred.

(s) Income taxes

The asset and liability approach is used to recognise deferred tax assets and liabilities for tax loss carryforwards and the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(t) Cash flow statement

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(u) Net income per share

Basic net income per share is based on the weighted average numbers of shares of common stock outstanding during each year, retroactively adjusted for stock splits.

Diluted net income per share is calculated assuming conversion of all dilutive convertible bonds at the beginning of the year.

Diluted net income per share for the year ended 31st March 2007 was not presented because there were no dilutive shares.

(v) Dividends per share

In accordance with the new Japanese Corporate Law becoming effective on 1st May 2006, replacing the Japanese Commercial Code, declarations of dividends and appropriations of unappropriated retained earnings are approved at the general meeting of shareholders held after the end of the fiscal year. Therefore, cash dividends per share shown in the consolidated statements of income reflect the final dividends approved after the end of the relevant fiscal year.

(w) Business Combination and Business Separation

Effective from the year ended 31st March 2007, the Company has adopted the new accounting standards, Accounting Standard for Business Combinations (Accounting Standard issued by the Business Accounting Council on 31st October 2003), Accounting Standard for Business Separation (Statement No.7 issued by the Accounting Standards Board of Japan on 27th December 2005) and implementation Guidance for the Accounting Standard for Business Combinations and Business Separation (the financial implementation Guidance No.10 issued by the Accounting Standards Board of Japan on 27th December 2005).

3. Securities

The following table summarises book values and fair values of held-to-maturity debt securities as of 31st March 2006 and 2007:

	Millions of yen						Thousands of U.S. dollars		
	2006			2007			2007		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Securities with available fair value exceeding book value	¥—	¥—	¥—	¥1,400	¥1,412	¥12	$11,865	$11,966	$101
Other securities	—	—	—	500	493	(7)	4,237	4,178	(59)
Total	¥—	¥—	¥—	¥1,900	¥1,905	¥ 5	$16,102	$16,144	$ 42

The following tables summarise acquisition costs and book values (fair values) of available-for-sale securities with available fair market values as of 31st March 2006 and 2007:

Securities with book values exceeding acquisition costs:

	Millions of yen						Thousands of U.S. dollars		
	2006			2007			2007		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥16,090	¥71,135	¥55,045	¥38,823	¥89,801	¥50,978	$329,008	$761,025	$432,017
Bonds	—	—	—	1,847	1,867	20	15,653	15,822	169
Other	—	—	—	1,190	1,312	122	10,085	11,119	1,034
Total	¥16,090	¥71,135	¥55,045	¥41,860	¥92,980	¥51,120	$354,746	$787,966	$433,220

Securities with book values not exceeding acquisition costs:

	Millions of yen						Thousands of U.S. dollars		
	2006			2007			2007		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥1,438	¥979	¥(459)	¥26,436	¥23,506	¥(2,930)	$224,034	$199,203	$(24,831)
Bonds	—	—	—	744	740	(4)	6,305	6,271	(34)
Other	—	—	—	947	846	(101)	8,025	7,170	(855)
Total	¥1,438	¥979	¥(459)	¥28,127	¥25,092	¥(3,035)	$238,364	$212,644	$(25,720)

The following table summarises book values of securities with no available fair values as of 31st March 2006 and 2007:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Held-to-maturity debt securities:			
Discount bank debentures	¥ 20	¥ 20	$169,492
Available-for-sale securities:			
Non-listed equity securities	¥ 3,547	¥ 4,378	$ 37,102
Investments in limited liability investment partnerships and similar investments	¥11,328	¥16,720	$ 141,695

Sales of available-for-sale securities during the years ended 31st March 2005, 2006 and 2007 amounted to ¥2,881 million, ¥2,589 million and ¥21,101 million ($178,822 thousand), respectively. Within other income (expenses) in the statements of income for the years ended 31st March 2005, 2006 and 2007 were gains on sales of available-for-sale securities amounting to ¥1,769 million, ¥41 million and ¥2,659 million ($22,534 thousand), respectively, which were included in the gain on sale of securities, and losses on sales of available-for-sale securities amounting to ¥111 million, nil, and ¥841 million ($7,127 thousand), respectively, which were included in other-net.

Available-for-sale securities with maturities and held-to-maturity debt securities at 31st March 2006 and 2007 were to mature as follows:

	Millions of yen							
	2006				2007			
	Due within one year	Due after one year through five years	Due after five year through ten years	Due after ten years	Due within one year	Due after one year through five years	Due after five year through ten years	Due after ten years
Bonds								
Government bonds	¥—	¥—	¥—	¥—	¥153	¥2,604	¥1,128	¥327
Debenture	—	—	—	—	—	297	—	—
Other	20	—	—	—	20	—	49	—
Total	¥20	¥—	¥—	¥—	¥173	¥2,901	¥1,177	¥327

	Thousands of U.S. dollars			
	2007			
	Due within one year	Due after one year through five years	Due after five year through ten years	Due after ten years
Bonds				
Government bonds	$1,297	$22,068	$9,560	$2,771
Debenture	—	2,517	—	—
Other	169	—	415	—
Total	$1,466	$24,585	$9,975	$2,771

4. Inventories

Inventories at 31st March 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Real estate for sale	¥152,347	¥173,710	$1,472,119
Finished products and merchandise	6,126	10,171	86,195
Materials and supplies	3,708	11,076	93,864
Total	¥162,181	¥194,957	$ 1,652,178

5. Short-term borrowings and long-term debt

Short-term borrowings are represented generally by notes maturing within one year. The weighted average interest rate for short-term bank loans was 1.2049% at 31st March 2007.

Long-term debt at 31st March 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Secured:			
Banks, 0.835%–8.5%, maturing through 2026	¥ 88,164	¥ 115,923	$ 982,398
Unsecured:			
Banks, insurance companies and others, 0.8%–6.8%, maturing through 2022	520,362	784,669	6,649,737
1.79% bonds, due May 2006	5,000	—	—
3.4% bonds, due August 2006	10,000	—	—
1.5% bonds, due September 2006	30,000	—	—
1.27% bonds, due June 2007	20,000	20,000	169,491
0.96% bonds, due November 2007	10,000	10,000	84,746
2.8% bonds, due February 2008	15,000	15,000	127,119
2.23% bonds, due July 2008	20,000	20,000	169,491
2.23% bonds, due August 2009	20,000	20,000	169,491
2.46% bonds, due September 2010	10,000	10,000	84,746
Floating rate bonds, due September 2010*1	15,000	15,000	127,119
Floating rate bonds, due June 2011*2	10,000	10,000	84,746
1.5% Euro convertible bonds, due September 2006	3,960	—	—
3.1% bonds, due June 2007	—	20,000	169,491
3.525% bonds, due June 2012	—	15,000	127,119
2.22% bonds, due June 2014	—	10,000	84,746
0.4%–3.4% bonds issued by consolidated subsidiaries, due August 2005 to November 2008	11,100	6,200	52,543
	788,586	1,071,792	9,082,983
Less current portion	127,058	179,867	1,524,297
Less inter transactions	—	100	847
	¥661,528	¥ 891,825	$7,557,839

*1 The floating rate is currently the 20-year swap rate minus the 2-year swap rate plus 0.95% from 1st October 2001. (If the result of this calculation is below 0, the rate would be 0%)

*2 The floating rate is 1.3% to 28th June 2004 and the 20-year swap rate minus the 2-year swap rate plus 0.15% from 29th June 2004. (If the result of this calculation is below 0, the rate would be 0%)

The following table shows the book value of collateral pledged against long-term debt, including the portions due within one year, in the amount of ¥88,164 million and ¥115,923 million (US$982,398 thousand) as of 31st March 2006 and 2007, respectively.

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Current assets	¥ 152	¥ 153	$ 1,297
Investments and other assets	23,961	28,431	240,941
Property and equipment	437,117	540,650	4,581,779
Intangible assets	71	96	814
	¥461,301	¥569,330	$4,824,831

As is customary in Japan, security may have to be given if requested by a lending bank and such banks have the right to offset cash deposited against any debt or obligation that becomes due and, in the case of default and certain other specified events, against all debts payable to the bank. Certain long-term debt agreements provide, among other things, that the Companies are to submit to the relevant lender, upon its request, for approval their proposed appropriation of earnings (including dividends) before such appropriation can be submitted to shareholders. The Companies have never received such requests.

The annual maturities of long-term debt as at 31st March 2007 were as follows:

Year ending 31st March	Millions of yen	Thousands of U.S. dollars
2009	¥136,623	$1,157,822
2010	72,000	610,169
2011	120,456	1,020,814
2012	99,039	839,314
2013 and thereafter	463,707	3,929,720
	¥891,825	$7,557,839

6. Employees' severance and retirement benefits

Employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of 31st March 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Projected benefit obligation	¥105,560	**¥150,690**	**$1,277,034**
Prepaid pension cost	184	**2,027**	**17,178**
Unrecognised prior service costs	1,677	**969**	**8,212**
Less fair value of pension assets	(65,731)	**(93,185)**	**(789,704)**
Less unrecognised actuarial differences	787	**3,904**	**33,085**
Employees' severance and retirement benefits	¥ 42,477	**¥ 64,405**	**$ 545,805**

Included in the consolidated statements of income for the years ended 31st March 2005, 2006 and 2007, were severance and retirement benefit expenses that comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2005	2006	**2007**	**2007**
Service costs — benefits earned during the year	¥4,888	¥4,331	**¥6,205**	**$52,585**
Interest cost on projected benefit obligation	2,368	2,285	**2,988**	**25,322**
Expected return on plan assets	(1,056)	(1,071)	**(1,622)**	**(13,746)**
Amortisation of prior service costs	(529)	(669)	**(663)**	**(5,619)**
Amortisation of actuarial differences	1,942	1,224	**530**	**4,492**
Severance and retirement benefit expenses	¥7,613	¥6,100	**¥7,438**	**$63,034**

The discount rate and the rate of expected return on plan assets used by the Companies are principally both 2.5%.

The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years.

7. Deposits from tenants

The Company and certain consolidated subsidiaries have received guarantee and lease deposits from tenants for leased property according to the lease agreements. These guarantee deposits are refundable to the tenants, generally by 10 equal annual installments commencing in the 11th year, and lease deposits are refundable when contracts are cancelled.

8. Other noncurrent liabilities

Other noncurrent liabilities at 31st March 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Contributions received from national and municipal governments and other corporations for long-term railway construction work in progress	¥ 5,304	¥ 6,681	$ 56,619
Deferred tax liabilities	21,765	138,460	1,173,390
Other	9,403	17,265	146,313
	¥36,472	¥162,406	$1,376,322

9. Contingent liabilities

At 31st March 2006 and 2007, the Companies were contingently liable for guarantees of loans in the amounts of ¥21,032 million and ¥33,700 million ($285,593 thousand), respectively.

10. Net assets

As described in Note 2(l), "Accounting Standard for Presentation of Net Assets in the Balance Sheet," net assets comprises four subsections, which are the shareholders' equity, accumulated gains (losses) from revaluation and translation adjustments, subscription rights to shares, and minority interests.

Japanese Corporate Law ("the Law") became effective on 1st May 2006, replacing in the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after 30th April 2006 and for fiscal years ending after that date.

Under the regulations of the Corporate Law, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the board of directors, designate an amount not exceeding one-half of the price of the new shares as statutory reserve (additional paid-in capital), which is included in capital surplus.

In the event that dividend distribution of retained earnings is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total statutory reserves (the total of statutory reserves included in statutory reserve and legal earnings) must be set aside as statutory reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

By resolution of the general meeting of shareholders, statutory reserves may be appropriated to eliminate accumulated deficits or increase common stock. Statutory reserves, however, are not allowed to be to use as a source of dividend payments.

The maximum amount that the Company may appropriate for dividend payments is calculated based on the nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

11. Impairment loss on fixed assets

Details of impairment loss are as follows:

Breakdown by use

2006

Region	Use	Type of assets	Millions of yen
Osaka	Parking lots Idle assets Offices, etc. Totaling 16	Land, etc.	¥2,542
Okayama	Golf courses, etc. Totaling 2	Land and buildings, etc.	2,522
Kyoto	Hotel, etc. Totaling 2	Land and buildings, etc.	1,031
Hyogo	Idle assets, etc. Totaling 6	Land and buildings, etc.	893

2007

Region	Use	Type of assets	Millions of yen	Thousands of U.S. dollars
Osaka	Leasing assets Idle assets, etc. Totaling 20	Land, etc.	¥414	$3,508
Hyogo, etc.	Leasing assets Idle assets, etc. Totaling 20	Land, etc.	455	3,856

Breakdown by region

2006

Region	Type of assets	Millions of yen
Osaka	Land	¥1,210
	Other	1,332
Okayama	Land	1,661
	Buildings and structures	857
	Other	4
Kyoto	Land	244
	Buildings and structures	787
	Other	0
Hyogo	Land	569
	Buildings and structures	294
	Other	30

2007

Region	Type of assets	Millions of yen	Thousands of U.S. dollars
Osaka	Land	¥152	$1,288
	Buildings and structures	96	814
	Construction in progress	144	1,220
	Other	22	186
Hyogo, etc.	Land	182	1,542
	Buildings and structures	13	110
	Construction in progress	20	169
	Other	240	2,034

12. Management integration and share exchange

Hankyu Holdings, Inc., the predecessor of the Company and Hanshin Electric Railway Co. Ltd. ("Hanshin") agreed to integrate management under a mutual holding company for the purpose of increasing enterprise and shareholders' value through the strengthening of management structure and enhancing know-how in various businesses. On 29th May 2006, the two parties entered into a share exchange agreement on the condition of the successful take-over bid by the Company. Upon the successful bid, the share exchange agreement went effect and the share exchange was made on 1st October 2006.

(a) Purchase of shares

The Company purchased 63.71% of the shares of "Hanshin" at the cost of ¥249,841 million ($2,117,297 thousand); related expenses aggregated ¥2,131 million ($18,059 thousand). For the purchase of the shares, the amount of ¥54,238 million ($ 459,644 thousand) was recorded under goodwill, and the profits and losses of "Hanshin" for the period from 1st July 2006 to 31st March 2007 were included in the Consolidated Statements of Income of the Company for the year ended 31st March 2007. The goodwill is being amortized over 20 years on a straight-line basis.

The assets and liabilities received by the business combination on 27th June 2006 set forth in the table below. Regarding profits and losses, estimates were made on the assumption that the date of the business combination was 1st April 2006.

	Millions of yen	Thousands of U.S. dollars
Current assets	¥120,786	$1,023,610
Fixed assets	652,613	5,530,619
Total assets	773,399	6,554,229
Current liabilities	130,165	1,103,093
Noncurrent liabilities	325,984	2,762,661
Total liabilities	456,159	3,865,754
Minority interest	6,874	58,254

	Millions of yen	Thousands of U.S. dollars
Sales	¥813,613	$6,895,025
Operating income	94,801	803,398
Income before income taxes	70,432	596,881
Net income	40,507	343,280
Net income per share (yen and dollars)	32.47	0.275

(b) Exchange of shares

Under the share exchange agreement, the Company issued 214,209 thousand new shares at the exchange rate of 1.4 of the Company's ordinary shares of common stock for each share of "Hanshin." As a result of the issuance of new shares, investments in subsidiaries and statutory reserve included in capital surplus increased ¥123,209 million, respectively. Simultaneously, the Company recognised goodwill in the amount of ¥8,093 million ,which is being amortised over 20 years on a straight-line basis.

13. Derivative financial instruments and hedging transactions

The Group includes companies whose line of business requires a high degree of reliance on external debt such as bank borrowings and corporate bonds. For these companies, managing the risk of changing interest rates is necessary for stable operations. This goal is being achieved by using derivative transactions — under a certain set of conditions — as a means of cost efficient interest risk hedging. Derivative transactions employed comprise interest rate swaps and interest swaptions, which change floating and fixed interest rates, covering outstanding bonds, borrowings, and deposits.

The Group also includes companies operating in the travel, forwarding and other businesses whose financial statements are denominated in foreign currencies. For these companies, protection from the risks of currency fluctuations affecting the value of foreign currency denominated assets and liabilities is necessary for stable operations. The use of foreign exchange forward contracts as well as currency options — within certain conditions — provides an effective and cost efficient way of protecting against such risks.

Additionally, the Group engages in currency swap transactions to protect the principal of foreign currency denominated deposits against the risk of fluctuations in exchange rates.

Group companies engaging in derivative transactions are acting according to established transaction standards, which stipulate separate spheres of authority and limit transaction amounts. The execution and management of derivative transactions is carried out by each group company's accounting department, subject to the approval of an authorised individual. The Group has established internal control systems, ensuring that contracts are concluded and settled in compliance with the relevant regulations.

The following summarises hedging derivative financial instruments used by the Group and items hedged:

Hedging instruments:	Hedged items:
Foreign exchange contracts Currency swap contracts Currency option contracts	Foreign currency trade receivables and trade payables and future foreign currency transactions
Interest rate swap contracts Interest swaption contracts	Interest on bonds and loans payable

The Group evaluates hedge effectiveness semiannually by comparing the cumulative changes in cash flows or the changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments, except for in cases of obvious hedge effectiveness.

The following table summarises market value information as of 31st March 2006 and 2007 of derivative transactions for which hedge accounting had not been applied:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Forward exchange contracts:			
Contract principal amount due within one year	¥13	¥—	$—
Market value	13	—	—
Unrealised gains	¥ 0	¥—	$—

14. Lease transactions

Information for non-capitalised finance leases at 31st March 2005, 2006 and 2007 was as follows:

The Group as lessees	Millions of yen 2005	Millions of yen 2006	Millions of yen 2007	Thousands of U.S. dollars 2007
Original lease obligations for machinery and equipment and other (including finance charges)	¥19,253	¥19,830	¥20,790	$176,186
Minimum lease payments due within one year	¥ 2,846	¥ 3,294	¥ 3,186	$ 27,000
Minimum lease payments due after one year	6,706	5,905	5,594	47,407
Total	¥ 9,552	¥ 9,199	¥ 8,780	$ 74,407

Lease payments under such leases for the years ended 31st March 2005, 2006 and 2007 were ¥3,041 million, ¥3,137 million and ¥3,848 million ($32,610 thousand), respectively.

The Group as lessors	Millions of yen 2005	Millions of yen 2006	Millions of yen 2007	Thousands of U.S. dollars 2007
Original lease obligations (machinery and equipment and other)	¥ 4	¥ 4	¥—	$—
Minimum lease payments due within one year	¥ 1	¥ 0	¥—	$—
Minimum lease payments due after one year	—	—	—	—
Total	¥ 1	¥ 0	¥—	$—

Leasing receipts for the years ended 31st March 2005, 2006 and 2007 amounted to ¥1 million, ¥1 million and ¥0 million ($2 thousand), respectively. Depreciation for the years ended 31st March 2005, 2006 and 2007 amounted to ¥0 million, ¥1 million and ¥0 million ($2 thousand), respectively.

Information for operating leases at 31st March 2005, 2006 and 2007 was as follows:

The Group as lessees	Millions of yen 2005	Millions of yen 2006	Millions of yen 2007	Thousands of U.S. dollars 2007
Minimum lease payments due within one year	¥14,530	¥12,698	¥11,402	$ 96,627
Minimum lease payments due after one year	73,749	53,144	42,284	358,339
Total	¥88,279	¥65,842	¥53,686	$454,966

The Group as lessors	Millions of yen 2005	Millions of yen 2006	Millions of yen 2007	Thousands of U.S. dollars 2007
Minimum lease payments due within one year	¥ 82	¥ 82	¥ 82	$ 695
Minimum lease payments due after one year	1,387	1,305	1,224	10,373
Total	¥1,469	¥1,387	¥1,306	$11,068

15. Segment information

The Group's businesses are divided into the Urban Transportation Segment, the Real Estate Segment, the Travel and International Transportation Segment, the Hotels Segment, the Entertainment and Communications Segment, the Retailing Segment and the Other Segment.

The seven businesses segments for the three years ended 31st March 2007 comprised the following:

The Urban Transportation Segment included railways, bus and taxi, and the manufacture of rolling stock .

The Real Estate Segment included purchase and sale of real estate, rental of real estate and property management services.

The Travel and International Transportation Segment included travel and international air cargo services.

The Hotels Segment included hotel ownership and management businesses.

The Entertainment and Communications Segment consisted of sports-related business, the Takarazuka Revue Theater, advertising and publishing businesses.

The Retailing Segment included department stores, retail sales and food and drink sales.

The Other Segment included construction, consumer finance, computer-related services and outsourcing services for personnel and accounting services.

Geographic segment information is not disclosed as overseas operations were immaterial.

By business category:

	Urban Transportation	Real Estate	Entertainment & Communications	Retailing	Travel & International Transportation	Hotels	Other	Eliminations	Consolidated
	Millions of yen								
2005									
Net sales:									
Customers	¥149,732	¥100,551	¥35,095	¥57,004	¥64,529	¥54,417	¥15,295	¥ —	¥476,623
Intersegment	1,682	12,047	3,414	932	117	42	5,563	(23,797)	—
	151,414	112,598	38,509	57,936	64,646	54,459	20,858	(23,797)	476,623
Costs and expenses	122,005	92,676	35,747	56,406	61,169	54,257	22,049	(26,454)	417,855
Operating income (loss)	¥ 29,409	¥ 19,922	¥ 2,762	¥ 1,530	¥ 3,477	¥ 202	¥ (1,191)	¥ 2,657	¥ 58,768

	Urban Transportation	Real Estate	Entertainment & Communications	Retailing	Travel & International Transportation	Hotels	Other	Eliminations	Consolidated
	Millions of yen								
2006									
Net sales:									
Customers	¥151,963	¥99,008	¥36,511	¥61,034	¥67,056	¥53,715	¥16,868	¥ —	¥486,155
Intersegment	2,046	12,794	3,578	926	229	147	4,876	(24,596)	—
	154,009	111,802	40,089	61,960	67,285	53,862	21,744	(24,596)	486,155
Costs and expenses	123,411	90,197	35,955	59,519	64,818	53,421	21,253	(27,261)	421,313
Operating income	¥ 30,598	¥21,605	¥ 4,134	¥ 2,441	¥ 2,467	¥ 441	¥ 491	¥ 2,665	¥ 64,842

	Urban Transportation	Real Estate	Entertainment & Communications	Retailing	Travel & International Transportation	Hotels	Other	Eliminations	Consolidated
	Millions of yen								
2007									
Net sales:									
Customers	¥179,429	¥151,839	¥69,873	¥153,505	¥88,016	¥65,336	¥35,379	¥ —	¥743,377
Intersegment	2,426	24,498	5,860	2,397	241	94	8,700	(44,216)	—
	181,855	176,337	75,733	155,902	88,257	65,430	44,079	(44,216)	743,377
Costs and expenses	148,661	140,061	70,495	151,237	84,008	64,093	44,096	(46,277)	656,374
Operating income (loss)	¥ 33,194	¥ 36,276	¥ 5,238	¥ 4,665	¥ 4,249	¥ 1,337	¥ (17)	¥ 2,061	¥ 87,003

	Urban Transportation	Real Estate	Entertainment & Communications	Retailing	Travel & International Transportation	Hotels	Other	Eliminations	Consolidated
	Thousands of U.S. dollars								
2007									
Net sales:									
Customers	$1,520,585	$1,286,771	$592,144	$1,300,890	$745,898	$553,695	$299,822	$ —	$6,299,805
Intersegment	20,559	207,610	49,661	20,314	2,042	797	73,729	(374,712)	—
	1,541,144	1,494,381	641,805	1,321,204	747,940	554,492	373,551	(374,712)	6,299,805
Costs and expenses	1,259,839	1,186,957	597,415	1,281,670	711,932	543,161	373,695	(392,178)	5,562,491
Operating income (loss)	$ 281,305	$ 307,424	$ 44,390	$ 39,534	$ 36,008	$ 11,331	$ (144)	$ 17,466	$ 737,314

	Millions of yen								
	Urban Transportation	Real Estate	Entertainment & Communications	Retailing	Travel & International Transportation	Hotels	Other	Corporate and Eliminations	Consolidated
2005									
Assets	¥592,483	¥595,396	¥79,508	¥17,385	¥84,907	¥56,453	¥178,767	¥66,009	¥1,670,911
Depreciation and amortisation	16,943	7,318	1,423	813	790	2,067	800	(183)	29,974
Capital expenditures	9,829	9,451	1,956	1,947	1,107	1,922	425	(567)	26,072

	Millions of yen								
	Urban Transportation	Real Estate	Entertainment & Communications	Retailing	Travel & International Transportation	Hotels	Other	Corporate and Eliminations	Consolidated
2006									
Assets	¥584,178	¥606,048	¥62,274	¥17,037	¥86,295	¥71,359	¥168,976	¥12,950	¥1,609,117
Depreciation and amortisation	17,446	6,388	1,387	907	936	1,945	741	(138)	29,612
Impairment loss of fixed assets	1,407	1,939	—	—	—	1,744	1,898	—	6,988
Capital expenditures	14,071	13,573	654	1,023	1,237	19,844	314	(278)	50,438

	Millions of yen								
	Urban Transportation	Real Estate	Entertainment & Communications	Retailing	Travel & International Transportation	Hotels	Other	Corporate and Eliminations	Consolidated
2007									
Assets	**¥738,804**	**¥1,008,765**	**¥130,111**	**¥91,613**	**¥116,942**	**¥81,355**	**¥180,308**	**¥18,796**	**¥2,366,694**
Depreciation and amortisation	**22,070**	**11,876**	**3,803**	**1,941**	**1,568**	**2,362**	**646**	**(377)**	**43,889**
Impairment loss of fixed assets	**10**	**456**	**—**	**92**	**—**	**25**	**94**	**192**	**869**
Capital expenditures	**28,539**	**9,900**	**5,000**	**2,401**	**1,779**	**5,381**	**307**	**(1,454)**	**51,853**

	Thousands of U.S. dollars								
	Urban Transportation	Real Estate	Entertainment & Communications	Retailing	Travel & International Transportation	Hotels	Other	Corporate and Eliminations	Consolidated
2007									
Assets	**$6,261,051**	**$8,548,856**	**$1,102,636**	**$776,381**	**$991,034**	**$689,449**	**$1,528,034**	**$159,288**	**$20,056,729**
Depreciation and amortisation	**187,034**	**100,644**	**32,229**	**16,449**	**13,288**	**20,017**	**5,475**	**(3,195)**	**371,941**
Impairment loss of fixed assets	**85**	**3,864**	**—**	**780**	**—**	**212**	**796**	**1,627**	**7,364**
Capital expenditures	**241,856**	**83,898**	**42,373**	**20,347**	**15,076**	**45,602**	**2,602**	**(12,322)**	**439,432**

16. Income taxes

The Companies are subject to a number of income taxes, which, in the aggregate, indicate an aggregate statutory income rate in Japan of approximately 40.7% for the years ended 31st March 2006 and 2007.

The following table summarises the significant differences between the aggregate statutory income tax rate and the Companies' effective income tax rate for financial statement purposes for the years ended 31st March 2005.

The difference between the rates for the year ended 31st March 2006 and 2007 was immaterial:

	2005
Statutory tax rate	40.7%
Nondeductible expenses	0.5
Inhabitants per capita taxes	0.6
Loss carryforwards of subsidiaries that don't record deferred taxes	10.0
Exclusion of loss carryforward of subsidiaries	(21.0)
Losses on revaluation of investments in consolidated subsidiaries and affiliates accounted for by the equity method, and other	4.8
Equity in income of affiliates	(3.2)
Amortisation of consolidation difference	(2.7)
Tax credits and other in consolidated subsidiaries	(1.0)
Other	(2.3)
Effective income tax rate	26.4%

Significant components of the Companies' deferred income tax assets as of 31st March 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Deferred tax assets:			
Revaluation of assets on consolidation	¥ 53,552	¥ 53,497	$ 453,364
Retirement benefits	17,310	24,081	204,076
Loss on revaluation of real estate for sale	17,137	18,086	153,271
Tax loss carryforwards	14,427	13,910	117,881
Special reserve for investment losses	10,749	11,978	101,508
Allowance for doubtful receivables	4,142	7,490	63,475
Unrealised profit from assets	3,662	7,319	62,025
Loss on valuation of properties of business reorganisation	—	5,235	44,364
Losses on revaluation of investment securities	2,822	4,026	34,119
Loss on impairment of fixed assets	4,378	3,116	26,407
Accrued expenses	1,213	2,475	20,975
Enterprise taxes	593	858	7,271
Retirement benefits for directors and corporate auditors	186	227	1,924
Other	5,060	14,218	120,492
Subtotal of deferred tax assets	135,231	166,516	1,411,152
Valuation allowance	(13,762)	(24,189)	(204,991)
Less amounts offset against deferred tax liabilities	(98,174)	(116,610)	(988,220)
Net deferred tax assets	23,295	25,717	217,941
Deferred tax liabilities:			
Valuation difference of assets from consolidation	—	(104,451)	(885,178)
Gain on reversal of difference from land revaluation	(86,353)	(102,295)	(866,907)
Net unrealised holding gains on securities	(31,467)	(42,952)	(364,000)
Gain on valuation of properties of business reorganisation	—	(3,255)	(27,585)
Other	(2,119)	(2,117)	(17,940)
Subtotal of deferred tax liabilities	(119,939)	(255,070)	(2,161,610)
Less amounts offset against deferred tax assets	98,174	116,610	988,220
Total deferred tax liabilities	(21,765)	(138,460)	(1,173,390)
Net income tax assets	¥ 1,530	¥(112,743)	$ (955,449)

Net deferred tax assets as of 31st March 2006 and 2007 were included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Current assets	¥15,096	¥ 18,778	$ 159,136
Current liabilities	—	—	—
Long-term assets	8,199	6,939	58,805
Long-term liabilities	(21,765)	(138,460)	(1,173,390)
Net deferred tax assets	¥ 1,530	¥(112,743)	$ (955,449)

17. Loan commitments

A consolidated subsidiary had extended loan commitments at 31st March 2006 and 2007 as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Total loan commitments	¥62,006	¥81,953	$694,517
Loans extended	36,548	41,866	354,797
Remaining commitments	¥25,458	¥40,087	$ 339,720

The above loan commitments may not be exercised in full, as the consolidated subsidiary extends loans within limits set in light of the proposed use of funds and the borrower's financial position.

18. Consolidated statements of cash flow

The year-end balances of cash and cash equivalents presented on the consolidated statements of cash flow and on the consolidated balance sheets at 31st March 2006 and 2007 were reconciled as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Cash and cash equivalents in the consolidated balance sheets	¥29,036	¥41,806	$354,288
Deposits with maturities over 3 months	(661)	(1,639)	(13,890)
Cash and cash equivalents in cash flow statements	¥28,375	¥40,167	$ 340,398

19. Subsequent events

(a) Share exchange of a subsidiary:

With the intention of securing superior competitiveness in the Umeda district in Osaka and increasing customer satisfaction, thereby enhancing enterprise value, a consolidated subsidiary of the Company, Hanshin Department Store Co. Ltd., agreed to integrate its management with Hankyu Department Store Co. Ltd., on 26th March 2007. The companies entered into a share exchange agreement on 10th May 2007. Upon approval of the agreement by resolutions of shareholders at the general shareholder meetings of both companies held in June 2007, the share exchange is expected to be made on 1st October 2007.

(b) Appropriation of retained earnings:

An appropriation of retained earnings for the year ended 31st March 2007 was duly approved at the ordinary shareholders' meeting held on 28th June 2007 as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥5.00 per share)	¥6,353	$53,839

Independent Auditors' Report

To the Shareholders and Board of Directors of
Hankyu Hanshin Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of Hankyu Hanshin Holdings, Inc. (formerly Hankyu Holdings, Inc.) and consolidated subsidiaries as of 31st March 2007 and 2006, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended 31st March 2007, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hankyu Hanshin Holdings, Inc. and subsidiaries as of 31st March 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended 31st March 2007, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.

(1) As discussed in Note 2(i) to the consolidated financial statements, a consolidated subsidiary of Hankyu Hanshin Holdings, Inc., Hankyu Corporation, changed the method of accounting for contributions for construction works.
(2) As discussed in Note 19(a) to the consolidated financial statements as a subsequent event, a consolidated subsidiary of Hankyu Hanshin Holdings, Inc., Hanshin Department Store Co. Ltd., entered into a share exchange agreement with Hnakyu Department Store Co. Ltd..

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Osaka, Japan
28th June 2007

Corporate Data

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Phone: +81-6-6373-5001 Fax: +81-6-6373-5042

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1-5-2, Yurakucho, Chiyoda-ku,
Tokyo 100-0006, Japan
Phone: +81-3-3503-1568 Fax: +81-3-3508-0249

Board of Directors

President and Representative Director	Kazuo Sumi *President, Hankyu Corporation*
Representative Director	Shinya Sakai *President, Hanshin Electric Railway Co., Ltd.*
Representative Director	Tsunenori Kawashima *Executive Director, Hankyu Corporation*
Director	Isao Matsuoka *Chairman, Toho Co., Ltd.*
External Director	Noriyuki Inoue *Chairman and CEO, Daikin Industries, Ltd.*
External Director	Shunichi Sugioka *Chairman, Hankyu Department Stores, Inc.*
External Director	Hiroshi Ishikawa *Advisor, The Kansai Electric Power Co., Inc.*
Director	Katsuhiko Minohara *President, Hankyu Realty Co., Ltd.*
Director	Hiroshi Ojima *President, Hankyu Express International Co., Ltd.*
Director	Tomokazu Yamazawa *President, Hankyu Hotel Management Co., Ltd.*
Director	Tsuneaki Miyazaki *President, Hanshin Contents Link Corporation*
Director	Yoshinobu Honjyo *Chairman, Hanshin Station Net Co., Ltd.*
Director	Tadashi Sano *President, Bay Communications Inc.*
Director	Koichi Kobayashi *Chairman, Takarazuka Revue Company*
Director	Mitsuo Nozaki *General Manager of Personnel and General Affairs Dept.*
Director	Takehiro Sugiyama *Head of Corporate Planning Dept.*
Director	Masao Shin *Head of Personnel and General Affairs Dept.*
Director	Toru Nakashima *Head of Corporate Planning Dept.*
Standing Corporate Auditor	Yasuro Yamauchi *Standing Corporate Auditor, Hankyu Corporation*
Standing Corporate Auditor	Hidekazu Sugisawa *Standing Corporate Auditor, Hankyu Corporation*
Corporate Auditor	Takaharu Dohi *Lawyer and Corporate Auditor, Hankyu Corporation*
Corporate Auditor	Haruo Sakaguchi *Lawyer and Corporate Auditor, Hankyu Corporation*
Corporate Auditor	Shinichi Kawai *Lawyer and Corporate Auditor, Hanshin Electric Railway Co., Ltd.*
Corporate Auditor	Hideki Yoshihara *Professor of Graduate School of Business Administration, Nanzan University, and Corporate Auditor of Hanshin Electric Railway Co., Ltd.*

(As of 28th June 2007)

Operating Companies

Hankyu Corporation
President
Kazuo Sumi

Hanshin Electric Railway Co., Ltd.
President
Shinya Sakai

Hankyu Express International Co., Ltd.
President
Hiroshi Ojima

Hankyu Hotel Management Co., Ltd.
President
Tomokazu Yamazawa

(As of 28th June 2007)

Group at a Glance

Urban transportation

Business subsegments for financial reporting purposes	Name of the consolidated subsidiary
Railway operations	Hankyu Corporation Hanshin Electric Railway Co., Ltd. Nosé Electric Railway Co., Ltd. Kita-Osaka Kyuko Railway Co., Ltd.
Bus operations	Hanshin Electric Railway Co., Ltd. Hankyu Bus Co., Ltd. Hankyu Sightseeing Bus Co., Ltd. Hanshin Bus Co., Ltd.
Taxi operations	Hankyu Taxi Co., Ltd. Hanshin Taxi Co., Ltd.
Other	Hankyu Railway Service Co., Ltd. Railway Technology Co., Ltd. Globaltech Co., Ltd. Hankyu Electric Communication Systems Co., Ltd. Hankyu Motor Technology Co., Ltd. Nippon Rent-A-Car Hankyu Inc. Alna Sharyo Co., Ltd.

Real estate

Business subsegments for financial reporting purposes	Name of the consolidated subsidiary
Rental of real estate	Hankyu Corporation Hanshin Electric Railway Co., Ltd. Hankyu Realty Co., Ltd. Osaka Diamond Chikagai Co., Ltd. Hanshin Real Estate Co., Ltd.
Purchase and sale of real estate	Hankyu Corporation Hanshin Electric Railway Co., Ltd. Hankyu Realty Co., Ltd.
Property management	Hankyu Facilities Co., Ltd. Hankyu Community Service Co., Ltd. Hanshin Engineering Co., Ltd. High Security System Co., Ltd.
REIT operations	Hankyu REIT Asset Management, Inc.

Entertainment and communications

Business subsegments for financial reporting purposes	Name of the consolidated subsidiary
Sports	Hanshin Electric Railway Co., Ltd. Hanshin Tigers Baseball Club Co., Ltd. Wellness Hanshin Inc.
Revue	Hankyu Corporation Takarazuka Creative Arts Co., Ltd. Takarazuka Stage Co., Ltd.
Theatre operations	Umeda Arts Theater Co., Ltd.
Advertising agency	Hankyu Advertising Agency Inc. Hanshin Contents Link Corporation
Information service	Itec Hanshin Co., Ltd.
Publishing	Hankyu Communications Co., Ltd.

Retailing

Business subsegments for financial reporting purposes	Name of the consolidated subsidiary
Department store	The Hanshin Department Store, Ltd. Hanshin Midorikai Co., Ltd. Hanshin Unso Co., Ltd. Hanshin Shoji Co., Ltd. Hänsel Co., Ltd.
Sales of goods	Hankyu Corporation Hankyu Retails Co., Ltd. Iina Dining Co., Ltd. Doubleday Hankyu Co., Ltd. Hanshin Station Net Co., Ltd.
Restaurants, etc.	Creative Hankyu Co., Ltd.

Travel and international transportation

Business subsegments for financial reporting purposes	Name of the consolidated subsidiary
Travel agency	Hankyu Express International Co., Ltd. Hanshin Electric Railway Co., Ltd. Hankyu Travel Support Co., Ltd.
Freight transport	Hankyu Express International Co., Ltd. Hankyu Cargo Service Co., Ltd. Hanshin Air Cargo Co., Ltd. Sanyo Jidosha Unso Co., Ltd.

Hotels

Business subsegments for financial reporting purposes	Name of the consolidated subsidiary
Hotel management	Hankyu Hotel Management Co., Ltd. Dai-ichi Hotel Kyushu Co., Ltd. Arima View Hotel Co., Ltd. Amano Hashidate Hotel Co., Ltd. Hotel New Hankyu Kochi Co., Ltd. Hotel Hanshin, Ltd. Hanshin Electric Railway Co., Ltd. Hanshin Hotel Systems Co., Ltd. Rokko Oriental Hotel Co., Ltd. Hanshin Enterprise Co., Ltd.

Other

Business subsegments for financial reporting purposes	Name of the consolidated subsidiary
Construction	Hanshin Kensetsu Co., Ltd. Chuo-Densetsu Co., Ltd.
Consumer finance	Station Finance Inc.
Group finance	Hanshin Financial Support Co., Ltd.
Computer related services and outsourcing services for personnel and accounting services	Hankyu Business Associate Co., Ltd.

Investor Information

Authorised Shares:
3,200,000 thousand

Issued and Outstanding Shares:
1,271,406 thousand

Shareholders:
132,164

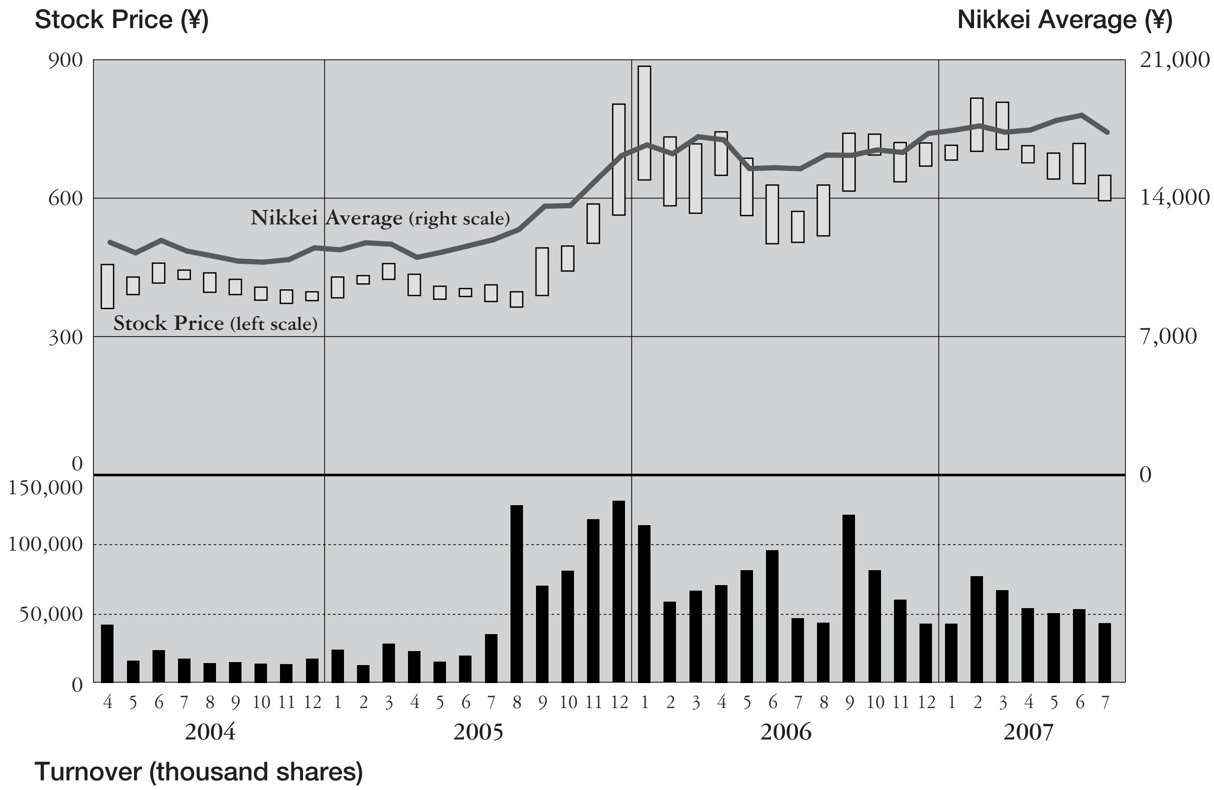
Stock Exchange Listings:
Tokyo, Osaka

Transfer Agent:
Mitsubishi UFJ Trust and Banking Corporation

Principal Shareholders:
Privée Investment Holdings Co., Ltd.
Japan Trustee Services Bank, Ltd. (Trust account)
Nippon Life Insurance Company
The Master Trust Bank of Japan, Ltd. (Trust account)
Sumitomo Mitsui Banking Corporation
Japan Trustee Services Bank, Ltd. (Trust account No.4)
Hankyu Department Stores, Inc.
The Sumitomo Trust & Banking Co., Ltd.
Japan Securities Finance Co., Ltd.
The Bank of Tokyo-Mitsubishi UFJ, Ltd.

(As of 31st March 2007)

Stock Price Range / Turnover Trend (Tokyo Stock Exchange)



Hankyu Hanshin Toho Group

The Hankyu Hanshin Holdings Group

The Group's operations revolve around the railway business, and its business sphere is expanding in parallel with the ongoing development of the area served by Hankyu's train services. Activities currently encompass the full spectrum of urban transportation including not only railways, but also buses and taxis, as well as real estate development. In the fields of travel, international transportation, hotels, and sports/theatres, too, the Hankyu Corporation Group is one of the best-known corporate players in Japan. Recent years have seen further expansion into new business fields such as publishing and the operation of retail outlets such as bookstores.

The operating income of Hankyu Holdings on a consolidated basis for the term ended March 2007 was ¥743.4 billion.

The Hankyu Department Stores Group

Hankyu Corporation opened its department store at Umeda Station in downtown Osaka in 1929. The department stores operation was subsequently spun off as an independent company. Today, Hankyu Department Stores, Inc. is one of Japan's leading department store operators, with 10 stores in the Kansai region as well as the Tokyo area. It also runs a chain of supermarkets located near Hankyu railway stations, and has recently moved into home food delivery and development and management of shopping centres.

The operating income of Hankyu Department Stores on a consolidated basis for the term ended March 2007 was ¥396.0 billion.

The Toho Group

Toho Co., Ltd. was established in 1932 to manage the Tokyo Takarazuka Theater, which gave its first performance in 1934. Today, the company produces motion pictures and operates an extensive chain of cinemas throughout Japan, and also produces stage performances. In both fields, Toho is one of Japan's leading companies, and it also engages in the business of real estate rentals, taking advantage of its real estate holdings in prime downtown locations, particularly the sites of former cinemas.

The operating income of Toho on a consolidated basis for the term ended February 2007 was ¥201.0 billion.

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