Hankyu Hanshin Holdings

Securities code: 9042

ANNUAL REPORT
2017

Responding to Change
Committing to Action

ANNUAL REPORT 2017
Contents

Definition of the areas served by the Hankyu and Hanshin lines: Below are lists of areas with Hankyu Corporation and Hanshin Electric Railway stations (including tier 2 railway operators).

Osaka Prefecture: Osaka City (Fukushima, Konohana, Nishi, Naniwa, Nishi-Yodogawa, Higashi-Yodogawa, Yodogawa, Kita, and Chuo, out of a total of 24 wards); and Toyonaka, Ikeda, Suita, Takatsuki, Ibaraki, Minoh, and Settsu cities and Shimamoto town
Hyogo Prefecture: Kobe City (Higashi-Nada, Nada, Hyogo, Nagata, and Chuo, out of a total of 9 wards); and Amagasaki, Nishinomiya, Ashiya, Itami, Takarazuka and Kawanishi cities
Kyoto Prefecture: Kyoto City (Nakagyo, Shimogyo, Ukyo, and Nishikyo, out of a total of 11 wards); and Muko and Nagaokakyo cities and Oyamazaki town

Forward-Looking Statements
The reader is advised that this annual 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.

About the Compilation of this Annual Report and the Auditing Company Used
The financial section of this annual report includes a digest of information including consolidated financial statements in the Company's Securities Report for the 179th period, audited by KPMG AZSA LLC and presented in a somewhat modified format. We have presented this information in such a way as to ensure that there is no discrepancy with the data presented in the annual securities report. However, the annual report itself has not been audited by KPMG AZSA LLC.

Definition
"Fiscal 2017" refers to the fiscal year ended 31st March 2017. Other fiscal years are referred to in a corresponding manner in this annual report. Figures are basically rounded off. Sums expressed in units of ¥100 million are rounded to the nearest ¥100 million.

Mission

What we try to achieve

By delivering “Safety and Comfort” and “Dreams and Excitement,”
we create satisfaction among our customers and contribute to society.

[Values] What is important to us

Customers First

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

Sincerity

Gain customers' confidence
by always being sincere.

Foresight & Creativity

With our pioneer spirit
and flexible thinking,
we create a new value.

Respect for People

Everyone is absolutely
invaluable to the Group.

Corporate Social Responsibility (CSR)

We believe that contributing to local communities and preserving the environment are social responsibilities that are incumbent upon us to fulfill and which are essential for our medium-to-long-term development. Therefore, the two pillars of our CSR activities are social contribution activities, which develop towns and cities in partnership with local communities, and environmental preservation activities promoting environment-friendly business activities.

Social Contribution Activities

Basic Policy

We intend to promote the creation of towns and cities along our railway lines that people will truly want to live in.

Environmental Preservation Activities

Basic Concept

Mindful that global environmental preservation is a task facing all mankind, the Hankyu Hanshin Holdings Group works for a sustainable society through environmental activities aimed at handing down a sounder global and human environment to the next generation.

At a Glance

Major Operating Companies* | **Fiscal 2017 Results**

Urban Transportation

Hankyu Corporation

Hanshin Electric Railway

Revenues from Operations	¥237.1 billion (YoY –1.0%)
Operating Income	¥42.2 billion (YoY +2.3%)
Segment Assets	¥802.2 billion (YoY +1.0%)

Real Estate

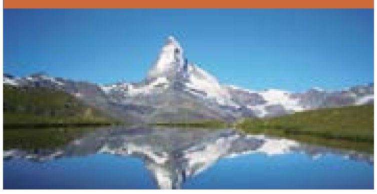
Revenues from Operations	¥215.7 billion (YoY –2.4%)
Operating Income	¥42.0 billion (YoY –15.8%)
Segment Assets	¥1,056.7 billion (YoY +3.3%)

Entertainment and Communications

©Takarazuka Revue Company

Revenues from Operations	¥115.2 billion (YoY +2.4%)
Operating Income	¥15.7 billion (YoY +2.3%)
Segment Assets	¥147.3 billion (YoY +3.2%)

Travel



心に届く旅
Direct to your heart

Hankyu Travel International

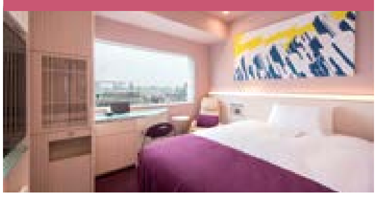
Revenues from Operations	¥29.9 billion (YoY –1.8%)
Operating Income	¥0.6 billion (YoY –6.4%)
Segment Assets	¥73.9 billion (YoY +13.3%)

International Transportation

Hankyu Hanshin Express

Revenues from Operations	¥71.7 billion (YoY –5.8%)
Operating Income	¥1.6 billion (YoY –11.2%)
Segment Assets	¥38.7 billion (YoY –3.1%)

Hotels

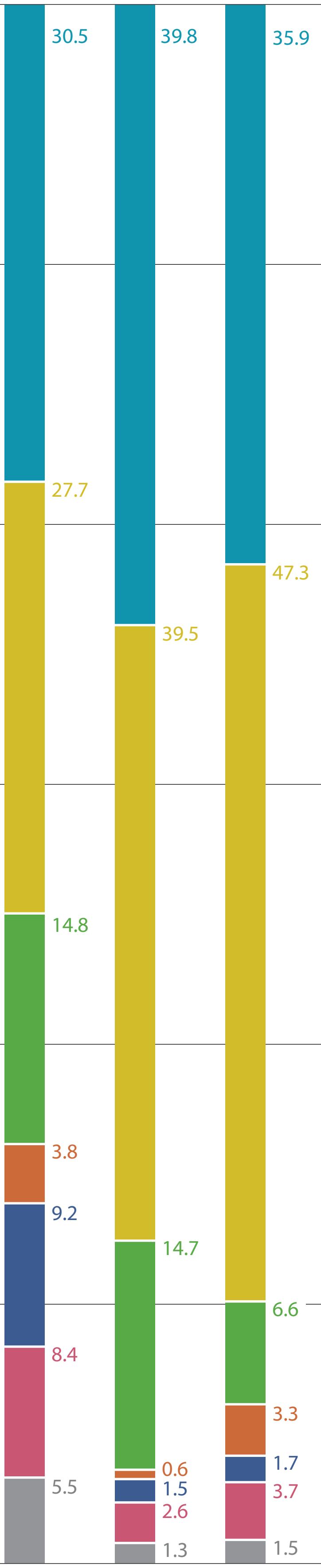


Hankyu Hanshin Hotels

Revenues from Operations	¥65.6 billion (YoY –3.5%)
Operating Income	¥2.8 billion (YoY –15.2%)
Segment Assets	¥82.6 billion (YoY –0.2%)

* For Major Group Companies, please see page 107.

% of Revenues from Operations, Operating Income, and Segment Assets



Nature of Business

Railway operations: These operations form a network in the Kansai area that centres on the railway lines of Hankyu Corporation and Hanshin Electric Railway. Hankyu Corporation's railway lines link Osaka-Umeda with Kobe, Takarazuka, and Kyoto. Meanwhile, Hanshin Electric Railway is the only private (non-JR) railway operator with railway lines that directly link Kobe with Osaka's major northern and southern terminals, which are Osaka-Umeda and Namba, respectively. The operating kilometres of Hankyu Corporation and Hanshin Electric Railway are 143.6 km* and 48.9 km*, respectively.
* Including tier 2 railway operators
Automobile business (bus, taxi): This business manages and operates bus and taxi services, which coordinate with railway services to increase convenience in line-side areas.
Retailing business: This business manages and operates convenience stores and other shops mainly inside railway stations on the Hankyu and Hanshin lines.
Advertising business: This business provides advertising media that are based on digital signage inside railway stations and space inside trains.

Real estate leasing business: This business owns numerous office buildings and facilities, mainly in Osaka-Umeda and the line-side areas of the Hankyu and Hanshin lines. In recent years, the business has been actively pursuing development of real estate in the Tokyo metropolitan area. (For a list of principal rental properties, please see page 106.)
Real estate sales and other business: This business markets condominiums, residential land lots, and detached houses, mainly in the line-side areas of the Hankyu and Hanshin lines and the Tokyo metropolitan area. In recent years the business has entered the ASEAN region. The business is engaged in property management, building maintenance, and other building operation and management services as well as real estate fund management, including private placement funds and J-REIT businesses.

Sports business: This business manages the Hanshin Tigers professional baseball team, which has a history of more than 80 years, as well as the team's home ground and high-school baseball mecca Hanshin Koshien Stadium and manages related businesses. The business also operates a music business (Billboard Live).
Stage business: This business manages the performances of the Takarazuka Revue—an organisation which has more than a century of history—sells related products, and manages and operates related businesses engaged in video and music distribution. Further, the business operates Umeda Arts Theatre and promotes stage productions.
Communication and media business: This business operates a broadcast and communications business, which provides cable television services (including multichannel broadcasts, Internet, and fixed telephone line services), and an information services business, which provides a variety of services based on system development and other IT.

Travel business: This business plans, markets, arranges, and supports travel for Japanese people in Japan and overseas and for non-Japanese visitors in Japan.

International transportation business: This business operates air freight, sea freight, and logistics businesses as well as a comprehensive portfolio of businesses that are ancillary or related to these operations. The business has 46 bases in Japan and 119 bases overseas as of 1st July 2017.

Hotels business: This business operates a wide range of hotel formats, from "city hotels" through to business hotels mainly comprising guest rooms for overnight stays. The business operated 48 hotels, consisting of 19 directly managed hotels and 29 franchise hotels, with 10,693 guest rooms as of 1st April 2017. In addition to the above hotels, the business manages The Ritz-Carlton, Osaka, based on an alliance with the Ritz-Carlton chain of international luxury hotels.

Note: Figures for percentage of revenues from operations and operating income are calculated based on the simple aggregate amount (including intersegment transactions) of each segment.

Location of Our Business Base

The Hankyu Hanshin Holdings Group's business base is the Kansai area, which has a population of approximately 20 million. This is second only to the Tokyo metropolitan area. Further, the Kansai area is one of Asia's economic powerhouses. According to a Cabinet Office survey*, in fiscal 2015 the Kansai area's gross production reached US$734.5 billion, surpassing the combined gross domestic product of Thailand and Singapore.

* Cabinet Office, Report on Prefectural Accounts for the Fiscal Year Ended 31st March 2015

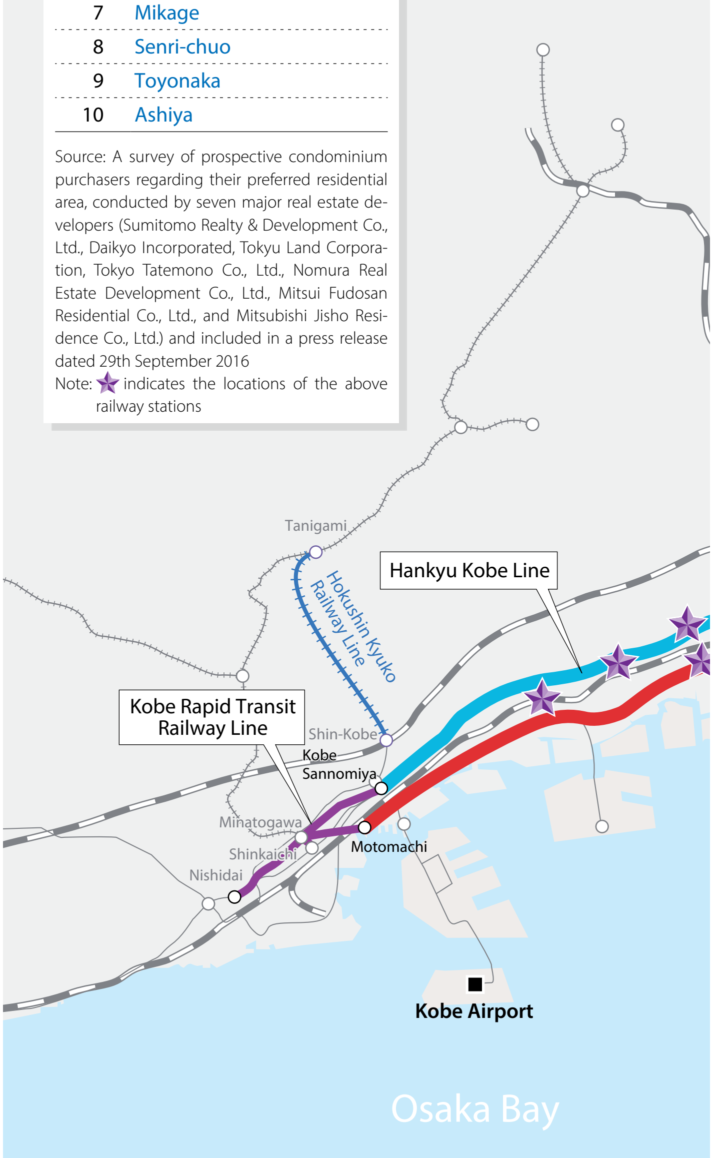
With a railway network linking the Kansai area's major cities—Osaka-Umeda, Kobe, and Kyoto—the Group has established an unshakable presence in the Kansai area. Since the earliest days of its railway operations, the Group has developed housing, entertainment facilities, and commercial facilities in the areas served by its lines. Further, thanks to efforts to attract universities, almost 50 universities and colleges are located in the areas served by our lines. Easy access to the Kansai area's major cities and plentiful infrastructure for everyday life make our line-side areas some of the most popular places to live in the region. A survey of prospective condominium purchasers regarding their preferred Kansai residential area conducted in fiscal 2017 reflects this popularity. The survey revealed that areas centred on the Group's railway stations accounted for all of the most popular areas. The above factors have led to high population densities in our line-side areas, which enable highly efficient transportation.

Survey of prospective condominium purchasers regarding their preferred Kansai residential area, conducted in fiscal 2017

Ranking	Station
1	Nishinomiya-kitaguchi
2	Shukugawa
3	Okamoto
4	Umeda
5	Takarazuka
6	Ashiyagawa
7	Mikage
8	Senri-chuo
9	Toyonaka
10	Ashiya

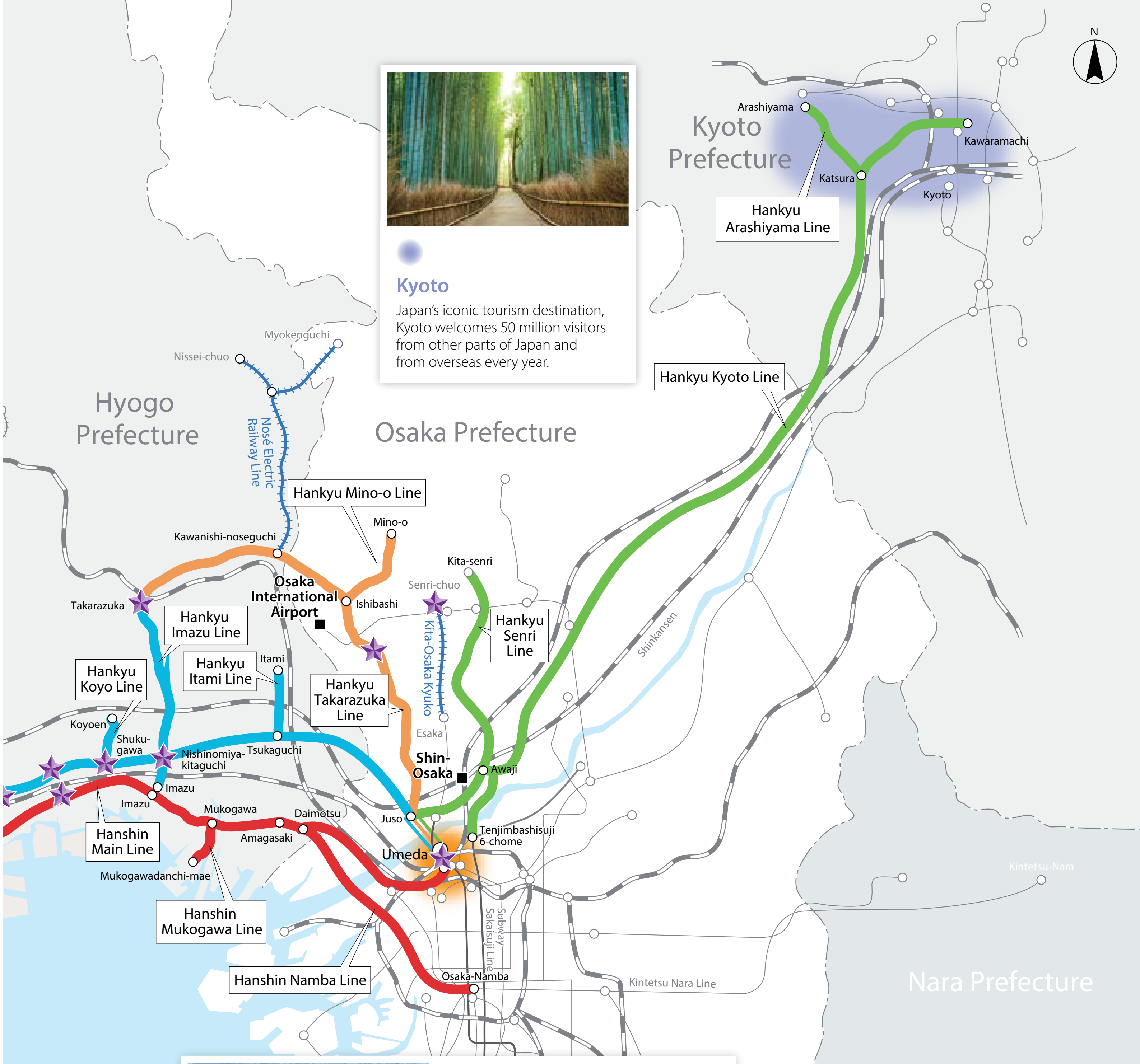
Source: A survey of prospective condominium purchasers regarding their preferred residential area, conducted by seven major real estate developers (Sumitomo Realty & Development Co., Ltd., Daikyo Incorporated, Tokyu Land Corporation, Tokyo Tatemono Co., Ltd., Nomura Real Estate Development Co., Ltd., Mitsui Fudosan Residential Co., Ltd., and Mitsubishi Jisho Residence Co., Ltd.) and included in a press release dated 29th September 2016

Note: ★ indicates the locations of the above railway stations



Kansai International Airport

The largest airport in western Japan, this is the Kansai area's gateway to the world.



Kyoto

Japan's iconic tourism destination, Kyoto welcomes 50 million visitors from other parts of Japan and from overseas every year.

Umeda

The Group's most important base, the Umeda area, is the Kansai economic bloc's hub and one of Japan's most popular shopping and entertainment districts.

Average number of passengers per day using stations of private (non-JR) railway operators in fiscal 2017

(Thousands of people)

Station	Passengers
Tokyu Shibuya Station	1,149
Keio Shinjuku Station	770
Hankyu Umeda Station	505
Odakyu Shinjuku Station	500
Seibu Ikebukuro Station	485
⋮	
Hanshin Umeda Station	164

Source: Prepared by the Group based on documents released by respective companies

Hankyu Railway Network 143.6 km	
Kobe Line (Kobe Line, Imazu Line, Itami Line, Koyo Line)	46.9 km
Takarazuka Line (Takarazuka Line, Mino-o Line)	28.5 km
Kyoto Line (Kyoto Line, Senri Line, Arashiyama Line)	65.4 km
Kobe Rapid Transit Railway Line	2.8 km

Hanshin Electric Railway Network 48.9 km	
Hanshin Line (Hanshin Main Line, Hanshin Namba Line, Mukogawa Line)	43.9 km
Kobe Rapid Transit Railway Line	5.0 km

Performance Highlights (Consolidated)

Key Financial Indicators

(Millions of yen)

FY		2008	2009	2010	2011	2012	2013	2014
Result of Operations:								
Revenues from operations		¥ 752,300	¥ 683,715	¥ 653,287	¥ 638,770	¥ 649,703	¥ 682,439	¥ 679,157
Operating income		90,724	77,823	70,126	64,743	73,809	87,921	91,828
EBITDA[1]		145,200	135,300	133,200	127,100	133,500	145,100	149,200
Ordinary income		74,882	57,445	50,409	46,494	65,393	74,914	81,191
Income before income taxes		26,098	34,064	33,899	32,760	43,419	62,192	83,542
Net income attributable to owners of the parent		627	20,550	10,793	18,068	39,252	39,702	46,352
Comprehensive income		—	—	12,541	14,728	44,992	54,081	55,941
Capital expenditure		134,307	109,688	132,386	68,431	55,267	59,512	80,722
Depreciation and amortisation		51,577	54,798	60,418	59,669	56,968	54,540	54,474
Cash Flows:								
Cash flows from operating activities		¥ 74,902	¥ 108,597	¥ 146,955	¥ 103,252	¥ 124,525	¥ 127,655	¥ 146,991
Cash flows from investing activities		(100,058)	(115,047)	(132,737)	(62,516)	(44,295)	(58,923)	(45,517)
Free cash flow[2]		(25,155)	(6,449)	14,217	40,735	80,230	68,732	101,474
Cash flows from financing activities		36,718	7,014	(24,200)	(39,544)	(78,978)	(69,195)	(105,079)
Financial Position:								
Total assets		¥2,348,476	¥2,307,332	¥2,337,331	¥2,314,669	¥2,274,380	¥2,281,007	¥2,286,928
Total net assets		476,639	473,878	480,633	486,947	524,801	573,154	617,598
Interest-bearing debt		1,271,100	1,275,620	1,282,583	1,251,665	1,183,647	1,126,633	1,032,307
Per Share Data (Yen):								
Net income attributable to owners of the parent	Basic	¥ 0.50	¥ 16.28	¥ 8.55	¥ 14.32	¥ 31.13	¥ 31.48	¥ 36.76
	Diluted	0.41	16.18	8.51	14.27	31.13	31.47	36.75
Net assets		369.25	366.96	371.70	377.17	407.01	443.63	477.69
Dividend		5.00	5.00	5.00	5.00	5.00	5.00	6.00
Ratios:								
Operating income margin (%)		12.1	11.4	10.7	10.1	11.4	12.9	13.5
ROA (%)[3]		3.2	2.5	2.2	2.0	2.8	3.3	3.6
ROE (%)[4]		0.1	4.4	2.3	3.8	7.9	7.4	8.0
Interest-bearing debt/EBITDA (Times)		8.8	9.4	9.6	9.8	8.9	7.8	6.9
Equity ratio (%)		19.9	20.1	20.1	20.6	22.6	24.5	26.3
Debt/equity (D/E) ratio (Times)[5]		2.7	2.8	2.7	2.6	2.3	2.0	1.7
Stock Price Index:								
Stock price at the end of fiscal year (Yen)		¥ 431	¥ 447	¥ 433	¥ 384	¥ 361	¥ 569	¥ 562
Market capitalisation (¥ billion)		5,480	5,683	5,505	4,882	4,590	7,234	7,145
PER (Times)		862.0	27.5	50.6	26.8	11.6	18.1	15.3
PBR (Times)		1.2	1.2	1.2	1.0	0.9	1.3	1.2
Business Data:								
Hankyu Railway (Thousand)[6]		618,373	618,585	605,963	603,233	608,632	615,324	629,125
Hanshin Electric Railway (Thousand)[6]		180,906	182,997	193,620	205,202	218,560	221,133	226,004
Average vacancy rates of rental office buildings (Umeda area, Osaka; %)[7]		3.08	5.88	8.90	11.22	7.29	11.50	9.22

1. EBITDA = operating income + depreciation expenses + amortisation of goodwill
EBITDA figures are rounded to the nearest ¥100 million.
2. Free cash flow = cash flows from operating activities + cash flows from investing activities
3. ROA = ordinary income / total assets (average of period-start and period-end totals)
4. ROE = net income attributable to owners of the parent / equity (average of period-start and period-end totals)
5. D/E ratio = interest-bearing debt / equity
6. Annual number of passengers carried
7. Average vacancy rate figures are overall rates for the Umeda city centre area at the end of March for major rental office buildings (including properties not owned by the Group) with a total floor area of at least 3,300 m^2 and are based on "Latest Trends in the Office-Building Market in Osaka," Miki Shoji, "Office Data."
8. Regarding transactions related to such items as the export of mixed cargo of the International Transportation Business, the Company has changed the recognition of revenues from operations from net presentation to gross presentation as of fiscal 2017. As a result of this change, the amount of revenues from operations for fiscal 2016 is the amount after retrospective application (gross presentation).
Further, the Company consolidated shares at the ratio of 5 shares to 1 share with an effective date of 1st August 2016. Net income per share, diluted net income attributable to owners of the parent per share, net assets per share, and dividend per share have been calculated based on the assumption that the said reverse stock split was executed on 1st April 2015.

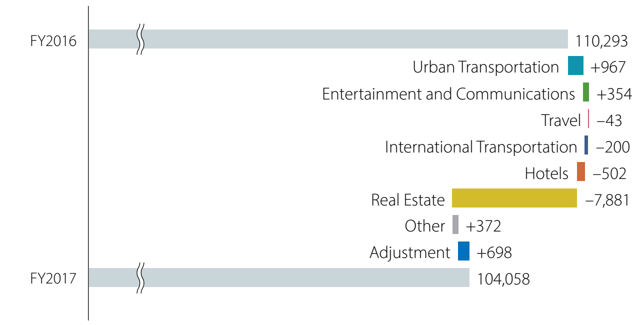
2015	2016[8]	2017
¥ 685,906	¥ 746,792	¥ 736,763
94,026	110,293	104,058
150,100	166,500	159,300
85,590	104,479	100,607
77,620	96,087	100,805
54,201	69,971	71,302
71,034	63,842	79,288
68,115	66,639	86,212
53,143	53,701	52,800
¥ 131,881	¥ 124,838	¥ 115,633
(52,529)	(78,843)	(84,845)
79,352	45,995	30,788
(81,746)	(47,278)	(30,595)
¥2,279,638	¥2,282,180	¥2,349,831
679,482	724,237	804,659
955,828	916,570	899,523
¥ 42.98	¥ 277.88	¥ 285.11
42.95	277.67	284.86
525.56	2,815.96	3,150.67
6.00	35.00	35.00
13.7	14.8	14.1
3.7	4.6	4.3
8.6	10.3	9.4
6.4	5.5	5.6
29.1	31.0	33.5
1.4	1.3	1.1
¥ 743	¥ 718	¥ 3,620
9,447	9,129	9,205
17.3	12.9	12.7
1.4	1.3	1.1
627,536	644,563	647,369
227,203	234,226	236,766
7.84	5.54	3.20

Revenues from operations[8]: ¥736.8 billion
(down 1.3%, or ¥10.0 billion, from the previous fiscal year)
Operating income: ¥104.1 billion
(down 5.7%, or ¥6.2 billion, from the previous fiscal year)

The Group recorded year-on-year declines of 1.3%, or ¥10.0 billion, in revenues from operations, to ¥736.8 billion, and 5.7%, or ¥6.2 billion, in operating income, to ¥104.1 billion, due to the sale of land for facilities in the Real Estate Business in the previous fiscal year and the lower yen-equivalent value of revenues and earnings in the International Transportation Business.

Operating income: Factor analysis (YoY change)

(¥ million)



Net income attributable to owners of the parent: ¥71.3 billion
(up 1.9%, or ¥1.3 billion, from the previous fiscal year)

Net non-operating loss (total non-operating expenses net of total non-operating income) declined ¥2.4 billion, year on year, to ¥3.5 billion, due to an increase in equity in income of affiliates. Total extraordinary income net of total extraordinary loss was ¥0.2 billion, an improvement compared with the previous fiscal year's loss of ¥8.6 billion. This improvement reflected decreases in losses on revaluation of investment securities and in impairment loss.

Due to the above, net income attributable to owners of the parent increased 1.9%, or ¥1.3 billion, year on year, to ¥71.3 billion.

Net income attributable to owners of the parent: Factor analysis (YoY change)

Improvement in total extraordinary income net of total extraordinary loss	+¥8.6 billion
Increase in equity in income of affiliates	+¥2.9 billion
Increase in total income taxes	−¥3.4 billion
Decrease in operating income	−¥6.2 billion

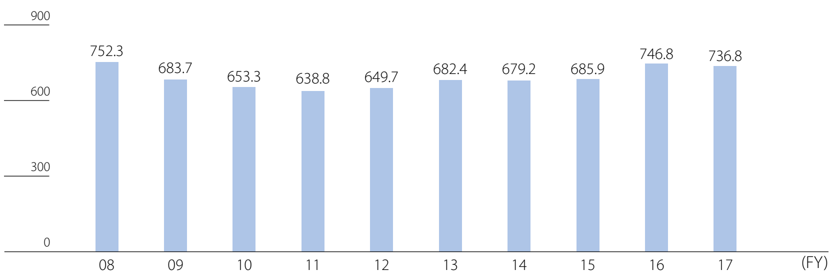
Interest-bearing debt: ¥899.5 billion
(down 1.9%, or ¥17.0 billion, from the previous fiscal year-end)

The outstanding balance of interest-bearing debt at the end of the fiscal year under review amounted to ¥899.5 billion, a decrease of 1.9%, or ¥17.0 billion, from the previous fiscal year-end. This was because free cash flow was used to repay interest-bearing debt.

Note: Billions of yen figures are rounded to one decimal place.

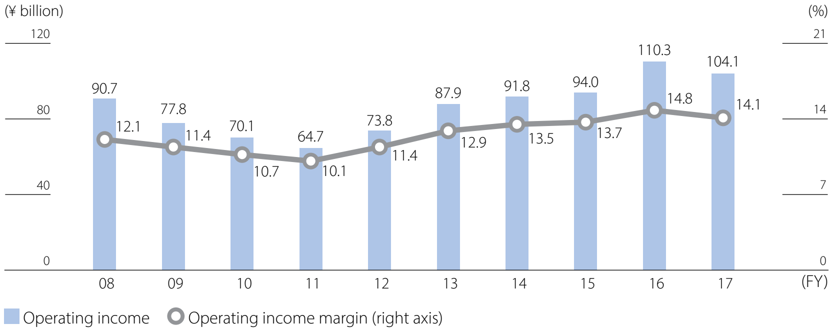
Key Financial Indicators (Graphs)

Revenues from operations



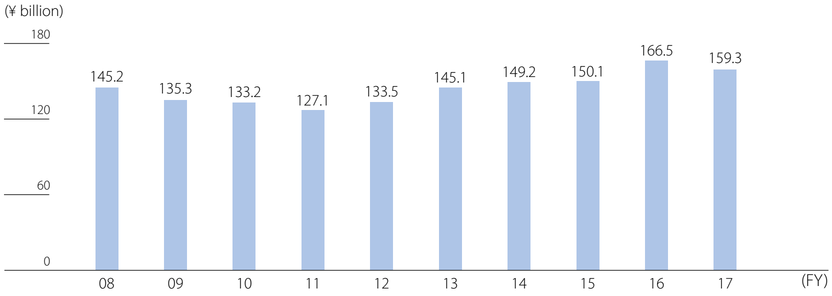
Revenues from operations decreased 1.3%, or ¥10.0 billion, year on year, to ¥736.8 billion, due to the sale of land for facilities in the Real Estate Business in the previous fiscal year and the lower yen-equivalent value of revenues and earnings in the International Transportation Business.

Operating income and operating income margin



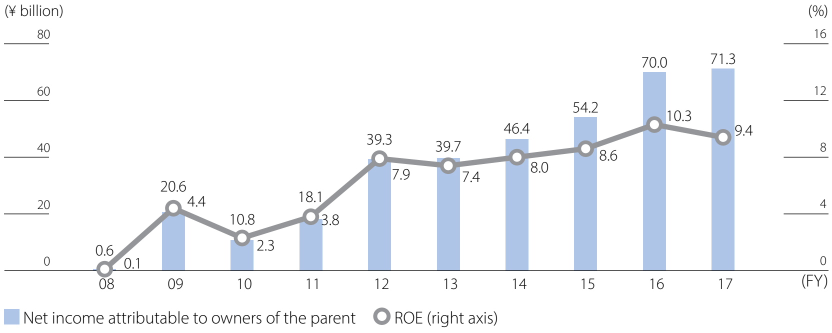
Operating income was down 5.7%, or ¥6.2 billion, year on year, to ¥104.1 billion, due to the above-mentioned decrease in revenues from operations and lower revenues from the accommodation and banquet areas in the Hotels Business.

EBITDA



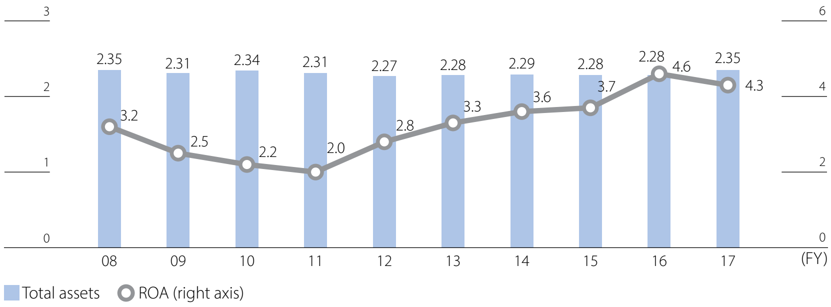
Operating income decreased 5.7%, or ¥6.2 billion, year on year, to ¥104.1 billion; depreciation and amortisation declined 1.7%, or ¥0.9 billion, to ¥52.8 billion; and amortisation of goodwill declined 1.8%, to ¥2.4 billion. As a result, EBITDA was ¥159.3 billion.

Net income attributable to owners of the parent and ROE



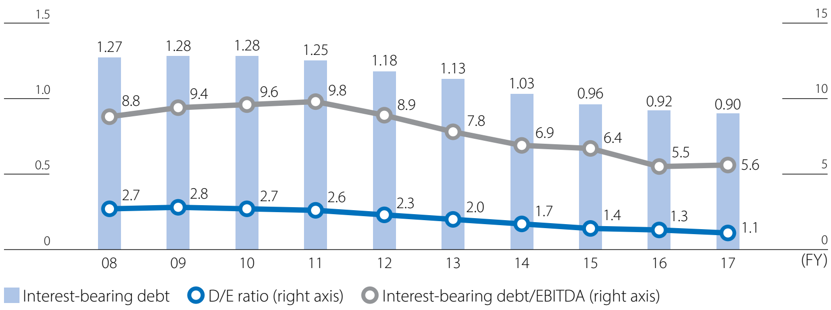
Total income taxes were up from the previous fiscal year, but higher income before income taxes caused net income attributable to owners of the parent to increase 1.9%, or ¥1.3 billion, year on year, to ¥71.3 billion, breaking the previous record for the sixth consecutive year. Due to higher equity, ROE decreased 0.9 percentage point, to 9.4%.

Total assets and ROA



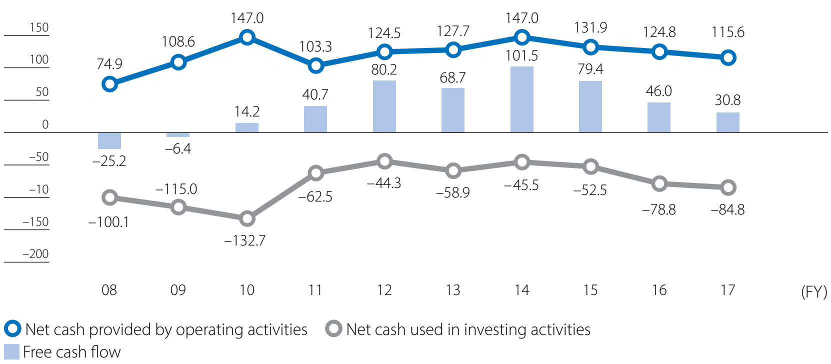
Total assets rose ¥67.7 billion from the previous fiscal year-end, to ¥2,349.8 billion, due to an increase in construction in progress. ROA edged down 0.3 percentage point, to 4.3%, reflecting lower ordinary income.

Interest-bearing debt, D/E ratio, and interest-bearing debt/EBITDA



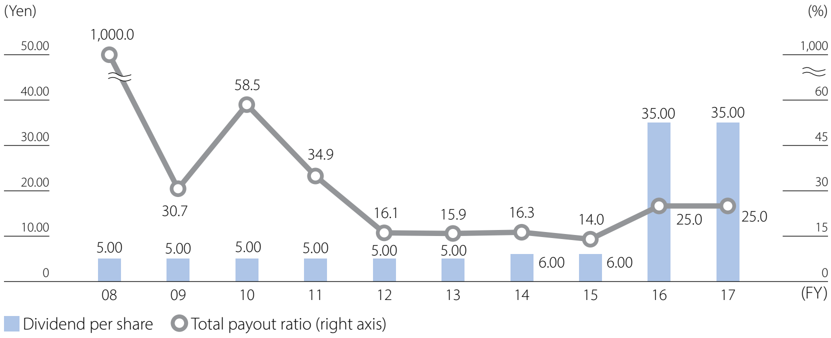
The outstanding balance of interest-bearing debt at the end of the fiscal year under review amounted to ¥899.5 billion, a decrease of 1.9%, or ¥17.0 billion, from the previous fiscal year-end. As a result, the Group reduced interest-bearing debt to less than ¥900 billion ahead of the previous medium-term management plan's schedule, which envisaged achieving this by the end of fiscal 2019. Consequently, the D/E ratio decreased to 1.1 times. Further, the interest-bearing debt/EBITDA ratio was 5.6 times, remaining below 6 times for the second consecutive fiscal year.

Cash flows



Net cash provided by operating activities was ¥115.6 billion, reflecting income before income taxes, depreciation and amortisation, and income taxes paid. Net cash used in investing activities was ¥84.8 billion due to purchases of noncurrent assets. Net cash used in financing activities was ¥30.6 billion as a result of redemption of bonds.

Returns to shareholders



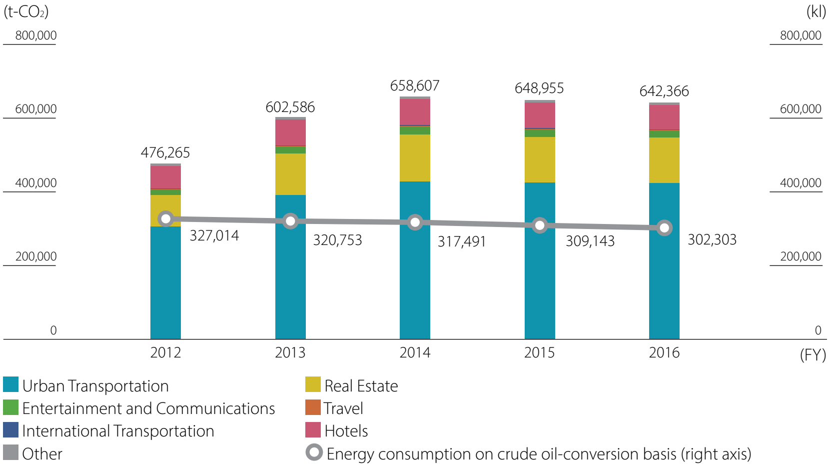
Notes: The total payout ratio for fiscal 2017 includes purchase of treasury stock (amounting to ¥9.1 billion).
The Company conducted a 1-for-5 reverse stock split with an effective date of 1st August 2016. The figures for dividend per share above are after the reverse stock split.

The Company's basic policy is to pay stable annual dividends and acquire treasury stock with a total payout ratio (the total of purchases of treasury stock and the total annual dividend as a percentage of net income attributable to owners of the parent) of 25% as a target. Regarding dividend payments from profits in fiscal 2017, the Company paid a dividend of ¥35 per share, which was the same as the dividend paid in the previous fiscal year. The Company purchased treasury stock (amounting to ¥9.1 billion) based on the target of a total payout ratio of 25%.

ESG Highlights

Environmental Factors

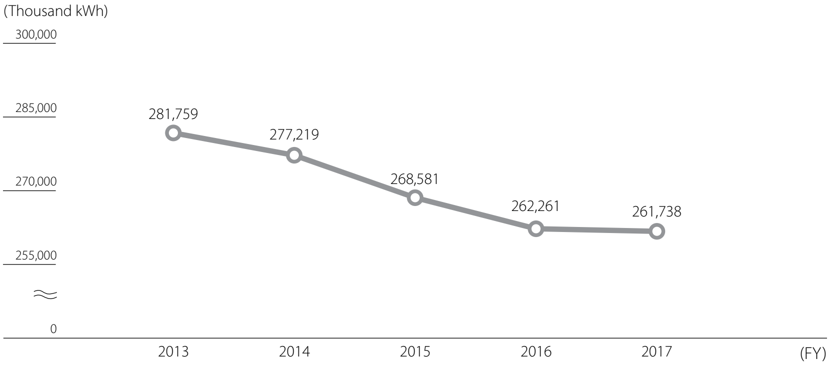
CO₂ emissions volumes and energy consumption on crude oil-conversion basis



In fiscal 2016, overall emissions were down 1.0% year on year, to 642,366 t-CO_2. While CO_2 emissions jumped in fiscal 2013, this rise was the result of an increase in the portion of electricity supplied from thermal power generation after the halt in operations of nuclear power plants following the March 2011 Great East Japan Earthquake.

Further, energy consumption on a crude oil-conversion basis decreased for the fifth consecutive year as a result of efforts by Group companies to reduce energy consumption. These efforts included measures by Hankyu Corporation and Hanshin Electric Railway to switch to light-emitting diode (LED) lighting in railway stations and other facilities and to introduce more new rolling stock with better energy efficiency than existing rolling stock.

Electricity consumption during summer months (July–September)

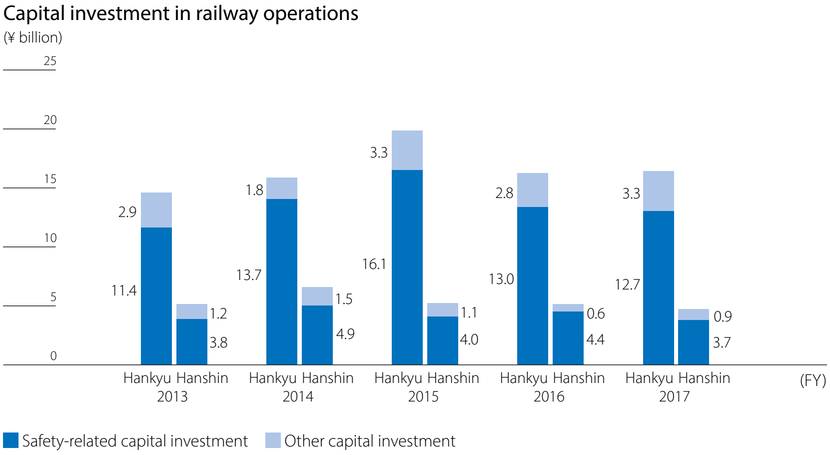


Note: Figures above are for Hankyu Hanshin Holdings, Inc., and its domestic consolidated subsidiaries, but exclude certain business sites for which electricity consumption is difficult to track.

The Group has been endeavouring to lower its electricity consumption over the peak usage months from July to September. As a result, total electricity consumption from July to September 2016 was 261,738 kWh, down 0.2% year on year (a decrease of approximately 15% from the equivalent period in 2010, before the Great East Japan Earthquake).

Social Factors

Capital investment in railway operations

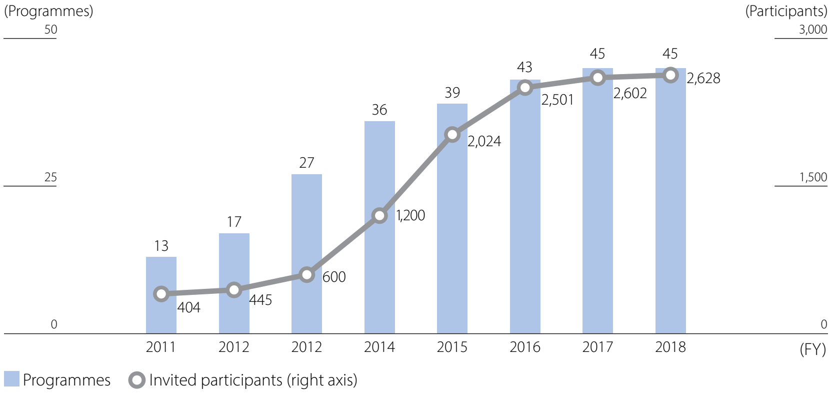


Note: The total length of lines operated is 143.6 km for Hankyu Corporation and 48.9 km for Hanshin Electric Railway.

As a railway operator, the Group provides a form of public infrastructure. We therefore make giving priority to the safety of our customers a fundamental policy of management, and conduct ongoing safety-related capital investments in our railway operations accordingly. In fiscal 2017, such investments totalled ¥12.7 billion at Hankyu Corporation and ¥3.7 billion at Hanshin Electric Railway. These investments were primarily used to conduct station upgrades, including track elevation, seismic reinforcement of elevated tracks, expansion of platforms, and measures for making stations barrier-free.

Note: Please see "Safety Initiatives in the Railway Business" on pages 64–67 of this report.

Number of programmes and participants of the Hankyu Hanshin Dreams and Communities Challenge Troop

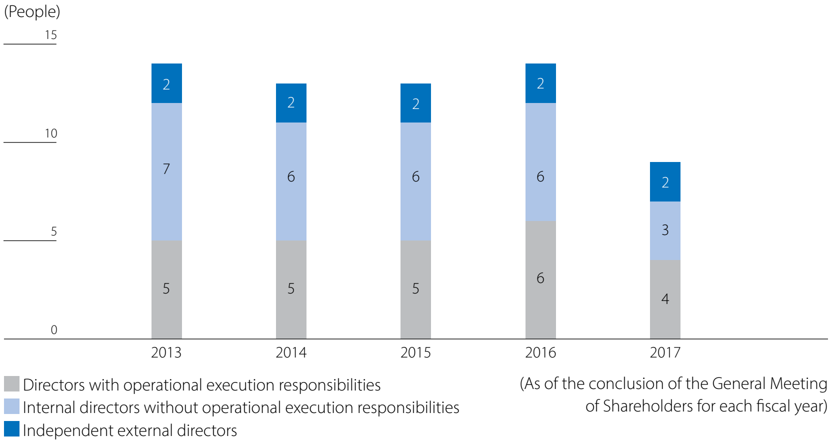


The Group conducts a variety of activities focused on its line-side areas in accordance with a basic policy of creating towns and cities that people will truly want to live in. Particularly popular among local residents are programmes that take advantage of the unique business expertise of Group companies to provide primary school students with opportunities to experience a diverse range of workplaces. Since we began this initiative in 2010, we have invited 12,404 students to participate in programmes from an aggregate total of roughly 92,000 applications. In fiscal 2017, these activities received a special commendation from the judges of an award recognising companies that offer experiential activities for young people, organised by the Ministry of Education, Culture, Sports, Science and Technology.

Note: Please see "CSR and Corporate Value Enhancement" on pages 30–33 of this report.

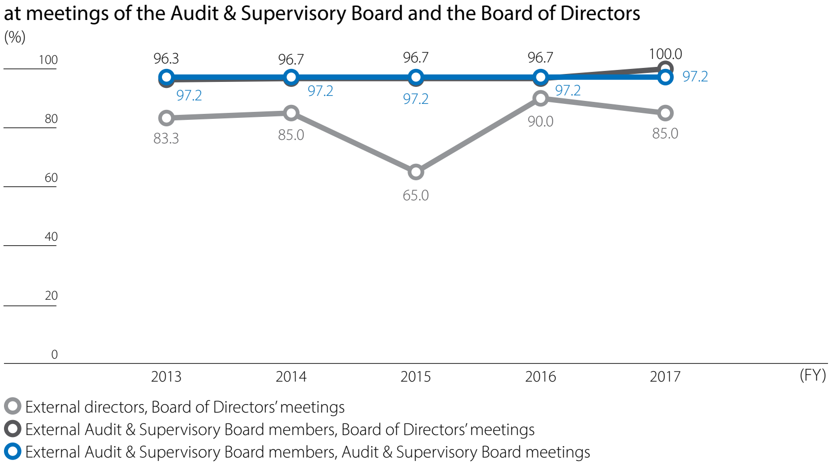
Governance Factors

Membership of the Board of Directors



The General Meeting of Shareholders held in June 2017 approved a reduction in the number of directors from 14 to nine, thereby increasing the proportion of external directors. Five directors of the Company concurrently serve as directors of Group companies to ensure that business management reflects viewpoints from the Group's operations. In addition, two of the Company's part-time directors have been appointed from H_2O Retailing Corporation and Toho Co., Ltd., with the aim of strengthening coordination with other companies in the Hankyu Hanshin Toho Group.

Rate of attendance of external directors and external Audit & Supervisory Board members at meetings of the Audit & Supervisory Board and the Board of Directors



To support external directors and external Audit & Supervisory Board members, the Company has established secretariats for the Board of Directors and the Audit & Supervisory Board. In particular, the Company has appointed to the secretariat of the Audit & Supervisory Board dedicated personnel who provide information to Board members and liaise with relevant in-house departments and divisions. The Company provides external directors and external Audit & Supervisory Board members with information about the Company's businesses, financial position, and organisations mainly at meetings of the Corporate Governance Committee. Also, the secretariat of the Board of Directors sends Board members documents detailing agenda items for submission to the Board of Directors, in principle, seven days prior to the dates of meetings.

Aiming to be a corporate group that continues growing amid social change, we recently established Long-Term Management Vision for 2025. We will steadily advance various measures to realise this vision, thereby enhancing corporate value continually.

Kazuo Sumi
In June 2017, appointed Chairman and Representative Director, Group Chief Executive Officer

Takehiro Sugiyama
In June 2017, appointed President and Representative Director

Fiscal 2017 Business Results

In fiscal 2017, the year ended 31st March 2017, although we achieved our earnings targets, revenues from operations, operating income, and ordinary income declined year on year. These declines resulted from the sale of land for facilities in the Real Estate Business in the previous fiscal year as well as the lower yen-equivalent value of revenues and earnings of overseas subsidiaries in the International Transportation Business, which accompanied exchange rate fluctuations. However, reflecting an improvement in total extraordinary income net of total extraordinary loss, net income attributable to owners of the parent reached a record high for the sixth consecutive fiscal year. Further, despite steady investment for growth, we reduced interest-bearing debt to less than ¥900 billion ahead of the previous medium-term management plan's schedule, which envisaged achieving this by the end of fiscal 2019. As a result, the interest-bearing debt/EBITDA ratio was below 6 times for the second fiscal year in a row.

Fiscal 2017 business results overview

(Billions of yen)

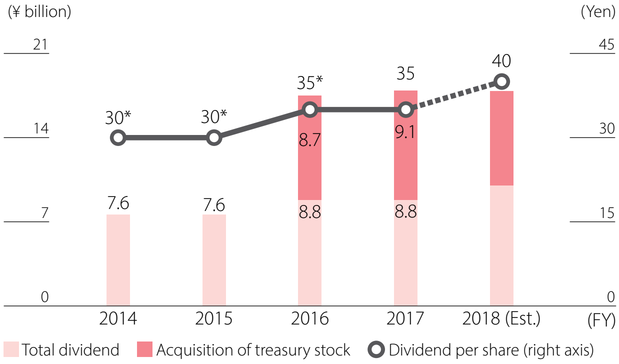
	FY2017 results	FY2016 results	YoY Increase / Decrease	YoY (%)
Revenues from operations	736.8	746.8	–10.0	–1.3
Operating income	104.1	110.3	–6.2	–5.7
Ordinary income	100.6	104.5	–3.9	–3.7
Net income attributable to owners of the parent	71.3	70.0	1.3	1.9
Interest-bearing debt	899.5	916.6	–17.0	–1.9
Interest-bearing debt/EBITDA ratio (Times)	5.6	5.5	0.1 pt	

Returns to Shareholders

In fiscal 2017, in accordance with the Group's policy, annual dividend payments from profits were ¥35 per share, representing total annual dividend payments of approximately ¥8.8 billion. In addition, based on a target of 25% for the total payout ratio, total treasury stock purchases amounted to roughly ¥9.1 billion.

In light of stable performance trends recently and steady improvement in our financial position, we intend to enhance returns to shareholders even further. In fiscal 2018, the year ending 31st March 2018, we plan to increase annual dividend payments from profits from ¥35 per share to ¥40 per share and to raise our target total payout ratio from 25% to 30%.

Returns to shareholders



* Shares were consolidated at the ratio of 5 shares to 1 share with 1st August 2016 as the effective date.
Annual dividends for fiscal 2016 and earlier are converted based on this share consolidation.

Corporate Governance

With a view to increasing the transparency of the Board of Directors, we increased the proportion of external directors by reducing the number of directors from 14 to nine while continuing to appoint two external directors. Meanwhile, we introduced an executive officer system to enhance the execution of duties. Further, external Audit & Supervisory Board members continue to account for three of our five Audit & Supervisory Board members. As a result, five of the 14 directors and Audit & Supervisory Board members that attend meetings of the Board of Directors are external directors or external Audit & Supervisory Board members who are independent of the Company.

Also, given that we currently do not have senior advisors, we took the opportunity that this presents to abolish the senior advisor system, which was stipulated in the articles of incorporation.

Note: Billions of yen figures are rounded to one decimal place.

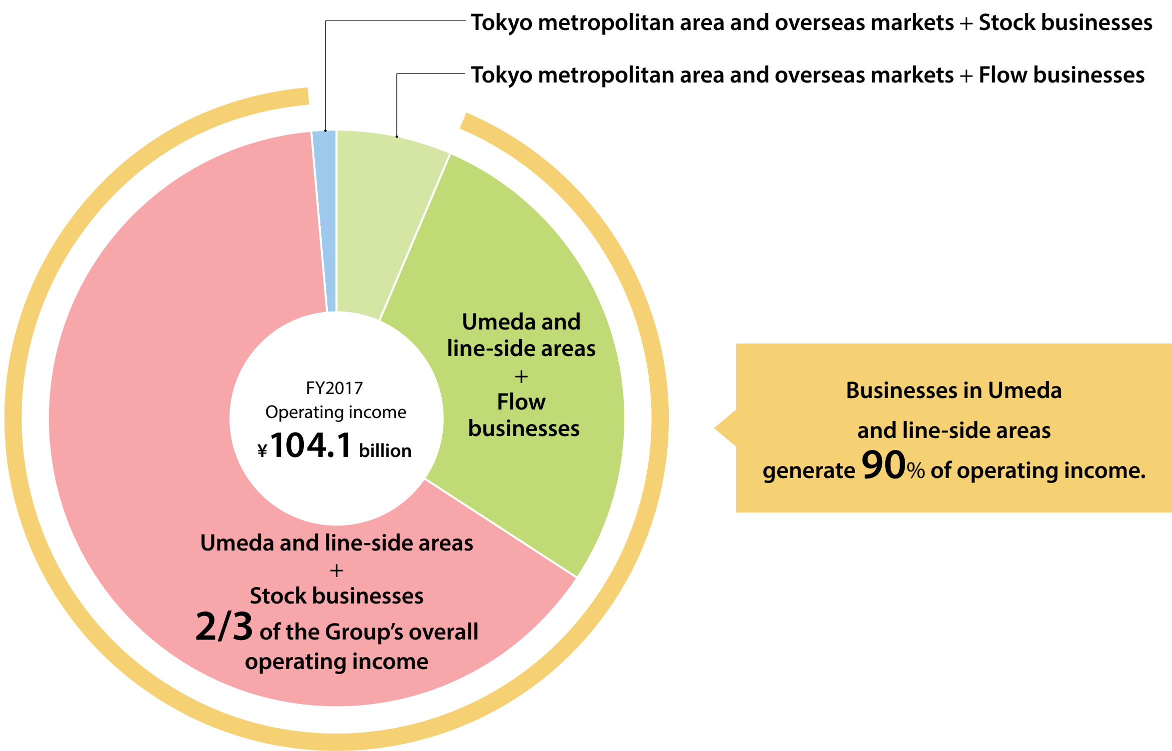
Background to the Establishment of a Long-Term Vision

Overview of the Group's Current Position

More than 10 years have passed since the management integration of Hankyu Holdings and Hanshin Electric Railway. During this period, we have reorganised operations in respective business areas. The many integration benefits that have resulted from this reorganisation as well as the progress of large projects have given us one of the highest levels of operating income among major private (non-JR) railway operators. Meanwhile, our financial position is improving steadily thanks to interest-bearing debt reduction. Among major private (non-JR) railway operators, we have an industry-leading interest-bearing debt/EBITDA ratio.

In fiscal 2017, the Group posted operating income of ¥104.1 billion. Breaking this down by business area (Umeda and line-side areas versus the Tokyo metropolitan area and overseas) and by business model ("stock" businesses*1 versus "flow" businesses*2), stock businesses in Umeda and line-side areas currently account for approximately two-thirds of the Group's overall operating income. Adding flow businesses shows that the Group depends on Umeda and line-side areas for more than 90% of operating income.

Given this situation, whether the Group can sustain growth going forward while remaining dependent on Umeda and line-side areas, particularly on stock businesses, is a moot point.



*1 Businesses that own or use such stock as property and other fixed assets (including the railway business, real estate leasing business, broadcast and communications business, and Hotels Business)

*2 Businesses that, instead of owning large-scale stock, use business know-how, human resources, brand assets, and other intangible assets (including the real estate sales business and other businesses, sports business, stage business, information services business, Travel Business, and International Transportation Business)

Changes in Future Business Conditions

Naturally, the external environment will change going forward. In particular, the decline in Japan's population is expected to accelerate from 2025. In 2040, the Kansai area's population is projected to be 16% lower than it was in 2015. Further, due to a continuous rise in the population group aged 65 or above, society will become increasingly aged as 2040 approaches.

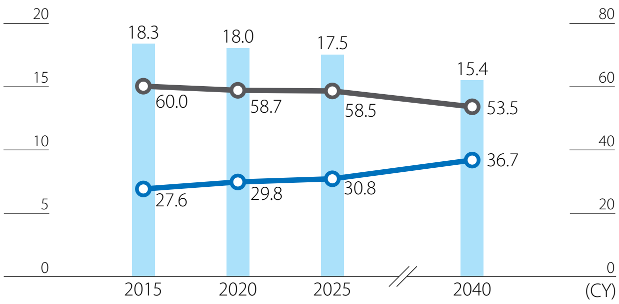
Consequently, there will be fewer consumers of the Group's products and services. Moreover, higher workforce participation by women and the elderly could reduce the time available for consumption and leisure activities. Meanwhile, securing employees will become more problematic as supply tightens in the labour market. As the above trends advance, they will inevitably have a correspondingly negative effect across a range of businesses in the Group. Given this scenario, remaining significantly dependent on stock businesses in Umeda and line-side areas would expose the Group to risk. Therefore, we must slough off over-reliance on these areas.

On the other hand, not all changes in business conditions will impact the Group negatively. Various factors will bring opportunities. One such factor is demand from overseas visitors to Japan. The past several years have seen a steep rise in the number of overseas visitors to Japan, with the increase being particularly dramatic in the Kansai area. This increase has contributed significantly to the growth of our railway operation revenue and earnings from the Hotels Business. Japan's government aims to increase the number of overseas visitors to Japan from 2016's level of 24 million to 40 million by 2020 and 60 million by 2030. Thus, demand promises to continue robust growth.

Further, our line-side areas enjoy advantages over other line-side areas in the Kansai area. They are comparatively close to such international hubs as Osaka International Airport and Kobe Airport as well as to Shin-Osaka Station, which provides access to the Kansai area from the Tokyo–Nagoya–Osaka axis. Also, our line-side areas are seeing steady progress in the development of road and rail infrastructure. For example, a new direct rail link between the Umeda area and Kansai International Airport is planned.

Population of the Kansai area

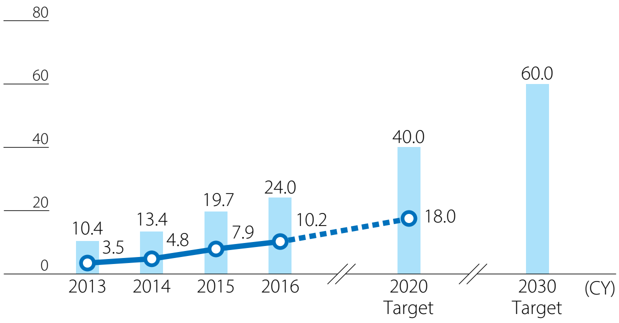
(Millions of people) (%)



Total population Average working-age population percentage (right axis)
Average elderly population percentage (right axis)
Source: National Institute of Population and Social Security Research, "Population Projection for Japan by Prefectures"
Note: "The Kansai area" comprises Osaka, Kyoto, Hyogo, and Nara prefectures.

Overseas visitors to Japan

(Millions of people)



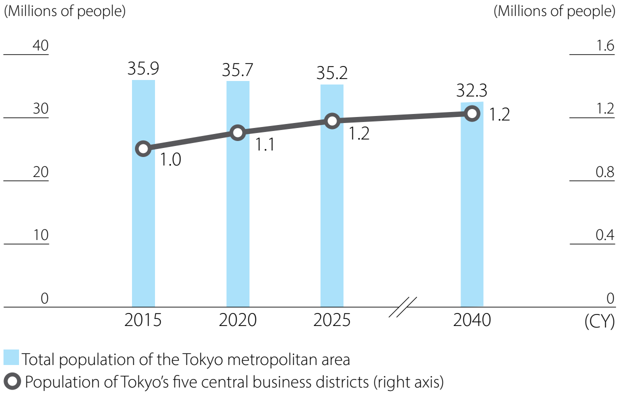
Overseas visitors to Japan (total) Overseas visitors to the Kansai area
Sources: Japan National Tourism Organization (JNTO), "Visitors Arrivals, Japanese Overseas Travellers"; Japan Tourism Agency, "Consumption Trend Survey for Foreigners Visiting Japan"; KANSAI Tourism Bureau, "Kansai International Tourism Policy 2016–2018"
Note: Overseas visitors to the Kansai area have been calculated based on the numbers of overseas visitors to Japan announced by JNTO, the "Consumption Trend Survey for Foreigners Visiting Japan" of the Japan Tourism Agency, and overseas visitors to the Kansai area as percentages of overseas visitors to Japan, which are included in the "Kansai International Tourism Policy 2016–2018" of the KANSAI Tourism Bureau.

Meanwhile, the real estate leasing business will lead efforts to increase our presence in Tokyo's five central business districts (Chiyoda, Chuo, Minato, Shinjuku, and Shibuya), which are expected to still have their current population levels in the 2040s. Overseas, we are making forays into the ASEAN region, where population growth and strong economic growth are likely to continue.

If we can deftly capitalise on the business opportunities accompanying such changes in business conditions and tap into the ASEAN region's growth, we can realign our line-side areas. Particularly with respect to the Umeda area, we can develop from "Umeda in Kansai" into "Umeda in Asia." Also, the Tokyo metropolitan area and other countries will offer ample opportunities to apply the business strengths and expertise that we have developed over many years in line-side areas.

Other positives include technological advances anticipated in such fields as artificial intelligence (AI) and the Internet of Things (IoT). Society is on the brink of a major transformation, which has been dubbed "the fourth industrial revolution." By actively exploiting or repurposing the array of new technologies emerging from this revolution, our businesses will be able to curb costs and eliminate labour shortages. In addition, they will be able to transform existing business models and create new growth opportunities.

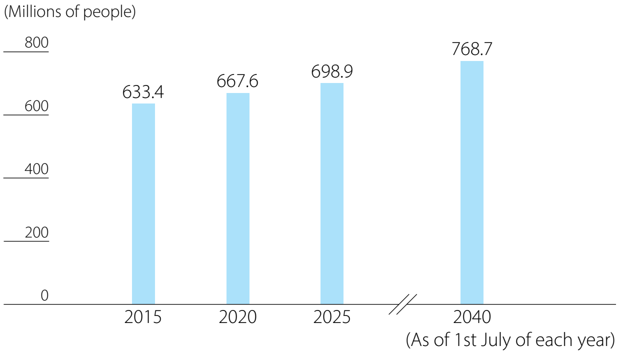
Population of the Tokyo metropolitan area and Tokyo's five central business districts



Sources: National Institute of Population and Social Security Research, "Population Projection for Japan by Prefectures"; Tokyo Metropolitan Government Bureau of General Affairs, "Population Projection for Tokyo by Ward, City, Town, and Village"

Note: "The Tokyo metropolitan area" comprises Saitama, Chiba, Tokyo, and Kanagawa prefectures.

Population of the ASEAN region



Source: United Nations, "World Population Prospects: The 2017 Revision"

Note: The medium variant has been used.

Establishment of a Long-Term Vision

In light of the abovementioned changes in business conditions, we decided to prepare a long-term vision. Reflecting our determination to have advanced as a growth-focused corporate group by fiscal 2026—the 20th anniversary of management integration—and to continue advancing thereafter, the vision sets out *the company we hope to be in the long term* as well as the basic approach and strategies for achieving this target profile. In preparing the vision, we outlined the company we hope to be in fiscal 2026, while to some extent looking ahead to the significant effect of demographic changes by the 2040s.

Based on the categorisation by business area and business model mentioned earlier and taking into consideration changes in business conditions going forward, the long-term vision describes our target profile and strategies in each category.

The vision sets out four goals based on the company we hope to be. Stating these goals in order, the vision calls on (1) stock businesses in Umeda and line-side areas to make our railway the absolute best among the Kansai networks, (2) stock businesses in the Tokyo metropolitan area and overseas to construct a stable revenue base in the Tokyo metropolitan area and overseas markets, and (3) flow businesses to strengthen competitiveness by thoroughly pursuing brand optimisation and differentiation. Lastly, to complement and raise the basic level of efforts focused on achieving the above goals, the vision calls on (4) businesses to make greater use of the Group's collective strength and develop new business fields. (For details, please see pages 22–25.)

Going forward, the Hankyu Hanshin Holdings Group will make concerted efforts to steadily advance measures aimed at realising the above long-term vision, thereby enhancing the whole Group's corporate value continually.

September 2017

Kazuo Sumi
Chairman and
Representative Director,
Group Chief Executive Officer

Takehiro Sugiyama
President and
Representative Director

Special Feature: Long-Term Management Vision for 2025

From Management Integration to the Present Day

The Hankyu Hanshin Holdings Group celebrated its 10th anniversary in October 2016. During this decade, the Group worked unstintingly to enhance overall corporate value. The section below explains 10 years of progress by breaking down our history into three management phases.

First Phase — Advancing large projects for growth (fiscal 2007–fiscal 2011)

Immediately after the management integration of Hankyu Holdings and Hanshin Electric Railway, we took measures to realise numerous integration benefits while forging ahead with large projects for growth. Improving its financial position was of course an important task, but the Group made large projects that were in progress before integration the first priority as they promised to generate significant, stable cash flows. These projects included the rebuilding of Umeda Hankyu Building and the implementation of plans for the Hanshin Namba Line. However, the high level of development investment accompanying such projects pushed up interest-bearing debt to a peak of ¥1,280 billion. Meanwhile, earnings dipped due to the global recession triggered by the credit crisis. As a result, the interest-bearing debt/EBITDA ratio rose as high as 9.8 times.

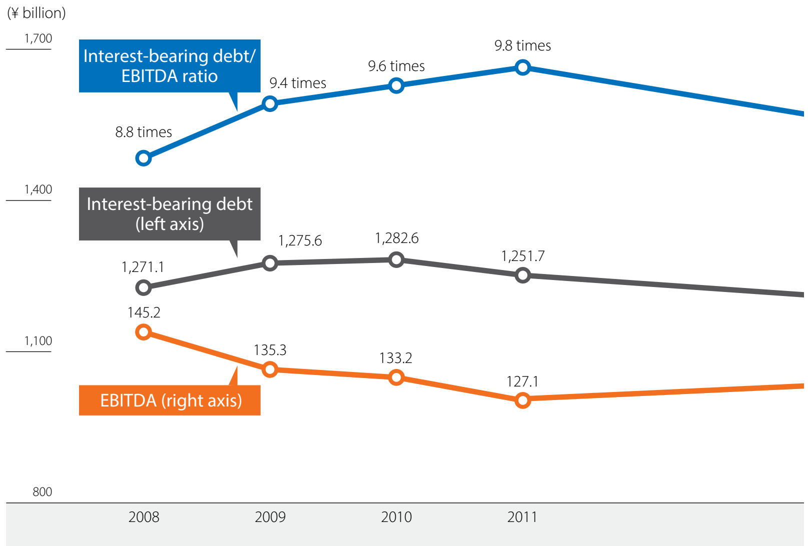
Second Phase — Improving financial position steadily (fiscal 2012–fiscal 2015)

After major investments peaked around fiscal 2012, improving the Group's financial position became the top priority in business management. Interest-bearing debt reduction was uppermost in our minds as we allocated funds. Consequently, by the end of fiscal 2015 we had lowered interest-bearing debt to the ¥950 billion level. Moreover, during this phase completion of the abovementioned large projects helped grow EBITDA to the ¥150 billion level. As a result, the interest-bearing debt/EBITDA ratio improved significantly, decreasing to 6.4 times.

Third Phase — Developing foundations for medium-to-long-term growth (fiscal 2016–)

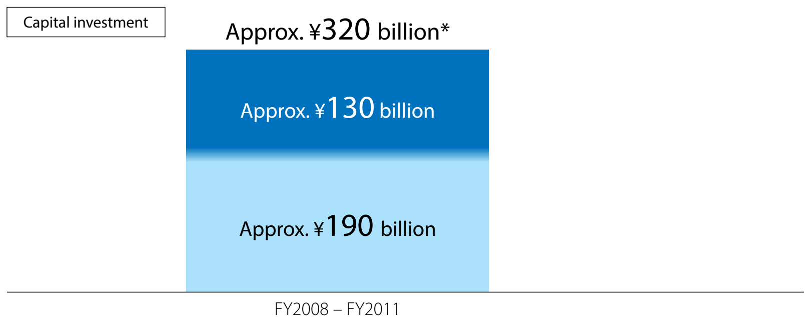
With the prospect of a better financial position having come largely within reach, in fiscal 2016 we established a new medium-term management plan with the aim of shifting the focus of business management toward achieving further growth. To this end, the plan set out two business strategies: enhance the value of Umeda and other line-side areas and develop new markets for medium-to-long-term growth. While pursuing these overriding strategies, we are balancing three tasks: investment for the future, continuous strengthening of our financial position, and returns to shareholders.

Setting our sights even further ahead, in 2017 we prepared the Hankyu Hanshin Holdings Group Long-Term Management Vision for 2025.

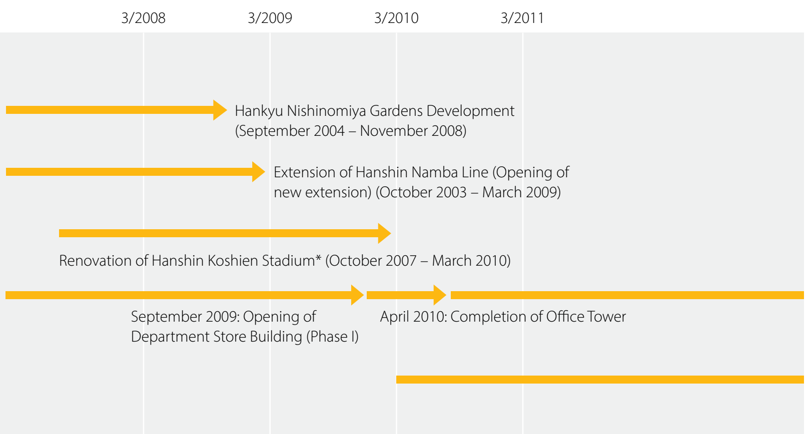


Realised numerous integration benefits and advanced large projects

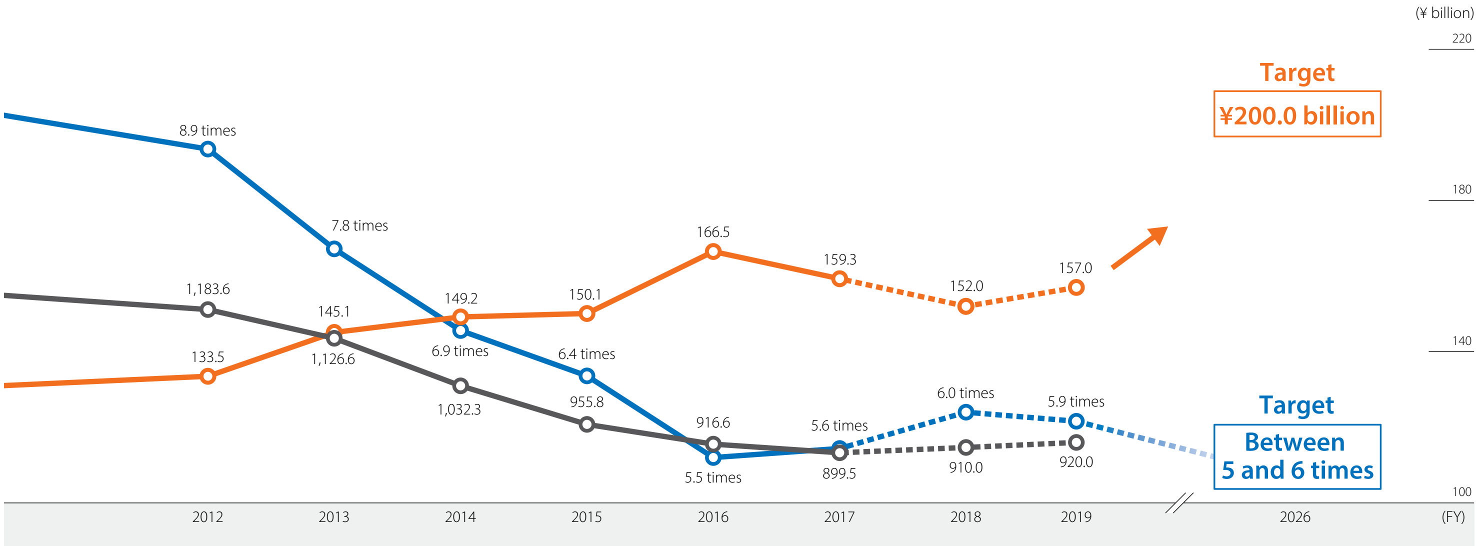
Advancing large projects for growth



* Excluding capital investment related to the repurchase of securitised assets and the exchange of the assets with Hankyu REIT, Inc.



* Renovation work conducted during three off-seasons.

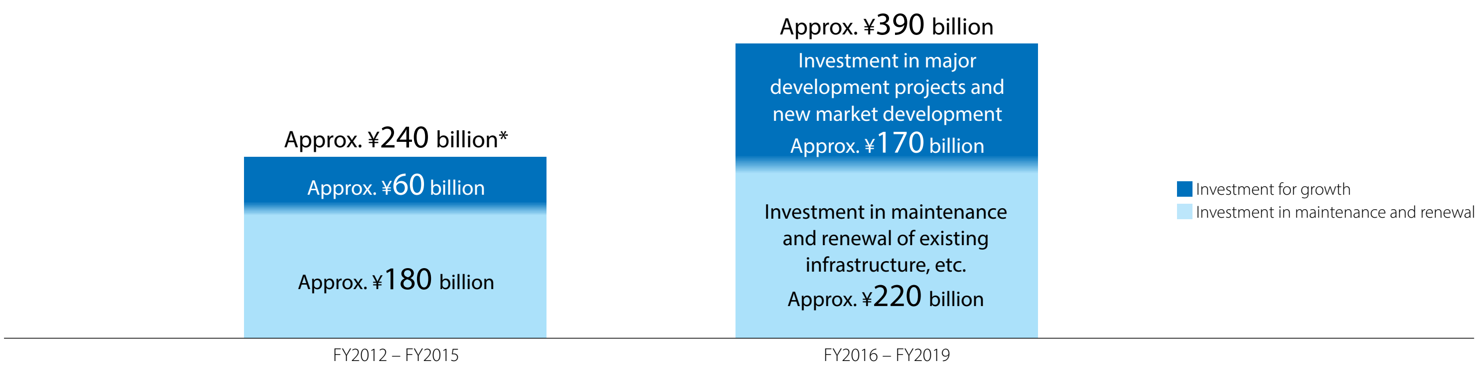


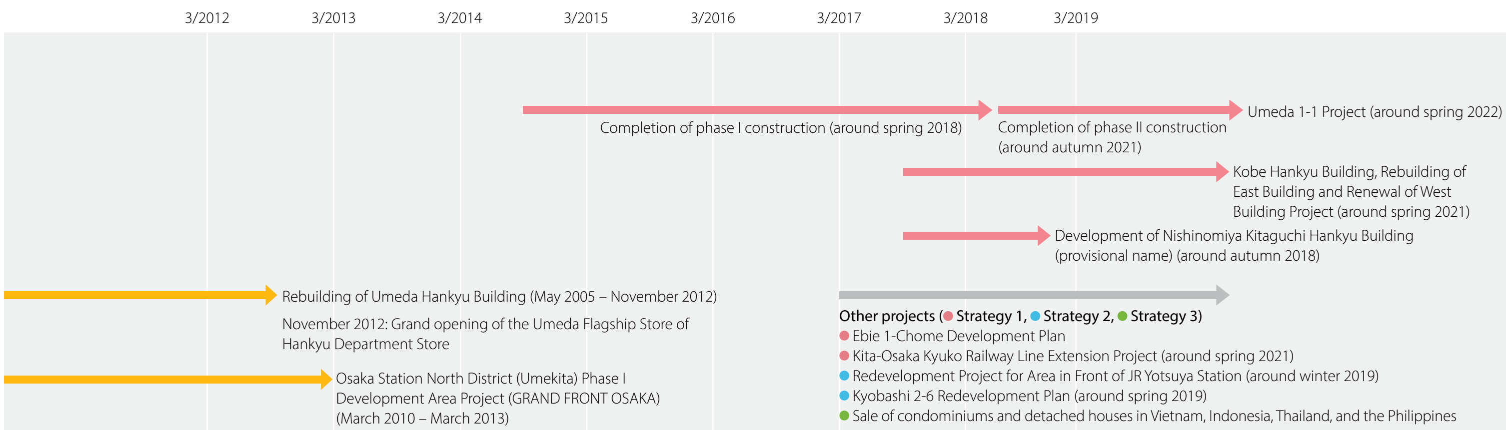
Reduced interest-bearing debt by growing EBITDA and curbing capital investment

Established long-term vision

Steady improvement in financial standing

Development of foundations for medium-to-long-term growth
First step toward realisation of long-term vision





Note: Project start times are as of works commencement. Also, finish times are project completion dates (completion of A and B blocks for Osaka Station North District (Umekita) Phase I Development Area Project).

Long-Term Vision Summary

Looking at the Group's business conditions over the medium-to-long term, the population of line-side areas is expected to decrease due to declining birth rates. Also, as technological innovation progresses, lifestyles and living environments are likely to change significantly.

Aiming to advance as a growth-focused corporate group in these conditions, we established the Hankyu Hanshin Holdings Group Long-Term Management Vision for 2025, which sets out *the company we hope to be in the long term* as well as the basic approach and strategies for achieving this target profile.

Anticipating the abovementioned changes in business conditions, the long-term vision sets out four business strategies based on two categories: business areas and business models. With *enhancing line-side areas and expanding fields* as a slogan, the vision targets fiscal 2026. By this fiscal year, the Group will have begun stable operations of the flagship project of management integration, the Umeda 1-1 Project, due for completion around spring 2022.

Slogan for the Hankyu Hanshin Holdings Group Long-Term Management Vision for 2025 (Fiscal 2026)

"Enhancing line-side areas and expanding fields"

Sustainably enhance corporate value

Enhance daily life (customer) value | **Enhance social value** | **Enhance economic value**

Strategy 1

Umeda and line-side areas + Stock businesses

Make our railway the absolute best among the Kansai networks.

We aim to increase the resident and non-resident population of line-side areas. To this end, we will channel into these areas the dynamism of the Tokyo-Nagoya-Osaka axis and the power of Asia and other regions of the world, attract new industries and cutting-edge technologies ahead of other companies, and support efforts to develop thriving local communities.

Strategy 2

Tokyo metropolitan area and overseas markets + Stock businesses

Construct a stable revenue base in the Tokyo metropolitan area and overseas markets.
(Diversify the portfolio, which is currently concentrated in Umeda and line-side areas.)

Our property portfolio is currently concentrated in Umea and line-side areas. To compensate for reduction in the scale of businesses in the Kansai area, we will diversify our property profile by acquiring additional assets including rental property in the Tokyo metropolitan area's large market and in overseas markets that are set to grow.

Strategy 3

Flow businesses

Strengthen competitiveness by thoroughly pursuing brand optimisation and differentiation.

Thoroughly optimise the Hankyu Hanshin brand value and differentiate the products and services from the competition so as to strengthen competitive edge and achieve further business expansion.

Strategy 4

Groupwide initiatives and new business fields

Make greater use of the Group's collective strength and develop new business fields.

In addition to pursuing Groupwide initiatives, we will introduce cutting-edge technologies into existing businesses, venture into new business fields, and thereby provide culturally enriched and innovative lifestyle options.

Strategies under Long-Term Management Vision for 2025

Strategy 1 Umeda and line-side areas + Stock businesses

As mentioned in the "To Our Stakeholders" section, the Group's line-side areas enjoy advantages over other line-side areas in the Kansai area and have tremendous potential. In addition to the growth opportunities resulting from expected increases in overseas visitors to Japan, new possibilities are emerging. For example, in the fields of health and medicine such industrial clusters as the KOBE Biomedical Innovation Cluster and the Umekita Phase II Development Project could develop further.

With this potential in mind, we aim to increase the resident and non-resident population of line-side areas. To this end, our stock businesses in Umeda and line-side areas will benefit these areas by leveraging the dynamism of the Tokyo–Nagoya–Osaka axis and the economic power of Asia and other overseas regions. At the same time, ahead of competitors we will attract new industries and leading-edge technology companies. In addition, we will develop appealing towns in line-side areas.

Specifically, the Group plans to tap into the growth of the ASEAN region and demand from overseas visitors to Japan by advancing plans for new railway lines, such as the Shin-Osaka rail link, and by strategically rebuilding and enhancing the value of buildings in the Umeda area through the Umeda 1-1 Project and other projects. Further, we will encourage the formation of clusters of companies belonging to new industries in the fields of health and medicine. Other initiatives will give concrete form to the "Umeda in Asia" goal by transforming the Umeda area into a hub city connected to the Tokyo–Nagoya–Osaka axis and international airports.

In addition, with the compact cities concept* in mind, the Group will capitalise on new technologies and collaborations with outside partners to introduce highly convenient services that make its line-side areas desirable places to live. Also, in developing towns we will not only provide safety and peace of mind but also numerous educational and cultural facilities. As part of these efforts, the Group plans to redevelop and renovate key line-side areas.

As stated in the "To Our Stakeholders" section, maintaining the current degree of reliance on stock businesses in Umeda and line-side areas going forward would expose the Hankyu Hanshin Holdings Group to risks. However, invigorating Umeda and other line-side areas remains the greatest mission of the Group, and these areas will continue to be its most important business foundations.

* A town planning concept that entails concentrating commercial and residential facilities as well as essential everyday services within walking distance of railway stations

Major Development Projects in Umeda and Line-Side Areas

Projects in Progress

- Umeda 1-1 Project (Dai Hanshin Building and Shin Hankyu Building Rebuilding Project)
- Kobe Hankyu Building, Rebuilding of East Building and Renewal of West Building Project
- Development of Nishinomiya Kitaguchi Hankyu Building (provisional name)
- Ebie 1-Chome Development Plan

Umeda 1-1 Project (Dai Hanshin Building and Shin Hankyu Building Rebuilding Project)

Symbolizing management integration, this project entails creating a single integrated building by reconstructing the Dai Hanshin Building and the adjacent Shin Hankyu Building. Moreover, the project will use the space above a road separating the two buildings.

Increasing total floor space from 150,000 square metres to 260,000 square metres and situated at the centre of the Umeda area, the new multipurpose building for commercial premises and offices will have outstanding accessibility.

Project summary

Location	1-1 Umeda, Kita-ku, Osaka
Site area	Approx. 12,200 square metres*
Total floor space	Approx. 260,000 square metres
Size	38 floors above ground and 3 below ground
Purpose	Department store, offices, halls, etc.
Planned total investment	¥89.7 billion
Construction completion	Around spring 2022

* Including 750 square metres of road between Dai Hanshin Building and Shin Hankyu Building

A rendering of the Umeda 1-1 Project upon completion

● Kita-Osaka Kyuko Railway Line Extension Project

Minoh City and Kita-Osaka Kyuko Railway Co., Ltd., are advancing a project to extend the Kita-Osaka Kyuko Railway Line approximately 2.5 kilometres from Senri-Chuo Station to Minoh City. Scheduled to open in fiscal 2021, the extension will improve the convenience of public transportation and increase the non-resident population.

Development plan summary

- Extension distance: 2.5 km, from Senri-Chuo Station to Shin-Mino-o Station (provisional name)
- New stations: Mino-o-Semba Station (provisional name) and Shin-Mino-o Station (provisional name)
- Demand: 45,000 people per day
- Estimated project cost: ¥65.0 billion (Of which, Kita-Osaka Kyuko Railway's contribution to be ¥11.0 billion, which corresponds to expected earnings*)

* Including the expected increase in demand arising from related town development

Strategy 2 Tokyo metropolitan area and overseas markets + Stock businesses

At present, the Hankyu Hanshin Holdings Group's stock businesses are concentrated in Umeda and line-side areas. Given projected demographic changes, we need to give due attention to the concentration of risk that this entails. Meanwhile, as described in the "To Our Stakeholders" section, in the Tokyo metropolitan area and overseas there are extensive markets which promise excellent stability and growth going forward.

In response to the above trends, we are taking far-sighted measures to offset the expected contraction of businesses in the Kansai area. These measures include the acquisition of additional rental property and other assets for stock businesses in the Tokyo metropolitan area's large market and in overseas markets that are set to grow. At the same time, we have begun diversifying our portfolio to mitigate its focus on Umeda and line-side areas.

Specifically, focusing on Tokyo's five central business districts—where even in the 2040s the effect of population decline is likely to be very limited—the real estate leasing business will steadily accumulate "stock" in the Tokyo metropolitan area while carefully monitoring market conditions. We aim to increase assets in the Tokyo metropolitan area to approximately ¥200 billion, or around 20% of the assets of the real estate leasing business. Overseas, meanwhile, this business will develop logistics and real estate businesses (logistics centres) in the ASEAN region. In the future, with our sights set on exploring trial developments of commercial facilities in the region, we will ascertain whether it is possible to accumulate "stock."

Further, in acquiring assets we will continue to rigorously analyse and monitor fluctuations in economic conditions and market climates and proceed in light of due consideration of each project's significance, business potential, and risks.

Projects in Progress

- Yotsuya Station District Redevelopment Project
- Kyobashi 2-6 Redevelopment Plan
- Ginza 3-chome Project

A rendering of the Kyobashi 2-6 Redevelopment Plan upon completion

Strategy 3 Flow businesses

Flow businesses leverage business expertise, human resources, or brand assets in business activities but do not own "stock." These businesses will maximise the value of the Hankyu Hanshin brand and thoroughly differentiate their offerings to create unique products and services. Such initiatives will increase the competitiveness and scale of businesses even further.

Among the above businesses, the sports business and the stage business own unique content that already has strong brand value. Therefore, while continuing to hone and heighten this brand value, both businesses will take on new challenges and initiatives.

On the other hand, due to lower market entry barriers, the real estate sales, information services, Travel, and International Transportation businesses have many competitors.

Of these businesses, given the likely gradual contraction of the Kansai area's market, plans call for the real estate sales business to expand businesses in the Tokyo metropolitan area and overseas in stages. Our goal is to achieve the same level of sales in the Tokyo metropolitan area as we have in the Kansai area, namely sales of approximately 800 condominium units and 100 detached houses annually.

Overseas, we are already engaged in multiple housing sales projects in Vietnam. We plan to develop such projects in several countries in the ASEAN region and generate operating income on a scale commensurate with this expansion in business size.

Also, we will assess the current competitiveness of information services, Travel, and International Transportation businesses and then either expand operations to establish unique businesses or reform business portfolios and business models. These efforts will strengthen each business.

Strategy 4 Groupwide initiatives and new business fields

To prevail amid increasingly fierce competition in markets, the Group must draw on its collective strength through such measures as the combination of stock businesses and flow businesses. Also, it is vital to open up new business fields by exploiting the opportunities that emerge from changes in social conditions.

With this in mind, as well as advancing Groupwide initiatives even further, we aim to use leading-edge technologies in existing businesses and take on the challenge of opening up new business fields. Our goal in these efforts will be to provide culturally enriched and innovative lifestyle options into the future.

We intend to consider specific initiatives based on the three approaches outlined below. First, we will use existing resources to pursue Groupwide initiatives. For example, the Group is currently making concerted efforts to further credit and point card measures. Also, the International Transportation and Real Estate businesses are collaborating to develop logistics centre operations overseas. Going forward, we will accelerate such Groupwide initiatives.

Second, we want to rejuvenate Group assets and utilise human resources. Decreases in asset utilisation rates as the population declines is a concern. Even in such business conditions, however, we will revitalise assets in the same way that we have been developing domestic logistics and real estate businesses—by proactively collaborating with outside partners and incorporating new perspectives. In addition, the Group will explore new business fields by leveraging its human resources to the utmost. These efforts will include extending a new-business-proposal system throughout the Group.

Third, the Group will explore the potential for utilising leading-edge technologies throughout the Group. Further advances in AI and the IoT are expected. Although not directly engaged in competition over the development of leading-edge technologies, the Group will gather information about the many different types of new technology that open source initiatives are creating worldwide. By actively using or repurposing these technologies in our various businesses, we will enhance services for customers and strengthen the competitiveness of businesses.

Management Indicators

We will steadily move forward with initiatives under strategies 1 through 4 to become a corporate group that can sustain operating income at its current level or higher even when the effect of demographic changes becomes marked in the 2040s. In fiscal 2026, we aim to have operating income of ¥120 billion, EBITDA of ¥200 billion, and an interest-bearing debt/EBITDA ratio between 5 and 6 times.

By achieving these targets, we will remain an industry leader among major private (non-JR) railway operators based on indicators of profitability and financial soundness.

Profitability

Operating income ¥**120** billion

EBITDA ¥**200** billion

Financial soundness

Interest-bearing debt/EBITDA ratio

Between 5 and 6 times

Organisational Improvements Aimed at Realising the Long-Term Vision

So that it can advance strategies and measures more decisively and thereby realise the long-term vision, the Group will improve its organisation as explained below.

- Unification within Hankyu Hanshin Holdings of the Divisions for New Business Development of Hankyu Corporation and Hanshin Electric Railway (implemented in April 2017)

To advance measures under strategy 4, which is focused on Groupwide initiatives and new business fields, we have established a framework that is stepping up the pace of initiatives for new businesses. Specifically, the Group unified the divisions for new business development of Hankyu Corporation and Hanshin Electric Railway within Hankyu Hanshin Holdings.

- Integration and Reorganisation of the Real Estate Divisions of Hankyu Corporation and Hanshin Electric Railway Aimed at Establishing a Core Company for the Real Estate Business (assessment under way with a view to implementation in April 2018)

The long-term vision calls on the Group to strengthen and expand the real estate leasing business in Umeda and line-side areas as well as in the Tokyo metropolitan area and overseas markets (strategies 1 and 2) and to rigorously differentiate the real estate sales business (strategy 3). To these ends, we will establish a core company for the Real Estate Business by reorganising the real estate divisions of Hankyu Corporation and Hanshin Electric Railway and other core real estate businesses.

This core company will maximise the collective strength of the Group's Real Estate Business and advance and accelerate initiatives aimed at growing the business.

Medium-Term Management Plan (Fiscal 2016–Fiscal 2019)

Business Strategies

During the medium-term management plan, which covers fiscal 2016 through fiscal 2019, we aim to develop foundations for medium-to-long-term growth and take the first step toward achieving the long-term vision. Therefore, we will advance measures in accordance with strategies 1 through 4 of the long-term vision.

Strategy 1	Further strengthen stock businesses in Umeda and line-side areas (e.g., railways, real estate leasing, media and communications, hotels)
Strategy 2	Accumulate stock in the Tokyo metropolitan area and overseas markets
Strategy 3	Strengthen competitiveness of flow businesses (real estate sales, sports, stage, information services, travel, and international transportation)
Strategy 4	Make greater use of the Group's collective strength and venture into new business fields

Financial Policy

Aiming to realise the long-term vision and grow operating income and EBITDA further, we will allocate funds by giving priority to growth investment in accordance with strategies 1 through 4. Specifically, the updated medium-term management plan calls for increased growth investment in the Tokyo metropolitan area and other areas. Compared with the previous plan, the amount earmarked for investment in major development projects and new market development has risen by ¥40 billion, to ¥170 billion.

However, we intend to maintain financial soundness. Given that we will implement growth investment in accordance with strategies 1 through 4 of the long-term vision, we will ensure financial soundness by emphasizing the interest-bearing debt/EBITDA ratio rather than interest-bearing debt.

As for returns to shareholders, in fiscal 2018 we project year-on-year increases in annual dividend payments from profits, from ¥35 per share to ¥40 per share, as well as in the total payout ratio.

Forward-looking investment

While striking a balance with financial soundness, we will prioritise growth investment under strategies 1 to 4.

Maintaining financial soundness

Prioritise the interest-bearing debt/EBITDA ratio over interest-bearing debt as a benchmark for financial soundness.

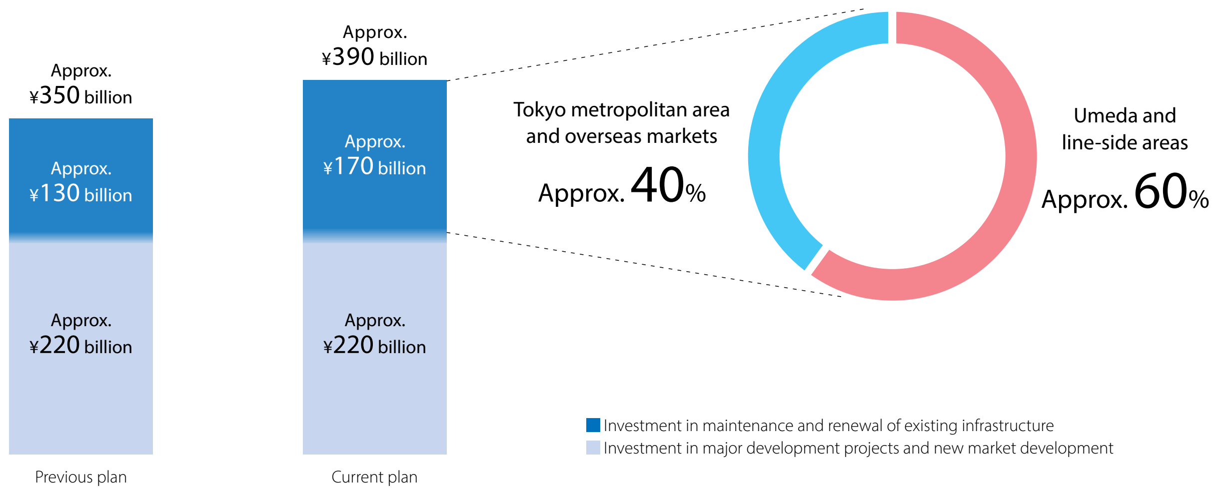
Returns to shareholders

For the period of the plan, we envisage a total payout ratio of 25% for fiscal 2017, and 30% for fiscal 2018 and onward.

Special Feature: Long-Term Management Vision for 2025

Medium-Term Management Plan (Fiscal 2016–Fiscal 2019)

Capital investment (including lending) from fiscal 2016 to fiscal 2019



Outlook for Management Indicators

In fiscal 2018, due to a rise in sales expenses in the development and sale of condominiums and higher depreciation and amortisation in the Urban Transportation Business, the Group is expected to record operating income of ¥96 billion, net income attributable to owners of the parent of ¥60 billion, and an interest-bearing debt/EBITDA ratio of 6.0 times.

Further, in fiscal 2019 we forecast operating income of ¥98 billion, net income attributable to owners of the parent of ¥61 billion, and an interest-bearing debt/EBITDA ratio of 5.9 times.

		FY2018 forecasts	FY2019 forecasts
Profitability	Operating income	¥96.0 billion	¥98.0 billion
	EBITDA	¥152.0 billion	¥157.0 billion
	Net income attributable to owners of the parent	¥60.0 billion	¥61.0 billion
Capital efficiency	ROE	7.5%	7.2%
Financial soundness	Interest-bearing debt	¥910.0 billion	¥920.0 billion
	Interest-bearing debt/EBITDA ratio	6.0 times	5.9 times
	D/E ratio	1.1 times	1.1 times

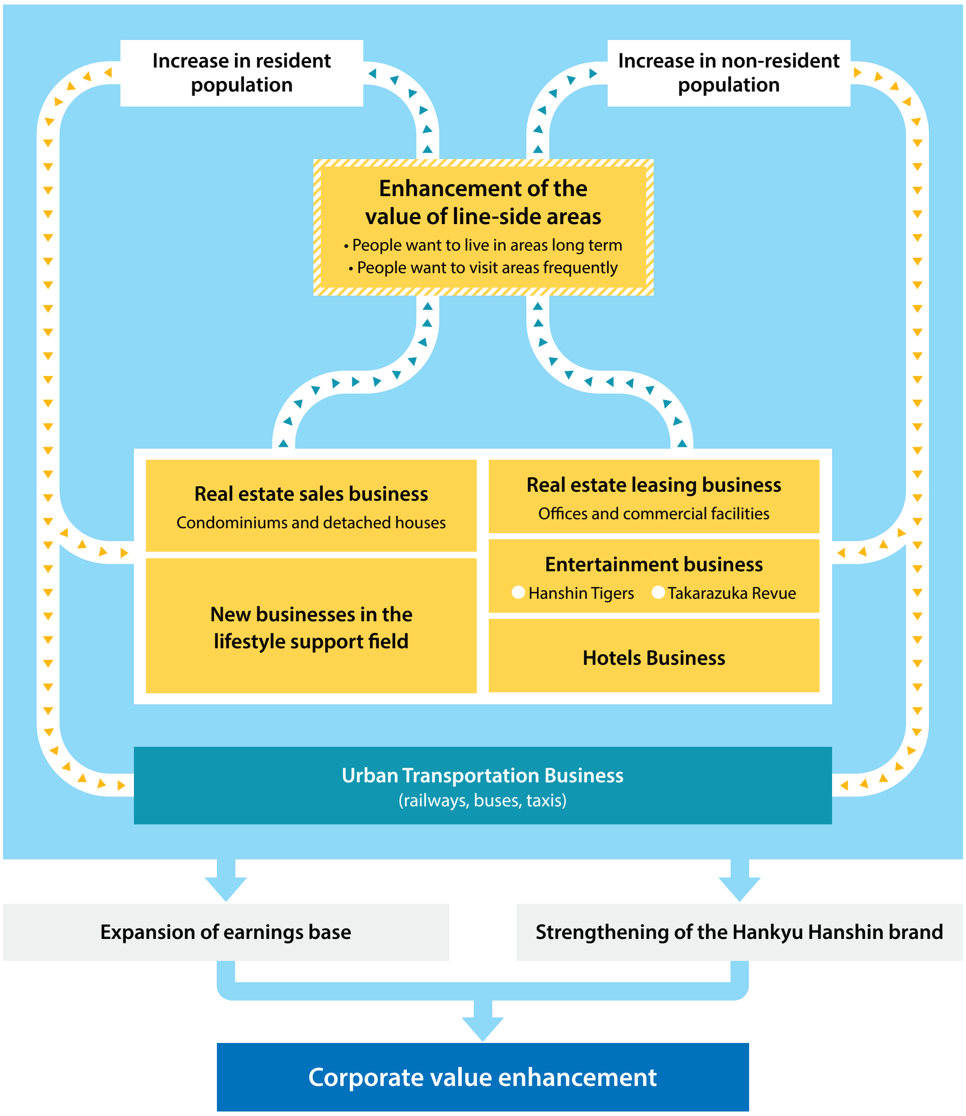
From Enhancing the Value of Line-Side Areas to Enhancing Corporate Value

Developing towns that people want to live in long term or visit frequently is the Hankyu Hanshin Holdings Group's unchanging mission. These efforts are the Group's most important strategy, as they promote a virtuous cycle. Specifically, heightening the appeal of line-side areas increases resident and non-resident populations, thereby creating stable cash flows and strengthening brand power. In turn, these benefits enable further investment for growth, which enhances corporate value.

The Group has enhanced the value of line-side areas through a range of businesses in the fields of urban transportation, real estate, and entertainment. For example, a testament to the strong support that the Group has earned from local residents is the fact that the Japan Productivity Center's survey of customer satisfaction levels* has ranked Hankyu Corporation first in the urban rail transportation category for eight consecutive years and ranked Takarazuka Revue Company first in the entertainment industry category.

Given that population decline is unavoidable, enhancing the value of line-side areas further is paramount. Long-Term Management Vision for 2025 calls on us to make our railway the absolute best among the Kansai networks. Accordingly, the Group will continue taking on the challenge of enhancing the value of line-side areas tirelessly.

* Research by SPRING (Service Productivity & Innovation for Growth) for the fiscal year ended 31st March 2017



CSR and Corporate Value Enhancement

Line-side areas are the foundations of the Hankyu Hanshin Holdings Group's businesses. We view heightening the value of these areas as a social responsibility and a source of growth. Our CSR activities come under two categories: social contribution and environmental preservation. In these two categories, the Group will advance CSR activities in tandem with business activities to enhance the value of line-side areas even further.

Creating Communities People Will Truly Want to Live in

"Enhancing the value of line-side areas is indispensable for the Group's medium-to-long-term growth. Therefore, even though our social contribution activities may not seem to immediately benefit short-term business results, they build the value of our line-side areas and brand," explains Yukiko Sagara of Hankyu Hanshin Holdings. Ms. Sagara has been responsible for the Hankyu Hanshin Dreams and Communities Project since its launch. Regarding social contribution activities, our basic policy is to promote the creation of towns and cities that people will truly want to live in. Moreover, the Group conducts activities in collaboration with Group companies, citizens' groups, employees, and other stakeholders.

Increasing Effectiveness through Collaboration

We collaborate with stakeholders so that our social contribution activities produce even greater benefits. To give an example of collaborative efforts, Ms. Sagara describes the Hankyu Hanshin Dreams and Communities Challenge Troop, which invites primary school students from line-side areas to participate in interactive educational programmes free of charge. "Acting as instructors, employees conduct programmes at Group work sites. Every year, we receive more than 20,000 applications and increase the number of programmes. In 2017, we hosted 45 programmes. So, offering more programmes allows us to invite more children, but we could not provide such a range of programmes without the participation of Group companies."

Ms. Sagara adds that the Group conducts one-time classes at schools to complement the national government's recent focus on career education for children. "At classes held in primary schools, Hankyu Corporation employees explain their jobs to students. By drawing attention to the wide variety of jobs in local communities, these classes aim to help children in our line-side areas cultivate ideas about future careers. Also, aiming to provide equal access to education, we conduct classes in collaboration with citizens' groups that support disadvantaged children. We are focusing on this area because at schools with many such children teachers are often too busy providing lifestyle guidance and carrying out other duties to even accommodate our classes. However, it is particularly important for these children to receive career education that broadens their view of future possibilities. I feel this is a good example of how collaboration can bring to light social problems and increase the effectiveness of social contribution activities."

Enhancing Brand Value Even Further

Every three years, the Group conducts an Internet survey of 1,000 line-side area residents about the project. The results show that as awareness of the project heightens, favourable opinions of the Group increase, and respondents' desire to live in its line-side areas strengthens. Thus, our social contribution activities are gradually having a positive effect on the value of our brand and line-side areas.

The Hankyu Hanshin Dreams and Communities Challenge Troop

The Dreams and Communities Exciting Work Program

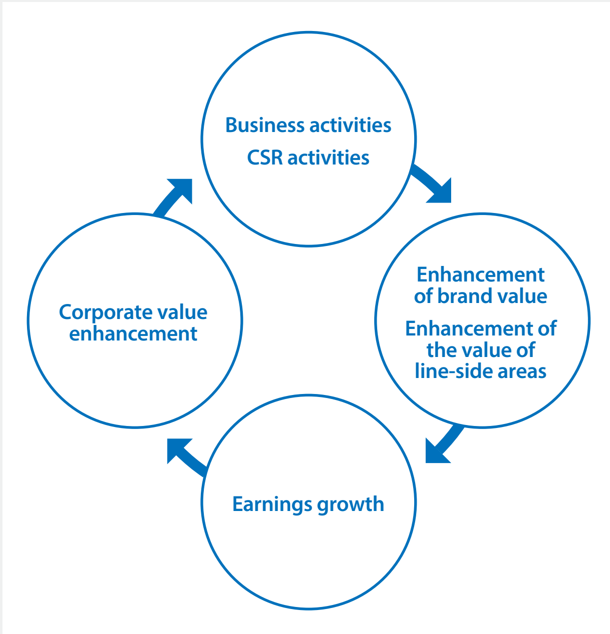
The Long-Term Management Vision for 2025 calls on us to make our railway the absolute best among the Kansai networks. To this end, we will steadily extend social contribution activities.

Yukiko Sagara

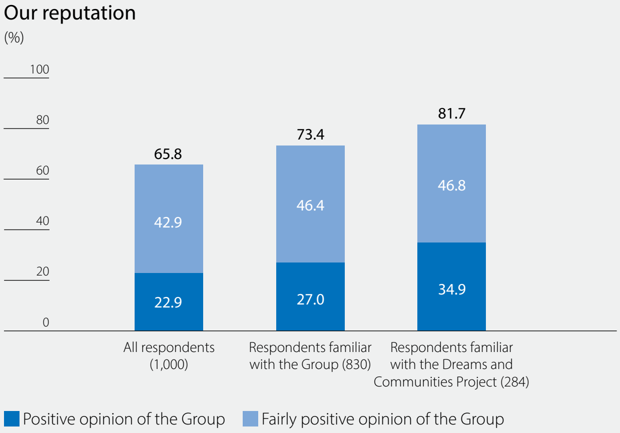
Manager, General Affairs Dept. (in charge of social contribution),
Personnel and General Affairs Div.

"Our activities for children are aimed at fostering important human resources for town development. In other words, we want to help the growth of children who will form the basis of local communities. Moreover, the survey results confirmed that our activities have the added benefit of making the families of these children fans of the Hankyu Hanshin Holdings Group."

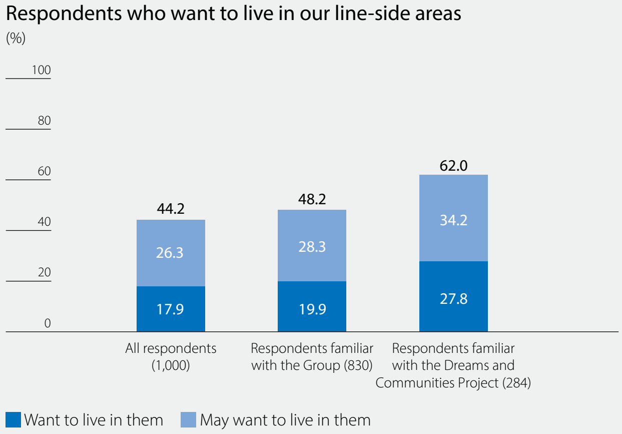
Ms. Sagara's hope is to proactively pursue collaborations with customers as well as with Group companies, citizens' groups, and employees. "Our social contributions are based on the needs of communities. We believe that by identifying the problems and needs of those who live in or spend time in towns, we can make our activities even more effective." As of this summer, we have been encouraging customers to participate in large numbers by advancing activities centred on railway stations and commercial facilities in collaboration with citizens' groups. Through these social contribution activities, we will continue to promote the creation of towns and cities that people will truly want to live in.



Our reputation



Respondents who want to live in our line-side areas



Social Contribution Activities

Under the Hankyu Hanshin Dreams and Communities Project, the Group aims to develop communities centred on line-side areas. Accordingly, we are moving forward with various social contribution activities in partnership with such stakeholders as customers, citizens' groups, Group companies, and employees.

私たちは、未来へつなぐ
「環境づくり」と「人づくり」に貢献します。

Basic Policy	We intend to promote the creation of towns and cities along our line-side areas that people will truly want to live in.

Priority Areas

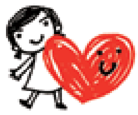
Our social contribution activities focus on two priority areas: environment-friendly development, which improves the environment in towns and cities, and human capital development, aimed at fostering the generation that will be responsible for the future of communities.

Environment-Friendly Development

As a Group with strong local roots, we are committed to sustainable community building with environment-friendly developments that provide local residents with security, peace of mind, and cultural enrichment.

Human Capital Development

We are creating opportunities for the healthy development of ambitious children, upon whose shoulders the task of building the communities of the future rests.



Example Initiative: Issuing a Magazine for the Dreams and Communities Project

The Dreams and Communities Project has a dedicated quarterly magazine entitled *Dreams and Communities of the Future*, which targets Group employees. We believe that it is important to update employees and other stakeholders about social contribution activities as we implement them. For this reason, we also include the magazine on our website.

Featuring articles about citizens' groups that receive grants from the Hankyu Hanshin Dreams and Communities of the Future Fund, the magazine also reports on Group employees' volunteer activities and other events.

The Hankyu Hanshin Dreams and Communities of the Future Fund comprises donations from Group employees and matching amounts from Hankyu Hanshin Holdings. We receive applications from citizens' groups located in line-side areas, select those engaged in activities that coincide with the policies of the project, and provide these groups with grants and public relations support. Over eight years, we have provided grants totalling ¥49.5 million to 97 groups.

Dreams and Communities of the Future magazine covers

The Hankyu Hanshin Holdings Group conducts a wide range of other social contribution activities. For details about these activities, please visit the Group's website.

http://www.hankyu-hanshin.co.jp/yume-machi/top.html
(Available only in Japanese)

External Evaluations

In fiscal 2017, one of our initiatives, the Hankyu Hanshin Dreams and Communities Challenge Troop interactive educational programmes, received a special commendation from the judges of an award recognising companies that offer experiential activities for young people, organised by the Ministry of Education, Culture, Sports, Science and Technology. Also, the Dreams and Communities Exciting Work Program classes, which Hankyu Corporation conducts at schools, have received a favourable evaluation from The Japanese Society for the Study of Career Education and been presented as a case study in Tokyo and South Korea.

Environmental Preservation Activities

The Group has established a Basic Environmental Philosophy and Basic Environmental Policies, which guide environmental preservation activities. Further, to advance such activities, the Group has established the Environment Committee, chaired by the president of Hankyu Hanshin Holdings, which exercises control over all environmental preservation activities that Group companies implement within each core business. We conduct a variety of activities, including efforts to reduce environmental burden through business activities and the dissemination of information about environmental preservation.

Basic Concept

Mindful that global environmental preservation is a task facing all mankind, the Hankyu Hanshin Holdings Group works for a sustainable society through environmental activities aimed at handing down a sounder global and human environment to the next generation.

Example Initiative — Reducing Environmental Burden through Business Activities

As part of climate change countermeasures, the Hankyu Hanshin Holdings Group saves energy in its business activities. For example, we are introducing new energy-saving rolling stock and using LED lighting at our facilities. Moreover, we use carbon offsetting* continuously for some of the CO_2 emissions from energy use in business activities. In fiscal 2017, we used carbon offsetting for the operations of Hankyu Settsu-shi Station, an initiative that we began in 2010; for the administration of the General Meeting of Shareholders, a measure that dates back to 2011; and for our Takarazuka Grand Theatre Carbon Offset Shows, which comprised 46 performances. For the operations of Settsu-shi Station and the administration of the General Meeting of Shareholders, we use offset credits earned under the Japan Verified Emission Reduction (J-VER) Scheme by preserving forests in Shiso, Hyogo Prefecture. As for the Takarazuka Grand Theatre performances, we use the J-Credit Scheme, a certification system administered by the national government. Thus, the three initiatives above are carbon neutral.

* The national government certifies as "credit" the respective reduction or absorption of CO_2 and other greenhouse gas emissions that results from introducing energy-saving equipment or from establishing carbon sinks through forestry management.


Hankyu Settsu-shi Station


General Meeting of Shareholders

Example Initiative — Disseminating Information to Raise Environmental Awareness

We actively disseminate information with a view to heightening the environmental awareness of employees and informing customers and local communities about our environmental preservation activities. One way in which we do this is by displaying environment-themed posters inside the trains of Hankyu Corporation, Hanshin Electric Railway, Nosé Electric Railway, and Kita-Osaka Kyuko Railway. Highlighting such topics as the use of solar energy, forest thinning, and recycling, the posters showcase Group companies' initiatives. In addition, at LOHAS FESTA 2017 we opened a display booth that highlighted the importance of environmental initiatives and publicised our activities in this regard.

Environment-themed posters

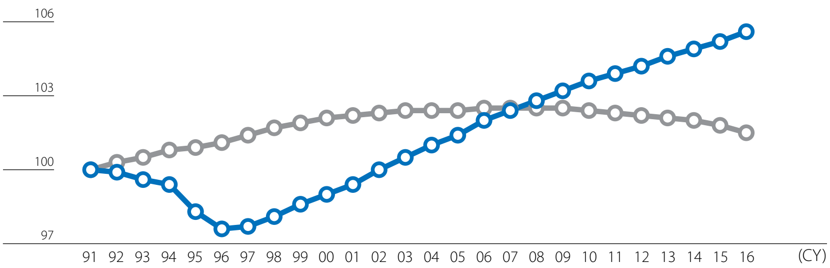
LOHAS FESTA 2017

The Hankyu Hanshin Holdings Group conducts a wide range of other environmental preservation activities. For details about these activities, please visit the Group's website.

http://www.hankyu-hanshin.co.jp/csr/eco/
(Available only in Japanese)

Business Environment

Population of areas served by the Hankyu and Hanshin lines (1991 = 100)



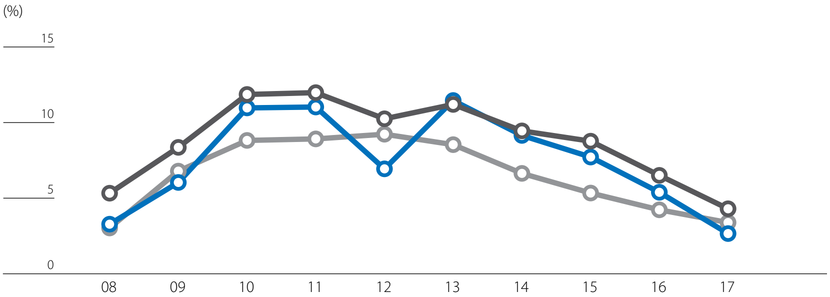
Areas served by the Hankyu and Hanshin lines Kansai area

Sources: Prepared by the Company based on data from "Local Economy Directory," published by Toyo Keizai, Inc., and "Basic Resident Register," published by the Ministry of Internal Affairs and Communications.

Note: Definition of the areas served by the Hankyu and Hanshin lines is presented on the Contents page.

Reflecting the decline in Japan's population since its peak in 2008, the population of the Kansai area is decreasing gradually. Meanwhile, areas served by the Hankyu and Hanshin lines are highly popular and regularly monopolise the top 10 areas in surveys of prospective condominium purchasers regarding their preferred Kansai residential area. In our line-side areas, the population has been trending upward since bottoming in 1996, the year after the Great Hanshin Earthquake.

Average vacancy rates at office buildings



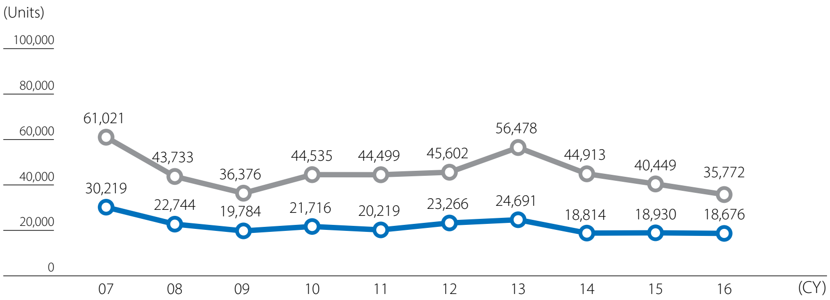
Osaka business areas (all) Umeda area Tokyo business areas (all)

(Comparison of average rents in April of respective years)

Source: Miki Shoji, "Office Data"

Although the outlook for corporate performance remains uncertain, demand for office consolidation or expansion aimed at improving workplace environments remains steady. In the Umeda area, the vacancy rate on 30th April 2017 was down more than 2.7 percentage points from a year earlier, dipping below 3% for the first time since November 2007.

New supply of condominiums

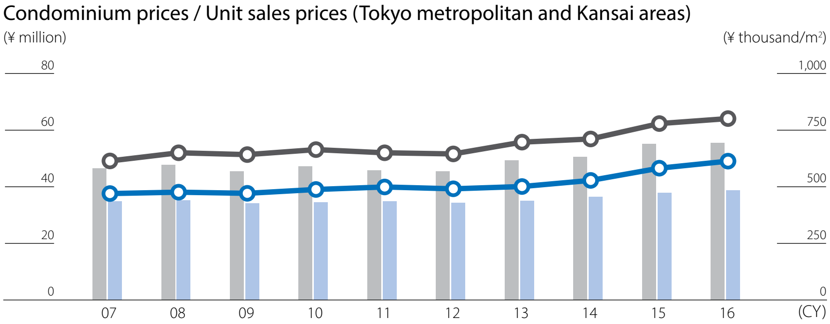


Tokyo metropolitan area Kansai area

Source: Real Estate Economic Institute Co., Ltd., "National Condominium Market Trends"

In 2016, the number of new condominiums supplied in the Tokyo metropolitan area as a whole was down significantly year on year. Tokyo itself saw a particularly sharp year-on-year decrease in supply of more than 21%, while in the areas surrounding Tokyo supply declined more than 11% year on year. In the Kansai area, meanwhile, the year-on-year decline in the number of new condominiums supplied was only 1.3%, while within Osaka itself supply was steady, rising more than 7% year on year.

Condominium prices / Unit sales prices (Tokyo metropolitan and Kansai areas)



Tokyo metropolitan area (average) Kansai area (average)

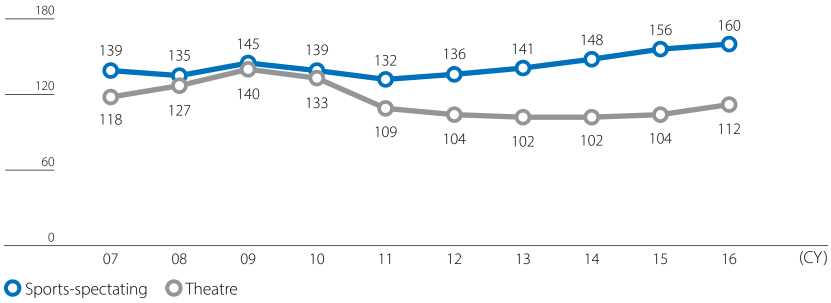
Tokyo metropolitan area (right axis) Kansai area (right axis)

Source: Real Estate Economic Institute Co., Ltd., "National Condominium Market Trends"

Despite the continuing high level of such construction costs as building material and labour costs, the average condominium price fell for the first time in four years in 2016. Meanwhile, the average condominium price per square meter continued to rise, reaching its highest level since 1991.

Sports-spectating and theatre markets

(¥ billion)

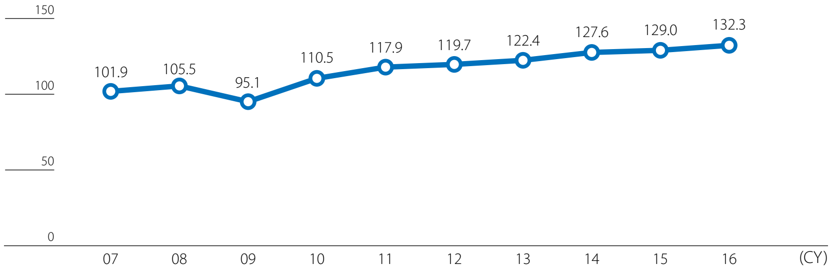


Source: Japan Productivity Center, "White Paper on Leisure Industry 2017"

In 2016, interest in sports increased as the Tokyo 2020 Olympic and Paralympic Games attracted more attention. Conditions in the sports-spectating market were favourable. For example, baseball game attendances rose for the fourth consecutive year. The live entertainment market, including theatre productions and musicals, is expanding, while the customer base of this market is broadening.

Volume of maritime container cargo movement worldwide

(Millions of TEUs)

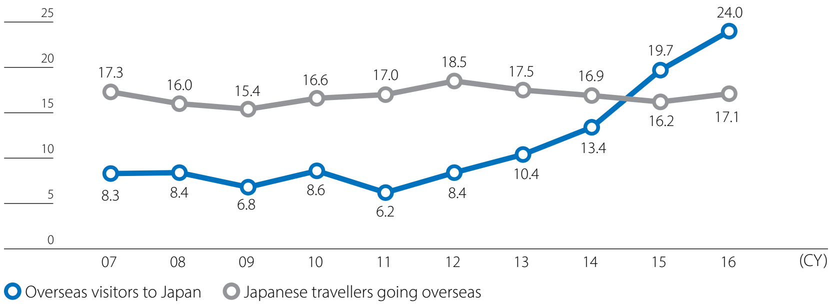


Source: Japan Maritime Center, "Volume of Container Cargo Movement Worldwide"

Economies worldwide are trending toward modest recovery. In the United States, domestic demand is increasing steadily as the employment market improves. As for China, although the economic growth rate is softening, growth is continuing. An indicator of handling volume in the international logistics market, container transportation volume was steady in 2016. The international logistics market is expected to continue expanding centred on Asia.

Overseas visitors to Japan and Japanese travellers going overseas

(Millions of people)

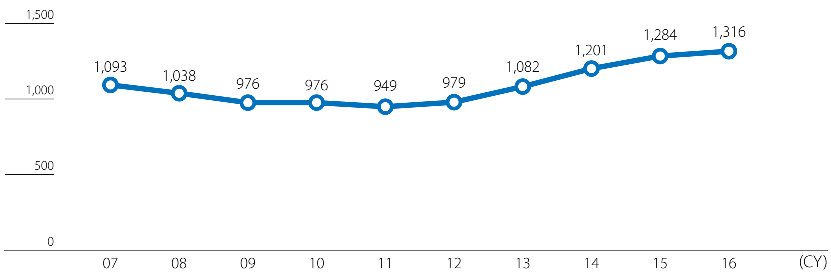


Source: Japan National Tourism Organization (JNTO), "Visitor Arrivals, Japanese Overseas Travellers"

In 2016, the number of overseas visitors to Japan rose for the fifth consecutive year, increasing 21.8% year on year, to more than 24 million. Based on a survey of the consumption behaviour of overseas visitors to Japan, a breakdown of travel spending by expense item shows that while spending on shopping accounted for a smaller percentage of consumption year on year, spending on accommodation, food and drink, and transportation increased year on year. Thus, these visitors are not only interested in shopping but increasingly are interested in experiencing Japan's lifestyle and culture. Further, in 2016 the number of Japanese travellers going overseas rose for the first time in four years, increasing 5.6%, year on year, to 17 million.

Hotel market

(¥ billion)



Source: Japan Productivity Center, "White Paper on Leisure Industry 2017"

Driven by steady demand for domestic travel and an increase in overseas visitors to Japan, hotel revenues continued to grow, rising 2.5% year on year in 2016. Anticipating market growth in the run up to the Tokyo 2020 Olympic and Paralympic Games, the supply of new guest rooms is trending upward mainly in large cities. For the time being, however, a shortage of guest rooms is likely to continue given such factors as tight supply and demand in certain cities.

Urban Transportation

Business Strategies

The Urban Transportation Business will achieve medium-to-long-term growth by cementing operational foundations, thereby enabling the provision of services that realise greater safety, reliability, and comfort. At the same time, in an environmentally and socially responsible manner, we will improve urban transportation services even further. Specifically, we will strengthen and extend coordination with connecting transportation services and feeder services. We will also improve the services and information that railway stations provide. Such efforts will increase the Group's business opportunities in line-side areas, attract outside companies to the areas, strengthen lifestyle services and economic functions, and heighten line-side value.

Basic Policies

1 Provide quality urban transportation services and other related services

- Develop personnel
- Strengthen Group collaboration
- Enhance services and convenience
- Enhance value of line-side areas and publicise them
- Enhance appeal of railway stations

2 Increase convenience and reliability of existing infrastructure and expand railway network

- Develop railway stations and lines
- Expand and strengthen railway network

3 Ensure reliable transportation

- Enhance security
- Develop rolling stock

4 Expand feeder services and extend catchment areas of railway lines and stations

- Advance sales measures in the bus business
- Enhance bicycle parking areas at railway stations and bicycle rental services
- Collaborate with line-side area municipal authorities, chambers of commerce and industry, and companies

Fiscal 2017 Review of Operations

In the Urban Transportation Business, railway operation revenue increased due to such factors as favourable performances by the Hankyu and Hanshin lines, reflecting increases in line-side area populations and overseas visitors to Japan. However, as a result of ready-cooked meal provider Iina Dining Co., Ltd., changing from a consolidated subsidiary to an equity-method affiliate, the business segment's revenues from operations decreased 1.0%, or ¥2,407 million, year on year, to ¥237,136 million. Nonetheless, thanks to lower power costs in the railway business and other factors, operating income was up 2.3%, or ¥967 million, year on year, to ¥42,237 million.

The railway business installed new ticket gates on the east side of Hankyu Saiin Station, enhanced the convenience of transfers to Keifuku Electric Railroad Co., Ltd., services, and installed new elevators to establish a barrier-free area. Also, in a project for continuous grade separation on the Hanshin Main Line within Nishinomiya City (between Koshien and Mukogawa stations), we elevated the railway track of the inbound line, thereby completing the track elevation of outbound and inbound lines and increasing the safety of train operations even further. Meanwhile, we enhanced the convenience of services for customers. For example, we began offering downloads of the TOKK App for smartphones, which provides notifications about the train services and line-side areas of Hankyu lines. In addition, we launched parcel-receiving services based on "open-type" delivery lockers that are shared by multiple delivery service providers in or near the station concourses of certain railway stations on the Hankyu and Hanshin lines.

The automobile business took various steps to increase passenger convenience. These included introducing bus location services and enabling customers to use smartphones to check bus service status and expected arrival times for routes managed by the operating bases of Hankyu Bus Co., Ltd., in Hyogo Prefecture as well as for all Hanshin Bus Co., Ltd., routes. Also, in March 2016 Hanshin Bus extended its route network to all areas of Amagasaki by assuming all municipal bus routes of the Amagasaki Municipal Transportation Bureau.

The retailing business heightened railway stations' appeal through such initiatives as opening Nescafe Stands in certain railway stations on Hankyu lines under a new business format established jointly with Nestlé Japan Limited.

Hankyu Corporation and Hanshin Electric Railway: Performance results

		Fare revenues (Millions of yen)*				Passenger volumes (Thousands)*			
		FY2017	FY2016	Change	%	FY2017	FY2016	Change	%
Hankyu	Other tickets	62,720	62,920	(199)	(0.3)	318,064	319,023	(958)	(0.3)
	Commuter pass	32,628	32,272	355	1.1	329,305	325,540	3,764	1.2
	Total	95,348	95,192	156	0.2	647,369	644,563	2,805	0.4
Hanshin	Other tickets	21,136	21,035	101	0.5	116,998	116,440	557	0.5
	Commuter pass	11,563	11,372	190	1.7	119,768	117,786	1,982	1.7
	Total	32,699	32,407	291	0.9	236,766	234,226	2,540	1.1

* Sum of tier 1 and tier 2 railway operators for both Hankyu and Hanshin

Fiscal 2018 Outlook

Revenues from operations are expected to decrease 1.1%, or ¥2.6 billion, year on year, to ¥234.5 billion, due to such factors as Iina Dining Co., Ltd., changing from a consolidated subsidiary to an equity-method affiliate. We expect that an increase in depreciation and amortisation in the railway business and higher fuel costs in the automobile business will result in a 6.2%, or ¥2.6 billion, year-on-year decline in operating income, to ¥39.6 billion.

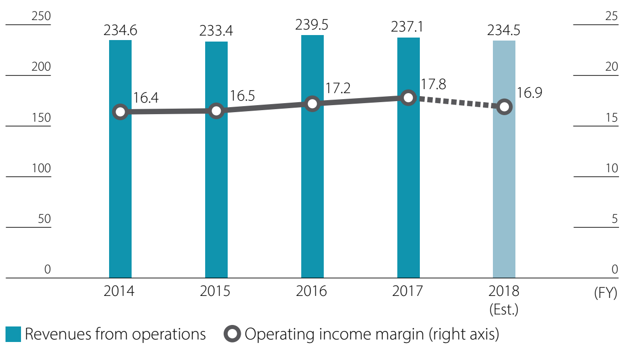
Hankyu Corporation and Hanshin Electric Railway: Performance forecasts (Fiscal 2018)

	Fare revenues (Millions of yen)*			
	FY2018	FY2017	Change	%
Hankyu	95,649	95,348	300	0.3
Hanshin	32,707	32,699	7	0.0

	Passenger volumes (Thousands)*			
	FY2018	FY2017	Change	%
Hankyu	650,112	647,369	2,742	0.4
Hanshin	237,616	236,766	849	0.4

* Sum of tier 1 and tier 2 railway operators for both Hankyu and Hanshin

Outlook for revenues from operations and operating income margin



Real Estate

Business Strategies

The Real Estate Business will strengthen its management and operation of the real estate leasing business and maintain or improve the profitability of owned properties with a focus on areas served by the Hankyu and Hanshin lines and the Umeda area, which are important business bases of the Hankyu Hanshin Holdings Group. In particular, we will step up efforts to foster intangible assets that heighten the entire Umeda area's appeal and ability to attract customers. Further, through the real estate sales business we will heighten the value of line-side areas.

Also, we will take maximum advantage of expertise and human resources developed in Umeda and line-side areas to steadily develop a presence in such new markets as the Tokyo metropolitan area and overseas markets.

Basic Policies

1 Enhance appeal of and revitalise Umeda area and other areas served by our lines

- Advance Umeda 1-1 Project (Dai Hanshin Building and Shin Hankyu Building rebuilding project) and other development projects steadily
- Step up efforts to foster intangible assets that heighten the Umeda area's appeal
- Enhance value of the Umeda area and other areas served by the Hankyu and Hanshin lines by planning and advancing new development projects and implementing plans for renewal of commercial facilities

2 Maintain and heighten earnings level of the real estate sales business

- Plan and develop condominiums matching customer needs and advance business and sales in anticipation of changes in market conditions
- Develop detached houses in towns while marketing residential land lots steadily (Yamatedai and Saito)
- Develop supply network and acquire business opportunities in the Tokyo metropolitan area
- Ensure stable revenues from the real estate sales business by increasing efforts focused on medium-to-long-term projects

3 Strengthen and grow real estate funds and REIT businesses

- Pursue external growth of the Real Estate Business through linkage with Hankyu REIT Asset Management
- Increase fee-based revenues from asset and property management

4 Strengthen business in the Tokyo metropolitan area and develop businesses overseas

- Expand business over the medium-to-long term by acquiring revenue-generating properties and participating in redevelopment projects in the Tokyo metropolitan area
- Develop and own logistics warehouses and participate in condominium businesses overseas to accumulate business expertise and gather information with a view to further business expansion

Fiscal 2017 Review of Operations

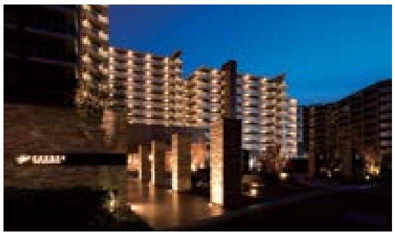
The Real Estate Business recorded year-on-year declines of 2.4%, or ¥5,213 million, in revenues from operations, to ¥215,709 million, and 15.8%, or ¥7,881 million, in operating income, to ¥41,970 million, due to a non-recurring gain on sale of land for facilities in the central area of Saito (Ibaraki, Osaka Prefecture) in the previous fiscal year.

The real estate leasing business took a range of measures to increase the competitiveness of commercial facilities and office buildings and to maintain and raise their occupancy rates. These measures included refurbishing the restaurant floor of HERBIS PLAZA (Kita-ku, Osaka), which celebrated its 20th anniversary.

Further, we began new construction for the Nishinomiya Kitaguchi Hankyu Building (provisional name) (Nishinomiya, Hyogo Prefecture) and in the Yotsuya Station District Redevelopment Project (Shinjuku-ku, Tokyo), which is a joint initiative that we are advancing with business partners. In addition, we undertook demolition of existing buildings in the Kobe Hankyu Building, East Building Rebuilding Project (Chuo-ku, Kobe) and in the 2-6 Kyobashi Redevelopment Project (Chuo-ku, Tokyo). As for the Umeda 1-1 Project (Dai Hanshin Building and Shin Hankyu Building rebuilding project) (Kita-ku, Osaka), which is a large-scale development project, we are advancing the new construction work of phase I in earnest with a view to completing all construction around spring 2022.

In the real estate sales business, sales of condominiums included *Geo* Senri Chuo *The Residence* (Toyonaka, Osaka Prefecture), *Geo* Takatsuki *Muse Resis* (Takatsuki, Osaka Prefecture), *Geo Gyoen* Naitomachi (Shinjuku-ku, Tokyo), *Geo* Kyodo (Setagaya-ku, Tokyo), and the completely renovated *Brod* Takatsuki (Takatsuki, Osaka Prefecture). As for sales of residential land lots and detached houses, we sold Hankyu *Saito Garden Front* (Minoh, Osaka Prefecture), Hankyu Takarazuka Yamatedai *Skyle* (Takarazuka, Hyogo Prefecture), and Osaka Nakajima Koen Toshi *Hapia Garden Shiki no Machi* (Nishi-Yodogawa-ku, Osaka).

HERBIS PLAZA



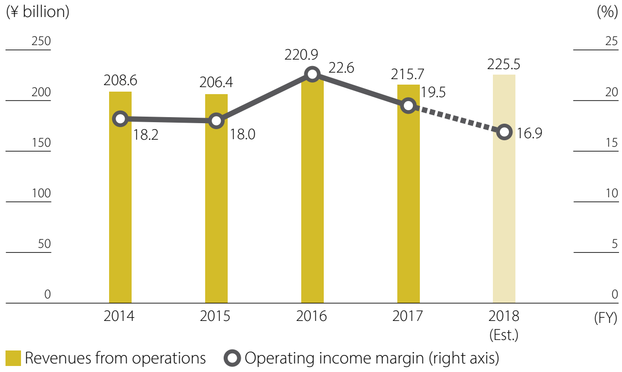
Geo Senri Chuo *The Residence*

Hankyu *Saito Garden Front*

Fiscal 2018 Outlook

We expect revenues from operations to grow 4.5%, or ¥9.8 billion, year on year, to ¥225.5 billion, as a result of higher condominium unit sales. However, we expect such factors as higher sales expenses arising from the condominium projects will lead to a 9.3%, or ¥3.9 billion, year-on-year decrease in operating income, to ¥38.1 billion.

Outlook for revenues from operations and operating income margin



Entertainment and Communications

Business Strategies

The Entertainment and Communications Business is a unique advantage of the Hankyu Hanshin Holdings Group that other companies in the industry do not possess. With loyal fans and fame not only in the Kansai area but also nationwide, the Hanshin Tigers, Hanshin Koshien Stadium, and Takarazuka Revue contribute significantly to the enhancement of the Group's brand value. By continuing to develop powerful brands and high-quality performances that inspire and excite customers, we will enhance customer loyalty and maximise brand value.

Further, the communication and media businesses will grow earnings in the information services business, which is likely to see market growth.

Basic Policies

1 Maximise value of the Hanshin Tigers and Koshien brands

- Form a team that can contend for the championships and attract more customers and increase profitability
- Maintain and expand the Hanshin Koshien Stadium business

2 Maximise value of the Takarazuka brand

- Maintain high capacity utilisation of Takarazuka Revue performances
- Increase overseas business
- Develop content business actively

3 Sustain growth of the communication and media businesses

- Grow earnings in the information services business continuously by increasing earnings in target growth markets, developing businesses outside the Group with focus on the Kanto and Chubu areas, and catering to new IT markets
- Achieve stable earnings in the broadcast and communications business by expanding and improving regionally based products and services, acquiring customers mainly through communications services, and retaining customers through the introduction and development of lifestyle services

4 Advance growth of other sports businesses and the leisure business

- Increase scale of the music business, businesses peripheral to sports, and the leisure business

Fiscal 2017 Review of Operations

The Entertainment and Communications Business posted a 2.4%, or ¥2,703 million, year-on-year increase in revenues from operations, to ¥115,193 million, thanks to the robust results of the communication and media businesses. As a consequence of the sports business beginning live distribution through a sports broadcasting website from the 2016 season and the favourable results of performances in the stage business, operating income rose 2.3%, or ¥354 million, year on year, to ¥15,655 million.

In the sports business, the Hanshin Tigers competed in the Pennant Race under the "Fighting Spirit" team slogan and enjoyed vocal support from numerous fans. Further, merchandise concessions' player-related products and limited edition products proved popular at Hanshin Koshien Stadium. In addition, we enhanced the appeal of the stadium by improving and expanding the menus of food concessions.

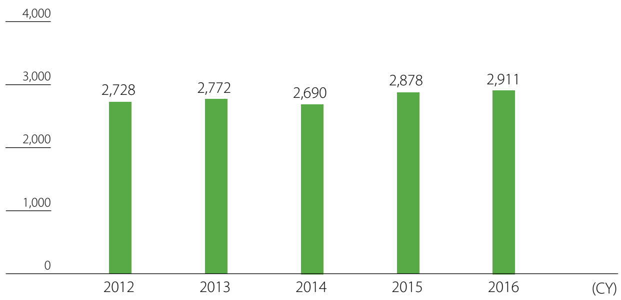
As for the stage business, all performances of the stage revue business were well-received, such as the Cosmos Troupe's performance of Elisabeth: The Rondo of Love & Death and the Snow Troupe's performance of Caleb Hunt, Private Eye / Greatest HITS! Meanwhile, the theatre business produced a range of performances that attracted strong public interest. For example, we marked the 20th anniversary of the Takarazuka Revue's first performance with the Elisabeth TAKARAZUKA 20th Anniversary Special Gala Concert and produced Biohazard–Voice of Gaia, a musical based on a popular game.

In the communication and media businesses, the information services business performed favourably in the areas of systems development outsourcing and e-commerce website construction and maintenance. Also, the broadcast and communications business sought to increase cable television subscriber numbers. In addition, the business saw a steady rise in subscriber numbers for consumer Internet services based on local broadband wireless access services.

In the Mt. Rokko area, we attracted more customers through events and promotions integrating diverse content with the natural beauty of Mt. Rokko.

Total attendance at Hanshin Tigers home games

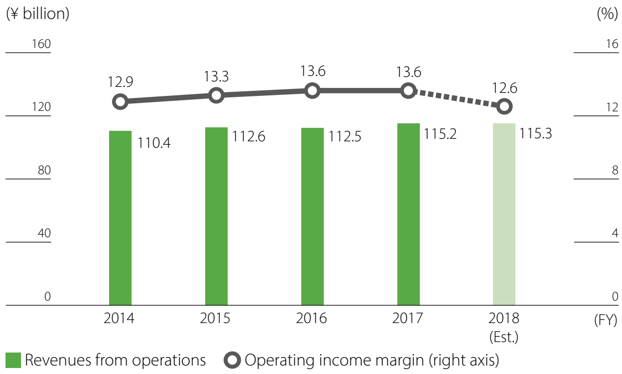
(Thousands of people)



Fiscal 2018 Outlook

In light of an expected rise in cable television subscriber numbers in the communication and media businesses, the Entertainment and Communications Business is projected to record a 0.1%, or ¥0.1 billion, year-on-year increase in revenues from operations, to ¥115.3 billion. However, due to expectations of a decline in the high capacity utilisation of Takarazuka Revue performances as well as lower sales of related products in the stage business, operating income is forecast to decrease 7.6%, or ¥1.2 billion, year on year, to ¥14.5 billion.

Outlook for revenues from operations and operating income margin



Travel

Business Strategies

The mainstay products of the Travel Business have been travel packages, including products under the flagship brand *Trapics*. However, current instability throughout the world, natural disasters, and other changes in outside conditions affect the business significantly. Moreover, competition is expected to intensify in the travel industry.

To ensure a certain level of earnings even in such conditions, we will increase the competitiveness of our travel packages. At the same time, the Travel Business will tackle structural reform to establish a second pillar of the business as soon as possible.

Basic Policies

1 Strengthen competitiveness of travel packages

- Strengthen areas outside Europe
- Strengthen specialised products
- Expand customer base among new demographics
- Revise cost structure for advertising expenses, etc.

2 Establish a second pillar

- Strengthen initiatives for non-Japanese tourists
- Expand group and business travel services and create stable source of revenues

Fiscal 2017 Review of Operations

Due to the significant effect of lower revenues from overseas and domestic travel products, the Travel Business recorded year-on-year decreases of 1.8%, or ¥563 million, in revenues from operations, to ¥29,938 million, and 6.4%, or ¥43 million, in operating income, to ¥637 million.

Regarding overseas travel products, although demand for travel to Oceania and East Asia was favourable, demand for travel to Europe declined as the international situation worsened.

As for domestic travel products, demand for travel to Shikoku was brisk thanks to the interest that the reverse-order Shikoku Pilgrimage* generated. However, due to the major earthquakes that hit Kumamoto in April 2016, demand for travel to Kyushu decreased.

Meanwhile, we tapped into growing overseas demand by proactively marketing travel products for visitors to Japan. In particular, we enjoyed strong demand from European visitors.

* Performing the Shikoku Pilgrimage in reverse order in leap years is considered auspicious.

Total travel billings (Fiscal 2017)

Rank	Company name	¥ billion
1	JTB	1,477.1
2	Rakuten	556.8
3	KNT-CT Holdings	483.0
4	HIS	438.8
5	Nippon Travel Agency	426.7
6	Hankyu Travel International*	318.7
7	JTB World Vacations	204.7
8	ANA Sales	195.8
9	JALPAK	179.6
10	Tobu Top Tours	139.0

Overseas travel billings (Fiscal 2017)

Rank	Company name	¥ billion
1	JTB	413.9
2	HIS	355.2
3	JTB World Vacations	204.7
4	Hankyu Travel International*	186.9
5	KNT-CT Holdings	139.5
6	Nippon Travel Agency	116.6
7	JTB Business Travel Solutions	61.1
8	JALPAK	53.9
9	DeNA Travel	48.9
10	Nissin Travel Service	44.1

Domestic travel billings (Fiscal 2017)

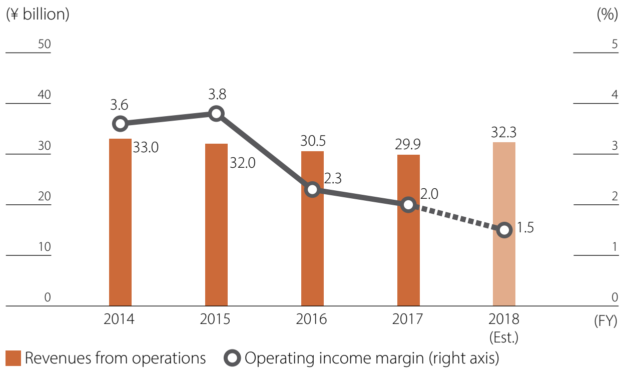
Rank	Company name	¥ billion
1	JTB	977.2
2	Rakuten	514.1
3	KNT-CT Holdings	323.5
4	Nippon Travel Agency	274.3
5	ANA Sales	174.0
6	Hankyu Travel International*	129.0
7	JALPAK	125.7
8	Tobu Top Tours	101.7
9	JR TOKAI TOURS	93.4
10	Meitetsu World Travel	76.3

Source: Japan Tourism Agency Bulletin, "Business Volume for Major Travel Agents (April 2016 to March 2017)"
Note: Billings are rounded down to the nearest ¥100 million.
* The total of Hankyu Travel International Co., Ltd., Hankyu Hanshin Business Travel Co., Ltd., and Hanshin Travel International Co., Ltd.

Fiscal 2018 Outlook

We expect that higher demand for overseas and domestic travel products will produce an 8.0%, or ¥2.4 billion, year-on-year increase in revenues from operations, to ¥32.3 billion. Operating income is projected to decline 16.7%, or ¥0.1 billion, year on year, to ¥0.5 billion, due to higher expenses arising from forward-looking structural reform of the business.

Outlook for revenues from operations and operating income margin



International Transportation

Business Strategies

Air freight, sea freight, and logistics services are the mainstay businesses of the International Transportation Business, which has established a global network comprising 165 bases in 27 countries and regions.

We aim to transition towards a balanced portfolio. To this end, the business segment will further strengthen sea freight and logistics services businesses while focusing on expanding the businesses of overseas subsidiaries in Asia, which promises growth.

In addition, as the Group develops businesses overseas, the business segment will make available the management resources in its networks and the expertise that it has cultivated to promote synergy benefits within the Group and to help the Group's development.

Basic Policies

1 Reform to establish a balanced business portfolio

- Strengthen air freight, sea freight, and logistics services businesses globally
- Invest management resources in growing markets

2 Develop and implement optimal measures for profit growth

- Strengthen sales capabilities globally
- Increase handling volume

3 Ensure robust global governance

- Optimise business management capabilities by enhancing risk management and compliance awareness

Fiscal 2017 Review of Operations

Due to a decline in the yen-equivalent value of overseas subsidiaries' revenues and earnings that accompanied exchange rate fluctuations, the business segment recorded year-on-year decreases of 5.8%, or ¥4,422 million, in revenues from operations, to ¥71,670 million, and 11.2%, or ¥200 million, in operating income, to ¥1,587 million.

In East Asia and the ASEAN region, air freight and sea freight businesses performed steadily. Meanwhile, the performance of air freight businesses in the Americas and Europe was sluggish. Also, subsidiaries in Japan saw steady sea freight exports but continued to face challenging conditions for air freight imports.

In response to the above conditions, we expanded businesses in the ASEAN region, which is likely to continue growing. Specifically, we opened logistics centres in Indonesia in March 2016 and in Singapore in May 2017.

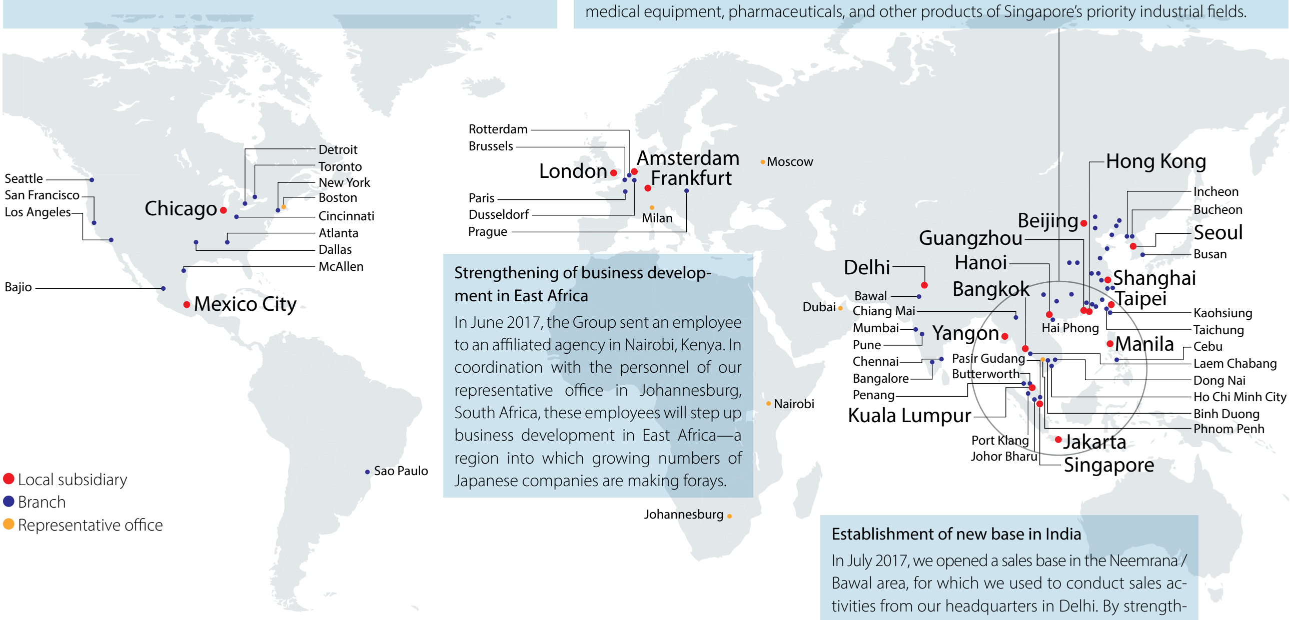
Network of bases: 119 overseas bases (as of 1st July 2017)

Expansion of the logistics business in the United States

Aiming to expand operations as demand for logistics centres increases in the Chicago area, we added to our existing logistics centre in the area by opening a facility near Chicago O'Hare International Airport in February 2017.

Construction of new logistics centres in the ASEAN region

Following on from the 2016 opening of a logistics centre in Indonesia, in May 2017 the Group opened its largest logistics centre in Singapore, which has major advantages as an international logistics hub. The new logistics centre conducts high-value-added operations, handling electronic components, medical equipment, pharmaceuticals, and other products of Singapore's priority industrial fields.



Strengthening of business development in East Africa

In June 2017, the Group sent an employee to an affiliated agency in Nairobi, Kenya. In coordination with the personnel of our representative office in Johannesburg, South Africa, these employees will step up business development in East Africa—a region into which growing numbers of Japanese companies are making forays.

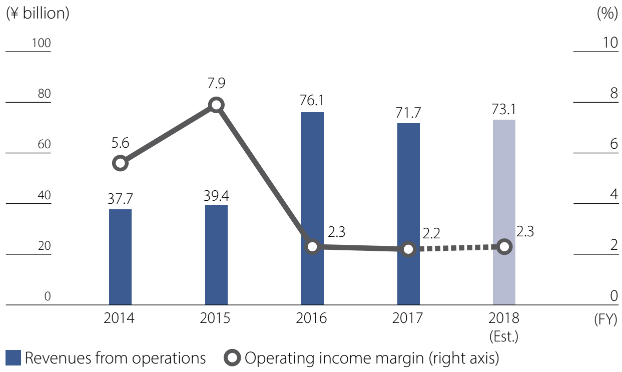
Establishment of new base in India

In July 2017, we opened a sales base in the Neemrana / Bawal area, for which we used to conduct sales activities from our headquarters in Delhi. By strengthening our sales network, we aim to develop new business in the area, which has the highest concentration of Japanese companies in northern India.

Fiscal 2018 Outlook

We expect that higher handling volume will result in year-on-year increases of 2.0%, or ¥1.4 billion, in revenues from operations, to ¥73.1 billion, and 6.3%, or ¥0.1 billion, in operating income, to ¥1.7 billion.

Outlook for revenues from operations and operating income margin



Note: As of fiscal 2016, revenues from operations will be presented on a gross basis rather than a net basis (total transactions net of freight costs).

Hotels

Business Strategies

In the Hotels Business, Hankyu Hanshin Hotels Co., Ltd., directly manages 19 hotels with 4,933 guest rooms mainly in the Kinki region and the Tokyo metropolitan area. To heighten the profitability of these hotels, we will take a range of measures, such as refurbishing guest rooms and restaurants and developing high-value-added products. In addition, we will grow earnings by exploiting opportunities that the increase in visitors to Japan presents. Specifically, we will select locations carefully and focus on opening REMM hotels, which mainly comprise guest rooms for overnight stays.

Basic Policies

1 Improve profitability of existing hotels

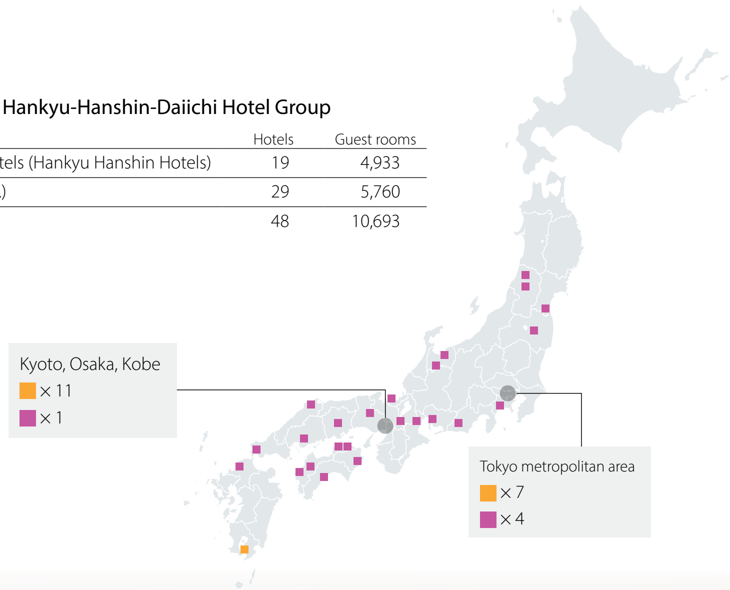
- Maintain and enhance product value through appropriate investment

2 Expand network by opening new hotels

- Implement plan to open new REMM hotels, which mainly comprise guest rooms for overnight stays

Hotel network of the Hankyu-Hanshin-Daiichi Hotel Group

	Hotels	Guest rooms
Directly managed hotels (Hankyu Hanshin Hotels)	19	4,933
Other (franchises, etc.)	29	5,760
Total	48	10,693

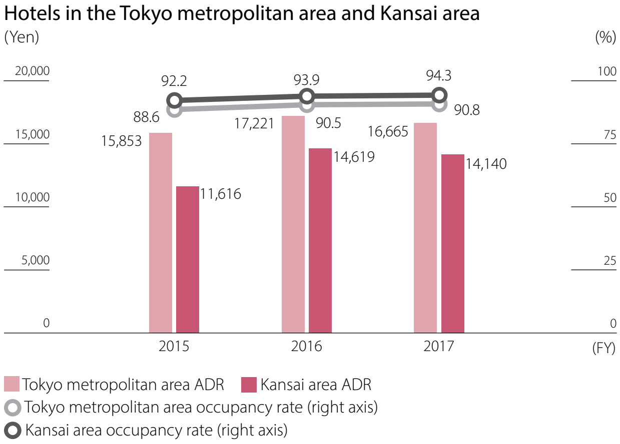


Fiscal 2017 Review of Operations

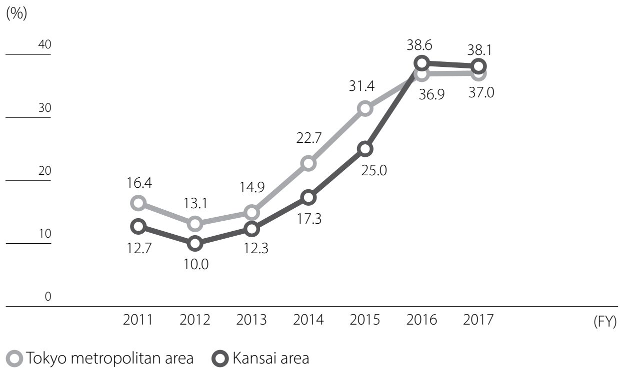
Withdrawal from the management of certain non-hotel restaurants and a year-on-year decrease in revenues from the accommodation and banquet areas resulted in the Hotels Business posting year-on-year declines of 3.5%, or ¥2,401 million, in revenues from operations, to ¥65,640 million, and 15.2%, or ¥502 million, in operating income, to ¥2,795 million.

In fiscal 2017, we stepped-up efforts to capture accommodation demand by refurbishing facilities steadily. As part of these efforts, we increased the number of guest rooms of Hotel new Hankyu Osaka. Moreover, we opened REMM Roppongi as our fifth hotel that mainly comprises guest rooms for overnight stays. Further, we advanced sales activities energetically. For example, we held various types of marketing campaigns to mark the 35th anniversary of Hotel new Hankyu Kyoto and the 90th anniversary of the Takarazuka Hotel. We also opened our inaugural overseas sales office in Singapore with our sights set on capturing the anticipated growth in demand as more tourists from the ASEAN region visit Japan.

Average daily rates (ADR) and occupancy rates of Hankyu Hanshin Hotels in the Tokyo metropolitan area and Kansai area



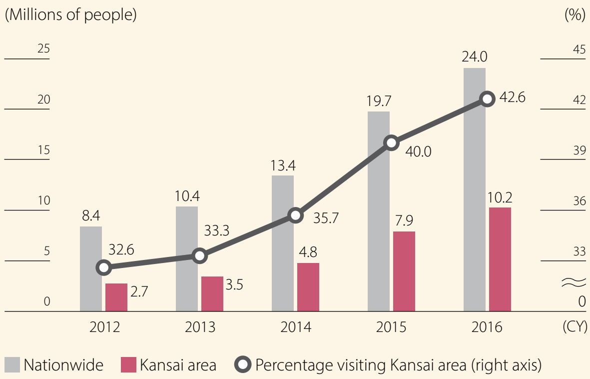
Non-Japanese guests as a percentage of overnight-stay guests



Fiscal 2018 Outlook

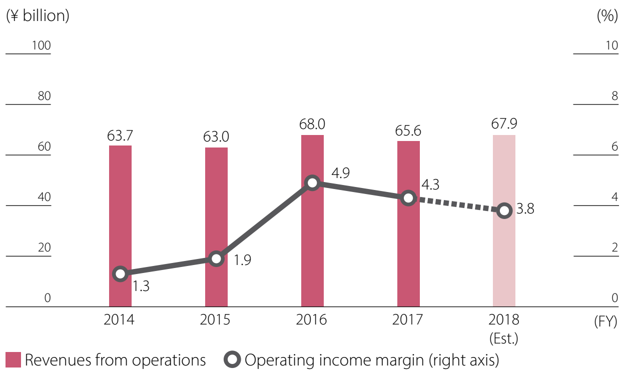
The recent opening of REMM Roppongi and other factors are likely to enable a 3.5%, or ¥2.3 billion, year-on-year increase in revenues from operations, to ¥67.9 billion. Higher costs accompanying the opening and refurbishment of hotels are expected to lead to a 7.1%, or ¥0.2 billion, year-on-year decline in operating income, to ¥2.6 billion.

Visitors to Japan



Source: "Consumption Trend Survey for Foreigners Visiting Japan," Japan National Tourism Organization (JNTO), Japan Tourism Agency

Outlook for revenues from operations and operating income margin



Directors and Audit & Supervisory Board Members

(As of 13th June 2017)

Directors

Kazuo Sumi
Chairman and Representative Director,
Group Chief Executive Officer

1973 Joined Hankyu Corporation
2000 Director, Hankyu Corporation
2002 Managing Director, Hankyu Corporation
2003 President, Hankyu Corporation
2005 President, Hankyu Holdings
2006 President, Hankyu Hanshin Holdings
2008 Director, Hankyu Hanshin Hotels (Current position)
2014 Chairman, Hankyu Corporation (Current position)
2017 Chairman, Hankyu Hanshin Holdings (Current position)

Takehiro Sugiyama
President and Representative Director

1982 Joined Hankyu Corporation
2005 Director, Hankyu Corporation
2006 Director, Hankyu Holdings
2006 Director, Hankyu Hanshin Holdings
2007 Managing Director, Hankyu Corporation
2016 Executive Vice President, Hankyu Corporation
2016 Executive Vice President, Hankyu Hanshin Holdings
2016 Director, Hanshin Electric Railway (Current position)
2016 Director, Hankyu Travel International (Current position)
2016 Director, Hankyu Hanshin Express (Current position)
2017 President, Hankyu Corporation (Current position)
2017 President, Hankyu Hanshin Holdings (Current position)

Masao Shin
Executive Vice President and Representative Director

1981 Joined Hanshin Electric Railway
2006 Director, Hanshin Electric Railway
2006 Director, Hankyu Hanshin Holdings
2008 Managing Director, Hanshin Electric Railway
2014 Senior Managing Director, Hanshin Electric Railway
2016 Director, Hankyu Corporation (Current position)
2017 President, Hanshin Electric Railway (Current position)
2017 Executive Vice President, Hankyu Hanshin Holdings (Current position)

Takaoki Fujiwara
Representative Director

1975 Joined Hanshin Electric Railway
2005 Director, Hanshin Electric Railway
2007 Managing Director, Hanshin Electric Railway
2011 President, Hanshin Electric Railway
2011 Director, Hankyu Hanshin Holdings
2015 Chairman, Hanshin Hotel Systems (Current position)
2017 Chairman, Hanshin Electric Railway (Current position)
2017 Director, Hankyu Hanshin Holdings (Current position)

Noriyuki Inoue
Director (External*1)

1957 Joined Daikin Industries
1994 President, Daikin Industries
2002 Chairman and CEO, Daikin Industries
2003 Director, Hankyu Corporation
2005 Director, Hankyu Holdings
2006 Director, Hankyu Hanshin Holdings (Current position)
2014 Chairman of Daikin Industries and Chief Global Group Officer (Current position)

Shosuke Mori
Director (External*1)

1963 Joined Kansai Electric Power
2005 President, Kansai Electric Power
2010 Director, Hankyu Hanshin Holdings (Current position)
2010 Chairman, Kansai Electric Power
2016 Senior Advisor, Kansai Electric Power (Current position)

Yoshishige Shimatani
Director (Part-time)

1975 Joined Toho
2011 President, Toho (Current position)
2015 Director, Hankyu Hanshin Holdings (Current position)

Naoya Araki
Director (Part-time)

1981 Joined Hankyu Department Store
2012 President, Hankyu Hanshin Department Stores (Current position)
2012 Representative Director, H_2O Retailing (Current position)
2017 Director, Hankyu Hanshin Holdings (Current position)

Yoshihiro Nakagawa
Director (Part-time)

1976 Joined Hankyu Corporation
2005 Director, Hankyu Corporation
2007 Managing Director, Hankyu Corporation
2013 Representative and Senior Managing Director, Hankyu Corporation
2014 President, Hankyu Corporation (Current position)
2014 Director, Hankyu Hanshin Holdings (Current position)
2017 Chairman, Hankyu Hanshin Hotels (Current position)

Audit & Supervisory Board Members

Masayoshi Ishibashi
Standing Audit & Supervisory Board Member

1979 Joined Hanshin Electric Railway
2013 Standing Audit & Supervisory Board Member, Hanshin Electric Railway (Current position)
2013 Standing Audit & Supervisory Board Member, Hankyu Hanshin Holdings (Current position)

Koichi Kobayashi
Standing Audit & Supervisory Board Member

1982 Joined Hankyu Corporation
2005 Director, Hankyu Holdings
2006 Director, Hankyu Hanshin Holdings
2013 Director, Hankyu Corporation
2015 Managing Director, Hankyu Corporation
2016 Standing Audit & Supervisory Board Member, Hankyu Corporation (Current position)
2016 Standing Audit & Supervisory Board Member, Hankyu Hanshin Holdings (Current position)

Haruo Sakaguchi
Audit & Supervisory Board Member (External*2)

1958 Lawyer (Current position)
1989 Vice Chairman, Japan Federation of Bar Associations
2006 Audit & Supervisory Board Member, Hankyu Holdings
2006 Audit & Supervisory Board Member, Hankyu Corporation (Current position)
2006 Audit & Supervisory Board Member, Hankyu Hanshin Holdings (Current position)
2013 Audit & Supervisory Board Member, Hankyu Hanshin Hotels (Current position)

Junzo Ishii
Audit & Supervisory Board Member (External*2)

1986 Professor of Faculty of Commerce, Doshisha University
1989 Professor of Faculty of Business Administration, Kobe University
1999 Professor of Faculty of Business Administration, Graduate School of Kobe University
2008 President of the University of Marketing and Distribution Sciences
2010 Audit & Supervisory Board Member, Hankyu Hanshin Holdings (Current position)
2010 Audit & Supervisory Board Member, Hanshin Electric Railway (Current position)
2016 Director, Distribution Science Research Center (Current position)

Michiari Komiyama
Audit & Supervisory Board Member (External*2)

1971 Prosecutor
1999 Prosecutor, Supreme Public Prosecutor's Office
1999 Chief Prosecutor, Saga District Public Prosecutor's Office
2002 Chief Prosecutor, Kobe District Public Prosecutor's Office
2003 Notary, Osaka Legal Affairs Bureau
2013 Lawyer (Current position)
2017 Audit & Supervisory Board Member, Hankyu Hanshin Holdings (Current position)
2017 Audit & Supervisory Board Member, Hankyu Corporation (Current position)

*1 Mr. Noriyuki Inoue and Mr. Shosuke Mori satisfy the qualifications of external directors as provided in Article 2, Paragraph 15 of the Corporate Law.
The Company has submitted notifications to the stock exchanges on which its shares are listed, naming Mr. Inoue and Mr. Mori as external (independent) directors.

*2 Mr. Haruo Sakaguchi, Mr. Junzo Ishii, and Mr. Michiari Komiyama satisfy the qualifications of external Audit & Supervisory Board members as provided in Article 2, Paragraph 16 of the Corporate Law.
The Company has submitted notifications to the stock exchanges on which its shares are listed, naming Mr. Sakaguchi, Mr. Ishii, and Mr. Komiyama as external (independent) Audit & Supervisory Board members.

A Message from an External Director

From Management Integration to the Present Day

I think the Group has done well to overcome a range of difficulties and realise a highly successful management integration.

Since becoming an external director of the Hankyu Corporation in 2003, I have seen many different phases of business management, including the management integration of Hankyu Holdings and Hanshin Electric Railway.

At the time of my appointment, Hankyu Corporation and the Group it subsequently became part of were in a phase of balanced contraction. Consequently, many of the agenda items submitted to meetings of the Board of Directors concerned business reorganisation or disposal of the Group's negative legacy. However, this process was essential to ensure the Group's sustainability and growth potential. In my view, correct decisions that the management team made in this period to dispose of nonperforming assets and withdraw from unprofitable businesses enabled the current recovery in performance.

In addition, the 2006 management integration became a major driver of the significant advances that the Group subsequently made. Since management integration, both companies have respected each other's values while increasing integration and heightening employees' sense of belonging to the Group. Further, the management team reorganised similar businesses to build a structure that shared strengths while reinforcing areas of weaknesses. At the same time, the Group steadily advanced large-scale projects, which have become an important part of the Group's earnings foundations. Thanks to the cumulative effect of the above efforts, business results have seen a V-shaped turnaround over the past several years. Moreover, the Group has paved the way for improvement of its financial position, which was an issue. As a result, returns to shareholders have been rising steadily, and shareholders' evaluation of the Group has become increasingly positive. Thinking back to the time of the Group's inception, I believe the decision to pursue management integration was bold and far-sighted.

Recently, agenda items related to business expansion in the Tokyo metropolitan area and overseas forays are more prevalent at meetings of the Board of Directors. This change in topics underscores business management's entry into a new phase and suggests further growth going forward.

Current Corporate Governance

The Group is seeking approaches to corporate governance that will continuously enhance corporate value.

In 2016, the Group established the Corporate Governance Committee, which comprises the president and representative director, external directors, standing Audit & Supervisory Board members, and external Audit & Supervisory Board members. In addition to providing consultation in relation to the appointment and compensation of executives, the committee enables external directors to coordinate and share information. Further, the Group's steady bolstering of corporate governance to make it more visible to outsiders is commendable. As part of these efforts, in 2017 the Group reduced the number of directors to increase the ratio of external directors to directors and abolished its senior advisor system.

However, companies cannot achieve truly effective corporate governance just by satisfying formal requirements. Therefore, I believe that it is important for companies to establish their own unique approaches to governance that will contribute to continuous enhancement of corporate value. For example, Hankyu Hanshin Holdings, Inc., is a pure holding company, which means that, in principle, Group companies under the management of the Company are responsible for operational implementation, while the Company monitors and supervises the Group as a whole. In this way, oversight and execution are separated. The above system enables prompt, appropriate operational implementation, and as such I think it is effective for the Group, which encompasses a wide variety of businesses. Meanwhile, the Group's Board of Directors receives the information about businesses that it needs, enabling it to reach important management decisions without impediment.

As an external director, naturally I perform monitoring and oversight functions. I think another important role entails using my expertise to help raise the level of the Group's business management. I intend to fulfill this role by encouraging decision making that enhances corporate value.

I will reflect the viewpoints of stakeholders, particularly those of shareholders, in conducting monitoring and supervising of business management. At the same time, by making proposals based on my corporate management experience, I intend to support the Group as it takes on challenges to sustain growth.

Noriyuki Inoue
External Director

Toward Realisation of the Long-Term Vision

I will support the Group as it takes on challenges to sustain growth.

Since its establishment, the Hankyu Hanshin Holdings Group has built a firm position based on the business model established by Hankyu Corporation's founder, Ichizo Kobayashi. Specifically, the Group is centred on the Urban Transportation Business, develops real estate in Umeda and line-side areas, and heightens the value of line-side areas and brand power through the leisure business, the Hotels Business, and other operations. Looking ahead, however, there is no doubt that society will become increasingly aged. This means that the Group's existing business model, premised on population growth, is at a crossroads. Against this backdrop, I think that the management team's decisions based on the Long-Term Management Vision for 2025 are appropriate. In other words, I endorse the Group's efforts to enhance the stability of earnings foundations and heighten the value of line-side areas while developing businesses in the Tokyo metropolitan area and overseas with a view to the future.

The Group's entry into new business fields is of course accompanied by corresponding amounts of risk. Conversely, without risk there are no opportunities. Also, risk has the added benefit of increasing companies' resilience. In addition, given the dizzying speed of change in business conditions that technological innovation has spurred in recent years, there is no guarantee that approaches that have succeeded in the past will continue to do so. Companies whose decisions are not timely can lose growth opportunities. Therefore, I feel that the ability to objectively weigh the significance and profit potential of projects against their attendant risks and arrive at bold decisions promptly will be more important than ever in business management going forward. As an external director, I also want to incorporate this sense of urgency and support the Group as it takes on challenges to sustain growth.

If I may digress slightly, at Daikin Industries, Ltd., where I serve as chairman, we believe that the potential of each person is limitless and that companies only prosper when individual employees grow. Accordingly, we have pursued employee-oriented business management. Our overseas sales have grown significantly and now account for 75% of net sales. I think we have achieved this because in countries worldwide we have proactively developed and utilised personnel, and their realisation of diverse capabilities has benefited the company. At present, the Hankyu Hanshin Holdings Group has moved into a phase of actively pursuing overseas development. Therefore, its development and promotion of critical personnel has just begun. With this in mind, I expect that there will be opportunities for me to offer advice about personnel and other matters based on my experience.

The slogan of the recently announced long-term vision is "enhancing line-side areas and expanding fields," which I think clearly states the direction in which the Group is traveling. The Group will take maximum advantage of the collective strength and brand power it has accumulated through diverse businesses to rigorously pursue its eternal mission of enhancing the value of line-side areas. In addition, the Group will discover new geographical areas and business fields for its activities. Each employee should be made fully aware that these are the two overriding strategies through which the Group aims to sustain growth. I am confident that all employees will drive the Group toward realisation of the long-term vision by leveraging their collective strength and demonstrating commitment to and pride in the Group's future.

Management Organisation

Corporate Governance

x-x Figures in boxes correspond to the principles of Japan's Corporate Governance Code.

Basic Approach to Corporate Governance

Principles 2-1 2-2 3-1

Based on the Group mission and values set out in its Group Management Philosophy, the Company aims to remain a company that customers and other stakeholders trust. To this end, the Company is strengthening and increasing corporate governance by heightening the transparency and soundness of business management and ensuring appropriate, timely disclosure.

Reflecting this basic approach, the Company has established the policies below with a view to sustaining growth and enhancing corporate value over the medium-to-long term.

- We shall respect shareholders' rights and ensure equality.
- We shall take into consideration the interests of shareholders and other stakeholders and cooperate with stakeholders appropriately.
- We shall disclose corporate information appropriately and ensure transparency.
- We shall ensure that the Board of Directors performs its roles and duties appropriately and ensure advanced oversight and decision making.
- We shall have constructive dialogue with shareholders with a view to sustaining our growth and enhancing corporate value over the medium-to-long term.

Corporate Governance System

Principles 4-1 4-10

Hankyu Hanshin Holdings, Inc. (the Company), is a pure holding company, and the conduct of operations is basically the responsibility of Group member companies. Hankyu Hanshin Holdings' principal role is supervision and oversight of the entire Group—meaning that these functions are separate from the conduct of Group businesses.

Through this system, the Company realises supervision and oversight and enhances the overall governance of the Group by:

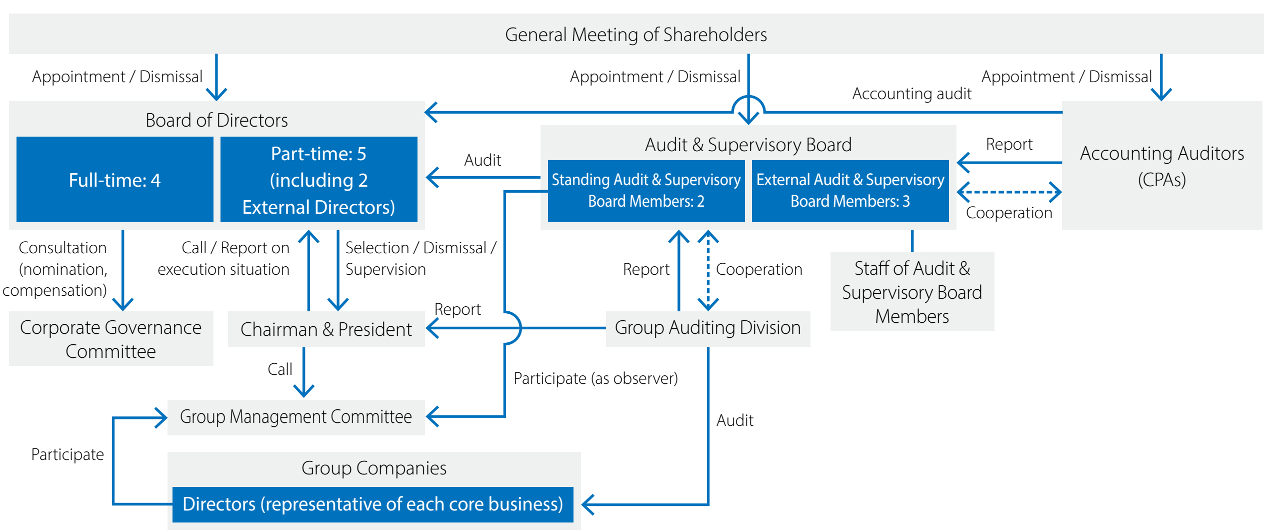
- Making decisions regarding the Group's management policies and strategies,
- Deciding on the approval of the medium-term or annual management plans of all core businesses,
- Requiring timely submission of progress reports by operating companies, and
- Having Group companies obtain approval before taking actions that affect the Group's management significantly (for example, investments above a certain threshold).

With regard to the above matters, the Board of Directors, which includes external directors, makes approval decisions and receives reports. Moreover, to undertake preliminary reviews the Company has established a Group Management Committee, which includes representatives of the Group's core businesses.

Further, to ensure transparency in the appointment and compensation of the Company's directors and to facilitate coordination among external directors, the Group has established the Corporate Governance Committee, which comprises external directors and external Audit & Supervisory Board members who are independent of the Company, the president and representative director, and standing Audit & Supervisory Board members.

In addition, as part of efforts to strengthen its overall capabilities, the Company is strengthening the governance of funding. Measures include centralising funding under the Company and distributing funds to operating companies within the limits set out in business plans that the Company has approved.

Corporate Governance System



System reflecting the business management viewpoints of operating companies in the holding Company's governance

Hankyu Hanshin Holdings			Core companies	
	Name	Position	Name of company	Position
Board of Directors	Kazuo Sumi	Chairman and Representative Director, Group CEO	Hankyu Corporation Hankyu Hanshin Hotels	Chairman Director (Part-time)
Board of Directors	Takehiro Sugiyama	President and Representative Director	Hankyu Corporation Hanshin Electric Railway Hankyu Travel International Hankyu Hanshin Express	President Director (Part-time) Director (Part-time) Director (Part-time)
Board of Directors	Masao Shin	Executive Vice President and Representative Director	Hankyu Corporation Hanshin Electric Railway	Director (Part-time) President
Board of Directors	Takaoki Fujiwara	Representative Director	Hanshin Electric Railway	Chairman
Board of Directors	Noriyuki Inoue	Director (External)		
Board of Directors	Shosuke Mori	Director (External)		
Board of Directors	Yoshishige Shimatani	Director (Part-time)		
Board of Directors	Naoya Araki	Director (Part-time)		
Board of Directors	Yoshihiro Nakagawa	Director (Part-time)	Hankyu Hanshin Hotels	Chairman
Audit & Supervisory Board	Masayoshi Ishibashi	Standing Audit & Supervisory Board Member	Hanshin Electric Railway	Standing Audit & Supervisory Board Member
Audit & Supervisory Board	Koichi Kobayashi	Standing Audit & Supervisory Board Member	Hankyu Corporation	Standing Audit & Supervisory Board Member
Audit & Supervisory Board	Haruo Sakaguchi	Audit & Supervisory Board Member (External)	Hankyu Corporation Hankyu Hanshin Hotels	Audit & Supervisory Board Member Audit & Supervisory Board Member
Audit & Supervisory Board	Junzo Ishii	Audit & Supervisory Board Member (External)	Hanshin Electric Railway	Audit & Supervisory Board Member
Audit & Supervisory Board	Michiari Komiyama	Audit & Supervisory Board Member (External)	Hankyu Corporation	Audit & Supervisory Board Member

Management Organisation

(1) Board of Directors and Directors

Principles 4-1 4-2 4-6 4-11

The Board of Directors enhances governance of the entire Group and oversight of respective companies by deciding on matters pursuant to statutory laws and regulations and the articles of incorporation based on regulations and standards that the Board of Directors has established, by deciding on the approval of management policies and strategies of the Company and the Group as well as the management plans of core businesses, and by requiring timely reporting from operating companies about Group companies' significant investments.

Aiming to strengthen the management oversight of the Board of Directors and ensure the transparency of business management by increasing the proportion of external directors, the Company reduced the number of directors from 14 to nine at the General Meeting of Shareholders held in June 2017. Under the new system, the Company is strengthening monitoring and oversight and raising the standard of decision making by appointing five of its nine directors as part-time directors, including two external directors who are independent of the Company and have abundant experience in corporate management.

Notes:

1. Number of members of the Board of Directors
   The articles of incorporation of the Company stipulate that the number of members of the Company's Board of Directors shall be three or more.
2. Requirements for the election of directors
   The articles of incorporation of the Company stipulate that the approval of resolutions for the election of directors shall require the attendance of shareholders that have at least one-third of the voting rights of shareholders for which voting rights can be exercised and shall require a majority of these voting rights. Further, the articles of incorporation stipulate that such resolutions shall not be approved through cumulative voting.

(2) Audit & Supervisory Board and Audit & Supervisory Board Members

Principle 4-4

The Company has adopted the Audit & Supervisory Board system to ensure adequate management oversight. We have five Audit & Supervisory Board members, who monitor the business operations and financial position of the Company and its subsidiaries, and audit the performance of duties by the directors. Three of the five Audit & Supervisory Board members are external, to provide an independent viewpoint and ensure a high degree of professionalism in Group auditing. In this way, we are working to further ensure sound decision making in the conduct of operations. We provide full backup to Audit & Supervisory Board members, for example by involving them in the Group Management Committee and other meetings within the Group. The Audit & Supervisory Board meets once a month, in principle, to discuss and pass resolutions on important matters.

In addition, as part of the auditing of the Group's business operations, the Audit & Supervisory Board members peruse when appropriate auditing plans and results of audits of the Group Auditing Division, composed of internal audit staff. The Audit & Supervisory Board members also receive from the Group Auditing Division regular reports (and ad hoc reports when required) on internal audits at the Company and its subsidiaries, including on the state of operation of the whistle-blowing system.

At the same time, the Audit & Supervisory Board members receive regular status reports from the accounting auditors (CPAs) and take part in on-site audits by the accounting auditors including those of Group companies.

(3) Roles and Functions of External Directors and External Audit & Supervisory Board Members

Principles 4-7 4-9

The Company appoints independent external directors and Audit & Supervisory Board members with the aim of further enhancing the governance of the Group through their contributions to meetings of the Board of Directors and the Audit & Supervisory Board, as well as other activities.

The external directors appointed to the Board are selected from amongst persons with extensive experience in corporate management, with the aim of strengthening the management oversight function of the Board of Directors with respect to the Group as a whole, and also in the expectation that the external directors will provide advice to the Company's management from a broad perspective. Similarly, the external Audit & Supervisory Board members whom we appoint are selected from amongst persons possessing high-level specialist expertise in the fields of compliance and business administration.

Further, to ensure that it assesses the independence of external directors and external Audit & Supervisory Board members objectively, in light of the Tokyo Stock Exchange's independence requirements, the Company has established the Independence Criteria below.

Independence Criteria

To be deemed independent, external directors and external Audit & Supervisory Board members must not belong to any of the following categories.

1. Executing persons*1 of the Company's major shareholders (shareholders owning 10% or more of the Company's total voting rights)
2. Executing persons of entities for which the Company is a major business partner*2 or executing persons of the Company's major business partners
3. Consultants, accounting experts, or legal experts receiving significant amounts of money or property*3 from the Company that are other than executive compensation (or if a company, union, or other organisation receives the said property, this refers to persons belonging to the said organisation)
4. Persons*4 who have recently belonged to any of the categories (a) through (d) below
   (a) Persons stated in 1, 2, or 3 above
   (b) Executing persons of the Company's parent company or directors of the Company's parent company who are not executing persons
   (c) Audit & Supervisory Board members of the Company's parent company (This item applies when external Audit & Supervisory Board members are to be appointed as independent external Audit & Supervisory Board members.)
   (d) Executing persons of the Company's fellow subsidiaries
5. Close relatives (within the second degree of kinship) of any of the persons stated in (a) through (h) below (excluding persons who are not significant)
   (a) Persons stated in 1, 2, 3, or 4 above
   (b) Accounting advisors of the Company (This includes employees conducting required duties if the said accounting advisor is a company. Same hereinafter.) (This item applies when external Audit & Supervisory Board members are to be appointed as independent external Audit & Supervisory Board members.)
   (c) Executing persons of the Company's subsidiaries
   (d) Accounting advisors of the Company's subsidiaries or directors of the Company's subsidiaries who are not executing persons (This item applies when external Audit & Supervisory Board members are to be appointed as independent external Audit & Supervisory Board members.)
   (e) Executing persons of the Company's parent company or directors of the Company's parent company who are not executing persons
   (f) Audit & Supervisory Board members of the Company's parent company (This item applies when external Audit & Supervisory Board members are to be appointed as independent external Audit & Supervisory Board members.)
   (g) Executing persons of the Company's fellow subsidiaries
   (h) Persons who have recently belonged to the categories (b) through (d) above or who have been executing persons of the Company (This includes directors who are not executing persons when external Audit & Supervisory Board members are to be appointed as independent external Audit & Supervisory Board members.)
6. Executing persons of the Hankyu Hanshin Toho Group

*1. Executing persons refers to executive directors, executive officers, corporate officers, managers, and other employees.

*2. Major business partners refers to entities belonging to any of the following categories.
(1) Entities that in their most recent fiscal year have received payments equivalent to 2% or more of total annual consolidated sales from the Company or its core companies (Hankyu Corporation, Hanshin Electric Railway, Hankyu Travel International, Hankyu Hanshin Express, and Hankyu Hanshin Hotels)
(2) Entities that in the Company's most recent fiscal year have made payments to the Company or its core companies equivalent to 2% or more of total annual consolidated sales
(3) Regardless of (1) and (2) above, entities that, in relation to financial institutions from which the Company borrows funds, are indispensable in fund-raising of the Company and upon which it is reliant to the extent that there are no substitutes for the said entities

*3. Significant amounts of money or property refers to money or property equivalent to an average of ¥10 million or more per year over the previous three fiscal years.

*4. "Persons who have recently belonged to any of the categories (a) through (d) below" refers to persons who can be deemed equivalent to persons who at present materially belong to any of the categories (a) through (d). For example, this includes persons who belong to any of the categories (a) through (d) when the General Meeting of Shareholders approves resolutions appointing the said independent Board members as external directors or external Audit & Supervisory Board members.

(4) Policies and Procedures for the Appointment of Directors and Audit & Supervisory Board Members

Principle 3-1

Policy for the Appointment of Directors

The Company appoints personnel who are well acquainted with the businesses of the Hankyu Hanshin Holdings Group as directors as well as appointing personnel from H_2O Retailing Corporation and Toho Co., Ltd., as directors to strengthen collaborative relationships with the Hankyu Hanshin Toho Group.

In addition, to raise the standard of decision making and strengthen oversight, the Company appoints independent external directors who have abundant experience and expertise.

Policy for the Appointment of Audit & Supervisory Board Members

To ensure Audit & Supervisory Board members conduct audits effectively and efficiently, the Company has established the Audit & Supervisory Board and appoints internal standing Audit & Supervisory Board members and external Audit & Supervisory Board members. The Company appoints internal Audit & Supervisory Board members who have appropriate expertise in finance, accounting, or law and abundant experience in business fields. Also, the Company appoints external Audit & Supervisory Board members who are independent of the Company and have abundant experience and expertise.

Appointment Procedure

Following consultation with the Corporate Governance Committee, the Board of Directors decides on the appointment of candidates for the positions of Audit & Supervisory Board member and director based on the abovementioned appointment policies.

Positions Held Concurrently by Audit & Supervisory Board Members and Directors

Principle 4-11

Name	Positions held concurrently at other listed companies
Kazuo Sumi	Director, H_2O Retailing Corporation External director (Audit & Supervisory Board member, etc.), Toho Co., Ltd. External director, Tokyo Rakutenchi Co., Ltd.
Takaoki Fujiwara	External director, Sanyo Electric Railway Co., Ltd.
Noriyuki Inoue	Chairman and Chief Global Group Officer, Daikin Industries, Ltd. External director, Kansai Electric Power Co., Inc.
Shosuke Mori	Senior advisor, Kansai Electric Power Co., Inc. External director, ANA HOLDINGS INC. External director, The Royal Hotel, Ltd.
Yoshishige Shimatani	President and representative director, Toho Co., Ltd. External director, Tokyo Rakutenchi Co., Ltd. External director, Fuji Media Holdings, Inc.
Naoya Araki	Representative Director, H_2O Retailing Corporation
Junzo Ishii	External Audit & Supervisory Board member, Rengo Co., Ltd.

Relations with External Directors

Principle 3-1

Name	Reasons for appointment
Noriyuki Inoue (Independent Director)	Representative director for many years at Daikin Industries, Ltd. Also served as vice-chairman of Kansai Economic Federation. Appointed for his wealth of management experience, perspective from top business circles, and ability to provide independent input.
Shosuke Mori (Independent Director)	Representative director for many years at Kansai Electric Power Co., Inc., a company whose operations, like those of the Hankyu Hanshin Holdings Group, are closely bound up with the public good. Also served as chairman of Kansai Economic Federation for many years. Appointed for his wealth of management experience, perspective from top business circles, opinions from the viewpoint of CSR, and ability to provide independent input.

Relations with External Audit & Supervisory Board Members

Principle 3-1

Name	Reasons for appointment
Haruo Sakaguchi (Independent Board Member)	Currently a lawyer. Appointed to advise on more compliance-based management and for his ability to provide independent input.
Junzo Ishii (Independent Board Member)	Former Professor of Faculty of Business Administration within the Graduate School of Kobe University and former President of the University of Marketing and Distribution Sciences. Appointed for his ability to express useful opinions based on his high-level specialist expertise in business administration and for his ability to provide independent input.
Michiari Komiyama (Independent Board Member)	A member of the legal profession who has served in important positions, including chief prosecutor of the Kobe District Public Prosecutor's Office, and who is currently active as a lawyer. Appointed because, given his experience, he is expected to provide valuable opinions, particularly about ensuring compliance in business management.

Other Deliberative Bodies

(1) Corporate Governance Committee

With a view to ensuring the transparency of executive appointments and compensation and enabling coordination among external directors and external Audit & Supervisory Board members, the Company has established the Corporate Governance Committee, which comprises four representative directors, two external directors, two standing Audit & Supervisory Board members, and three external Audit & Supervisory Board members. The committee acts in an advisory capacity with respect to the appointment of candidates to the position of director and the details of the compensation system for directors. Also, the committee provides external directors with information in relation to the Group's businesses, financial status, and organisation.

(2) Group Management Committee

The members of the Group Management Committee include full-time directors, specifically the chairman and representative director, the president and representative director, the executive vice president and representative director, and the representative director; executive officers; and representatives of each of the Group's core businesses. The committee convenes to deliberate and decide on the approval of resolutions of the Board of Directors; the management strategies and business plans of Group companies; systems and rules for maintenance of the holding company system; and significant Group management matters, such as investments above a certain threshold and reorganisation.

(3) Core Business Strategy Councils

Each core business has a Core Business Strategy Council, comprising the Company's chairman and representative director, president and representative director, executive vice president and representative director, representative director, the executive officer in charge of the Group Planning Division, and representatives of each core business. In relation to respective core businesses, the councils deliberate significant matters concerning future business development as well as the preparation and progress management (performance evaluation) of business plans.

(4) The Group Presidents' Meeting—Initiatives to Foster Solidarity within the Group

The Hankyu Hanshin Holdings Group comprises over 150 Group companies. The Group Presidents' Meeting, held twice a year, brings together presidents of those Group subsidiaries and affiliates. It is designed to foster a deeper sense of solidarity within the Group and ensure that the Group philosophy and management policies permeate the entire organisation. The Group Presidents' Meeting aims to encourage a joint sense of commitment to the Medium-Term Management Plan. Awards are given to companies that boost earnings or individuals and groups that successfully launch initiatives or make significant contributions at their units.

Compensation of Directors

Principle 3-1

(1) Policy

The Company's compensation system for directors motivates them to enhance the Company's enterprise value and business performance. Compensation comprises two elements: basic monetary compensation paid according to position and compensation linked to business performance.

However, the compensation of external directors and other part-time directors only comprises monetary compensation paid based on the type of duties positions entail.

Note: The payment of retirement benefits to directors was discontinued in April 2004 to heighten transparency of the compensation system.

Further, stock-based compensation is paid through a trust to directors who concurrently serve as directors of Hankyu Corporation and Hanshin Electric Railway as part of compensation from the Company. Thus, as with other shareholders, directors who concurrently serve as directors of these two core companies of the Group benefit if share prices rise but incur losses if they decline. The intention of the system is to motivate directors to improve companies' business performances and thereby enhance the enterprise value of the entire Group over the medium-to-long term.

(2) Procedure

Following consultation with the Corporate Governance Committee with respect to the compensation system and content of compensation, the Board of Directors decides on compensation based on the abovementioned policy.

Shares Held for Strategic Reasons

Principle 1-4

The Company acquires shares held for strategic reasons with a view to building relationships of trust with various stakeholders and enhancing corporate value over the medium-to-long term by maintaining business relationships or strengthening collaborations with partner companies and maintaining relationships with regional companies. In exercising voting rights associated with the shares, the Company's criterion is whether proposals will contribute to the enhancement of the investee's corporate value over the medium-to-long term. Further, the Board of Directors verifies the economic rationality and aims of owning shares held for strategic reasons.

Introduction of Measures to Prevent Takeovers

Principle 1-5

The Company aims to secure and further enhance its enterprise value and the common interests of its shareholders. To this end, conducting business operations from a medium-to-long-term perspective, building and maintaining a relationship of trust with local government institutions and residents in the areas served by the Company's railway lines, and conducting business management that is focused on strengthening cohesion and collaboration within the Group to enhance its collective strength are indispensable. For this reason, we have introduced measures to prevent a takeover of the Company. In the event of the appearance of a potential buyer of the Company that wishes to raise their stake to 20% or more of the Company's outstanding shares, to confirm the potential buyer's intention, new share subscription rights will be granted to shareholders who are de facto shareholders other than the potential buyer. The General Meeting of Shareholders held on 16th June 2015 approved this system, which will remain in effect for three years.

For more details about the Company's basic policies regarding governance of joint-stock companies, which include the abovementioned measures to prevent takeovers, please see:
http://www.hankyu-hanshin.co.jp/ir/library/others/data/bouei.pdf
(Available only in Japanese).

Abolition of Senior Advisors System

To strengthen corporate governance and heighten the transparency of business management and given that it has not elected senior advisors at present, the Company received approval from the General Meeting of Shareholders held on 13th June 2017 to abolish a provision of the articles of incorporation concerning the election of senior advisors.

Dialogue with Shareholders and Investors

Measures to Enhance the Effectiveness of the Company's General Meeting of Shareholders and Facilitate the Exercise of Voting Rights

Principle 1-2

	Remarks
Early dispatch of notices of convocation	To allow shareholders sufficient time to examine the items for resolution at the shareholders' meeting before exercising their voting rights, the Company sends out notices of convocation at the earliest possible date. For the General Meeting of Shareholders held in June 2017, the Company sent out notices of convocation on 23rd May 2017, 21 days before the meeting.
Avoidance of the "busiest day" for shareholder meetings	To enable as many shareholders as possible to attend its General Meeting of Shareholders, the Company held its 2016 General Meeting of Shareholders on 13th June 2017, 15 days before the "busiest day" on which a large proportion of Japanese companies hold their general shareholders' meetings.
Online and electronic voting	To enable shareholders who cannot attend the Company's General Meeting of Shareholders to exercise their voting rights and to make voting more convenient, the Company accepts votes exercised via the Internet. Also, the Company participates in the electronic voting platform operated by ICJ Inc.
Other	On its website, the Company posts notices of convocation of the General Meeting of Shareholders and notices of resolutions passed at the meeting in Japanese and English.

Investor Relations (IR) Activities

Principle 5-1

The executive officer in charge of the Group Planning Division is responsible for and exercises overall control of general IR activities. The Group Planning Division has an IR manager and promotes cohesive IR activities by sharing information regularly with divisions responsible for finance and accounting, general and legal affairs, and public relations.

As a rule, twice a year in Japan the Company holds briefings on earnings results for analysts and institutional investors, in which the president explains earnings results and business plans.

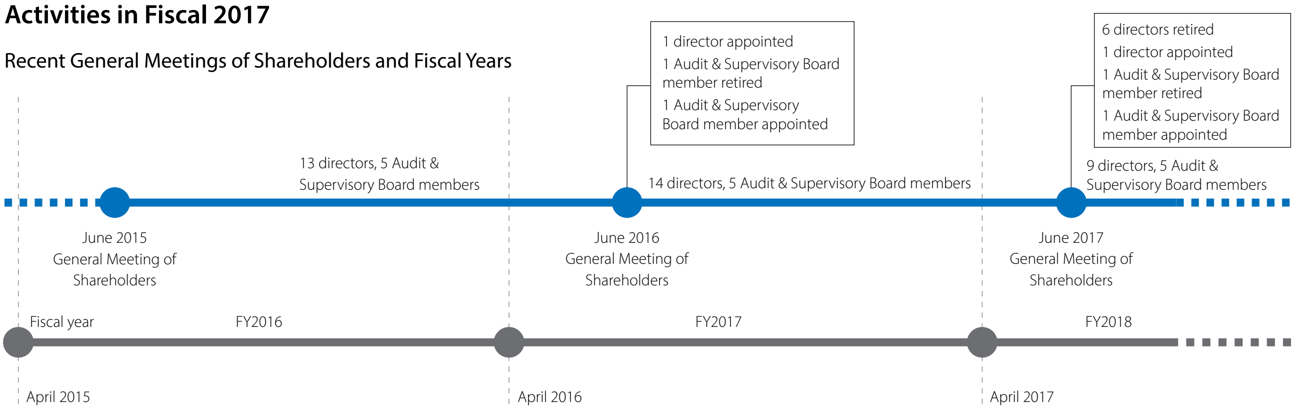
The Company is increasing and improving disclosure via its website (http://www.hankyu-hanshin.co.jp/en/ir/) by posting a range of documents that aid investment decisions, such as earnings results, securities reports, timely disclosure documents, and documents from briefings on earnings results. (Most of these documents are in Japanese.) Also, for individual investors the website includes an overview of the Group and its competitive advantages.

In addition, as required, the Company organises interviews with shareholders and institutional investors that are primarily themed on the enhancement of corporate value over the medium-to-long term. In principle, the IR manager participates in these interviews. However, in light of the number of shares that shareholders own or their areas of interest, executive officers responsible for other areas of the Company participate as required. Further, the IR manager prepares reports, as required, that are based on feedback from the interviews, including opinions stated or summaries of questions and answers, and submits them to the senior management team.

Number of interviews in fiscal 2017: 147

Activities in Fiscal 2017

Recent General Meetings of Shareholders and Fiscal Years



Attendance at Meetings of the Board of Directors and the Audit & Supervisory Board

External Directors

Name	Attendance at meetings of the Board of Directors
Noriyuki Inoue	Attended 8 of 10 meetings
Shosuke Mori	Attended 9 of 10 meetings

External Audit & Supervisory Board Members

Name	Attendance at meetings of the Board of Directors	Attendance at meetings of the Audit & Supervisory Board
Takaharu Dohi	Attended all 10 meetings	Attended all 12 meetings
Haruo Sakaguchi	Attended all 10 meetings	Attended all 12 meetings
Junzo Ishii	Attended all 10 meetings	Attended 11 of 12 meetings

Compensation Paid to Directors and Audit & Supervisory Board Members

Category	No. of recipients	Total paid out in fiscal 2017 (Millions of yen)
Directors (External)	14 (2)	127 (19)
Audit & Supervisory Board members (External)	6 (3)	17 (6)
Total (External)	20 (5)	144 (25)

Notes
1. Recipients of compensation in fiscal 2017 include one Audit & Supervisory Board member who retired at the conclusion of the General Meeting of Shareholders held on 14th June 2016.
2. In addition to the above, compensation received by external directors and external Audit & Supervisory Board members from subsidiaries of the Company for their duties as directors and Audit & Supervisory Board members amounted to ¥27 million for fiscal 2017.
3. Of the Company's full-time directors with terms of office lasting until the conclusion of the General Meeting of Shareholders held on 13th June 2017, Kazuo Sumi, Takehiro Sugiyama, Mitsuo Nozaki, Naohisa Nogami, and Masao Shin concurrently served as directors of the Company and as senior officers of the Company's subsidiary Hankyu Corporation. Of the Company's Audit & Supervisory Board members with terms of office lasting until the conclusion of the General Meeting of Shareholders held on 13th June 2017, Koichi Kobayashi concurrently served as a standing Audit & Supervisory Board member of the Company and as a standing Audit & Supervisory Board member of the Company's subsidiary Hankyu Corporation. Further, Shinya Sakai, Takehiro Sugiyama, and Masao Shin concurrently served as directors of the Company and as senior officers of the Company's subsidiary Hanshin Electric Railway. Also, Masayoshi Ishibashi concurrently served as an Audit & Supervisory Board member of the Company and as a senior officer of Hanshin Electric Railway. The abovementioned persons received additional compensation from the abovementioned companies.

Support for Directors and Audit & Supervisory Board Members

With the exception of external directors and external Audit & Supervisory Board members, the Company provides directors and Audit & Supervisory Board members with the training that they require to fulfill their roles appropriately. In addition, the Company offers directors and Audit & Supervisory Board members training opportunities by introducing and paying for various types of training and seminars. Also, such committees as the Corporate Governance Committee give external directors and external Audit & Supervisory Board members information about the Group's businesses, financial position, and organisation. Further, in fiscal 2017 the Company conducted briefings about the management tasks and initiatives of each core business at meetings of the Board of Directors held in November and December.

Evaluation of the Board of Directors' Effectiveness

A summary of the process, items, and results of an evaluation of the effectiveness of the Board of Directors conducted in fiscal 2018 is as shown below.

1. Evaluation Process
At a meeting of the Board of Directors held on April 2017, all directors were interviewed with respect to the administration of the Board of Directors in fiscal 2017.

2. Evaluation Items

Accountability	Content of handouts, content and method of explanations at meetings of the Board of Directors, etc.
Appropriateness of conduct of meetings	Duration, questions and answers, etc.
Other	Other points about overall administration of the Board of Directors

3. Evaluation Results
The results of investigative interviews indicated that conduct of meetings of the Board of Directors was adequate, explanations of the status of business management were appropriate, and the Board of Directors was effective and generally administered appropriately in fiscal 2017.

Further, evaluation results for fiscal 2016 included requests for more information about the management tasks of each core business. In response, the Company conducted briefings about the management tasks and initiatives of each core business at meetings of the Board of Directors held in November and December 2016.

Number of Meetings of Deliberative Bodies Held

Corporate Governance Committee	1 meeting
Group Management Committee	15 meetings
Core Business Strategy Councils	2 meetings
The Group Presidents' Meeting	2 meetings

Internal Control System

Principles 2-1 2-2 4-3

Recognising the importance of ensuring that the business operations of the Company are conducted in an appropriate manner, we have established an internal control system for the entire Group, and revise it when deemed necessary. As things stand, our internal control system is characterised as follows:

- A Group Management Philosophy was compiled following the management integration of Hankyu Holdings and Hanshin Electric Railway, along with a Group mission (what we try to achieve), a statement of values (what is important to us), and a code of conduct (what actions to take to realise them). We ensure that all employees from executive down understand them.
- We ensure compliance-focused management by compiling and distributing a Compliance Manual, and have established a dedicated whistle-blowing system. (For further information on the Company's compliance activities, please refer to the following section.)
- We have established the Group Auditing Division, composed of internal audit staff under the direct control of the president, for independent monitoring of Groupwide business activities. It carries out internal audits into the Hankyu Hanshin Holdings Group and all its operating companies.
- To create a structure for ensuring appropriate operations, the Group vests Audit & Supervisory Board members of each Group company with authority not only in accounting but also in operational audits, and at the same time provides guidance to smaller Group companies on Board of Directors' resolutions for the creation of an internal control system.
- Audit & Supervisory Board members and the Group Auditing Division receive regular reports from the Risk Management Office with regard to creation and operation of internal controls at the Company and its subsidiaries (including implementation status for risk management and promotion of compliance-based management measures). Through such measures, they deepen their links with, and strengthen the role of, internal control divisions.
- With regard to systems for "Management Assessment and Audit Concerning Internal Control Over Financial Reporting," a section of the Financial Instruments and Exchange Act, the Company responds appropriately by carrying out management evaluations on a consolidated basis, in line with in-house rules.

Compliance

As a system to ensure compliance-focused management, the Group has set up a dedicated compliance office, and is working to raise awareness of compliance issues among executives and employees by means of the measures detailed below.

Compliance Manual and Training Programmes

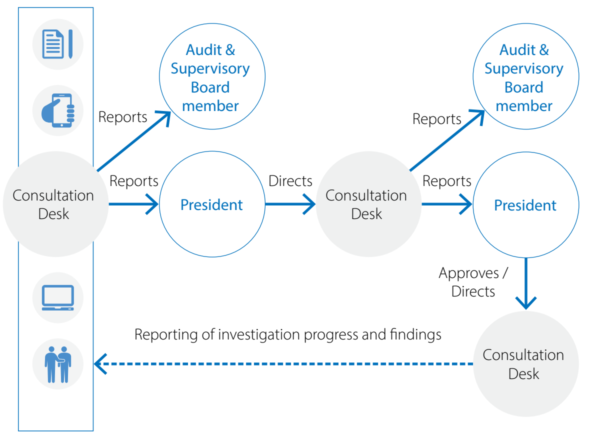
The Company's Compliance Manual and Compliance Card express the determination of the Company not to tolerate violation of laws or social norms or betrayal of customer trust by any of its Group companies' approximately 22,000 officers and employees. It also aims to raise awareness by pointing out cases where compliance errors can easily be made. The Company provides intensive compliance training on a Groupwide basis for new employees, midcareer hires, and newly appointed executives. In addition, all Group companies arrange their own training programmes tailored to job grade and function, with the aim of further increasing compliance awareness.

Corporate Ethics Consultation Desk (Internal Whistle-Blower Procedures)

Principle 2-5

We have set up a dedicated whistle-blower hotline enabling all employees to discuss or quickly bring to management's attention suspected or known legal violations and unethical conduct. Business partners are also welcome to use this consultation and notification facility, and when necessary we will use lawyers and other outside specialists to improve its effectiveness.

Corporate Ethics Consultation Desk

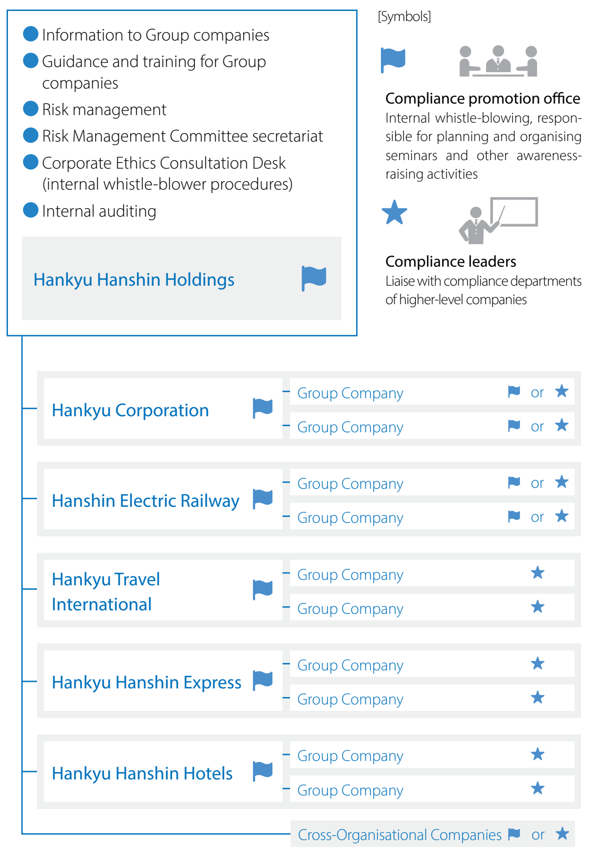


Establishment of Risk Management Committees

In the case of identification of a major compliance issue during the course of an Ethics Consultation, a risk management committee is convened as soon as possible to discuss and decide on appropriate responses.

In addition, we are setting up compliance promotion offices at major Group companies such as Hankyu Corporation, Hanshin Electric Railway, Hankyu Travel International, Hankyu Hanshin Express, and Hankyu Hanshin Hotels. At other companies we are appointing "compliance leaders," to ensure our response is on a Groupwide basis.

Overview of Group Compliance



Risk Management

Principle 4-3

At the Company, risks to which many different divisions are exposed are managed by the Risk Management Office, while risks arising in the business operations of individual divisions are managed by risk management units within the divisions themselves. In both cases, risks are identified and analysed, and risk management systems are overhauled from time to time. We evaluate the likelihood of materialisation of each risk and its frequency, as well as the extent of impact in the event of materialisation and its importance. On that basis, we draw up measures to prevent the materialisation of risk or to mitigate its impact ("risk mitigation measures"). These measures are documented in the form of risk management manuals, and the results of risk analysis and how such a risk is being handled when a risk arises are reported, as appropriate, to the Board of Directors.

We have also established a liaison system enabling the effective transmission of information in the event of unforeseen circumstances. Under this system, in the event of materialisation of a risk, executives and employees immediately take risk mitigation measures as specified in the abovementioned documentation and other measures to prevent the further spread of the impact. They also submit reports to pre-appointed risk management liaison personnel.

The Company provides supervision to all companies in the Group so that the same system is operated by them all, and has set up a system enabling transmission to the Company of accurate information in the event of an unforeseen development.

A particular area of importance in this regard is the Company's core railway business, which entails direct risk to people's lives through accidents. Even in the event of minor mistakes and problems where no individual responsibility arises, it is important to make every effort to bring the number of problems and mistakes that could cause an accident as close to zero as possible, by continuing to meticulously train railway business staff, and share and analyse data. Such painstaking efforts to forestall even one human error are one of the building blocks on which the Company ensures safety of operations and meets public expectations.

Pages 64–67 explain measures to ensure the safety of the railway business of Hankyu Corporation and Hanshin Electric Railway.

Initiatives Aimed at Reducing the Group's Risk

Mitsuo Nozaki
Executive Officer,
In charge of Personnel and
General Affairs Div.,
Hankyu Hanshin Holdings

Our Current Risk Management Framework

Based on six core businesses, the Hankyu Hanshin Holdings Group conducts diverse business activities. Consequently, in a wide range of areas the Group incurs risks meriting attention. Therefore, each fiscal year the Company and its operating subsidiaries coordinate to identify and assess business risks. Specifically, from among general risk items, which the Company prepares in advance based on a Groupwide management viewpoint, operating subsidiaries select risks that should be addressed as a priority. In selecting these priority risks, the operating subsidiaries use as criteria the likelihood of risk manifestation and the effect this would have on operations. Next, the operating subsidiaries establish risk reduction measures targeting the selected priority risks, discuss the countermeasures at meetings of their boards of directors and other meetings, and then report conclusions to Hankyu Hanshin Holdings as the holding company. The Company regularly collates and reports information about the progress of operating subsidiaries' risk management measures to the Board of Directors.

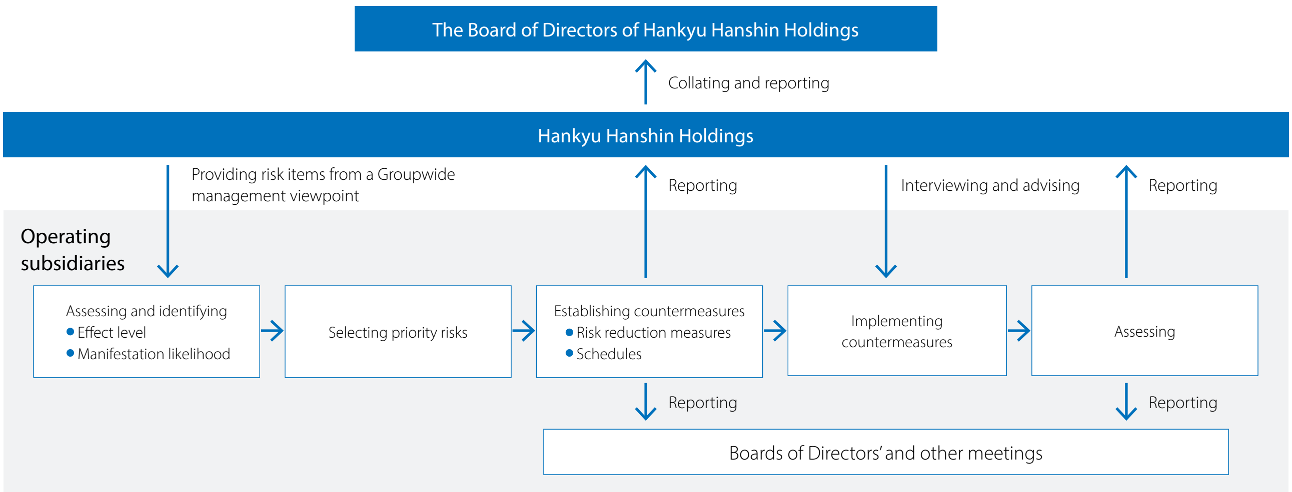
As for the monitoring of risk management measures, operating subsidiaries must submit progress reports to the Company periodically. In addition, as the officer responsible for risk management, I and other risk managers conduct face-to-face interviews with members of subsidiaries' senior management teams at least once a year, checking the progress of their measures for priority risks through a plan–do–check–act (PDCA) cycle. Interviews at operating subsidiaries not only help me understand changes in the status of risks but also give me an opportunity to share management know-how about such issues as best practices within the Group.

Initiatives Going Forward

Looking to the future, a pressing task is to strengthen the management of risk associated with overseas businesses, which aim to expand in accordance with the Long-Term Management Vision for 2025. While leveraging the expertise and information of the International Transportation Business—which has a strong track record in overseas business development—we will address this task by establishing a management system aimed at selecting and reducing priority risks. Further, I believe we need to heighten our sensitivity to risk related to the environment, society, and governance (ESG). In particular, four years ago we began a Groupwide initiative to rigorously introduce appropriate management of working hours. As part of this ongoing initiative, we are advancing efforts to identify and address issues arising from characteristics of each operating subsidiary's business.

The Hankyu Hanshin Holdings Group's risk management has changed significantly since the Company stepped up its involvement with operating subsidiaries following a compliance incident several years ago. The Company will continue to increase risk management awareness across the Group, prevent the occurrence of risk-related events, and heighten its ability to respond to risks.

Risk Management Framework



Principal Risks and Countermeasures

The Hankyu Hanshin Holdings Group's approaches to risks related to businesses and other risks that may be of concern to investors are stated below.

Further, forward-looking statements in this report reflect the Group's assessments as of 31st March 2017. Moreover, these statements do not negate the possibility of the said risks affecting the Group's business results or financial position.

Principal risks	The Group's countermeasures
Risks related to economic conditions	
■ Borrowing rates could increase due to changes in financial markets or fund-raising from markets could become difficult. ■ Sudden changes in financial markets could affect the Group's business results or financial position.	■ The Group limits exposure to the risk of interest rate increases by giving priority to the undertaking of long-term loans with fixed interest rates. ■ The Group secures financing by establishing backup lines of credit based on commitment lines set up with correspondent financial institutions.
■ Changes in the economic climate could cause exchange rate volatility. ■ Greater-than-expected volatility could affect the Group's business results or financial position.	■ The Group uses forward exchange contracts, currency swap contracts, and currency option contracts to mitigate exchange rate fluctuation risk associated with certain foreign currency-denominated monetary payables and receivables. Further, the Group's overseas sales were less than 10% of consolidated revenues from operations as of 31st March 2017.
Risks related to businesses	
■ The further aging of society is expected to increase capital investment for safety countermeasures and construction to make facilities barrier-free. ■ Due to population decline resulting from lower birth rates, the Group's railways, buses, and taxis could see demand for passenger transportation decrease. Also, demand could decrease in other businesses.	■ Through continuous initiatives to heighten the value of the Umeda area and other areas served by the Hankyu and Hanshin lines, the Group creates line-side areas in which people want to live in long term or visit frequently. ■ The Group will develop such new markets as the Tokyo metropolitan area and overseas markets. ■ The Group has established the Long-Term Management Vision for 2025 and will take various measures to become *the company we hope to be*. The four elements of this target corporate profile are stated below. 1. Make our railway the absolute best among the Kansai networks. 2. Construct a stable revenue base in the Tokyo metropolitan area and overseas markets. (Diversify the portfolio, which is currently concentrated in Umeda and line-side areas.) 3. Strengthen competitiveness by thoroughly pursuing brand optimisation and differentiation. 4. Make greater use of the Group's collective strength and develop new business fields.
■ An accident in the railway business could cause customers great suffering.	■ The Group is keenly aware that being entrusted with passengers' lives is a serious responsibility. Therefore, placing first priority on ensuring the safety of customers is the basis of its business management. ■ Based on its strong commitment to putting customers first and giving the highest priority to safety, the Group is implementing a wide range of measures to upgrade tangible and intangible infrastructure and provide customers with improved safety. For details about safety measures in the Urban Transportation Business, please see pages 64–67.

Principal risks	The Group's countermeasures
Higher electric utility rates could increase power and other costs.	The Group is steadily introducing energy-saving equipment to curb power consumption as much as possible. The Group takes rigorous measures to ensure employees are aware of the importance of cost reductions.
A loss of trust in the quality and safety of products and services that the Group sells and offers or in the information it provides about them could lower revenues and lead to a deterioration in business results.	The Group ensures the quality and safety of its products and services and the appropriateness of the information it provides about them by confirming compliance with relevant laws and regulations and checking quality and hygiene management and food labelling.
Natural disasters, such as earthquakes, typhoons, or floods, or acts of terrorism could significantly damage the Group's businesses or transportation network infrastructure.	In the areas alongside their railway lines, Hankyu Corporation and Hanshin Electric Railway have installed water meters for rivers and rain and wind gauges for collecting observation data. Also, they use real-time information from meteorological observatories to ensure safe train operations. If seismographs detect an earthquake with a seismic intensity of four or above, or if earthquake early warning systems forecast an earthquake of the same seismic intensity, the Group immediately begins procedures for the emergency suspension of the operations of all trains on line segments in earthquake zones. If the Group recognises that continued vigilance is required with respect to acts of terrorism or other acts, or if suspicious items or persons are discovered or damage is incurred, it conducts crisis management appropriate to the threat level. The Group has established emergency response systems for minimizing the effect on society in the unlikely event of an incident that causes a long disruption to transportation services or results in a large number of casualties.

For further information on risks related to businesses and other risks, please see page 73.

Safety Initiatives in the Railway Business

Safety Policy and Safety Objective

The shared mission of Hankyu Corporation and Hanshin Electric Railway is to ensure the absolute safety of railway transportation. All day-to-day safety enhancement measures as well as measures to ensure safety in emergencies reflect the safety policy and safety objective below.

Hankyu Corporation

Safety Objective

• Maintaining the elimination of accidents for which we bear responsibility

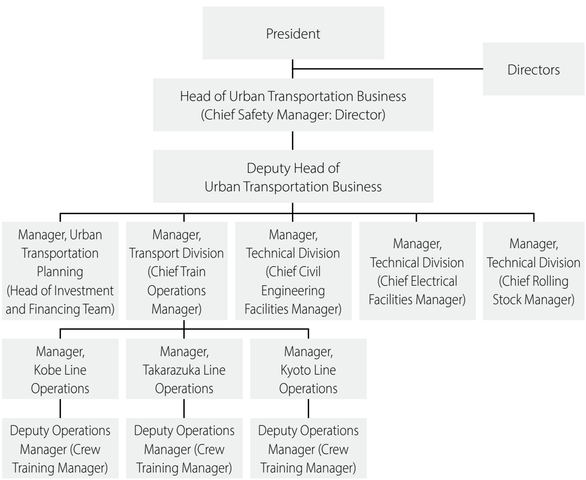
For the fiscal years from fiscal 2017 onward, we again set *elimination of accidents for which we bear responsibility* as our safety objective. This has been our safety objective since 2006, and we will continue to do our utmost to achieve it.

Safety Policy and Safety Priority Measures

Provide safe, high-quality transportation services that fully justify public trust—Hankyu Corporation: *Safety and comfort*

1. Promote accident reoccurrence prevention and accident prevention measures
   a. Ensure rigorous accident reoccurrence prevention by steadily implementing countermeasures
   b. Prevent accidents by using accident precursor information and accident examples
   c. Upgrade and introduce equipment and facilities to realise even safer railways
2. Strengthen responses when disasters occur
   a. Identify risks that threaten business continuity and prepare and implement countermeasures
   b. Conduct highly effective training to realise rapid, reliable emergency measures
3. Enhance employees' safety awareness and increase communication
   a. Conduct training to heighten employees' safety awareness even further
   b. Continue training aimed at ensuring personnel development and the passing on of skills
   c. Establish workplaces with an open atmosphere

Safety Management System



Safety Management Promotion Committees

Positions and Roles

◎ President

The President determines the implementation, management organisation, and rules of the railway business. In addition, when formulating the Medium-Term Management Plan, which includes facilities and transportation, personnel, investment, and budget, the President verifies and ascertains the situation from the perspectives of safety and feasibility and instructs on improvements.

◎ Chief Safety Manager

In order to prioritise securing the safety of railway facilities and rolling stock and the handling of operations, and to control and manage transportation operations in each division, the Chief Safety Manager works to disseminate safety management regulations and to ensure compliance with related laws and regulations; to increase awareness of safety as the Group's most important priority; to confirm the implementation of transportation operations, management conditions, and the progress made in implementing the safety improvement measures stipulated in the Medium-Term Management Plan; and to implement improvement measures.

◎ Chief Train Operations Manager

The Chief Train Operations Manager manages operations-related duties, including utilising the employees involved in operations, railway facilities, and rolling stock; setting and revising the operations plan; managing train crews, the operations of rolling stock, and train operations; and providing training for train crews and maintaining their capabilities.

◎ Chief Crew Training Manager

Based on the instructions and orders of the Chief Train Operations Manager, the Chief Crew Training Manager maintains and manages the capabilities of train crews and periodically confirms and submits reports on the progress being made in improving their capabilities.

◎ Other Managers and Responsible Persons

In each division, other managers and responsible persons maintain and manage the facilities they are responsible for in order to ensure there are no obstacles to realising safe transportation.

◎ Safety Management Promotion Committees

Safety Management Promotion Committees discuss, investigate, and report on a variety of proposals for transportation safety. These committees include the Group Safety Management Promotion Committee, on which the President serves as chairperson; the Business Division Safety Management Promotion Committee, on which the Chief Safety Manager serves as chairperson; and the divisional safety management promotion committees.

Hanshin Electric Railway

Safety Objective

• Maintaining the elimination of accidents for which we bear responsibility

We have maintained *elimination of accidents for which we bear responsibility* as our safety objective since April 1985.

Safety Policy

Maximum priority on safety

The President, directors, and employees shall do everything possible to ensure safety of operations, based on the understanding that putting the highest priority on ensuring safety is the mission of railway businesses.

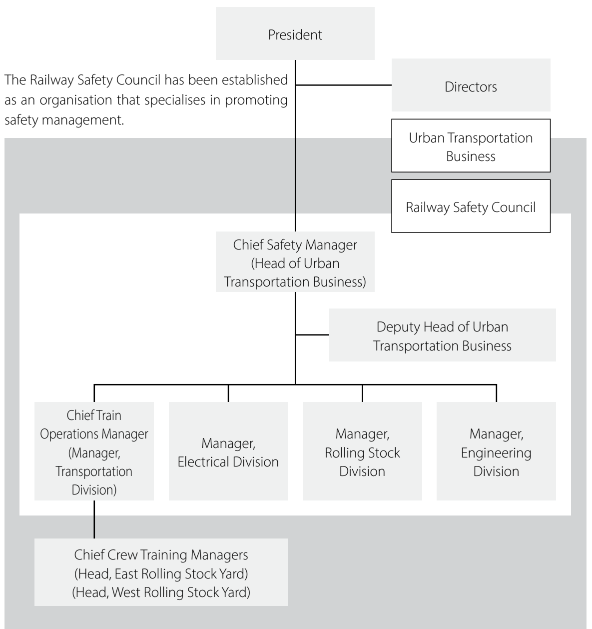
Compliance with laws and regulations

The Company shall comply with all laws and regulations related to safety and apply them rigorously and sincerely in its operations.

Maintenance of safety management systems

The Company shall implement continuous verification procedures to ensure that safety management systems are operating appropriately.

Safety Management System



Positions and Roles

◎ **President**

The President has the ultimate responsibility for ensuring transport safety.

◎ **Chief Safety Manager (Head of Urban Transportation Business)**

The Chief Safety Manager is responsible for overseeing all activities related to ensuring transport safety.

◎ **Chief Train Operations Manager (Transportation Division Manager)**

Under the direction of the Chief Safety Manager, the Chief Train Operations Manager is responsible for operations including train operations, maintaining the capabilities of train crews, and other related operations.

◎ **Chief Crew Training Managers (the Heads of the East Rolling Stock Yard and the West Rolling Stock Yard)**

Under the direction of the Chief Train Operations Manager, the Chief Crew Training Managers are responsible for ensuring all crew are properly qualified.

◎ **Electrical Division Manager**

Under the direction of the Chief Safety Manager, the Electrical Division Manager has overall control of items relating to electrical facilities.

◎ **Rolling Stock Division Manager**

Under the direction of the Chief Safety Manager, the Rolling Stock Division Manager has overall control of items relating to rolling stock.

◎ **Engineering Division Manager**

Under the direction of the Chief Safety Manager, the Engineering Division Manager has overall control of items relating to track, civil engineering, and construction facilities.

Initiatives to Reinforce the Safety Management System (Using the PDCA Cycle)

By applying our safety management system (the PDCA cycle) to a range of safety initiatives, we are aiming to create a virtuous cycle of improvement based on even higher safety goals.

Revisions to the Railway Business Law in October 2006 required railway companies to create new safety management systems dedicated to transport safety. Under our new safety management system, we are realising even higher levels of safety by applying the plan–do–check–act (PDCA) cycle, ensuring compliance with all related laws and regulations, conducting operations that place the highest priority on safety, and fostering greater awareness of safety issues among employees from directors on down.

Use of Safety-Related Suggestion Boxes to Reduce Potential Risks

With a view to preventing accidents, Hanshin Electric Railway collects and uses risk information about the potential causes of accidents and near misses. As an additional initiative to reduce potential risks, the company began a safety-related suggestion box system in 2014. The suggestion boxes allow employees engaged in railway operations to anonymously submit comments about instances when they have felt situations were dangerous or about things they have realised in the course of day-to-day duties, regardless of whether these comments concern an operational area for which they are responsible. Without fail, railway operations' safety-related committees check these suggestions and take the necessary countermeasures. Moreover, by sharing examples of improvements, we heighten each employee's sensitivity to danger and thereby encourage further improvements.

Before improvement

After improvement

Suggestion received: There is an area in the west part of Kusugawa Station that does not have an intrusion prevention fence. Train photographers and small children putting out their hands gave me a fright.

Countermeasure: By installing a new intrusion prevention fence, we ensured safe train operations.

Safety Enhancement Initiatives

To ensure the safety of customers, we are proactively taking personnel-related measures to enhance education and training as well as infrastructure-related measures to improve equipment and facilities.

1. Training and Education

At government-designated in-house training centres, Hankyu Corporation and Hanshin Electric Railway foster train drivers and train conductors. During the training period, trainees receive education on academic subjects and practical skills in accordance with a national curriculum. Also, experienced drivers and train conductors act as instructors and provide rigorous one-on-one, on-site training. Even after personnel have passed certification exams, we maintain and heighten the skills, awareness, and qualifications of drivers, conductors, and operations personnel by holding safety workshops and seminars and by conducting training based on a range of scenarios.

2. Initiatives for Natural Disasters

1. Responding to rain storms

During rain storms, we direct trains to reduce speed or suspend operations based on information obtained from the rain gauges, wind gauges, and water meters installed alongside our railway lines and meteorological information from the Japan Meteorological Agency.

2. Responding to earthquakes

If earthquake early warning systems forecast an earthquake with a seismic intensity of four or above, or if seismographs that we have installed alongside our railway lines detect an earthquake of the same seismic intensity, we immediately begin procedures for the emergency suspension of operations of trains on line segments in earthquake zones.

3. Responding to actions of third parties, such as acts of terrorism

If there is a warning that the actions of third parties, such as acts of terrorism, could cause serious incidents with extremely significant effects on society, or if such a warning calls for continued vigilance, or if suspicious items or persons are discovered or damage is incurred, we take measures appropriate to the threat level.

Further, we are advancing the installation of security cameras on station platforms and in station concourses to prevent crime.

3. Maintenance Work: Indispensable for Safe, Comfortable Operations

1. Inspecting electrical equipment

We have many different types of electrical equipment, including signal safety equipment, secure communications equipment, railway crossing safety equipment, power equipment, railway track equipment, and substation equipment, which we inspect regularly based on prescribed inspection schedules.

2. Inspecting railway tracks

We regularly inspect railway tracks, rails, ties, and other components to ensure the safe operation of trains.

3. Inspecting structures

We inspect elevated tracks, bridges, tunnels, and other railway civil engineering structures regularly.

4. Inspecting rolling stock

We conduct inspections at our plants and train depots to maintain the safety of rolling stock. Regular inspections include train inspections, status and function inspections, main component inspections, and overall inspections. In addition, we conduct unscheduled inspections as required.

Consolidated Six-Year Summary

FY		2012	2013	2014	2015	2016[6]	2017	2017
Result of Operations (Millions of yen and thousands of U.S. dollars)[1]:								
Revenues from operations		¥ 649,703	¥ 682,439	¥ 679,157	¥ 685,906	¥ 746,792	¥ 736,763	$ 6,578,241
Operating income		73,809	87,921	91,828	94,026	110,293	104,058	929,089
EBITDA[2]		133,500	145,100	149,200	150,100	166,500	159,300	1,422,321
Ordinary income		65,393	74,914	81,191	85,590	104,479	100,607	898,277
Income before income taxes		43,419	62,192	83,542	77,620	96,087	100,805	900,045
Net income attributable to owners of the parent		39,252	39,702	46,352	54,201	69,971	71,302	636,625
Comprehensive income		44,992	54,081	55,941	71,034	63,842	79,288	707,929
Capital expenditure		55,267	59,512	80,722	68,115	66,639	86,212	769,750
Depreciation and amortisation		56,968	54,540	54,474	53,143	53,701	52,800	471,429
Cash Flows (Millions of yen and thousands of U.S. dollars):								
Cash flows from operating activities		¥ 124,525	¥ 127,655	¥ 146,991	¥ 131,881	¥ 124,838	¥ 115,633	$ 1,032,438
Cash flows from investing activities		(44,295)	(58,923)	(45,517)	(52,529)	(78,843)	(84,845)	(757,545)
Cash flows from financing activities		(78,978)	(69,195)	(105,079)	(81,746)	(47,278)	(30,595)	(273,170)
Increase (decrease) in cash and cash equivalents		767	817	(1,840)	(1,125)	(1,978)	(480)	(4,286)
Cash and cash equivalents at end of year		23,572	25,581	24,497	23,497	22,363	22,530	201,161
Financial Position (Millions of yen and thousands of U.S. dollars):								
Total assets		¥2,274,380	¥2,281,007	¥2,286,928	¥2,279,638	¥2,282,180	¥2,349,831	$20,980,634
Total net assets		524,801	573,154	617,598	679,482	724,237	804,659	7,184,455
Interest-bearing debt		1,183,647	1,126,633	1,032,307	955,828	916,570	899,523	8,031,455
Per Share Data (Yen and U.S. dollars):								
Net income attributable to owners of the parent	Basic	¥ 31.13	¥ 31.48	¥ 36.76	¥ 42.98	¥ 277.88	¥ 285.11	$ 2.55
	Diluted	31.13	31.47	36.75	42.95	277.67	284.86	2.54
Net assets		407.01	443.63	477.69	525.56	2,815.96	3,150.67	28.13
Dividend		5.00	5.00	6.00	6.00	35.00	35.00	0.31
Ratios:								
Operating income margin (%)		11.4	12.9	13.5	13.7	14.8	14.1	—
ROA (%)[3]		2.8	3.3	3.6	3.7	4.6	4.3	—
ROE (%)[4]		7.9	7.4	8.0	8.6	10.3	9.4	—
Interest-bearing debt/EBITDA (Times)		8.9	7.8	6.9	6.4	5.5	5.6	—
Equity ratio (%)		22.6	24.5	26.3	29.1	31.0	33.5	—
Debt/equity (D/E) ratio (Times)[5]		2.3	2.0	1.7	1.4	1.3	1.1	—
Others:								
Number of outstanding shares (Thousands)		1,271,406	1,271,406	1,271,406	1,271,406	254,281	254,281	—
Number of employees		20,811	20,751	20,913	21,037	21,607	21,860	—

1. The U.S. dollar amounts have been translated, for convenience only, at ¥112 = US$1, the prevailing exchange rate on the Tokyo Foreign Exchange Market as of 31st March 2017.
2. EBITDA = operating income + depreciation expenses + amortisation of goodwill
   EBITDA figures are rounded to the nearest ¥100 million.
3. ROA = ordinary income / total assets (average of period-start and period-end totals)
4. ROE = net income attributable to owners of the parent / equity (average of period-start and period-end totals)
5. D/E ratio = interest-bearing debt / equity
6. Regarding transactions related to such items as the export of mixed cargo of the International Transportation Business, the Company has changed the recognition of revenues from operations from net presentation to gross presentation as of fiscal 2017. As a result of this change, the amount of revenues from operations for fiscal 2016 is the amount after retrospective application (gross presentation).
   Further, the Company consolidated shares at the ratio of 5 shares to 1 share with an effective date of 1st August 2016. Net income per share, diluted net income attributable to owners of the parent per share, net assets per share, dividend per share, and number of outstanding shares have been calculated based on the assumption that the said reverse stock split was executed on 1st April 2015.

Consolidated Financial Review

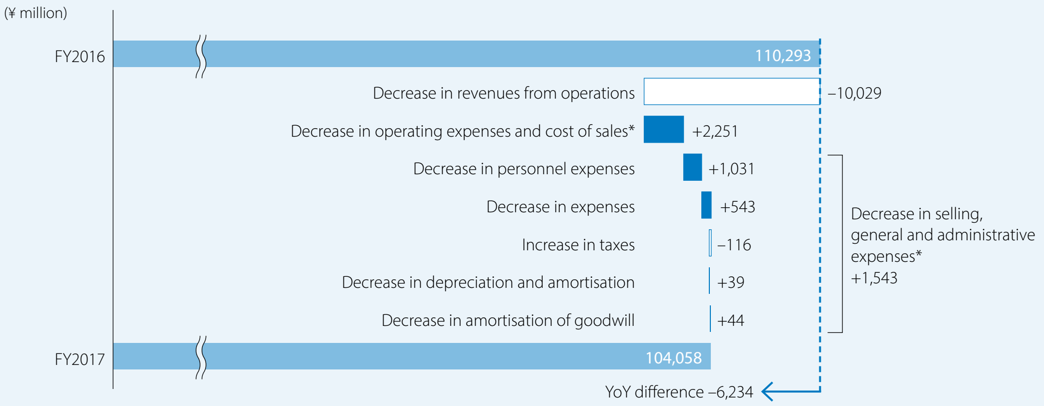
Analysis of Operating Results for Fiscal 2017 (Year ended 31st March 2017)

Although the Group was able to achieve its profit targets, revenues from operations declined 1.3%, or ¥10,029 million, year on year, to ¥736,763 million. This decrease was attributable to the sale of land for facilities in the Real Estate Business in the previous fiscal year and the lower yen-equivalent value of revenues and earnings in the International Transportation Business that accompanied exchange rate fluctuations. As a result of the abovementioned decrease in revenues from operations, operating income was down 5.7%, or ¥6,234 million, year on year, to ¥104,058 million.

Further, ordinary income declined 3.7%, or ¥3,872 million, year on year, to ¥100,607 million, because the abovementioned decrease in revenues from operations counteracted higher equity in income of affiliates and a decrease in interest expenses accompanying lower interest-bearing debt.

Total extraordinary income net of total extraordinary loss was ¥197 million, compared with a loss of ¥8,391 million in the previous fiscal year, due to the recording of losses on revaluation of investment securities in the previous fiscal year. Reflecting the improvement in total extraordinary income net of total extraordinary loss, net income attributable to owners of the parent increased 1.9%, or ¥1,331 million, year on year, to ¥71,302 million.

Analysis of operating income



* Included in cost of revenues from operations, retirement benefit expenses increased ¥2,088 million.

Segment Information

The following table shows business performance for each core business segment. For reviews of these results, please see the respective reference pages at the bottom of the columns in the table below.

(Millions of yen)

	Urban Transportation	Real Estate	Entertainment and Communications	Travel	International Transportation	Hotels	Other	Adjustment	Consolidated
Revenues from operations									
FY2017	**237,136**	**215,709**	**115,193**	**29,938**	**71,670**	**65,640**	**42,646**	**(41,172)**	**736,763**
FY2016	239,544	220,923	112,490	30,502	76,092	68,042	38,859	(39,660)	746,792
YoY difference	−2,407	−5,213	+2,703	−563	−4,422	−2,401	+3,787	−1,512	−10,029
Operating income									
FY2017	**42,237**	**41,970**	**15,655**	**637**	**1,587**	**2,795**	**1,340**	**(2,167)**	**104,058**
FY2016	41,270	49,851	15,301	680	1,788	3,298	967	(2,866)	110,293
YoY difference	+967	−7,881	+354	−43	−200	−502	+372	+698	−6,234
Reference page	P.37	P.39	P.41	P.43	P.45	P.47	—	—	—

Note: Regarding transactions related to such items as the export of consolidated cargo of the International Transportation Business, the Company has changed the recognition of revenues from operations from net presentation to gross presentation as of the fiscal year under review. As a result of this change, the amount of revenues from operations for the previous fiscal year is the figure after retrospective application (gross presentation). Further, this change has not affected operating income.

Review of Financial Position

1. Assets, Liabilities, and Net Assets

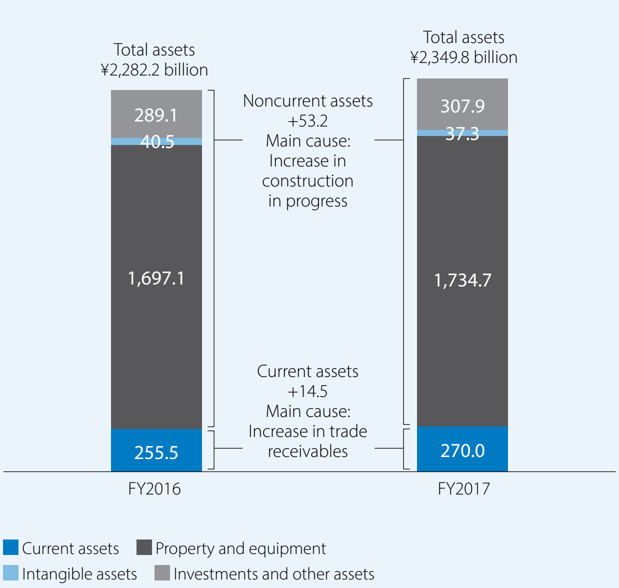
Total assets at the end of the fiscal year under review stood at ¥2,349,831 million, a rise of ¥67,650 million from the previous fiscal year-end. This increase mainly stemmed from investment that exceeded depreciation and amortisation, the recognition of an increase in equity in income of affiliates, a rise in the market value of listed investment securities owned, and an increase in construction in progress. Further, construction in progress increased in tandem with the advancement of the Ginza 3-chome Project and the Umeda 1-1 Project.

As for liabilities, the primary causes of higher total long-term liabilities were increases in long-term debt and bonds. Meanwhile, a decrease in total current liabilities mainly resulted from lower short-term borrowings. Consequently, interest-bearing debt was ¥17,046 million lower than at the previous fiscal year-end. Total liabilities decreased ¥12,771 million from the previous fiscal year-end, to ¥1,545,171 million.

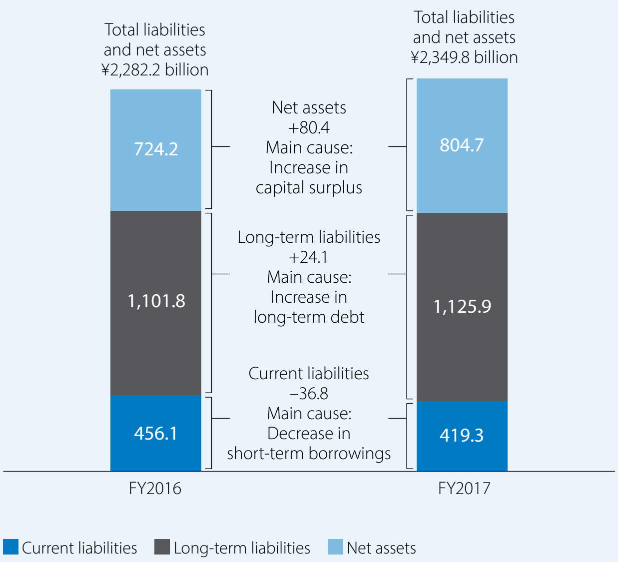
Net assets increased ¥80,422 million from the previous fiscal year-end, to ¥804,659 million, due mainly to higher retained earnings.

As a result, the equity ratio stood at 33.5%, and ROE was 9.4%.

Assets
(¥ billion)



Liabilities and net assets
(¥ billion)



2. Cash Flows

Cash and cash equivalents at end of year increased ¥167 million from the previous fiscal year-end, to ¥22,530 million.

(1) Cash Flows from Operating Activities

Net cash provided by operating activities was ¥115,633 million (down 7.4% year on year). The main factors were income before income taxes of ¥100,805 million, depreciation and amortisation of ¥52,800 million, and income taxes paid of ¥22,714 million.

(2) Cash Flows from Investing Activities

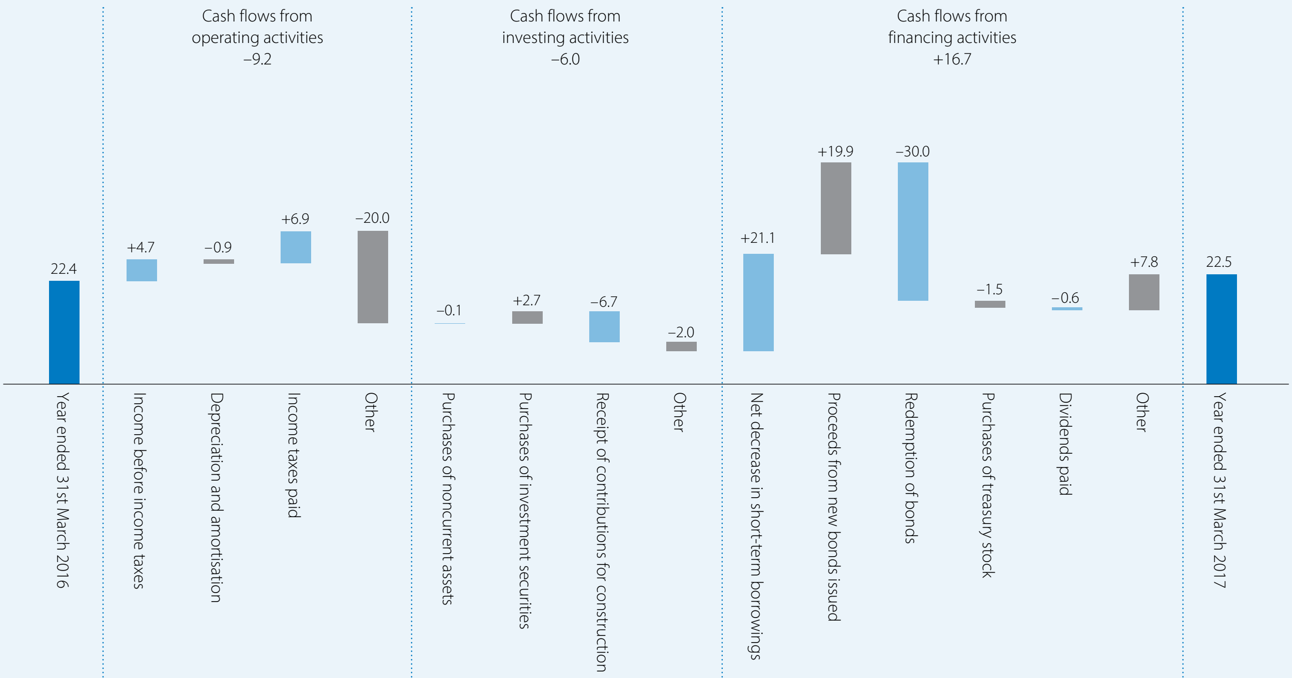
Net cash used in investing activities amounted to ¥84,845 million (up 7.6% year on year). This primarily reflected purchases of noncurrent assets of ¥92,767 million, purchases of investment securities of ¥11,527 million, and receipt of contributions for construction of ¥13,973 million.

(3) Cash Flows from Financing Activities

Net cash used in financing activities totalled ¥30,595 million (down 35.3% year on year). This was due partly to a net decrease in borrowings of ¥3,932 million, proceeds from new bonds issued of ¥19,858 million, redemption of bonds of ¥30,000 million, purchase of treasury stock of ¥5,271 million, and dividends paid of ¥8,803 million.

Cash flows

(¥ billion)



3. Fund Procurement

The outstanding balance of interest-bearing debt at the end of the fiscal year under review amounted to ¥899,523 million, a decrease of ¥17,046 million from the previous fiscal year-end. This was because net cash provided by operating activities more than compensated for capital expenditure for the Ginza 3-chome Project and the building of new rolling stock.

The ratio of interest-bearing debt/EBITDA (operating income + depreciation expenses + amortisation of goodwill), which is the benchmark the Company uses for assessing the soundness of its financial position, stood at 5.6 times at the end of the fiscal year under review, compared with 5.5 times at the previous fiscal year-end.

Consolidated Capital Expenditure and Depreciation and Amortisation

Capital expenditure in the fiscal year under review (on a consolidated basis; including intangible assets) increased ¥19,573 million, or 29.4%, year on year, to ¥86,212 million.

The following is a breakdown for each business segment.

	(Millions of yen)	(%)
	FY2017	YoY
Urban Transportation	31,158	11.4
Real Estate	43,144	52.5
Entertainment and Communications	7,388	24.8
Travel	528	4.1
International Transportation	384	–63.4
Hotels	3,182	42.5
Other	618	–13.7
Total	86,406	29.6
Adjustment	(193)	–272.6
Consolidated	86,212	29.4

Urban Transportation

The railway business carried out capital investment with a focus on safety and service improvement, built new rolling stock, and improved existing rolling stock.

Real Estate

The Real Estate Business moved forward with the Ginza 3-chome Project and continued implementing the Umeda 1-1 Project.

Entertainment and Communications

The Entertainment and Communications Business renewed the transmission lines of main lines.

Travel

In the Travel Business, Hankyu Travel International stepped-up Internet sales and invested in IT systems for in-house operations.

International Transportation

In the International Transportation Business, Hankyu Hanshin Express invested in IT systems for in-house operations.

Hotels

In the Hotels Business, Hankyu Hanshin Hotels refurbished the guest rooms of its hotels.

Depreciation and amortisation decreased ¥901 million, or 1.7%, from the previous year (on a consolidated basis), to ¥52,800 million.

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. Nevertheless, these dangers do not encompass all risks attendant on Group activities and there are risks other than those stated below which are difficult to foresee.

Information about future events that appears in this annual report was determined by the Group to be current as of 31st March 2017.

Legal Risk

In accordance with the stipulations of Article 3 of the Railway Business Law, the Group must obtain separate permissions from the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) for 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 approval 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 MLIT's administration of these regulations.

Interest-Bearing Debt

The balance of interest-bearing debt held by the Group as of the end of March 2017, on a consolidated basis, was ¥899,523 million. As a result of the acquisition of shares in Hanshin Electric Railway through a successful public tender offer (takeover bid) on 27th June 2006, Hanshin Electric Railway has become a consolidated subsidiary of Hankyu Holdings. This acquisition has resulted in an increase in the balance of interest-bearing debt of the Group. On the other hand, management integration between the Hankyu Holdings Group and Hanshin Electric Railway Group has increased cash flows, so the Group is not expected to have any significant difficulty in repaying its debts.

The Group will take measures to diversify its fund procurement methods to deal with an increase in interest-bearing debt resulting from the integration, and will use all possible means to minimise the negative impact of interest rate movements. But 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.

Affiliated Companies

In order to ensure greater convenience for users of the Hokushin Kyuko Railway Line (run by consolidated subsidiary Hokushin Kyuko Railway), Hankyu Corporation (a consolidated subsidiary) has agreed to a plan transferring railway facilities held by Hokushin Kyuko Railway to Kobe Rapid Transit Railway (a consolidated subsidiary) and retaining railway business as a tier 2 railway operator.

To facilitate the plan, in fiscal 2003 Hankyu Corporation provided Kobe Rapid Transit Railway with financing for part of the funds necessary to purchase the facilities.

In September 2007, Kobe Electric Railway (an equity-method affiliate) temporarily suspended support for the rehabilitation of Hokushin Kyuko Railway. To uphold the rehabilitation project, additional financing was extended to Hokushin Kyuko Railway by Hankyu Corporation.

We will continue to provide assistance to ensure that Hokushin Kyuko Railway can conduct smooth and efficient operations as a tier 2 railway operator. However, the business performance and financial position of the Group could be affected by changes in this plan.

Decline in the Market Value of Assets Held by Members of the Hankyu Hanshin Holdings Group

In the case of a substantial decline in the market value of inventory assets, property and equipment and intangible assets, investment securities, and other assets, the recording of impairment losses or valuation losses would likely have a negative impact on the earnings performance and financial position of the Hankyu Hanshin Holdings Group.

Declining Birth Rate

In the Group's mainstay Kyoto-Osaka-Kobe area, demographic changes accompanying the declining birth rate are expected to lower demand for railway, bus, and taxi services and other types of passenger transportation and to lower demand in other business areas. In addition, securing personnel is likely to become difficult as an imbalance between supply and demand develops in the labour market. Such contingencies could affect the business performance and financial position of the Group.

Natural Disasters

Operating as it does across an extremely wide range of businesses in its Urban Transportation, Real Estate, Entertainment and Communications, Travel, International Transportation, and Hotels segments, the Group has a correspondingly large assortment of facilities necessary for the conduct of business, such as railway installations and buildings and retail outlets for rent. In the event of earthquakes or other major disasters, the business performance and financial position of the Group could be adversely affected by damage to these facilities.

Consolidated Balance Sheets

As of 31st March 2016 and 2017

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Assets:			
Current assets:			
Cash and deposits	¥ 24,225	¥ 24,255	$ 216,563
Trade receivables	73,141	83,492	745,464
Land and buildings for sale	103,060	107,234	957,446
Finished products and merchandise	2,605	2,368	21,143
Work in progress	4,656	3,724	33,250
Materials and supplies	4,466	4,524	40,393
Deferred tax assets	6,427	7,044	62,893
Other	37,188	37,606	335,768
Allowance for doubtful receivables	(234)	(260)	(2,321)
Total current assets	255,535	269,992	2,410,643
Noncurrent assets:			
Property and equipment:			
Buildings and structures–net [NOTE 5 ③]	572,227	563,652	5,032,607
Machinery, equipment and vehicles–net [NOTE 5 ③]	53,529	57,525	513,616
Land [NOTES 5 ③ and ⑤]	931,355	935,126	8,349,339
Construction in progress	120,589	158,847	1,418,277
Other–net [NOTE 5 ③]	19,369	19,552	174,571
Total property and equipment [NOTES 5 ① and ②]	1,697,070	1,734,702	15,488,411
Intangible assets:			
Goodwill	23,295	20,822	185,911
Other [NOTES 5 ② and ③]	17,211	16,461	146,973
Total intangible assets	40,507	37,284	332,893
Investments and other assets:			
Investment securities [NOTES 5 ③ and ④]	248,097	267,979	2,392,670
Deferred tax assets	4,323	4,146	37,018
Net defined benefit asset	5,947	7,194	64,232
Other [NOTE 5 ③]	31,046	28,810	257,232
Allowance for doubtful receivables	(347)	(279)	(2,491)
Total investments and other assets	289,066	307,852	2,748,679
Total noncurrent assets	2,026,644	2,079,839	18,569,991
Total assets	2,282,180	2,349,831	20,980,634

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Liabilities:			
Current liabilities:			
Trade payables	¥ 37,480	¥ 40,086	$ 357,911
Accrued expenses	18,199	17,938	160,161
Short-term borrowings [NOTE 5 ③]	205,909	178,408	1,592,929
Current portion of bonds	30,000	10,000	89,286
Lease obligations	1,794	1,795	16,027
Income taxes payable	6,188	9,704	86,643
Provision for bonuses	4,638	4,620	41,250
Other [NOTE 5 ③]	151,924	156,737	1,399,438
Total current liabilities	456,134	419,291	3,743,670
Long-term liabilities:			
Long-term debt [NOTE 5 ③]	589,100	610,523	5,451,098
Bonds	82,000	92,000	821,429
Lease obligations	7,765	6,795	60,670
Deferred tax liabilities	189,812	179,530	1,602,946
Deferred tax liabilities related to land revaluation [NOTE 5 ⑤]	5,152	5,152	46,000
Net defined benefit liability	61,839	61,459	548,741
Long-term deferred contribution for construction	54,614	60,846	543,268
Other	111,521	109,571	978,313
Total long-term liabilities	1,101,807	1,125,879	10,052,491
Total liabilities	1,557,942	1,545,171	13,796,170
Net assets:			
Shareholders' equity:			
Common stock	99,474	99,474	888,161
Capital surplus	145,974	146,053	1,304,045
Retained earnings	449,535	527,884	4,713,250
Less treasury stock, at cost	(8,289)	(13,537)	(120,866)
Total shareholders' equity	686,695	759,875	6,784,598
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	17,684	22,545	201,295
Deferred gains or losses on hedges	(896)	472	4,214
Revaluation reserve for land [NOTE 5 ⑤]	5,598	5,546	49,518
Foreign currency translation adjustments	1,072	100	893
Cumulative adjustments related to retirement benefit plans	(2,818)	(1,591)	(14,205)
Total accumulated other comprehensive income	20,639	27,074	241,732
Subscription rights to shares	424	496	4,429
Non-controlling interests [NOTE 5 ⑤]	16,478	17,213	153,688
Total net assets	724,237	804,659	7,184,455
Total liabilities and net assets	2,282,180	2,349,831	20,980,634

Consolidated Statements of Income

Years ended 31st March 2016 and 2017

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Revenues from operations	¥746,792	¥736,763	$6,578,241
Costs of revenues from operations:			
Operating expenses and cost of sales of transportation	605,512	603,260	5,386,250
Selling, general and administrative expenses [NOTE 6 ①]	30,987	29,443	262,884
Total costs of revenues from operations [NOTE 6 ②]	636,499	632,704	5,649,143
Operating income	110,293	104,058	929,089
Non-operating income:			
Interest income	106	115	1,027
Dividend income	1,017	976	8,714
Equity in income of affiliates	5,748	8,630	77,054
Miscellaneous income	2,285	2,066	18,446
Total non-operating income	9,158	11,789	105,259
Non-operating expenses:			
Interest expenses	12,506	11,166	99,696
Miscellaneous expenses	2,465	4,073	36,366
Total non-operating expenses	14,972	15,240	136,071
Ordinary income	104,479	100,607	898,277
Extraordinary income:			
Gain on contributions for construction	37,820	2,114	18,875
Gain on sales of noncurrent assets	126	453	4,045
Gain on sales of investment securities	33	872	7,786
Other	822	815	7,277
Total extraordinary income	38,802	4,255	37,991
Extraordinary loss:			
Loss on reduction of noncurrent assets	37,818	2,180	19,464
Loss on retirement of noncurrent assets	951	546	4,875
Loss on impairment of fixed assets	2,692	901	8,045
Other	5,732	429	3,830
Total extraordinary loss	47,194	4,057	36,223
Income before income taxes	96,087	100,805	900,045
Income taxes–current	20,495	26,081	232,866
Income taxes–deferred	4,043	1,850	16,518
Total income taxes	24,538	27,931	249,384
Net income	71,549	72,873	650,652
Net income attributable to non-controlling interests	1,577	1,570	14,018
Net income attributable to owners of the parent	69,971	71,302	636,625

Consolidated Statements of Comprehensive Income

Years ended 31st March 2016 and 2017

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Net income	¥71,549	¥72,873	$650,652
Other comprehensive income:			
Valuation difference on available-for-sale securities	598	3,213	28,688
Deferred gains or losses on hedges	(786)	1,390	12,411
Revaluation reserve for land	124	—	—
Foreign currency translation adjustments	(855)	(914)	(8,161)
Remeasurements of defined benefit plans	(6,336)	901	8,045
Share of other comprehensive income of associates accounted for using equity method	(451)	1,824	16,286
Total other comprehensive income [NOTE 7 ①]	(7,706)	6,414	57,268
Comprehensive income	63,842	79,288	707,929
Comprehensive income attributable to:			
Owners of the parent	62,494	77,737	694,080
Non-controlling interests	1,348	1,551	13,848

Consolidated Statements of Changes in Net Assets

Years ended 31st March 2016 and 2017

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity
Balance as of 31st March 2015	¥99,474	¥150,027	¥389,511	¥ (4,534)	¥634,479
Cumulative effect of changes in accounting policies		(4,500)	(527)		(5,027)
Balance at beginning of the current fiscal year reflecting changes in accounting policies	99,474	145,527	388,984	(4,534)	629,452
Changes of items during the period:					
Dividends from surplus			(8,227)		(8,227)
Net income attributable to owners of the parent			69,971		69,971
Reversal of revaluation reserve for land			0		0
Purchase of treasury stock				(3,779)	(3,779)
Disposal of treasury stock		(0)	(0)	24	23
Change in treasury stock of parent arising from transactions with non-controlling interest shareholders		447			447
Change in scope of consolidation			(1,192)		(1,192)
Changes in equity in affiliates accounted for by equity-method treasury stock					—
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	447	60,550	(3,755)	57,242
Balance as of 31st March 2016	99,474	145,974	449,535	(8,289)	686,695
Cumulative effect of changes in accounting policies			15,281		15,281
Balance at beginning of the current fiscal year reflecting changes in accounting policies	99,474	145,974	464,817	(8,289)	701,976
Changes of items during the period:					
Dividends from surplus			(8,803)		(8,803)
Net income attributable to owners of the parent			71,302		71,302
Reversal of revaluation reserve for land			0		0
Purchase of treasury stock				(5,271)	(5,271)
Disposal of treasury stock			(9)	53	44
Change in treasury stock of parent arising from transactions with non-controlling interest shareholders		79			79
Change in scope of consolidation			577		577
Changes in equity in affiliates accounted for by equity-method treasury stock				(30)	(30)
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	79	63,067	(5,247)	57,898
Balance as of 31st March 2017	99,474	146,053	527,884	(13,537)	759,875

	Millions of yen								
	Accumulated other comprehensive income								
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Cumulative adjustments related to retirement benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance as of 31st March 2015	¥18,052	¥ (143)	¥5,417	¥1,756	¥ 3,033	¥28,116	¥318	¥16,566	¥679,482
Cumulative effect of changes in accounting policies						—			(5,027)
Balance at beginning of the current fiscal year reflecting changes in accounting policies	18,052	(143)	5,417	1,756	3,033	28,116	318	16,566	674,454
Changes of items during the period:									
Dividends from surplus									(8,227)
Net income attributable to owners of the parent									69,971
Reversal of revaluation reserve for land									0
Purchase of treasury stock									(3,779)
Disposal of treasury stock									23
Change in treasury stock of parent arising from transactions with non-controlling interest shareholders									447
Change in scope of consolidation									(1,192)
Changes in equity in affiliates accounted for by equity-method treasury stock									—
Net changes of items other than shareholders' equity	(368)	(752)	180	(684)	(5,851)	(7,476)	105	(88)	(7,459)
Total changes of items during the period	(368)	(752)	180	(684)	(5,851)	(7,476)	105	(88)	49,783
Balance as of 31st March 2016	17,684	(896)	5,598	1,072	(2,818)	20,639	424	16,478	724,237
Cumulative effect of changes in accounting policies						—			15,281
Balance at beginning of the current fiscal year reflecting changes in accounting policies	17,684	(896)	5,598	1,072	(2,818)	20,639	424	16,478	739,519
Changes of items during the period:									
Dividends from surplus									(8,803)
Net income attributable to owners of the parent									71,302
Reversal of revaluation reserve for land									0
Purchase of treasury stock									(5,271)
Disposal of treasury stock									44
Change in treasury stock of parent arising from transactions with non-controlling interest shareholders									79
Change in scope of consolidation									577
Changes in equity in affiliates accounted for by equity-method treasury stock									(30)
Net changes of items other than shareholders' equity	4,861	1,369	(52)	(971)	1,227	6,434	72	735	7,241
Total changes of items during the period	4,861	1,369	(52)	(971)	1,227	6,434	72	735	65,140
Balance as of 31st March 2017	22,545	472	5,546	100	(1,591)	27,074	496	17,213	804,659

	Thousands of U.S. dollars				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity
Balance as of 31st March 2016	$888,161	$1,303,339	$4,013,705	$ (74,009)	$6,131,205
Cumulative effect of changes in accounting policies			136,438		136,438
Balance at beginning of the current fiscal year reflecting changes in accounting policies	888,161	1,303,339	4,150,152	(74,009)	6,267,643
Changes of items during the period:					
Dividends from surplus			(78,598)		(78,598)
Net income attributable to owners of the parent			636,625		636,625
Reversal of revaluation reserve for land			0		0
Purchase of treasury stock				(47,063)	(47,063)
Disposal of treasury stock			(80)	473	393
Change in treasury stock of parent arising from transactions with non-controlling interest shareholders		705			705
Change in scope of consolidation			5,152		5,152
Changes in equity in affiliates accounted for by equity-method treasury stock				(268)	(268)
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	705	563,098	(46,848)	516,946
Balance as of 31st March 2017	888,161	1,304,045	4,713,250	(120,866)	6,784,598

	Thousands of U.S. dollars								
	Accumulated other comprehensive income								
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Cumulative adjustments related to retirement benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance as of 31st March 2016	$157,893	$ (8,000)	$49,982	$ 9,571	$(25,161)	$184,277	$3,786	$147,125	$6,466,402
Cumulative effect of changes in accounting policies						—			136,438
Balance at beginning of the current fiscal year reflecting changes in accounting policies	157,893	(8,000)	49,982	9,571	(25,161)	184,277	3,786	147,125	6,602,848
Changes of items during the period:									
Dividends from surplus									(78,598)
Net income attributable to owners of the parent									636,625
Reversal of revaluation reserve for land									0
Purchase of treasury stock									(47,063)
Disposal of treasury stock									393
Change in treasury stock of parent arising from transactions with non-controlling interest shareholders									705
Change in scope of consolidation									5,152
Changes in equity in affiliates accounted for by equity-method treasury stock									(268)
Net changes of items other than shareholders' equity	43,402	12,223	(464)	(8,670)	10,955	57,446	643	6,563	64,652
Total changes of items during the period	43,402	12,223	(464)	(8,670)	10,955	57,446	643	6,563	581,607
Balance as of 31st March 2017	201,295	4,214	49,518	893	(14,205)	241,732	4,429	153,688	7,184,455

Consolidated Statements of Cash Flows

Years ended 31st March 2016 and 2017

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Cash flows from operating activities:			
Income before income taxes	¥ 96,087	¥100,805	$ 900,045
Depreciation and amortisation	53,701	52,800	471,429
Loss on impairment of fixed assets	2,692	901	8,045
Amortisation of goodwill	2,471	2,426	21,661
Equity in (income) losses of affiliates	(5,748)	(8,630)	(77,054)
Increase (decrease) in net defined benefit liability	(2,077)	(179)	(1,598)
Increase (decrease) in allowance for doubtful receivables	(42)	20	179
Interest and dividend income	(1,124)	(1,092)	(9,750)
Interest expenses	12,506	11,166	99,696
Loss on reduction of noncurrent assets	37,818	2,180	19,464
Loss on retirement of noncurrent assets	951	546	4,875
Loss (gain) on sales of noncurrent assets	183	(426)	(3,804)
Gain on contributions for construction	(37,820)	(2,114)	(18,875)
Loss (gain) on valuation of investment securities	(33)	(869)	(7,759)
Decrease (increase) in trade receivables	6,129	(10,595)	(94,598)
Decrease (increase) in inventories	(1,174)	(2,506)	(22,375)
Increase (decrease) in trade payables	(5,028)	3,083	27,527
Other	4,436	(1,096)	(9,786)
Subtotal	163,930	146,420	1,307,321
Interest and dividends received	3,156	3,208	28,643
Interest paid	(12,591)	(11,282)	(100,732)
Income taxes (paid) refunded	(29,656)	(22,714)	(202,804)
Net cash provided by operating activities	124,838	115,633	1,032,438
Cash flows from investing activities:			
Purchases of noncurrent assets	(92,686)	(92,767)	(828,277)
Proceeds from sales of noncurrent assets	5,064	2,186	19,518
Purchases of investment securities	(14,228)	(11,527)	(102,920)
Proceeds from sales of investment securities	618	1,611	14,384
Receipt of contributions for construction	20,623	13,973	124,759
Other	1,765	1,677	14,973
Net cash used in investing activities	(78,843)	(84,845)	(757,545)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	(21,628)	(546)	(4,875)
Proceeds from long-term debt	65,830	65,190	582,054
Repayment of long-term debt	(76,570)	(68,576)	(612,286)
Proceeds from new bonds issued	—	19,858	177,304
Redemption of bonds	—	(30,000)	(267,857)
Purchases of treasury stock	(3,779)	(5,271)	(47,063)
Dividends paid	(8,227)	(8,803)	(78,598)
Dividends paid to non-controlling shareholders of consolidated subsidiaries	(331)	(406)	(3,625)
Other	(2,571)	(2,038)	(18,196)
Net cash used in financing activities	(47,278)	(30,595)	(273,170)
Effect of exchange rate changes on cash and cash equivalents	(694)	(673)	(6,009)
Increase (decrease) in cash and cash equivalents	(1,978)	(480)	(4,286)
Cash and cash equivalents at beginning of year	23,497	22,363	199,670
Increase in cash and cash equivalents from newly consolidated subsidiary	844	648	5,786
Cash and cash equivalents at end of year	22,363	22,530	201,161

Notes to the Consolidated Financial Statements

1 Framework for Preparing Consolidated Financial Statements

① Method of preparation for consolidated financial statements

The Company's consolidated financial statements were prepared in accordance with the "Regulations Concerning the Terminology, Forms and Preparation Method of Consolidated Financial Statements" (Finance Ministry Ordinance No. 28 of 1976, hereinafter, "Regulations for Consolidated Financial Statements").

② Audit verification

The Company's consolidated financial statements for the fiscal year ended 31st March 2017 (1st April 2016 to 31st March 2017) were audited by KPMG AZSA LLC, as per Article 193-2 (1) of Japan's Financial Instruments and Exchange Act.

③ Special measures to ensure the appropriateness of consolidated financial statements and other reports

The Company makes special efforts to ensure the appropriateness of its consolidated financial statements and other reports. In addition to subscribing to related publications, it has joined the Financial Accounting Standards Foundation and participates in seminars and other events held by the Foundation, audit firms and other relevant organisations to establish a system for understanding the accounting standards in detail and responding suitably to changes made to them. The Company also compiles and provides common manuals for preparing the consolidated financial information on a Groupwide basis, and arranges training courses for accounting staff at affiliates.

④ Translation into U.S. dollars

The U.S. dollar amounts have been translated, for convenience only, at ¥112 = US$1, the prevailing exchange rate on the Tokyo Foreign Exchange Market as of 31st March 2017.

2 Basis of Preparation of Consolidated Financial Statements

① Scope of consolidation

(a) Number and names of consolidated subsidiaries

Number of consolidated subsidiaries—93.

Names of primary consolidated subsidiaries are listed on page 107.

Further, as of the fiscal year ended 31st March 2017, Hanshin Sharyo Maintenance and one other company have been included in the scope of consolidation due to their increased significance.

Also, Iina Dining Co., Ltd. has been excluded from the scope of consolidation because a portion of its shares were sold in the fiscal year ended 31st March 2017, and Nippon Rent-A-Car Hankyu Inc. has been excluded from the scope of consolidation because all of its shares were sold in the fiscal year ended 31st March 2017.

(b) Names of major nonconsolidated subsidiaries

Hankyu Mediax Co., Ltd.

Nonconsolidated subsidiaries have been excluded from the scope of consolidation because the total amounts of their entire assets, sales, net income or loss (amount equivalent to equity interests), retained earnings (amount equivalent to equity interests) and other figures are limited, and the effect on the consolidated financial statements as a whole is negligible.

② Items related to application of equity-method accounting

(a) Number and names of affiliates for which equity method is applied

Number of affiliates for which equity method is applied—11.

Names of the major affiliates for which equity method is applied are listed on page 107.

Further, as of the fiscal year ended 31st March 2017, the equity method has been applied to Iina Dining Co., Ltd., previously a subsidiary, because a portion of its shares were sold.

(b) Names of nonconsolidated subsidiaries and affiliates for which equity method is not applied

The nonconsolidated subsidiaries (Hankyu Mediax Co., Ltd., etc.) and affiliates (OS Co., Ltd., etc.) to which the equity method does not apply use the cost method rather than the equity method because the total amounts of their net income or loss (amount equivalent to equity interests), retained earnings (amount equivalent to equity interests) and other figures are limited, and the effect on the consolidated financial statements as a whole is negligible.

③ Items related to fiscal year-ends, etc., for consolidated subsidiaries

The account closing date for Hankyu Hanshin Express (USA) Inc., Hankyu Hanshin Express (Deutschland) GmbH and 20 other consolidated subsidiaries is 31st December. The consolidated financial statements have been prepared using the financial statements based on the closing date of each company, and major transactions conducted between the individual closing dates and the consolidated closing date have been adjusted for as necessary for the consolidation.

④ Accounting policies

(a) Valuation standards and method for major assets

I. Securities

Available-for-sale securities:

Available-for-sale securities with fair market values:

The market value method is applied based on the market price, etc., at the fiscal year-end. (Related valuation differences are directly included under net assets and the cost of securities sold is determined by the moving average method.)

Available-for-sale securities without fair market values:

The moving average cost method is applied.

For investments in limited liability investment partnerships and similar investments, however, the Company's share of assets held by such partnerships is recorded.

II. Derivatives

The market value method is applied.

III. Inventories

Land and buildings for sale:

The identified cost method is applied. (Balance sheet values are calculated by writing down book values based on decreased profitability.)

Other inventories:

The moving average cost method is applied. (Balance sheet values are calculated by writing down book values based on decreased profitability.)

(b) Depreciation methods for major depreciable assets

I. Property and equipment (excluding leased assets)

Replacement assets of railway operations:

Replacement method (mainly the declining-balance method) is applied.

Other property and equipment:

While property and equipment (excluding leased assets) are depreciated for the most part using the declining balance method, there is also some use of the straight-line method.

However, regarding the abovementioned "Replacement assets of railway operations" and "Other property and equipment," depreciation of buildings acquired on or after 1st April 1998 (excluding facilities attached to buildings) and depreciation of facilities and structures that are attached to buildings and which were acquired on or after 1st April 2016 are calculated using the straight-line method.

II. Intangible assets (excluding leased assets)

Intangible assets (excluding leased assets) are amortised using the straight-line method.

Internal-use software is amortised by the straight-line method over its useful life (mainly 5 years).

III. Lease assets

Lease assets are depreciated using the straight-line method with the lease term as the useful life and the residual value as zero.

(c) Accounting standards for significant transactions

I. Allowance for doubtful receivables

Allowance for doubtful receivables is provided based on the ratio of past loan loss experience for general accounts and individually estimated uncollectible amounts for certain individual accounts.

II. Provision for bonuses

The Company recognises as provision for bonuses the amount expected to be paid to employees as bonuses for the fiscal year.

(d) Accounting methods for retirement benefits

When calculating retirement benefit obligations, the benefit formula method is used to distribute the estimated amount of retirement benefits into the period up to 31st March 2017.

Prior service cost is recorded in expenses using the straight-line method over a certain number of years (mainly 10 years), which is within the average remaining years of service of the employees at the time when these costs are incurred.

Actuarial differences are recorded in expenses using the straight-line method over a certain number of years (mainly 10 years), which is within the average remaining years of service of the employees at the time when these costs are incurred.

(e) Basis for converting significant assets and liabilities in foreign currencies into Japanese yen

The assets and liabilities of overseas subsidiaries are converted into yen based on the spot exchange rate on the balance sheet date, and income and expenses of overseas subsidiaries are converted into yen based on the average exchange rate during the relevant period. Differences in conversion are included in foreign currency translation adjustments and non-controlling interests in the net assets section.

(f) Significant hedge accounting methods

I. Method of hedge accounting

Deferred hedge accounting is applied.

Exceptional accounting applies to interest rate swaps that satisfy the requirements for exceptional accounting for interest rate swaps.

Designation accounting applies to foreign currency-denominated receivables and payables that have forward exchange contracts and which satisfy the requirements for designation accounting.

II. Hedging instruments and hedged items

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

III. Hedging policy

The Group is exposed to the risk of foreign exchange and interest rate fluctuations and uses derivatives as a means of hedging these risks.

IV. Method for evaluating the effectiveness of hedges

Other than when the effectiveness of hedges is obvious, hedge effectiveness is evaluated semiannually using the comparison and analysis method.

V. Other risk management methods concerning hedge accounting

Internal rules regarding the segregation of duties, maximum transaction amounts, etc., have been established for the use of derivative transactions based on which derivative transactions are used. The implementation and management of derivative transactions are carried out by the accounting department with the approval of the decision makers in each Group company. An internal control system has been developed to ensure that the contract signing and termination comply with the internal rules.

(g) Method and period of amortisation of goodwill

Goodwill is amortised, in general, in equal amounts over five years. The goodwill resulting from the management integration with Hanshin Electric Railway Co., Ltd. in the fiscal year ended 31st March 2007 is being amortised in equal amounts over 20 years.

(h) Scope of cash included in consolidated statements of cash flows

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments without material risk of changing their value and with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(i) Other significant matters for preparing consolidated financial statements

I. Accounting for contributions for construction in railway operations

The Company accepts contributions for construction from local governments and other organisations that cover a portion of construction expenses arising from the construction of continuous grade separations in railway operations. When construction is completed, noncurrent assets acquired as a result of accepting these contributions for construction are recognised at acquisition cost after deducting the amounts equivalent to the said contributions for construction.

In the consolidated statements of income, gain on contributions for construction is recognised in extraordinary income, and the acquisition cost of noncurrent assets, after deducting the amounts equivalent to the contributions for construction, is recognised in extraordinary loss as loss on reduction of noncurrent assets.

II. Accounting for consumption tax

Accounting for consumption tax is based on the tax exclusion method.

III. Adoption of consolidated tax payment system

A consolidated tax payment system has been adopted.

3 Changes in Accounting Policies

① Application of "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016"

Due to amendments to the Japanese Corporation Tax Act, the Company and its domestic subsidiaries adopted "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" (Practical Issue Task Force No. 32, 17th June 2016 (hereinafter, "PITF No. 32")) from the current fiscal year and changed the depreciation method for buildings, facilities attached to buildings and structures that were acquired since 1st April 2016 from the declining-balance method to the straight-line method.

The effect of these changes on the consolidated financial statements has been immaterial.

② Application of "Revised Implementation Guidance on Recoverability of Deferred Tax Assets"

The Company and its domestic subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, 28th March 2016 (hereinafter, "Guidance No. 26")) from the current fiscal year and revised certain accounting for recoverability of deferred tax assets accordingly.

The Company and its domestic subsidiaries followed the provisional treatments in article 49 (4) of Guidance No. 26. The differences between deferred tax assets and liabilities as of 1st April 2016 that were computed in accordance with article 49 (3) and those as of 31st March 2016 were adjusted to retained earnings as of 1st April 2016.

As a result, deferred tax liabilities (long-term liabilities) decreased by ¥15,281 million ($136,438 thousand) and retained earnings increased by ¥15,281 million ($136,438 thousand).

Due to reflection of such effects to net assets as of 1st April 2016, retained earnings as of 1st April 2016 in the consolidated statement of changes in net assets increased by ¥15,281 million ($136,438 thousand).

③ Change in recognition of revenues from operations

In the International Transportation Business, for transactions related to items such as the export of mixed cargo by consolidated subsidiaries, the Company previously presented sales to customers net of cost of sales such as shipping costs (net basis). As of the fiscal year ended 31st March 2017, however, the Company is presenting sales and cost of sales separately and the totals in revenues from operations and cost of sales (gross basis) respectively.

This change resulted from a reconsideration of the recognition of revenues from operations, which concluded that the net amount presentation reflects the business activities of the business more appropriately. This conclusion was reached in light of the importance in business as a transportation provider of transactions related to the export of mixed cargo, the main type of transactions, an upgrading of the core operational systems of the major consolidated subsidiaries in the business that enables the identification of cost of sales such as shipping costs and the need to prepare for the future advancement of the Hankyu Hanshin Holdings Group's global development.

The Company has applied the said change in accounting policy retroactively. Consequently, the Company has applied the said change in accounting policy retroactively to the consolidated financial statements of the fiscal year ended 31st March 2016.

The Company has applied the change in accounting policy retroactively to the consolidated financial statements of the fiscal year ended 31st March 2016. As a result, revenues from operations, operating expenses and cost of sales of transportation for the fiscal year ended 31st March 2016 increased by ¥39,433 million ($352,080 thousand) compared to the amounts for these line items before the retroactive application. However, retroactive application has not affected operating income, ordinary income and income before income taxes for the fiscal year ended 31st March 2016. Further, because there is no cumulative effect that should be reflected in net assets as of 1st April 2015, retroactive application has not affected retained earnings as of 1st April 2015.

Also, the effect on segment information is stated in the segment information section.

④ Change in the translation of income and expenses of overseas subsidiaries

Previously, the Company used the spot exchange rate on the balance sheet date to translate the income and expenses of overseas subsidiaries of the International Transportation Business into yen. As of the fiscal year ended 31st March 2017, however, the Company will use the average exchange rate during the relevant period for translations into yen.

As stated above in "③ Change in recognition of revenues from operations," the significance of the income and expenses of overseas subsidiaries has increased due to the change in recognition of revenues from operations to gross presentation as of the fiscal year ended 31st March 2017. Therefore, the Company implemented this change to mitigate the effect of temporary exchange rate fluctuations and to reflect the business results of overseas subsidiaries in consolidated financial statements more appropriately.

Further, the Company has not undertaken retrospective application because the effect of the said change in accounting policy on the income and expenses of the fiscal year ended 31st March 2016 as well as the cumulative effect that should be reflected in net assets on 1st April 2015 were immaterial.

4 Changes in Presentation

① Consolidated statements of income

To present line items in the consolidated statements of income more clearly, as of the fiscal year ended 31st March 2017, the Company will present "Loss on retirement of noncurrent assets" and "Loss on impairment of fixed assets" separately. In the fiscal year ended 31st March 2016, the Company included these line items in "Other" of extraordinary loss. In the fiscal year ended 31st March 2016, the Company presented "Loss (gain) on valuation of investment securities" separately in extraordinary loss. As of the fiscal year ended 31st March 2017, the Company will include this line item in "Other" of extraordinary loss because the line item has become insignificant.

As a result, in the consolidated statement of income for the fiscal year ended 31st March 2016, "Loss (gain) on valuation of investment securities" of ¥4,979 million ($44,455 thousand) and "Other" of ¥4,397 million ($39,259 thousand) in extraordinary loss comprise "Loss on retirement of noncurrent assets" of ¥951 million ($8,491 thousand), "Loss on impairment of fixed assets" of ¥2,692 million ($24,036 thousand) and "Other" of ¥5,732 million ($51,179 thousand).

5 Consolidated Balance Sheets

① Accumulated depreciation of property and equipment

Millions of yen		Thousands of U.S. dollars
2016	2017	2017
¥1,097,585	¥1,123,035	$10,027,098

② Accumulated contributions for construction directly deducted from the acquisition cost of noncurrent assets

Millions of yen		Thousands of U.S. dollars
2016	2017	2017
¥413,614	¥413,812	$3,694,750

③ Pledged assets and secured liabilities

The following table shows the assets pledged as collateral.

	Millions of yen				Thousands of U.S. dollars	
	2016		2017		2017	
Property and equipment:						
Buildings and structures	¥211,110	[¥211,110]	¥208,550	[¥208,550]	$1,862,054	[$1,862,054]
Machinery, equipment and vehicles	42,841	[42,841]	44,980	[44,980]	401,607	[401,607]
Land	255,924	[255,924]	255,965	[255,965]	2,285,402	[2,285,402]
Other	2,297	[2,297]	2,780	2,780	24,821	[24,821]
Intangible assets:						
Other	128	[128]	128	[128]	1,143	[1,143]
Investments and other assets:						
Investment securities	3,033	[—]	1,007	[—]	8,991	[—]
Other	24	[—]	76	[—]	679	[—]
Total	515,360	[512,302]	513,489	[512,406]	4,584,723	[4,575,054]

In addition to the above, the Company pledged investment securities (fiscal year ended 31st March 2016: ¥800 million, fiscal year ended 31st March 2017: ¥800 million ($7,143 thousand)) as collateral for loans of third parties.

The following table shows the secured liabilities.

	Millions of yen				Thousands of U.S. dollars	
	2016		2017		2017	
Current liabilities:						
Short-term borrowings	¥ 11,118	[¥ 9,108]	¥ 9,748	[¥ 9,309]	$ 87,036	[$ 83,116]
Other	75	[—]	76	[—]	679	[—]
Long-term liabilities:						
Long-term debt	110,598	[110,065]	110,691	[110,596]	988,313	[987,464]
Total	121,793	[119,173]	120,516	[119,905]	1,076,036	[1,0705,80]

The amounts in brackets are the amounts for the Railway Foundation within the total of each category.

④ The following table shows the securities of nonconsolidated subsidiaries and affiliates.

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Investment securities	¥197,131	¥213,951	$1,910,277

⑤ Two consolidated subsidiaries and an equity-method affiliate revaluated land for business use based on the Law Concerning Revaluations of Land (Law No. 34, promulgated on 31st March 1998) and the Law to Partially Modify the Law Concerning Revaluations of Land (Law No. 19, promulgated on 31st March 2001). Of the valuation differences identified as a result of this, the consolidated subsidiaries recorded the amount corresponding to the taxes on the valuation difference in the liability section as "Deferred tax liabilities related to land revaluation" and the amount attributable to minority shareholders as "non-controlling interests." The amount remaining after subtracting these was recorded in the net assets section as "Revaluation reserve for land." The equity-method affiliate recorded the amount corresponding to its equity in the valuation difference (after subtracting taxes) in the net assets section as "Revaluation reserve for land."

• Revaluation method

The revaluation amounts were determined based on the revaluated value of noncurrent assets provided for in Article 2, Paragraph 3 of the Enforcement Ordinance for the Law Concerning Land Revaluation (Ordinance No. 119, promulgated on 31st March 1998).

• Date of revaluation: 31st March 2002

• The difference between the market value of the land and the book value after revaluation on 31st March 2016 and 31st March 2017:

Millions of yen		Thousands of U.S. dollars
2016	2017	2017
¥(6,069)	¥(6,084)	$(54,321)

⑥ Contingent liabilities

The Company and its subsidiaries provide a liability guarantee for loans of the companies, etc., listed below.

Fiscal year ended 31st March 2016

	Millions of yen
Nishi-Osaka Railway Co., Ltd.	¥20,376
Borrowers on loans for purchase of land and buildings	14,039
Other (two companies)	67
Total	34,483

Fiscal year ended 31st March 2017

	Millions of yen	Thousands of U.S. dollars
Nishi-Osaka Railway Co., Ltd.	¥19,781	$176,616
Borrowers on loans for purchase of land and buildings	10,089	90,080
Other (two companies)	65	580
Total	29,936	267,286

Further, in addition to the above, in the fiscal year ended 31st March 2017, the Company provided a letter of awareness and other documents in relation to an affiliate's fund procurement of ¥1,587 million ($14,170 thousand).

6 Consolidated Statements of Income

① The breakdown of selling, general and administrative expenses is shown below.

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Personnel expenses	¥15,683	¥14,651	$130,813
Expenses	10,969	10,425	93,080
Taxes	908	1,025	9,152
Depreciation and amortisation	954	914	8,161
Amortisation of goodwill	2,471	2,426	21,661
Total	30,987	29,443	262,884

② The retirement benefit expenses and the main expense items and monetary amounts within the amounts of allowance and provision included in the costs of revenues from operations are shown below.

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Retirement benefit expenses	¥6,369	¥8,457	$75,509
Provision for bonuses	4,694	4,716	42,107

③ The breakdown of the gain on sales of noncurrent assets is shown below.

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Land, etc.	¥126	¥453	$4,045

④ Loss on impairment of fixed assets

Fiscal year ended 31st March 2016 (from 1st April 2015 to 31st March 2016)

The Group recorded loss on impairment of fixed assets for the following asset groups.

Use	Type of asset	Region	Millions of yen
Assets of Hotels Business: 4 assets	Land, etc.	Hyogo Prefecture, etc.	¥2,033
Assets of Real Estate Leasing Business: 37 assets	Buildings, structures, etc.	Hyogo Prefecture, etc.	658

(a) Method of grouping assets

Assets are grouped by business based on management accounting or by property.

(b) Procedure before recognition of loss on impairment of fixed assets

The book values of fixed assets groups for which discontinuation of operations or dismantlement had been decided were reduced to their recoverable amounts. The said reductions were recorded in extraordinary loss as loss on impairment of fixed assets of ¥2,692 million.

(c) Breakdown of loss on impairment of fixed assets

Type of assets	Millions of yen
Land, etc.	¥1,639
Buildings, structures, etc.	1,053
Total	2,692

(d) Method of determining recoverable value

The recoverable value is calculated based on the net sale value.

The net sale value of assets for which discontinuation of operations or dismantlement has been decided is assessed by using the memorandum value. The net sale value of other assets is calculated by rationally adjusting appraised value based on Japanese Real Estate Appraisal Standards and other assessments.

Fiscal year ended 31st March 2017 (from 1st April 2016 to 31st March 2017)

The Group recorded loss on impairment of fixed assets for the following asset groups.

Use	Type of asset	Region	Millions of yen	Thousands of U.S. dollars
Assets of businesses of the Other segment: 3 assets	Land, etc.	Osaka Prefecture, etc.	¥521	$4,652
Assets, etc. of Hotels Business: 20 assets	Buildings, structures, etc.	Osaka Prefecture, etc.	379	3,384

(a) Method of grouping assets

Assets are grouped by business based on management accounting or by property.

(b) Procedure up to the recognition of a loss on impairment of fixed assets

The book values of fixed assets groups for which a decision for dismantlement has been taken, those whose market values have been declining sharply from their book values due to a continuous decrease in land value, and those that have continuously resulted in operating losses and whose profitability is unlikely to recover in the future were reduced to the recoverable amount. The reduction has been recorded as "Loss on impairment of fixed assets" in the amount of ¥901 million ($8,045 thousand) under extraordinary loss.

(c) Breakdown of loss on impairment of fixed assets

Type of assets	Millions of yen	Thousands of U.S. dollars
Land, etc.	¥520	$4,643
Buildings, structures, etc.	380	3,393
Total	901	8,045

(d) Method of determining recoverable value

The recoverable value is calculated based on the value in use or the net sale value.

The value in use is calculated based on the discounted future cash flow, using 4.0% as a discount rate. Further, the net sale value of assets is calculated by rationally adjusting appraised value based on Japanese Real Estate Appraisal Standards and other assessments. In addition, the net sale value of assets for which discontinuation of operations or dismantlement has been decided is assessed by using the memorandum value.

7 Consolidated Statements of Comprehensive Income

① Reclassification adjustments and tax effects related to other comprehensive income

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Valuation difference on available-for-sale securities:			
Increase (decrease) during the year	¥(4,997)	¥ 5,295	$ 47,277
Reclassification adjustments	5,069	(672)	(6,000)
Subtotal, before tax	72	4,623	41,277
Tax (expense) or benefit	526	(1,410)	(12,589)
Valuation difference on available-for-sale securities	598	3,213	28,688
Deferred gains or losses on hedges:			
Increase (decrease) during the year	(1,272)	2,124	18,964
Reclassification adjustments	72	—	—
Subtotal, before tax	(1,199)	2,124	18,964
Tax (expense) or benefit	413	(734)	(6,554)
Deferred gains or losses on hedges	(786)	1,390	12,411
Revaluation reserve for land:			
Increase (decrease) during the year	—	—	—
Reclassification adjustments	—	—	—
Subtotal, before tax	—	—	—
Tax (expense) or benefit	124	—	—
Revaluation reserve for land	124	—	—
Foreign currency translation adjustments:			
Increase (decrease) during the year	(855)	(914)	(8,161)
Reclassification adjustments	—	—	—
Subtotal, before tax	(855)	(914)	(8,161)
Tax (expense) or benefit	—	—	—
Foreign currency translation adjustments	(855)	(914)	(8,161)
Remeasurements of defined benefit plans:			
Increase (decrease) during the year	(8,528)	101	902
Reclassification adjustments	(1,104)	1,242	11,089
Subtotal, before tax	(9,633)	1,344	12,000
Tax (expense) or benefit	3,296	(442)	(3,946)
Remeasurements of defined benefit plans	(6,336)	901	8,045
Share of other comprehensive income of associates accounted for using equity method:			
Increase (decrease) during the year	(1,576)	1,762	15,732
Reclassification adjustments	1,125	61	545
Share of other comprehensive income of associates accounted for using equity method	(451)	1,824	16,286
Total other comprehensive income	(7,706)	6,414	57,268

8 Consolidated Statements of Changes in Net Assets

① Items related to type and total number of shares issued and type and number of shares of treasury stock

Fiscal year ended 31st March 2016

(Thousands of shares)

	No. of shares as of 1st April 2015	Increase in number of shares	Decrease in number of shares	No. of shares as of 31st March 2016
No. of shares issued:				
Common stock	1,271,406	—	—	1,271,406
Total	1,271,406	—	—	1,271,406
Treasury stock, at cost:				
Common stock (Notes 1 and 2)	10,663	4,846	42	15,466
Total	10,663	4,846	42	15,466

(Overview of reasons for fluctuations)

Notes:

1. The increase of 4,846 thousand shares of treasury stock was due to the purchase of 4,608 thousand shares of treasury stock based on a resolution of the Board of Directors and the purchase of 238 thousand odd-lot shares.
2. The decrease of 42 thousand shares of treasury stock was due to a decrease of 38 thousand shares due to the exercise of stock option rights and a decrease of 4 thousand shares due to the sale of odd-lot shares.

Fiscal year ended 31st March 2017

(Thousands of shares)

	No. of shares as of 1st April 2016	Increase in number of shares	Decrease in number of shares	No. of shares as of 31st March 2017
No. of shares issued:				
Common stock	1,271,406	—	1,017,125	254,281
Total	1,271,406	—	1,017,125	254,281
Treasury stock, at cost:				
Common stock (Notes 1 and 2)	15,466	6,930	17,887	4,508
Total	15,466	6,930	17,887	4,508

(Overview of reasons for fluctuations)

Notes:

1. Hankyu Hanshin Holdings, Inc. consolidated shares at the ratio of 5 shares to 1 share with an effective date of 1st August 2016.
2. The decrease of 1,017,125 thousand shares of common stock was due to a result of consolidation of shares.
3. The increase of 6,930 thousand shares of treasury stock was due to the increase of 6,837 thousand shares of treasury stock by resolution of the Board of Directors (before consolidation of shares: 6,826 thousand shares, after consolidation of shares: 11 thousand shares); the purchase of 73 thousand odd-lot shares (before consolidation of shares: 46 thousand shares, after consolidation of shares: 26 thousand shares); and an increase of 19 thousand shares (after consolidation of shares) due to the change of interest for equity-method affiliates.
4. The decrease of 17,887 thousand shares of treasury stock was due to a decrease of 17,807 thousand shares due to a result of consolidation of shares; a decrease of 78 thousand shares (after consolidation of shares) due to the exercise of stock option rights; and a decrease of 1 thousand shares (before consolidation of shares: 1 thousand shares, after consolidation of shares: 0 thousand shares) due to the sale of odd-lot shares.

② Items related to subscription rights to shares

Fiscal year ended 31st March 2016

Classification	Breakdown of new share subscription rights	Type of shares subject to share subscription rights	Number of shares subject to share subscription rights				Balance as of 31st March 2016 (Millions of yen)
			As of 1st April 2015	Increase	Decrease	As of 31st March 2016	
The Company (Parent company)	Subscription rights as stock options	—	—	—	—	—	¥424
Total		—	—	—	—	—	424

Fiscal year ended 31st March 2017

Classification	Breakdown of new share subscription rights	Type of shares subject to share subscription rights	Number of shares subject to share subscription rights				Balance as of 31st March 2017	
			As of 1st April 2016	Increase	Decrease	As of 31st March 2017	(Millions of yen)	(Thousands of U.S. dollars)
The Company (Parent company)	Subscription rights as stock options	—	—	—	—	—	¥496	$4,429
Total		—	—	—	—	—	496	4,429

③ Items related to dividends

Fiscal year ended 31st March 2016

(a) Dividends paid

(Resolution)	Type of shares	Dividends paid (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
16th June 2015 General meeting of shareholders	Common stock	¥3,797	¥ 3	31st March 2015	17th June 2015
30th October 2015 Board of Directors' meeting	Common stock	4,430	3.5	30th September 2015	1st December 2015

(b) Dividends whose effective date falls in the fiscal year following the fiscal year of the record date

(Resolution)	Type of shares	Dividends paid (Millions of yen)	Source of dividends	Dividend per share (Yen)	Record date	Effective date
14th June 2016 General meeting of shareholders	Common stock	¥4,413	Retained earnings	¥3.5	31st March 2016	15th June 2016

Fiscal year ended 31st March 2017

(a) Dividends paid

(Resolution)	Type of shares	Dividends paid (Millions of yen)	Dividends paid (Thousands of U.S. dollars)	Dividend per share (Yen)	Dividend per share (U.S. dollars)	Record date	Effective date
14th June 2016 General meeting of shareholders	Common stock	¥ 4,413	$39,402	¥ 3.5	$0.03	31st March 2016	15th June 2016
27th October 2016 Board of Directors' meeting	Common stock	4,389	39,188	17.5	0.16	30th September 2016	1st December 2016

Note: The Company consolidated shares at the ratio of 5 shares to 1 share. The lower figure (the portion approved by a resolution of the Board of Directors on 27th October 2016) is dividend per share after the consolidated shares. The upper figure (the portion approved by a resolution of the General Meeting of Shareholders on 14th June 2016) is the actual dividend amount before the consolidated shares.

(b) Dividends whose effective date falls in the fiscal year following the fiscal year of the record date

(Resolution)	Type of shares	Dividends paid (Millions of yen)	Dividends paid (Thousands of U.S. dollars)	Source of dividends	Dividend per share (Yen)	Dividend per share (U.S. dollars)	Record date	Effective date
13th June 2017 General meeting of shareholders	Common stock	¥4,389	$39,188	Retained earnings	¥17.5	$0.16	31st March 2017	14th June 2017

9 Consolidated Statements of Cash Flows

Relationship between cash and cash equivalents at fiscal year-end and amounts shown on consolidated balance sheets

	Millions of yen 2016	Millions of yen 2017	Thousands of U.S. dollars 2017
Cash and deposits in the consolidated balance sheets	¥24,225	¥24,255	$216,563
Deposits with maturities over 3 months	(1,862)	(1,725)	(15,402)
Cash and cash equivalents in the cash flow statements	22,363	22,530	201,161

10 Lease Transactions

<As lessee>

Future lease payments for non-cancellable leases in connection with operating lease transactions

	Millions of yen 2016	Millions of yen 2017	Thousands of U.S. dollars 2017
Due within one year	¥ 4,211	¥ 4,775	$ 42,634
Due after one year	10,341	22,048	196,857
Total	14,552	26,823	239,491

<As lessor>

Future lease receivables for non-cancellable leases in connection with operating lease transactions

	Millions of yen 2016	Millions of yen 2017	Thousands of U.S. dollars 2017
Due within one year	¥ 606	¥ 965	$ 8,616
Due after one year	5,853	10,096	90,143
Total	6,459	11,062	98,768

11 Financial Instruments

① Matters regarding financial instruments

(a) Policy on financial instruments

It is the Group's policy to limit the investment of its funds to short-term deposits which are highly secure, and the Group raises funds mainly through loans from financial institutions, bonds and commercial paper. Derivative transactions are used to avoid risk, as discussed later, and it is our policy to refrain from speculative transactions.

(b) Details of the financial instruments used, the risk involved and the risk management system

Trade receivables, namely note receivables and trade account receivables, are exposed to the credit risk of customers. The Group limits its exposure to this credit risk by controlling due dates and balances by customer and by making periodical checks of the credit conditions of major customers pursuant to the internal regulations of each company.

Investment securities consist mainly of stocks and bonds and are exposed to market price fluctuation risk. However, fair values and the financial condition of the issuers are checked periodically, and the risk management system is confirmed.

Almost all trade payables, namely note payables and trade account payables, have a payment date that falls within one year. Some assets and liabilities denominated in foreign currencies are exposed to exchange rate fluctuation risk (market risk), which is limited through forward exchange contracts.

Short-term borrowings and commercial paper are used mainly to raise short-term funds for working capital, and long-term debt and bonds are used mainly to raise the long-term funds necessary for capital investment plans. Some floating-rate debt is exposed to interest rate fluctuation risk (market risk), which is limited by fixing interest rates through interest rate swap transactions. In addition, liquidity risk—the risk that payment will not be made by the due date—is limited by the timely preparation of financing plans and proper fund management. Also, surplus funds of the Group companies are concentrated and used effectively through centralisation of Group funds by using a cash management system. The immediate raising of funds from financial institutions became possible through the establishment of backup financing such as commitment lines. In addition, the Company maintained a proper balance between direct financing and indirect financing and diversifies the raising of funds by using multiple financial institutions, thus securing liquidity.

Regarding the use of derivative transactions, internal regulations prescribe the division of duties and transaction limits. Forward exchange contracts are used to hedge exchange rate fluctuation risk involved in a portion of foreign currency-denominated assets and liabilities. The purpose of interest rate swap transactions is to hedge the interest rate fluctuation risk of certain loans. These derivative transactions involve credit risk because if the other party to a transaction defaults under the terms of contract or becomes bankrupt then the benefit that would have been obtained in the future if the transaction had continued will not be received. However, credit risk is limited by carrying out transactions only with financial institutions with high credit ratings.

More information regarding the means and objectives of hedging, hedging policy and the method of evaluating the effectiveness of hedges related to hedge accounting for derivative transactions is described in "④ Accounting policies" "(f) Significant hedge accounting methods" outlined in "2 Basis of Preparation of Consolidated Financial Statements."

② Matters regarding fair values of financial instruments

Book value, fair value and the differences between them as of 31st March 2016 and 31st March 2017 are as shown below.

	Millions of yen						Thousands of U.S. dollars		
	2016			2017			2017		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets									
(a) Cash and deposits	¥ 24,225	¥ 24,225	¥ —	¥ 24,255	¥ 24,255	¥ —	$ 216,563	$ 216,563	$ —
(b) Trade receivables	73,141	73,141	—	83,492	83,492	—	745,464	745,464	—
(c) Investment securities	38,916	38,916	0	43,947	43,947	0	392,384	392,384	0
Liabilities									
(d) Trade payables	37,480	37,480	—	40,086	40,086	—	357,911	357,911	—
(e) Short-term borrowings (*1)	135,322	135,322	—	134,676	134,676	—	1,202,464	1,202,464	—
(f) Bonds (*2)	112,000	116,753	4,753	102,000	105,387	3,387	910,714	940,955	30,241
(g) Long-term debt (*1)	659,687	685,991	26,304	654,255	677,774	23,519	5,841,563	6,051,554	209,991
(h) Derivative transactions	—	(16,240)	—	—	(10,950)	—	—	(97,768)	—

(*1) Current portion of long-term debt is included in (g) Long-term debt.
(*2) Current portion of bonds is included.

Notes:

1. Method for calculating the fair values of financial instruments and matters regarding securities and derivative transactions

(a) Cash and deposits, (b) Trade receivables

The fair values of these are almost equal to their book values because they will be settled within a short period of time. As a result, their fair values are based on their book values.

(c) Investment securities

The fair values of investment securities are based on prices quoted by stock exchanges, and the fair values of bonds are based on prices quoted by stock exchanges or prices presented by trading financial institutions. Securities categorised by the purpose for which they are held are described in "12 Securities."

(d) Trade payables, (e) Short-term borrowings

The fair values of these are almost equal to their book values because they will be settled within a short period of time. As a result, their fair values are based on their book values.

(f) Bonds

The fair values of bonds are based on market prices.

(g) Long-term debt

The fair value of fixed-rate long-term debt is based on a method of calculation whereby the total principal and interest is discounted at an interest rate that is assumed for the introduction of similar new debt. The fair value of floating-rate long-term debt is based on the book value because the fair value of floating-rate long-term debt reflects market interest rates within a short period of time and closely approximates the book values.

(h) Derivative transactions

Please see "13 Derivatives."

2. The book value of financial instruments whose fair value is extremely difficult to ascertain

	Millions of yen		Thousands of U.S. dollars
Classification	2016	2017	2017
Non-listed equity securities and bonds	¥5,823	¥5,810	$51,875
Investments in limited liability investment partnerships and similar investments	3,682	3,735	33,348
Negotiable certificates of deposit	2,543	534	4,768

It is extremely difficult to ascertain the fair value of these financial instruments because market prices are not available and future cash flows cannot be estimated. As a result, they are not included in (c) Investment securities.

3. The securities of nonconsolidated subsidiaries and affiliated companies are not included in (c) Investment securities.

4. Supplementary explanation regarding fair value of financial instruments
The fair value of financial instruments is based on market price. If market prices are not available, the fair value of financial instruments is reasonably calculated. Certain assumptions are used to calculate the value. As a result, if different assumptions are used, the values may differ. For derivative contracts, the amount of the contract which is indicated in "13 Derivatives" does not indicate the market risk involved in derivative transactions themselves.

5. Redemption and repayment schedule of monetary claims and investment securities with maturities

Fiscal year ended 31st March 2016

	Millions of yen			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	¥ 24,225	¥ —	¥ —	¥ —
Trade receivables	73,141	—	—	—
Investment securities:				
Held-to-maturity debt securities (government bonds, etc.)	—	9	—	—
Available-for-sale securities with maturities (government bonds, etc.)	10	237	242	300
Total	97,376	247	242	300

Fiscal year ended 31st March 2017

	Millions of yen				Thousands of U.S. dollars			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	¥ 24,255	¥ —	¥ —	¥ —	$216,563	$ —	$ —	$ —
Trade receivables	83,492	—	—	—	745,464	—	—	—
Investment securities:								
Held-to-maturity debt securities (government bonds, etc.)	—	9	—	—	—	80	—	—
Available-for-sale securities with maturities (government bonds, etc.)	26	281	165	300	232	2,509	1,473	2,679
Total	107,755	291	165	300	962,098	2,598	1,473	2,679

6. Amount of planned redemption and repayment of bonds and long-term debt after the consolidated closing date

Fiscal year ended 31st March 2016

	Millions of yen			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Bonds	¥ 30,000	¥ 55,000	¥ 17,000	¥ 10,000
Long-term debt	70,586	151,945	255,164	181,990
Total	100,586	206,945	272,164	191,990

Fiscal year ended 31st March 2017

	Millions of yen				Thousands of U.S. dollars			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Bonds	¥10,000	¥ 55,000	¥ 17,000	¥ 20,000	$ 89,286	$ 491,071	$ 151,786	$ 178,571
Long-term debt	43,732	153,047	292,859	164,616	390,464	1,366,491	2,614,813	1,469,786
Total	53,732	208,047	309,859	184,616	479,750	1,857,563	2,766,598	1,648,357

12 Securities

① Held-to-maturity debt securities

Classification	Millions of yen 2016 Book value	Fair value	Difference	2017 Book value	Fair value	Difference	Thousands of U.S. dollars 2017 Book value	Fair value	Difference
Securities with fair value exceeding book value	¥9	¥10	¥0	¥9	¥10	¥0	$80	$89	$0

② Available-for-sale securities

Classification		Millions of yen 2016 Book value	Acquisition cost	Difference	2017 Book value	Acquisition cost	Difference	Thousands of U.S. dollars 2017 Book value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost	(a) Equity securities	¥31,140	¥19,089	¥12,051	¥39,641	¥23,291	¥16,350	$353,938	$207,955	$145,982
	(b) Bonds	490	464	25	473	454	18	4,223	4,054	161
	Subtotal	31,630	19,554	12,076	40,114	23,746	16,368	358,161	212,018	146,143
Securities with book value not exceeding acquisition cost	(a) Equity securities	7,275	8,420	(1,144)	3,822	4,634	(811)	34,125	41,375	(7,241)
	(b) Bonds	—	—	—	—	—	—	—	—	—
	Subtotal	7,275	8,420	(1,144)	3,822	4,634	(811)	34,125	41,375	(7,241)
Total		38,906	27,974	10,931	43,937	28,380	15,556	392,295	253,393	138,893

Note: Unlisted equity securities and others (fiscal year ended 31st March 2016: ¥12,049 million, fiscal year ended 31st March 2017: ¥10,080 million ($90,000 thousand)) are not included in the above table due to the fact that establishing their fair values is extremely difficult because they do not have market values, and estimating future cash flows is not possible.

③ Available-for-sale securities sold during fiscal years ended 31st March 2016 and 31st March 2017

Fiscal year ended 31st March 2016

Omitted as the significance was negligible.

Fiscal year ended 31st March 2017

Classification	Millions of yen Amount sold	Total gains on sale	Total losses on sale	Thousands of U.S. dollars Amount sold	Total gains on sale	Total losses on sale
Equity securities	¥1,452	¥828	¥2	$12,964	$7,393	$18

④ Impairment of securities

Fiscal year ended 31st March 2016

Impairment loss on investment securities (other securities) of ¥4,979 million was recognised.

Fiscal year ended 31st March 2017

Omitted as the significance was negligible.

13 Derivatives

① Derivative transactions for which hedge accounting has not been applied

(a) Currency

Fiscal year ended 31st March 2016

Classification	Type	Millions of yen: Contract amount	Millions of yen: Portion of contract amount exceeding one year	Millions of yen: Fair value (Note)
Transactions other than market transactions	Forward exchange contracts:			
	Buy contract			
	U.S. dollar	¥1,846	¥ —	¥ 2
	Currency swap contracts:			
	Receive yen, pay U.S. dollars	598	598	(47)
	Total	2,444	598	(45)

Fiscal year ended 31st March 2017

Classification	Type	Millions of yen: Contract amount	Millions of yen: Portion of contract amount exceeding one year	Millions of yen: Fair value (Note)	Thousands of U.S. dollars: Contract amount	Thousands of U.S. dollars: Portion of contract amount exceeding one year	Thousands of U.S. dollars: Fair value (Note)
Transactions other than market transactions	Forward exchange contracts:						
	Buy contract						
	Euro	¥ 76	¥ —	¥ (3)	$ 679	$ —	$ (27)
	Australian dollar	26	—	1	232	—	9
	Canadian dollar	8	—	(0)	71	—	(0)
	New Zealand dollar	7	—	0	63	—	0
	Currency swap contracts:						
	Receive yen, pay U.S. dollars	598	598	(50)	5,339	5,339	(446)
	Receive yen, pay Thai baht	495	—	(5)	4,420	—	(45)
	Total	1,211	598	(58)	10,813	5,339	(518)

Notes:

1. Fair value calculation
   Fair value is based mainly on prices quoted from counterparty financial institutions.
2. Regarding the above currency swap contracts, in nonconsolidated financial statements hedge accounting is applied for monetary payables and receivables related to transactions between consolidated subsidiaries. In consolidated financial statements, however, hedge accounting is not applied because the said hedged items are eliminated.

② Derivative transactions for which hedge accounting has been applied

(a) Currency

Fiscal year ended 31st March 2016

Classification	Type	Main hedged items	Millions of yen: Contract amount	Millions of yen: Portion of contract amount exceeding one year	Millions of yen: Fair value (Note)
Designation of forward exchange contracts, etc.	Forward exchange contracts:				
	Sell contract	Trade receivables			
	U.S. dollar		¥ 194	¥—	¥ 1
	Japanese yen		8	—	0
	Buy contract	Trade payables			
	Euro		13,525	—	(564)
	U.S. dollar		8,476	—	(543)
	Pound sterling		17	—	0
	Swiss franc		1,726	—	(87)
	Canadian dollar		1,201	—	(65)
	New Zealand dollar		220	—	(12)
	Australian dollar		291	—	(1)
	Hong Kong dollar		77	—	(0)
	Singapore dollar		3,330	—	(170)
	Thai baht		79	—	(0)
	Japanese yen		1,227	—	5
	Total		30,378	—	(1,438)

Fiscal year ended 31st March 2017

Classification	Type	Main hedged items	Millions of yen: Contract amount	Millions of yen: Portion of contract amount exceeding one year	Millions of yen: Fair value (Note)	Thousands of U.S. dollars: Contract amount	Thousands of U.S. dollars: Portion of contract amount exceeding one year	Thousands of U.S. dollars: Fair value (Note)
Primary method	Forward exchange contracts:							
	Sell contract	Trade receivables						
	U.S. dollar		¥ 15	¥ —	¥ 0	$ 134	$ —	$ 0
	Japanese yen		10	—	0	89	—	0
	Buy contract	Trade payables						
	Euro		0	—	(0)	0	—	(0)
	U.S. dollar		8	—	(0)	71	—	(0)
	Singapore dollar		0	—	(0)	0	—	(0)
	Thai baht		0	—	(0)	0	—	(0)
	Japanese yen		553	—	(18)	4,938	—	(161)
Designation of forward exchange contracts, etc.	Forward exchange contracts:							
	Sell contract	Trade receivables						
	U.S. dollar		47	—	0	420	—	0
	Buy contract	Trade payables						
	Euro		8,446	—	231	75,411	—	2,063
	U.S. dollar		6,550	294	327	58,482	2,625	2,920
	Pound sterling		302	—	25	2,696	—	223
	Swiss franc		846	—	43	7,554	—	384
	Canadian dollar		854	—	66	7,625	—	589
	New Zealand dollar		250	—	14	2,232	—	125
	Australian dollar		463	—	37	4,134	—	330
	Hong Kong dollar		94	—	(0)	839	—	(0)
	Singapore dollar		351	—	20	3,134	—	179
	Thai baht		68	—	0	607	—	0
Total			18,865	294	748	168,438	2,625	6,679

Note: Fair value calculation

Fair value is based mainly on prices quoted from counterparty financial institutions.

(b) Interest rate

Fiscal year ended 31st March 2016

Classification	Type	Main hedged items	Millions of yen: Contract amount	Millions of yen: Portion of contract amount exceeding one year	Millions of yen: Fair value (Note)
Exceptional accounting of interest rate swaps	Interest rate swap contracts: Pay fixed rate/ Receive floating rate	Long-term debt	¥222,592	¥201,188	¥(14,757)
	Total		222,592	201,188	(14,757)

Fiscal year ended 31st March 2017

Classification	Type	Main hedged items	Millions of yen: Contract amount	Millions of yen: Portion of contract amount exceeding one year	Millions of yen: Fair value (Note)	Thousands of U.S. dollars: Contract amount	Thousands of U.S. dollars: Portion of contract amount exceeding one year	Thousands of U.S. dollars: Fair value (Note)
Exceptional accounting of interest rate swaps	Interest rate swap contracts: Pay fixed rate/ Receive floating rate	Long-term debt	¥188,909	¥183,909	¥(11,641)	$1,686,688	$1,642,045	$(103,938)
	Total		188,909	183,909	(11,641)	1,686,688	1,642,045	(103,938)

Note: Fair value calculation

Fair value is based mainly on prices quoted from counterparty financial institutions.

14 Retirement Benefits

① Overview of retirement benefit plans

Some consolidated subsidiaries of the Company provide a defined benefit plan (defined benefit pension plan and lump-sum payment plan) or a defined contribution plan. Hankyu Corporation has also established a retirement benefits trust.

In addition, some consolidated subsidiaries subscribe to the employees' pension funds plan in the multi-employer plan. Among them, the Company has used the same accounting treatment as it used for defined contribution plans when the amount of plan assets corresponding to contributions by the Company cannot be rationally calculated.

② Defined benefit plan

(a) Movement in retirement benefit obligations

	Millions of yen 2016	Millions of yen 2017	Thousands of U.S. dollars 2017
Balance at beginning of the year	¥125,490	¥133,174	$1,189,054
Service cost	7,231	7,869	70,259
Interest cost	1,046	293	2,616
Actuarial loss (gain)	7,607	(110)	(982)
Retirement benefits paid	(8,300)	(8,602)	(76,804)
Loss (gain) in prior service cost	3	—	—
Other	95	(152)	(1,357)
Balance at end of the year	133,174	132,471	1,182,777

Note: Amounts in the table above include the retirement benefit obligations of consolidated subsidiaries using simplified methods.

(b) Movements in plan assets

	Millions of yen 2016	Millions of yen 2017	Thousands of U.S. dollars 2017
Balance at beginning of the year	¥77,249	¥77,281	$690,009
Expected return on plan assets	929	1,072	9,571
Actuarial loss (gain)	(917)	(8)	(71)
Contribution paid by the employer	4,802	4,751	42,420
Retirement benefits paid	(4,783)	(4,841)	(43,223)
Other	(0)	(48)	(429)
Balance at end of the year	77,281	78,206	698,268

Note: Amounts in the table above include the plan assets of consolidated subsidiaries using simplified methods.

(c) On 31st March 2016 and 31st March 2017, reconciliation from retirement benefit obligations and plan assets to net defined benefit liability (asset) recorded in the consolidated balance sheets

	Millions of yen 2016	Millions of yen 2017	Thousands of U.S. dollars 2017
Funded retirement benefit obligations	¥ 71,030	¥ 73,063	$ 652,348
Plan assets	(77,281)	(78,206)	(698,268)
	(6,251)	(5,142)	(45,911)
Unfunded retirement benefit obligations	62,143	59,407	530,420
Total net defined benefit liability and asset	55,892	54,264	484,500
Net defined benefit liability	61,839	61,459	548,741
Net defined benefit asset	(5,947)	(7,194)	(64,232)
Total net defined benefit liability and asset	55,892	54,264	484,500

Note: Amounts in the table above include the retirement benefit obligations and plan assets of consolidated subsidiaries using simplified methods.

(d) The breakdown of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Service cost	¥7,231	¥ 7,869	$70,259
Interest cost	1,046	293	2,616
Expected return on plan assets	(929)	(1,072)	(9,571)
Amortisation of actuarial differences	(192)	1,500	13,393
Amortisation of prior service cost	(912)	(258)	(2,304)
Other	76	65	580
Retirement benefit expenses	6,319	8,398	74,982

Notes:
1. Amounts in the table above include the retirement benefit expenses of consolidated subsidiaries using simplified methods.
2. In addition to the retirement benefit expenses shown above, the Company made extra retirement payments of ¥9 million in the fiscal year ended 31st March 2016, which it recorded in costs of revenues from operations, and ¥75 million ($670 thousand) in the fiscal year ended 31st March 2017, which it recorded in costs of revenues from operations and extraordinary loss.

(e) Remeasurements of defined benefit plans

The breakdown of items related to remeasurements of defined benefit plans (prior to the deduction of the tax effect) is as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Prior service cost	¥ (916)	¥ (258)	$ (2,304)
Actuarial differences	(8,717)	1,602	14,304
Total	(9,633)	1,344	12,000

(f) Cumulative adjustments of retirement benefit plans

The breakdown of items related to cumulative adjustments of retirement benefit plans (prior to the deduction of the tax effect) is as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Unrecognised prior service cost	¥ (618)	¥ (360)	$ (3,214)
Unrecognised actuarial differences	4,311	2,708	24,179
Total	3,692	2,348	20,964

Note: The above relates to consolidated subsidiaries. In addition to the above items, the remeasurements of defined benefit plans include unrecognised items (the amount corresponding to equity) of equity-method affiliates.

(g) Items related to plan assets

I. Breakdown of major plan assets

The ratios of the major types of assets to total plan assets were as follows:

	2016	2017
Bonds	35%	35%
Equity securities	33	32
Cash and deposits	3	2
General accounts of life insurance	28	29
Other	1	2
Total	100	100

Note: The retirement benefits trust established for the Company's pension plan constituted 10% of total plan assets in the previous fiscal year and 9% of total plan assets in the current fiscal year.

II. Method of determining the long-term expected rate of return on plan assets

Current and target asset allocations and historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return on plan assets.

(h) Items related to actuarial assumptions

The major actuarial assumptions on 31st March 2016 and 31st March 2017

	2016	2017
Discount rate	Mainly 0.0%	Mainly 0.0%
Long-term expected rate of return on plan assets	Mainly 2.0%	Mainly 2.0%
Expected rate of salary increase	Mainly 2.5%	Mainly 2.5%

③ Defined contribution plan

The required contribution for the consolidated subsidiaries' defined contribution plan (including employees' pension funds plan in the multi-employer plan to which the same accounting method is applied as for the defined contribution plan) was ¥49 million for the fiscal year ended 31st March 2016 and ¥60 million ($536 thousand) for the fiscal year ended 31st March 2017.

15 Stock Options, etc.

① Cost amount and account associated with stock options

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Operating expenses and cost of sales of transportation and cost of sales	¥124	¥113	$1,009

② Details and size of stock options and changes therein

(a) Details of stock options

Resolution date	16th June 2011
Classification and number of eligible persons	10 directors of subsidiaries
Class and number of shares (Note 1)	20,800 shares of common stock (Note 2)
Grant date	25th July 2011
Vesting conditions	Not defined
Service period	Not defined
Exercise period	From 26th July 2011 to 25th July 2041

Resolution date	29th March 2012
Classification and number of eligible persons	11 directors of subsidiaries
Class and number of shares (Note 1)	22,400 shares of common stock (Note 2)
Grant date	25th April 2012
Vesting conditions	Not defined
Service period	Not defined
Exercise period	From 26th April 2012 to 25th April 2042

Resolution date	14th June 2012
Classification and number of eligible persons	8 directors of subsidiaries
Class and number of shares (Note 1)	20,400 shares of common stock (Note 2)
Grant date	25th July 2012
Vesting conditions	Not defined
Service period	Not defined
Exercise period	From 26th July 2012 to 25th July 2042

Resolution date	29th March 2013
Classification and number of eligible persons	18 directors of subsidiaries
Class and number of shares (Note 1)	38,400 shares of common stock (Note 2)
Grant date	25th April 2013
Vesting conditions	Not defined
Service period	Not defined
Exercise period	From 26th April 2013 to 25th April 2043

Resolution date	27th March 2014
Classification and number of eligible persons	20 directors of subsidiaries
Class and number of shares (Note 1)	40,600 shares of common stock (Note 2)
Grant date	25th April 2014
Vesting conditions	Not defined
Service period	Not defined
Exercise period	From 26th April 2014 to 25th April 2044

Resolution date	27th March 2015
Classification and number of eligible persons	22 directors of subsidiaries
Class and number of shares (Note 1)	34,800 shares of common stock (Note 2)
Grant date	24th April 2015
Vesting conditions	Not defined
Service period	Not defined
Exercise period	From 25th April 2015 to 24th April 2045

Resolution date	25th March 2016
Classification and number of eligible persons	21 directors of subsidiaries
Class and number of shares (Note 1)	30,600 shares of common stock (Note 2)
Grant date	25th April 2016
Vesting conditions	Not defined
Service period	Not defined
Exercise period	From 26th April 2016 to 25th April 2046

Resolution date	14th June 2016
Classification and number of eligible persons	1 director of subsidiary
Class and number of shares (Note 1)	1,600 shares of common stock (Note 2)
Grant date	25th July 2016
Vesting conditions	Not defined
Service period	Not defined
Exercise period	From 26th July 2016 to 25th July 2046

Notes:
1. Indicated in the equivalent number of shares.
2. Adjustments have been made to consolidate shares at the ratio of 5 shares to 1 share with an effective date of 1st August 2016.

b) Size of stock options and changes therein

The covered stock options are those which existed during the fiscal year ended 31st March 2017, the number of which is indicated in the equivalent number of shares.

Further, the figures below have been adjusted to consolidate shares at the ratio of 5 shares to 1 share with an effective date of 1st August 2016.

I. Number of stock options

Resolution date	16th June 2011	29th March 2012	14th June 2012	29th March 2013
Before vested (shares)				
At the end of the previous fiscal year	—	—	—	—
Granted	—	—	—	—
Expired	—	—	—	—
Vested	—	—	—	—
Unvested	—	—	—	—
After vested (shares)				
At the end of the previous fiscal year	14,400	16,000	17,600	35,800
Vested	—	—	—	—
Exercised	—	1,600	4,000	4,800
Expired	—	—	—	—
Unexercised	14,400	14,400	13,600	31,000

Resolution date	27th March 2014	27th March 2015	25th March 2016	14th June 2016
Before vested (shares)				
At the end of the previous fiscal year	—	—	—	—
Granted	—	—	30,600	1,600
Expired	—	—	—	—
Vested	—	—	30,600	1,600
Unvested	—	—	—	—
After vested (shares)				
At the end of the previous fiscal year	38,400	34,800	—	—
Vested	—	—	30,600	1,600
Exercised	2,800	2,400	—	—
Expired	—	—	—	—
Unexercised	35,600	32,400	30,600	1,600

II. Unit price information

Resolution date	16th June 2011	29th March 2012	14th June 2012	29th March 2013
Exercise price	¥1	¥1	¥1	¥1
Average stock price at exercise	¥—	¥3,500	¥3,500	¥3,500
Fair value unit price at the grant date	¥1,555	¥1,805	¥1,935	¥3,075

Resolution date	27th March 2014	27th March 2015	25th March 2016	14th June 2016
Exercise price	¥1	¥1	¥1 [US$0.01]	¥1 [US$0.01]
Average stock price at exercise	¥3,500	¥3,500	¥— [US$—]	¥— [US$—]
Fair value unit price at the grant date	¥2,075	¥3,590	¥3,525 [US$31.47]	¥3,685 [US$32.90]

③ Estimation method for fair value unit price of stock options

The following method was applied to fairly valuate the unit price of stock options granted during the fiscal year ended 31st March 2017.

(a) Valuation method used: Black–Scholes model

(b) Major basic data and estimation method

Resolution date	25th March 2016
Volatility of stock price (Note 1)	23.64%
Expected life (Note 2)	2.838 years
Expected dividends (Note 3)	¥35 [US$0.31] / Share
Risk-free interest rate (Note 4)	(0.284)%

Notes:

1. Volatility of stock price is based on the closing prices in regular transactions for the Company's common stock on individual transaction dates during the period of 2.838 years (from 23rd June 2013 to 25th April 2016).
2. Expected life is based on the actual length of service of eligible directors of subsidiaries who had resigned in the past, and on the actual length of service of eligible persons as of the grant date.
3. Expected dividends are based on expected dividends in the fiscal year ended 31st March 2016 that have been adjusted to consolidate shares at the ratio of 5 shares to 1 share with an effective date of 1st August 2016.
4. Risk-free interest rate is the yield of government bonds for the period corresponding to the expected life.

Resolution date	14th June 2016
Volatility of stock price (Note 1)	22.83%
Expected life (Note 2)	5.320 years
Expected dividends (Note 3)	¥35 [US$0.31] / Share
Risk-free interest rate (Note 4)	(0.341)%

Notes:

1. Volatility of stock price is based on the closing prices in regular transactions for the Company's common stock on individual transaction dates during the period of 5.320 years (from 31st March 2011 to 25th July 2016).
2. Expected life is based on the actual length of service of eligible directors of subsidiaries who resigned in the past, and on the actual length of service of eligible persons as of the grant date.
3. Expected dividends are based on actual dividends paid in the fiscal year ended 31st March 2016 that have been adjusted to consolidate shares at the ratio of 5 shares to 1 share with an effective date of 1st August 2016.
4. Risk-free interest rate is the yield of government bonds for the period corresponding to the expected life.

④ Estimation method for the number of vested stock options

Since the stock options were vested on the grant date, vested and granted stock options are the same in number.

16 Deferred Tax

① Significant components of the Company's deferred tax assets and liabilities

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Deferred tax assets:			
Loss on revaluation of real estate for sale	¥ 24,497	¥ 24,844	$ 221,821
Net defined benefit liability	18,335	17,762	158,589
Tax loss carryforwards	16,482	14,661	130,902
Loss on impairment of fixed assets	10,695	9,268	82,750
Unrealised profit from assets	4,658	4,376	39,071
Loss on adjustment of transferred profit and loss	5,451	2,669	23,830
Provision for bonuses	1,979	1,872	16,714
Enterprise taxes and business office taxes	937	1,279	11,420
Losses on revaluation of investment securities	1,475	1,147	10,241
Other	11,751	10,747	95,955
Subtotal of deferred tax assets	96,264	88,630	791,339
Valuation allowance	(42,500)	(23,631)	(210,991)
Less amounts offset against deferred tax liabilities	(43,012)	(53,807)	(480,420)
Total deferred tax assets	10,750	11,191	99,920
Deferred tax liabilities:			
Gain on reversal of difference from land revaluation	(131,091)	(130,694)	(1,166,911)
Revaluation of assets on consolidation	(79,928)	(79,481)	(709,652)
Net unrealised holding gains on securities	(13,776)	(15,170)	(135,446)
Gain on valuation of properties of business reorganisation	(1,858)	(1,826)	(16,304)
Other	(6,181)	(6,166)	(55,054)
Subtotal of deferred tax liabilities	(232,836)	(233,340)	(2,083,393)
Less amounts offset against deferred tax assets	43,012	53,807	480,420
Total deferred tax liabilities	(189,823)	(179,532)	(1,602,964)
Net deferred tax liabilities	(179,073)	(168,341)	(1,503,045)

Note: The Company reversed "Surplus from land revaluation" when, as a result of a (physical) absorption-type corporate split on 1st April 2005, it handed over all of its land to Hankyu Corporation (which changed its name from Hankyu Corporation Spin-Off Preparation Inc. to Hankyu Corporation on the same day). As a result, "Deferred tax liabilities related to land revaluation" has been recorded as "Deferred tax liabilities" starting from the fiscal year ended 31st March 2006.

② A reconciliation of the significant differences between the statutory tax rate and the effective tax rate reflected in the accompanying consolidated statements of income

	2016	2017
Statutory tax rate	33.0%	30.8%
(Adjustment)		
Elimination of dividends from consolidated subsidiaries	11.2	16.5
Amortisation of goodwill	0.9	0.7
Per capita amount of inhabitants' tax	0.4	0.4
Nondeductible expenses	0.4	0.4
Nontaxable income	(11.1)	(16.4)
Equity in (income) losses of affiliates	(2.0)	(2.6)
Valuation allowance	(0.4)	(3.9)
Other	(6.9)	1.8
Effective tax rate	25.5	27.7

③ Amendments to the amount of deferred tax assets and liabilities due to changes to the effective tax rate

The "Act to Partially Revise the Act on Partial Revision to the Consumption Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security" (Act No. 85 of 2016) and the "Act to Partially Revise the Act on Partial Revision to the Local Tax Act and Local Allocation Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security" (Act No. 86 of 2016) were enacted on 18th November 2016, and a rise in the consumption tax rate to 10% was postponed from 1st April 2017 to 1st October 2019.

As a result, the abolition of special local corporation tax and the accompanying restoration of enterprise tax on corporations, the revision of the local corporation tax rate, and the revision of the corporate residential tax rate were also postponed from fiscal years beginning on or after 1st April 2017 to fiscal years beginning on or after 1st October 2019.

The statutory tax rate used to calculate deferred tax assets and liabilities has not changed. However, tax rate classification between national and local taxes has changed.

The effect of this tax rate change on the consolidated financial statements is immaterial.

17 Asset Retirement Obligations

Omitted as the significance was negligible.

18 Rental Property

Some consolidated subsidiaries own rental property, such as office buildings for lease and commercial facilities for lease in the Kita Ward of Osaka and other areas. Rental income related to such rental property in the fiscal year ended 31st March 2016 was ¥30,194 million (significant rental revenues are recorded in revenues from operations and significant rental expenses are recorded in costs of revenues from operations). Rental income related to such rental properties in the fiscal year ended 31st March 2017 was ¥30,911 million ($275,991 thousand) (significant rental revenues are recorded in revenues from operations and significant rental expenses are recorded in costs of revenues from operations).

Book value, increase/decrease and fair value were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Book value (Note 1):			
Balance at beginning of the year	¥625,822	¥623,357	$5,565,688
Increase/decrease (Note 2)	(2,465)	(6,875)	(61,384)
Balance at end of the year	623,357	616,481	5,504,295
Fair value at end of the year (Note 3)	805,355	811,096	7,241,929

Notes:
1. Book value is acquisition cost less accumulated depreciation.
2. For changes in amounts in the fiscal year ended 31st March 2016, the main increase was acquisitions of real estate of ¥17,796 million. The main decreases were depreciation of ¥13,159 million, sales of real estate of ¥3,564 million and changes in reason for ownership from rental property, etc., to property for the Company's use of ¥3,127 million. For changes in amounts in the fiscal year ended 31st March 2017, the main increase was acquisitions of real estate of ¥12,017 million ($107,295 thousand). The main decreases were depreciation of ¥12,634 million ($112,804 thousand) and exclusion of properties for which development began of ¥6,281 million ($56,080 thousand).
3. Fair value as of the end of the fiscal year is the appraisal value according to an outside real estate appraiser based on Japanese Real Estate Appraisal Standards in the case of key properties and the fair value based on indicators such as the assessed value of noncurrent assets and road tax rating in the case of other properties.
4. Property under development has not been included in the above table because of the difficulty of ascertaining the market value of property that is in the process of development. Furthermore, property under development recognised in the consolidated balance sheets for the fiscal year ended 31st March 2016 and for the fiscal year ended 31st March 2017 were ¥90,367 million and ¥121,942 million ($1,088,768 thousand), respectively.

19 Segment Information

① Segment information

(a) Summary of reportable segments

The Company's reportable segments are regularly reviewed using the segment-specific financial information available to enable the Board of Directors to determine the allocation of management resources and evaluate business results.

The Group comprises six core businesses: "Urban Transportation," "Real Estate," "Entertainment and Communications," "Travel," "International Transportation" and "Hotels." The businesses are operated by five core companies: Hankyu Corporation, Hanshin Electric Railway Co., Ltd., Hankyu Travel International Co., Ltd., Hankyu Hanshin Express Co., Ltd. and Hankyu Hanshin Hotels Co., Ltd., under the leadership of the Company, which manages the Group.

The nature of business in each reportable segment is as follows:

Urban Transportation: Railway operations, automobile, retailing and advertising businesses
Real Estate: Rental real estate, real estate sales and other businesses
Entertainment and Communications: Sports-related businesses, stage events, communications and media, and other businesses
Travel: Travel services
International Transportation: International cargo services
Hotels: Hotel ownership and management business

(b) Method used to calculate revenues from operations, income (loss), assets and other items for each reportable segment

The accounting treatment for each reportable business segment is based on the methods described in "2 Basis of Preparation of Consolidated Financial Statements," and internal transactions (land and structure leases and rental transactions, etc.) that are calculated through management accounting at companies with businesses spanning multiple segments are included and recorded.

Income (loss) for each reportable segment refers to operating income (loss).

Intersegment revenues from operations and transfers are based mainly on similar data as those of general transaction conditions.

(c) Change in recognition of revenues from operations

As stated in "3 Changes in Accounting Policies," in the International Transportation Business the recognition of revenues from operations has been changed. As a result of applying the said change in accounting policy retroactively, for the fiscal year ended 31st March 2016 revenues from operations of the International Transportation segment increased ¥39,433 million compared to the amount for this line item before retroactive application. However, segment income of the International Transportation was unaffected.

(d) Information regarding totals for revenues from operations, income (loss), assets and other items by reportable segment

Fiscal year ended 31st March 2016

Millions of yen

	Reportable segment: Urban Transportation	Real Estate	Entertainment and Communications	Travel	International Transportation	Hotels	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Amounts appearing in the consolidated financial statements (Note 3)
Revenues from operations:											
I. Customers	¥234,410	¥ 203,413	¥105,351	¥30,492	¥76,083	¥67,304	¥ 717,056	¥29,209	¥ 746,265	¥ 527	¥ 746,792
II. Intersegment	5,133	17,509	7,138	9	8	737	30,538	9,649	40,188	(40,188)	—
Total	239,544	220,923	112,490	30,502	76,092	68,042	747,594	38,859	786,453	(39,660)	746,792
Segment income (loss)	41,270	49,851	15,301	680	1,788	3,298	112,191	967	113,159	(2,866)	110,293
Segment assets	794,261	1,022,570	142,705	65,239	39,899	82,754	2,147,431	35,849	2,183,280	98,899	2,282,180
Other items:											
Depreciation and amortisation	25,691	17,916	6,656	773	730	1,838	53,607	537	54,144	(443)	53,701
Increase in property and equipment and intangible assets	27,977	28,287	5,919	507	1,049	2,233	65,974	717	66,691	(52)	66,639

Fiscal year ended 31st March 2017

Millions of yen

	Reportable segment: Urban Transportation	Real Estate	Entertainment and Communications	Travel	International Transportation	Hotels	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Amounts appearing in the consolidated financial statements (Note 3)
Revenues from operations:											
I. Customers	¥232,306	¥ 198,663	¥107,162	¥29,926	¥71,631	¥64,358	¥ 704,048	¥32,284	¥ 736,332	¥ 430	¥ 736,763
II. Intersegment	4,830	17,046	8,031	12	38	1,281	31,240	10,362	41,603	(41,603)	—
Total	237,136	215,709	115,193	29,938	71,670	65,640	735,288	42,646	777,935	(41,172)	736,763
Segment income (loss)	42,237	41,970	15,655	637	1,587	2,795	104,885	1,340	106,225	(2,167)	104,058
Segment assets	802,238	1,056,719	147,307	73,938	38,658	82,562	2,201,424	34,144	2,235,569	114,261	2,349,831
Other items:											
Depreciation and amortisation	25,919	16,800	6,729	726	680	1,877	52,734	546	53,280	(480)	52,800
Increase in property and equipment and intangible assets	31,158	43,144	7,388	528	384	3,182	85,787	618	86,406	(193)	86,212

Thousands of U.S. dollars

	Reportable segment: Urban Transportation	Real Estate	Entertainment and Communications	Travel	International Transportation	Hotels	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Amounts appearing in the consolidated financial statements (Note 3)
Revenues from operations:											
I. Customers	$2,074,161	$1,773,777	$ 956,804	$267,196	$639,563	$574,625	$ 6,286,143	$288,250	$ 6,574,393	$ 3,839	$ 6,578,241
II. Intersegment	43,125	152,196	71,705	107	339	11,438	278,929	92,518	371,455	(371,455)	—
Total	2,117,286	1,925,973	1,028,509	267,304	639,911	586,071	6,565,071	380,768	6,945,848	(367,607)	6,578,241
Segment income (loss)	377,116	374,732	139,777	5,688	14,170	24,955	936,473	11,964	948,438	(19,348)	929,089
Segment assets	7,162,839	9,434,991	1,315,241	660,161	345,161	737,161	19,655,571	304,857	19,960,438	1,020,188	20,980,634
Other items:											
Depreciation and amortisation	231,420	150,000	60,080	6,482	6,071	16,759	470,839	4,875	475,714	(4,286)	471,429
Increase in property and equipment and intangible assets	278,196	385,214	65,964	4,714	3,429	28,411	765,955	5,518	771,482	(1,723)	769,750

Notes:

1. The "Other" segment is a business segment not included in the reportable segments and includes construction, etc.
2. The main item in the adjusted amount of segment profit and loss for the fiscal year was amortisation of goodwill (¥(2,238) million in the fiscal year ended 31st March 2016 and ¥(2,238) million ($(19,982) thousand) in the fiscal year ended 31st March 2017) (refers mainly to the amortisation of goodwill arising from the management integration with Hanshin Electric Railway Co., Ltd. in the fiscal year ended 31st March 2007).

   In addition to the balance of unamortised goodwill (refers mainly to the goodwill arising from the management integration with Hanshin Electric Railway Co., Ltd. in the fiscal year ended 31st March 2007) of ¥20,496 million ($183,000 thousand), the segment assets' adjusted amount consists mainly of surplus working capital (cash and deposits); unallocated assets such as long-term investment funds (investment securities) and land, etc.; and intersegment eliminations at the Company, Hankyu Corporation and Hanshin Electric Railway Co., Ltd.
3. Segment profit and loss is adjusted with operating income in the consolidated statements of income.

② Related information

(a) Information about product and service categories

Information about product and service categories is the same as that described in "① Segment information (d) Information regarding totals for revenues from operations, income (loss), assets and other items by reportable segment."

(b) Information by region

I. Revenues from operations

Since over 90% of revenues from operations in the consolidated statements of income are revenues from external customers in Japan, a breakdown by region is omitted.

II. Property and equipment

Since over 90% of the total value of property and equipment in the consolidated balance sheets relates to property and equipment in Japan, a breakdown by region is omitted.

(c) Information about important customers

No single external customer accounts for more than 10% of the revenues from operations reported in the consolidated statements of income.

③ Information regarding loss on impairment of fixed assets by reportable segment

Fiscal year ended 31st March 2016

	Millions of yen										
	Reportable segment										
	Urban Transportation	Real Estate	Entertainment and Communications	Travel	International Transportation	Hotels	Subtotal	Other	Total	Adjustment (Note)	Amounts appearing in the consolidated financial statements
Loss on impairment of fixed assets	¥391	¥240	¥22	¥—	¥—	¥2,033	¥2,688	¥—	¥2,688	¥3	¥2,692

Fiscal year ended 31st March 2017

	Millions of yen										
	Reportable segment										
	Urban Transportation	Real Estate	Entertainment and Communications	Travel	International Transportation	Hotels	Subtotal	Other	Total	Adjustment (Note)	Amounts appearing in the consolidated financial statements
Loss on impairment of fixed assets	**¥72**	**¥16**	**¥—**	**¥—**	**¥—**	**¥290**	**¥379**	**¥520**	**¥899**	**¥1**	**¥901**

	Thousands of U.S. dollars										
	Reportable segment										
	Urban Transportation	Real Estate	Entertainment and Communications	Travel	International Transportation	Hotels	Subtotal	Other	Total	Adjustment (Note)	Amounts appearing in the consolidated financial statements
Loss on impairment of fixed assets	**$643**	**$143**	**$—**	**$—**	**$—**	**$2,589**	**$3,384**	**$4,643**	**$8,027**	**$9**	**$8,045**

Note: The amounts under "Adjustment" are the amounts for land, etc., not allocated to business segments.

④ Information regarding amortisation of goodwill and the balance of unamortised goodwill by reportable segment

Omitted as the significance was negligible.

⑤ Information regarding gains from negative goodwill by reportable segment

Omitted as the significance was negligible.

20 Related-Party Transactions

① Related-party transactions

(a) Transactions between the company submitting the consolidated financial statements and related parties

No items

(b) Transactions between consolidated subsidiaries of the company submitting the consolidated financial statements and related parties

Directors and principal shareholders (only individual shareholders) of the company submitting the consolidated financial statements

Fiscal year ended 31st March 2016

Type	Name of related party	Address	Amount of capital (Millions of yen)	Business	Voting interest	Relationship with related party	Details of transaction	Transaction amounts (Millions of yen)	Item	Balance as of 31st March 2016 (Millions of yen)
Audit & Supervisory Board Member	Haruo Sakaguchi	—	¥ —	Auditor of the Company	Directly 0.0%	Lease of real estate	Lease of real estate	¥ 47	Deposit	¥ 33
Company in which director or close family thereof holds majority of voting rights	Tateishi Sangyo Co., Ltd.	Ikeda City, Osaka	100	Real estate business	Directly 0.1%	Operation, management, sale, purchase and brokerage of real estate Concurrent post (director)	Operation and management of real estate	34	Accounts receivable	0
							Sale of real estate	—	Advance	698
									Deposit	10
							Purchase of real estate	5,222	—	—
							Brokerage of real estate	156	—	—

Notes:

1. The transaction amount does not include consumption tax, etc., and the balance, excluding deposit, at the end of the fiscal year does not include consumption tax, etc.
2. Transaction terms and conditions, and method of determining transaction terms and conditions, etc.
   The terms and conditions of the property lease, operation, management and sale are determined with reference to similar transactions in the neighbouring area.
   The terms and conditions of the purchase of real estate are determined with reference to the appraised values of real estate appraisers.
   The terms and conditions of real estate brokerage are determined in the same manner as used for general transaction conditions.
3. Koichi Kobayashi, a managing director of a consolidated subsidiary of the Company, Hankyu Corporation, and his close family own 77% of the voting rights in Tateishi Sangyo Co., Ltd.

Fiscal year ended 31st March 2017

Type	Name of related party	Address	Amount of capital		Business	Voting interest	Relationship with related party	Details of transaction	Transaction amounts		Item	Balance as of 31st March 2017	
			(Millions of yen)	(Thousands of U.S. dollars)					(Millions of yen)	(Thousands of U.S. dollars)		(Millions of yen)	(Thousands of U.S. dollars)
Audit & Supervisory Board Member	Haruo Sakaguchi	—	¥ —	$ —	Auditor of the Company	Directly 0.0%	Lease of real estate	Lease of real estate	¥ 47	$ 420	Deposit	¥ 40	$ 357
Company in which director or close family thereof holds majority of voting rights	Tateishi Sangyo Co., Ltd.	Ikeda City, Osaka	100	893	Real estate business	Directly 0.1%	Sale of real estate Concurrent post (director)	Sale of real estate	1,146	10,232	Advance	205	1,830

Notes:

1. The transaction amount does not include consumption tax, etc., and the balance, excluding deposit, at the end of the fiscal year does not include consumption tax, etc.
2. Transaction terms and conditions, and method of determining transaction terms and conditions, etc.
   The terms and conditions of the property lease and sale are determined with reference to similar transactions in the neighbouring area.
   The terms and conditions of the purchase of real estate are determined with reference to the appraised values of real estate appraisers.
   The terms and conditions of real estate brokerage are determined in the same manner as used for general transaction conditions.
3. Koichi Kobayashi, an Audit & Supervisory Board member of the Company, and his close family own 77% of the voting rights in Tateishi Sangyo Co., Ltd.

② Notes about parent company and major affiliated companies

No items

21 Per Share Information

The following tables show net assets per share, net income attributable to owners of the parent per share, diluted net income attributable to owners of the parent per share and the basis for their respective calculations.

	2016	2017	2017
① **Net assets per share (Yen / U S. dollars)**	¥2,815.96	**¥3,150.67**	**$28.13**
(Basis for the calculation)			
Total net assets (Millions of yen / Thousands of U.S. dollars)	¥724,237	**¥804,659**	**$7,184,455**
Amount to be deducted from total net assets (Millions of yen / Thousands of U.S. dollars)	¥16,902	**¥17,710**	**$158,125**
(Of the amount, subscription rights to shares)	¥[424]	**¥[496]**	**$[4,429]**
(Of the amount, non-controlling interests)	¥[16,478]	**¥[17,213]**	**$[153,688]**
Net assets at the end of the fiscal year related to common shares (Millions of yen / Thousands of U.S. dollars)	¥707,334	**¥786,949**	**$7,026,330**
Common shares issued (Thousands of shares)	254,281	**254,281**	
Treasury stock shares (Thousands of shares)	2,075	**3,471**	
Common shares held by consolidated subsidiaries and equity-method affiliates (Thousands of shares)	1,017	**1,036**	
Common shares used to calculate net assets per share (Thousands of shares)	251,188	**249,772**	
② **Net income per share (Yen / U.S. dollars)**	¥277.88	**¥285.11**	**$2.55**
(Basis for the calculation)			
Net income attributable to owners of the parent (Millions of yen / Thousands of U.S. dollars)	¥69,971	**¥71,302**	**$636,625**
Amount not belonging to common stockholders (Millions of yen / Thousands of U.S. dollars)	¥—	**¥—**	**$—**
Net income attributable to owners of the parent related to common shares (Millions of yen / Thousands of U.S. dollars)	¥69,971	**¥71,302**	**$636,625**
Average number of common shares during term (Thousands of shares)	251,801	**250,089**	
③ **Net income per share—diluted (Yen / U.S. dollars)**	¥277.67	**¥284.86**	**$2.54**
(Basis for the calculation)			
Adjustment to net income attributable to owners of the parent (Millions of yen / Thousands of U.S. dollars)	¥(11)	**¥(14)**	**$(125)**
(Equity in income of affiliates)	¥[(11)]	**¥[(14)]**	**$[(125)]**
Increase in number of common shares (Thousands of shares)	154	**171**	
(Of the amount, subscription rights to shares)	[154]	**[171]**	
Summary of potential shares that were not included in the calculation of diluted income per share because their effect was not dilutive	—	**—**	

Note: Hankyu Hanshin Holdings, Inc. consolidated shares at the ratio of 5 shares to 1 share with an effective date of 1st August 2016. Net assets per share, net income attributable to owners of the parent per share and diluted net income attributable to owners of the parent per share have been calculated based on the assumption that the said reverse stock split was executed on 1st April 2015.

22 Subsequent Events

① Acquisition of treasury stock

Based on Article 156 of the Companies Act of Japan, as applied *mutatis mutandis* pursuant to Paragraph 3, Article 165 of the Companies Act of Japan, a meeting of the Board of Directors convened on 12th May 2017 decided the following items in relation to the acquisition of treasury stock.

(a) Reason for acquisition of treasury stock
To enhance shareholder returns and enhance capital efficiency

(b) Details of items related to acquisition
① Type of shares acquired: Shares of common stock of the Company
② Total number of shares available for acquisition: 3,000,000 shares (upper limit)
(1.20% of issued shares (excluding treasury stock))
③ Total amount of acquisition: ¥9,100,000,000 (upper limit)
④ Period of acquisition: From 22nd May 2017 to 31st July 2017

23 Consolidated Supplementary Statements

① Corporate bond statements

Company	Name	Issue date	Millions of yen: Balance as of 1st April 2016	Millions of yen: Balance as of 31st March 2017	Thousands of U.S. dollars: Balance as of 31st March 2017	Interest rate	Security	Redemption date
Hankyu Hanshin Holdings, Inc.	Series 38 unsecured corporate bonds	23rd Oct. 2009	¥ 10,000	¥ 10,000	$ 89,286	1.87%	None	23rd Oct. 2019
Hankyu Hanshin Holdings, Inc.	Series 39 unsecured corporate bonds	28th Jan. 2010	20,000	—	—	1.25	None	27th Jan. 2017
Hankyu Hanshin Holdings, Inc.	Series 40 unsecured corporate bonds	22nd Sept. 2010	15,000	15,000	133,929	1.43	None	18th Sept. 2020
Hankyu Hanshin Holdings, Inc.	Series 41 unsecured corporate bonds	22nd Sept. 2010	7,000	7,000	62,500	1.72	None	22nd Sept. 2022
Hankyu Hanshin Holdings, Inc.	Series 42 unsecured corporate bonds	17th Mar. 2011	10,000	10,000	89,286	1.54	None	17th Mar. 2021
Hankyu Hanshin Holdings, Inc.	Series 43 unsecured corporate bonds	9th Sept. 2011	10,000	—	—	0.55	None	9th Sept. 2016
Hankyu Hanshin Holdings, Inc.	Series 44 unsecured corporate bonds	25th Oct. 2012	10,000	10,000 (10,000)	89,286 (89,286)	0.406	None	25th Oct. 2017
Hankyu Hanshin Holdings, Inc.	Series 45 unsecured corporate bonds	14th Mar. 2013	10,000	10,000	89,286	0.589	None	13th Mar. 2020
Hankyu Hanshin Holdings, Inc.	Series 46 unsecured corporate bonds	25th Oct. 2013	10,000	10,000	89,286	0.819	None	25th Oct. 2023
Hankyu Hanshin Holdings, Inc.	Series 47 unsecured corporate bonds	18th Jul. 2014	10,000	10,000	89,286	1.202	None	18th Jul. 2029
Hankyu Hanshin Holdings, Inc.	Series 48 unsecured corporate bonds	15th Dec. 2016	—	10,000	89,286	0.120	None	15th Dec. 2021
Hankyu Hanshin Holdings, Inc.	Series 49 unsecured corporate bonds	15th Dec. 2016	—	10,000	89,286	0.817	None	15th Dec. 2036
Total	—	—	112,000	102,000 (10,000)	910,714 (89,286)	—	—	—

Notes:
1. The amount in parenthesis in the "Balance as of 31st March 2017" column is the current portion of the total amount and is recorded in current liabilities in the consolidated balance sheets.
2. Redemption schedule of bonds for five years subsequent to 31st March 2017

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥10,000	$ 89,286
Due after one year through two years	—	—
Due after two years through three years	20,000	178,571
Due after three years through four years	25,000	223,214
Due after four years through five years	10,000	89,286

② Statements of loans payable

Item	Millions of yen: Balance as of 1st April 2016	Millions of yen: Balance as of 31st March 2017	Thousands of U.S. dollars: Balance as of 31st March 2017	Average interest rate	Repayment deadline
Short-term borrowings	¥135,322	¥134,676	$1,202,464	0.453%	—
Current portion of long-term debt	70,586	43,732	390,464	1.132	—
Current portion of lease obligations	1,794	1,795	16,027	—	—
Long-term debt (excluding current portion)	589,100	610,523	5,451,098	0.938	2017 – 2036
Lease obligations (excluding current portion)	7,765	6,795	60,670	—	2017 – 2025
Other interest-bearing debt	—	—	—	—	—
Total	804,570	797,523	7,120,741	—	—

Notes:
1. The balances are expressed after the elimination of transactions with companies in the consolidation group.
2. The "Average interest rate" of loans payable is the weighted average interest rate for outstanding loans payable as of 31st March 2017.
3. The "Average interest rate" is not shown for lease obligations because the Company uses mainly the method that includes the amounts equal to interest in total capital lease obligations and that spreads the total amount equal to interest equally over each fiscal year of the lease period.
4. Repayment schedule of long-term debt and lease obligations (excluding current portion) within five years subsequent to 31st March 2017.

Long-term debt	Millions of yen	Thousands of U.S. dollars
Due after one year through two years	¥41,373	$369,402
Due after two years through three years	34,207	305,420
Due after three years through four years	33,826	302,018
Due after four years through five years	43,639	389,634

Lease obligations	Millions of yen	Thousands of U.S. dollars
Due after one year through two years	¥1,378	$12,304
Due after two years through three years	1,290	11,518
Due after three years through four years	1,058	9,446
Due after four years through five years	893	7,973

③ Schedule of asset retirement obligations

Omitted as the significance was negligible.

24 Others

Quarterly financial information in fiscal year ended 31st March 2017

Cumulative period	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues from operations (Millions of yen)	¥177,343	¥359,950	¥537,685	¥736,763
Income before income taxes (Millions of yen)	27,843	56,426	82,513	100,805
Net income attributable to owners of the parent (Millions of yen)	19,815	38,587	57,382	71,302
Net income attributable to owners of the parent per share (yen)	79.03	154.14	229.36	285.11

Cumulative period	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues from operations (Thousands of U.S. dollars)	$1,583,420	$3,213,839	$4,800,759	$6,578,241
Income before income taxes (Thousands of U.S. dollars)	248,598	503,804	736,723	900,045
Net income attributable to owners of the parent (Thousands of U.S. dollars)	176,920	344,527	512,339	636,625
Net income attributable to owners of the parent per share (U.S. dollars)	0.71	1.38	2.05	2.55

Accounting period	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net income attributable to owners of the parent per share (Yen)	¥79.03	¥75.14	¥75.24	¥55.73

Accounting period	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net income attributable to owners of the parent per share (U.S. dollars)	$0.71	$0.67	$0.67	$0.50

Note: Hankyu Hanshin Holdings, Inc. consolidated shares at the ratio of 5 shares to 1 share with an effective date of 1st August 2016. Net income attributable to owners of the parent per share has been calculated based on the assumption that the said reverse stock split was executed on 1st April 2016.

Major Rental Properties / Major Sales Properties

Major rental properties

Property name	Location	Completed	Leasable area[1] (1,000 m²)	Use
Umeda Hankyu Bldg.	Kita-ku, Osaka	2012	213	Department stores (Hankyu Department Store), Offices
Umeda Hanshin Daiichi Bldg. (HERBIS OSAKA)	Kita-ku, Osaka	1997	82	Hotels (The Ritz-Carlton, Osaka), Offices, Commercial facilities, Multifunctional convention hall
Umeda Hanshin Daini Bldg. (HERBIS ENT)	Kita-ku, Osaka	2004	55	Offices, Commercial facilities, Theatre (Osaka Shiki Theatre)
Hankyu Chayamachi Bldg. (Applause Tower)	Kita-ku, Osaka	1992	52	Hotel (Hotel Hankyu International), Offices, Commercial facilities
Hankyu Sanban Gai Shopping Centre	Kita-ku, Osaka	1969	40	Commercial facilities
Hankyu Grand Bldg.	Kita-ku, Osaka	1977	36	Offices, Commercial facilities
GRAND FRONT OSAKA	Kita-ku, Osaka	2013	28	Offices, Commercial facilities, Knowledge Capital, Hotel (InterContinental Hotel Osaka)
Hankyu Terminal Bldg.	Kita-ku, Osaka	1972	27	Offices, Commercial facilities
Hankyu Five Bldg. (HEP FIVE)	Kita-ku, Osaka	1998	20	Commercial facilities
Navio Hankyu (HEP NAVIO)	Kita-ku, Osaka	1980	16	Commercial facilities
Kita Hankyu Bldg.	Kita-ku, Osaka	1971	13	Offices, Commercial facilities
NU–chayamachi	Kita-ku, Osaka	2005	12	Commercial facilities
Noda Hanshin Bldg. (WISTE)	Fukushima-ku, Osaka	1992	32	Commercial facilities, Offices
Shin-Osaka Hankyu Bldg.	Yodogawa-ku, Osaka	2012	24	Offices, Hotel (REMM Shin-Osaka), Commercial facilities
Hankyu Nishinomiya Gardens	Nishinomiya, Hyogo	2008	108	Commercial facilities, Department stores (Hankyu Department Store)
Hankyu Kawaramachi Bldg.	Shimogyo-ku, Kyoto	1974	38	Department stores (Takashimaya)

1. Leasable area does not include areas for public use.

Major properties sold in fiscal 2017[2]

Property name	Location	Total number of units
Condominium		
Geo Takatsuki *Muse Resis*	Takatsuki, Osaka	244
G-Clef Geo Kobe Motoyama[3]	Higashinada-ku, Kobe	256
Geo Senri Chuo *The Residence*	Toyonaka, Osaka	218
Brod Takatsuki	Takatsuki, Osaka	51
Geo Kyoto Saga Arashiyama	Ukyo-ku, Kyoto	32
Geo Kyoto Arashiyama	Nisikyo-ku, Kyoto	25
Geo Sumiyoshi Honmachi	Higashinada-ku, Kobe	22[4]
Geo Grande Okamoto 1-chome	Higashinada-ku, Kobe	17[4]
Geo Tama Center	Tama, Tokyo	300
Geo Chigasaki[3]	Chigasaki, Kanagawa	136
Geo Tsudanuma	Narashino, Chiba	84
Geo Kyodo	Setagaya-ku, Tokyo	78
Geo Gyoen Naitomachi	Shinjuku-ku, Tokyo	63
Detached house		
Osaka Nakajima Koen Toshi *Hapia Garden Shiki no Machi*	Nishi-Yodogawa-ku, Osaka	254
Hankyu *Saito Garden Front* Saito Mino-o *Residence*	Minoh, Osaka	48
Hapia Garden Mino-o Onohara	Minoh, Osaka	20
Grand Forum Soshigaya-Okura *Hapia*[3]	Setagaya-ku, Tokyo	27
Hapia Garden Yokohama Yamate	Yokohama, Kanagawa	14
Hapia Garden Oizumi Gakuen-cho	Nerima-ku, Tokyo	8

2. Ordered by highest total number of condominium units first, with Kansai area and Tokyo metropolitan area categorised separately
3. Joint-venture properties
4. Including unsold condominium units

Major properties planned to be sold in fiscal 2018[2]

Property name	Location	Total number of units
Condominium		
Geo Tenroku *Twin Towers*	Kita-ku, Osaka	358
Cielia Saito (First phase)[3]	Ibaraki, Osaka	208
Geo Ibaraki Togu-cho	Ibaraki, Osaka	45
Geo Nishinomiya Kitaguchi *The Grace*	Nishinomiya, Hyogo	40
Geo Nishinomiya Kitaguchi Kawarabayashi-cho	Nishinomiya, Hyogo	35
Geo Nishinomiya Kitaguchi Yakushi-cho	Nishinomiya, Hyogo	29
Geo Fukagawa Sumiyoshi	Koto-ku, Tokyo	190
Geo Yotsuya Araki-cho	Shinjuku-ku, Tokyo	131[4]
Primce Style Higashi Nihombashi[3]	Chuo-ku, Tokyo	73[4]
Geo Yotsuya Sanei-cho	Shinjuku-ku, Tokyo	61
Geo Utsukushigaoka 2-chome *Hills*	Yokohama, Kanagawa	52
Geo Minamiaoyama	Minato-ku, Tokyo	25
Geo Grande Motoazabu	Minato-ku, Tokyo	19[4]
Detached house		
Hapia Garden Tarumi Seiryodai	Tarumi-ku, Kobe	17
Hapia Garden Kuzuhanamiki 1-chome	Hirakata, Osaka	7
Hapia Garden Takarazuka Gotenyama	Takarazuka, Hyogo	6
Hapia Garden Shimo Shakujii	Nerima-ku, Tokyo	13
Hapia Garden Komae Izumi Tamagawa	Komae, Tokyo	9
Hapia Garden Yokohama Yamate Nibangai	Yokohama, Kanagawa	7

Major Group Companies

(As of 31st March 2017)

Consolidated Subsidiaries

Urban Transportation

Main business	Name of company
Railway operations	Hankyu Corporation Hanshin Electric Railway Co., Ltd. Nose Electric Railway Co., Ltd. Kita-Osaka Kyuko Railway Co., Ltd. Hokushin Kyuko Railway Co., Ltd. Kobe Rapid Transit Railway Co., Ltd.
Automobile	Hankyu Bus Co., Ltd. Hanshin Bus Co., Ltd. Hankyu Taxi Inc. Hanshin Taxi Co., Ltd.
Advertising	Hankyu Corporation Eki Retail Service Hankyu Hanshin Co., Ltd. Hankyu Style Labels Co., Ltd.
Retailing	Hankyu Corporation Hankyu Advertising Agency Inc.
Other	Alna Sharyo Co., Ltd. Hankyu Sekkei Consultant Hanshin Station Net Co., Ltd.

Real Estate

Main business	Name of company
Real estate leasing	Hankyu Corporation Hanshin Electric Railway Co., Ltd. Hankyu Realty Co., Ltd. Hanshin Real Estate Co., Ltd.
Real estate sales and other business	Hankyu Corporation Hanshin Electric Railway Co., Ltd. Hankyu Realty Co., Ltd. Hankyu Hanshin Building Management Co., Ltd. Hankyu Hanshin High Security Service Co., Ltd. Hankyu Hanshin Clean Service Co., Ltd. Hankyu REIT Asset Management, Inc. Hankyu Housing Support Ltd.

Entertainment and Communications

Main business	Name of company
Sports	Hanshin Electric Railway Co., Ltd. Hanshin Tigers Baseball Club, Ltd. Hanshin Contents Link Corporation
Stage	Hankyu Corporation Takarazuka Creative Arts Co., Ltd. Umeda Arts Theater Co., Ltd.
Communication and media	Itec Hankyu Hanshin Co., Ltd. Bay Communications Inc.
Leisure, etc.	Mt. Rokko Cable Car & Tourism Co.

Travel

Main business	Name of company
Travel agency	Hankyu Travel International Co., Ltd. Hankyu Travel Support Co., Ltd.

International Transportation

Main business	Name of company
International transportation	Hankyu Hanshin Express Co., Ltd. Hankyu Hanshin Logipartners Co., Ltd. HHE (USA) Inc. HHE (Deutschland) GMBH HHE (HK) Limited HHE Southeast Asia Pte. Ltd.

HHE: Hankyu Hanshin Express

Hotels

Main business	Name of company
Hotel management	Hankyu Hanshin Hotels Co., Ltd. Hanshin Hotel Systems Co., Ltd. Hankyu Hanshin Restaurants Co., Ltd. Arima View Hotel Co., Ltd.

Other

Main business	Name of company
Construction	Hanshin Kensetsu Co., Ltd. Chuo Densetsu Co., Ltd.
Outsourcing services for personnel and accounting services	Hankyu Hanshin Business Associate Co., Ltd.
Credit and point card	Hankyu Hanshin Card Co., Ltd.
Group finance	Hankyu Hanshin Financial Support Co., Ltd.

Equity-Method Affiliates

Main business	Name of company
Department store	H_2O Retailing Corporation [Securities code: 8242]
Railway operations	Nishi-Osaka Railway Co., Ltd. Kobe Electric Railway Co., Ltd. [Securities code: 9046]
Motion picture business	Toho Co., Ltd. [Securities code: 9602]
Real estate leasing	Tokyo Rakutenchi Co., Ltd. [Securities code: 8842]
Commercial broadcasting	Kansai Telecasting Corporation

Group History

Hankyu Holdings, Inc.

1907 Founding of Mino–Arima Electric Railway Company (predecessor of Hankyu Corporation) by Ichizo Kobayashi

1910 Opening of Takarazuka Line (Umeda–Takarazuka) and Mino-o Line (Ishihashi–Mino-o)

1913 Formation of Takarazuka Girls' Revue (currently Takarazuka Revue Company)

1924 Completion of Takarazuka Grand Theatre

1929 Opening of Hankyu Department Store, Asia's first railway terminal department store

1948 Launch of services as Pan American Airways agent

1964 Opening of Hotel new Hankyu Osaka

1973 Opening of New Hankyu Umeda Station as one of the largest private railway terminals in Japan

Changing of company name from Keihanshin Kyuko Railway Company to Hankyu Corporation

Hanshin Electric Railway Co., Ltd.

1899 Founding of Settsu Electric Railway (renamed Hanshin Electric Railway Co., Ltd., in same year)

1905 Beginning of operations linking Kobe (Sannomiya) and outer Osaka (Deiribashi)

1924 Opening of Koshien Stadium (currently Hanshin Koshien Stadium)

1933 Opening of Hanshin Mart at Hanshin Umeda Station (currently Hanshin Department Store)

1935 Establishment of Osaka Baseball Club (Osaka Tigers, currently Hanshin Tigers)

1948 Launch of airline agency business

1985 Hanshin Tigers win Japan Series for first time

1995 Considerable damage to transportation and business infrastructure of Hankyu and Hanshin due to the Great Hanshin Earthquake

2005 Establishment of Hankyu Holdings, Inc.

2006 Establishment of Hankyu Hanshin Holdings, Inc.

Establishment of Hankyu-Hanshin-Daiichi Hotel Group

2007 Announcement of Hankyu Hanshin Holdings Group 2007 Medium-Term Management Plan

Management integration of Hankyu and Hanshin department store businesses

2008 Opening of Hankyu Nishinomiya Gardens

2010 Completion of renovation of Hanshin Koshien Stadium, opening of Museum of Hanshin Koshien Stadium

Completion of Umeda Hankyu Building Office Tower

2012 Completion of Umeda Hankyu Building, full opening of Umeda Flagship Store of Umeda Department Store

2015 Announcement of the Hankyu Hanshin Holdings Group's Medium-Term Management Plan (Fiscal 2016–Fiscal 2019)

2016 Opening of the Group's first logistics centre in the ASEAN region, in Indonesia

2017 Announcement of the Hankyu Hanshin Holdings Group's Long-Term Management Vision for 2025 (Fiscal 2017–Fiscal 2026)

Investor Information

(As of 31st March 2017)

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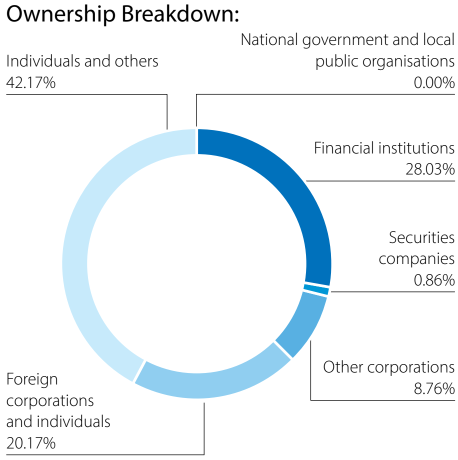
Paid-in Capital:	¥99,474 million
Fiscal Year-End:	31st March
Number of Employees:	21,860 (consolidated)
Authorised Shares:	640,000,000*
Issued Shares:	254,281,385*
Number of Shareholders:	79,271*
Unit of Trading:	100 shares*
Stock Exchange Listing:	Tokyo
Transfer Agent:	Mitsubishi UFJ Trust and Banking Corporation

Principal Shareholders:

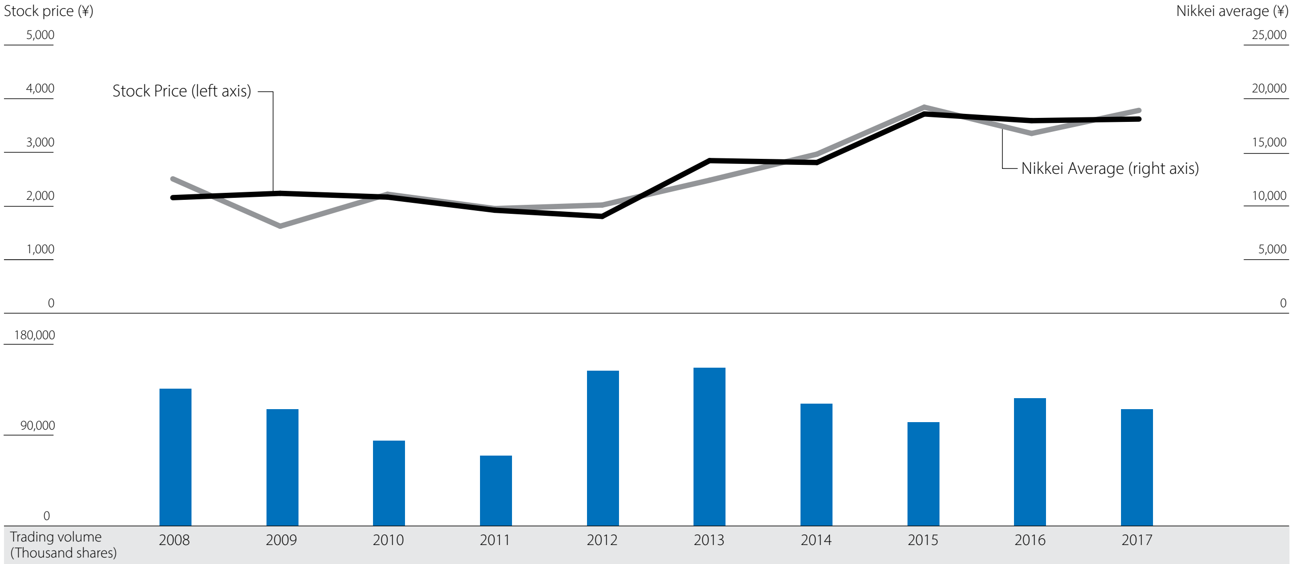
Name	Number of shares (Thousands)*	Percentage (%)
Japan Trustee Services Bank, Ltd. (Trust account)	12,906	5.08
The Master Trust Bank of Japan, Ltd. (Trust account)	9,163	3.60
Nippon Life Insurance Company (Standing Proxy: The Master Trust Bank of Japan, Ltd.)	5,804	2.28
Japan Trustee Services Bank, Ltd. (Trust account 5)	4,641	1.83
Sumitomo Mitsui Banking Corporation	4,381	1.72
H_2O Retailing Corporation	4,207	1.65
State Street Bank West Client–Treaty 505234 (Standing Proxy: Mizuho Bank, Ltd. Settlement & Clearing Services Division)	3,584	1.41
Japan Trustee Services Bank, Ltd. (Trust account 7)	3,460	1.36
Japan Trustee Services Bank, Ltd. (Trust account 1)	3,447	1.36
Japan Trustee Services Bank, Ltd. (Trust account 2)	3,409	1.34

* The Company conducted a 1-for-5 reverse common stock split and the change of trading unit from 1,000 shares to 100 shares with an effective date of 1st August 2016. The figures take into account the reverse stock split and the change of trading unit.

Ownership Breakdown:



Stock Price and Annual Trading Volume (Tokyo Stock Exchange):



Notes:
1. The stock prices are as of 31st March of each year. The trading volumes are for years ended 31st March.
2. The data takes into account the reverse stock split and the change of trading unit conducted with an effective date of 1st August 2016.

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