Hankyu Hanshin Holdings

Annual Report 2009

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Forward-looking Statements

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

Figures are rounded unless otherwise specified in the notes.

Who We Are

Hankyu Hanshin Holdings Group at a Glance

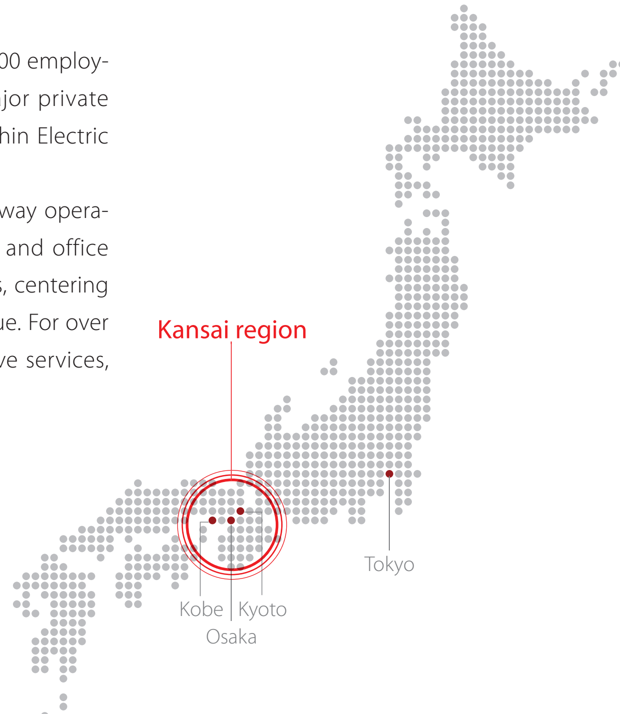
The Hankyu Hanshin Holdings Group

The Hankyu Hanshin Holdings Group is a corporate group with some 20,000 employees, created by the October 2006 management integration of two major private railway operators based in the Kansai region, Hankyu Holdings and Hanshin Electric Railway.

The Group operates a wide range of businesses such as its core railway operations, the real estate business, including rental of commercial facilities and office buildings and the sale of condominiums, and the entertainment business, centering on the Hanshin Tigers professional baseball team and the Takarazuka Revue. For over 100 years the member companies of the Group have provided innovative services, helping create more successful communities served by our railway lines.


Hankyu Railway


Hanshin Electric Railway

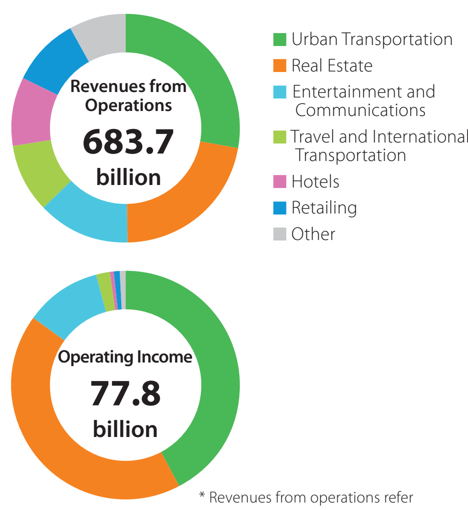


Business Domains and Operating Structures

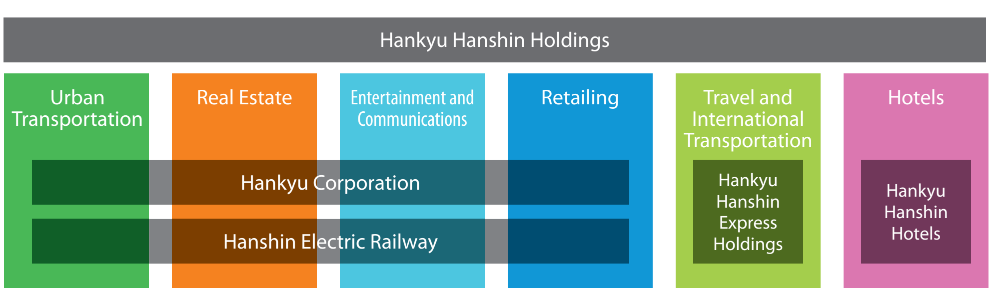
As managing company, Hankyu Hanshin Holdings operates four core companies, Hankyu Corporation, Hanshin Electric Railway, Hankyu Hanshin Express Holdings and Hankyu Hanshin Hotels. It is active in six core business domains, Urban Transportation, Real Estate, Entertainment and Communications, Travel and International Transportation, Hotels and Retailing.

Of our six core businesses, the main drivers are the Urban Transportation and Real Estate segments, accounting for about half of all revenues from operations and 80% of operating income. In the Urban Transportation segment, railways account for most earnings, while rental businesses generate most earnings in the Real Estate business, ensuring a stable cash flow.

Fiscal 2009 (Consolidated Basis)



* Revenues from operations refer to such revenues generated from external customers, while operating income represents amounts prior to consolidation adjustments.



(As of 31st March 2009)

Group Strengths

Hankyu Corporation and Hanshin Electric Railway have their terminals in the Umeda district of downtown Osaka, with its high concentration of office and commercial facilities. The two companies also have as their major catchment areas districts of high population density across the Kansai area, comprising the Osaka-Kobe belt and Kyoto.

The areas served by the lines operated by the Group are popular residential areas in the Kansai area, and network transportation efficiency is high. By leveraging this advantage, and our real estate developments in these areas, primarily in the Umeda distinct of downtown Osaka, we are increasing value along Group railway lines and maintaining or sharpening our competitive edge in our various businesses.

Survey of Preferred Residential Areas
(Kansai Region)

Rank	Place	(Location)
1	Ashiya	(Ashiya, Hyogo)
2	Syukugawa	(Nishinomiya, Hyogo)
3	Nishinomiya	(Nishinomiya, Hyogo)
4	Okamoto	(Kobe, Hyogo)
5	Kobe	(Kobe, Hyogo)
6	Mikage	(Kobe, Hyogo)
7	Umeda	(Osaka, Osaka)
8	Senri-chuo	(Toyonaka, Osaka)
8	Rokko	(Kobe, Hyogo)
10	Sannomiya	(Kobe, Hyogo)
11	Kyoto	(Kyoto, Kyoto)
12	Kurakuen	(Nishinomiya, Hyogo)
13	Sumiyoshi	(Osaka, Osaka)
14	Namba	(Osaka, Osaka)
15	Takatsuki	(Takatsuki, Osaka)
16	Takarazuka	(Takarazuka, Hyogo)
16	Ibaraki	(Ibaraki, Osaka)

represents areas served by Hankyu and Hanshin Lines

Source: Survey released 8th September 2008 by Sumitomo Real Estate and 7 other major real estate firms

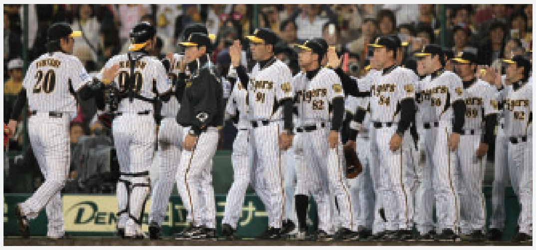
Two made-in-Kansai brands that have inspired a nation

The Group delivers inspiration and dreams through the Hanshin Tigers professional baseball team/Hanshin Koshien Stadium and the Takarazuka Revue, both of which are popular and enthusiastically supported not only in Kansai but throughout Japan, giving them unique brand recognition. These two powerful attractions are strengths that none of our rivals have, and they contribute strongly to brand value.

The Hanshin Tigers professional baseball team and Hanshin Koshien Stadium

The Hanshin Tigers have long been one of the most popular professional baseball teams in Japan. In recent years, they have drawn an annual total of 3 million spectators to home games each season.

Renovation of the main section of Hanshin Koshien Stadium was completed in March 2009. The stadium is much-loved throughout Japan as the home ground of the Hanshin Tigers, as well as the venue for the National High School Baseball Championship in spring and summer.



©Hanshin Tigers

Takarazuka Revue

Performances by the Takarazuka Revue take place at the Takarazuka Grand Theatre (Hyogo) and Tokyo Takarazuka Theatre, supplemented by troupe tours throughout the country. With its all-female cast, playing both male and female roles, the Takarazuka Revue with its scintillating, romantic repertoire and large fan base are a household name in entertainment in Japan.

©Takarazuka Revue Company

Major Group Facilities in the Kansai Area

Hankyu Railway

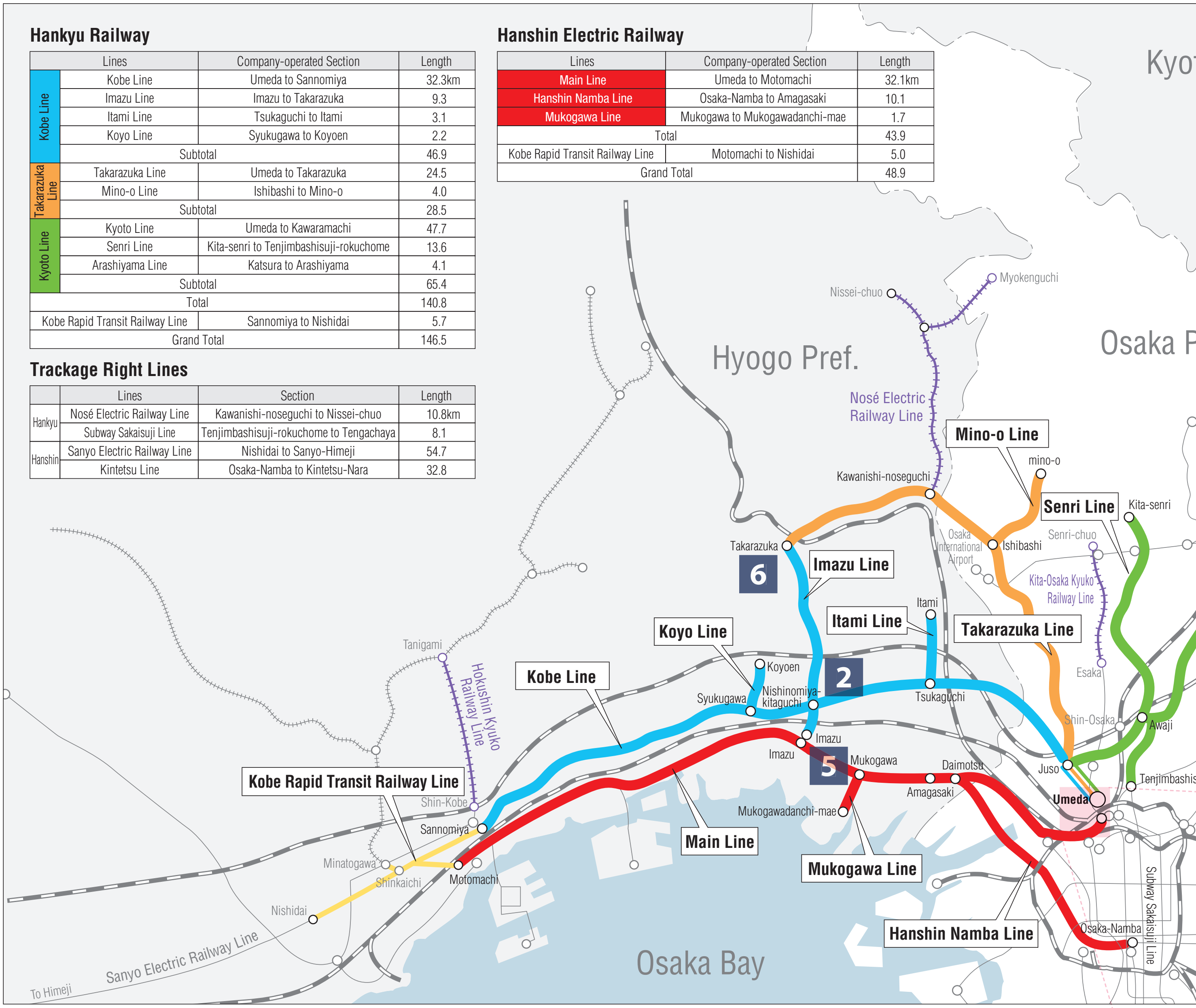
	Lines	Company-operated Section	Length
Kobe Line	Kobe Line	Umeda to Sannomiya	32.3km
	Imazu Line	Imazu to Takarazuka	9.3
	Itami Line	Tsukaguchi to Itami	3.1
	Koyo Line	Syukugawa to Koyoen	2.2
	Subtotal		46.9
Takarazuka Line	Takarazuka Line	Umeda to Takarazuka	24.5
	Mino-o Line	Ishibashi to Mino-o	4.0
	Subtotal		28.5
Kyoto Line	Kyoto Line	Umeda to Kawaramachi	47.7
	Senri Line	Kita-senri to Tenjimbashisuji-rokuchome	13.6
	Arashiyama Line	Katsura to Arashiyama	4.1
	Subtotal		65.4
Total			140.8
Kobe Rapid Transit Railway Line		Sannomiya to Nishidai	5.7
Grand Total			146.5

Trackage Right Lines

	Lines	Section	Length
Hankyu	Nosé Electric Railway Line	Kawanishi-noseguchi to Nissei-chuo	10.8km
	Subway Sakaisuji Line	Tenjimbashisuji-rokuchome to Tengachaya	8.1
Hanshin	Sanyo Electric Railway Line	Nishidai to Sanyo-Himeji	54.7
	Kintetsu Line	Osaka-Namba to Kintetsu-Nara	32.8

Hanshin Electric Railway

Lines	Company-operated Section	Length
Main Line	Umeda to Motomachi	32.1km
Hanshin Namba Line	Osaka-Namba to Amagasaki	10.1
Mukogawa Line	Mukogawa to Mukogawadanchi-mae	1.7
Total		43.9
Kobe Rapid Transit Railway Line	Motomachi to Nishidai	5.0
Grand Total		48.9



Hankyu Railway Network

One of the 16 largest private railway operators in Japan, the Hankyu network comprises the Kobe Line, the Takarazuka Line, the Kyoto Line and multiple branch lines. Usage levels are very high as it serves the three major urban areas of Osaka, Kobe and Kyoto.

Total length of lines operated:	140.8km
Number of stations:	85
Annual number of passengers carried:	601,244 thousands (fiscal 2009)

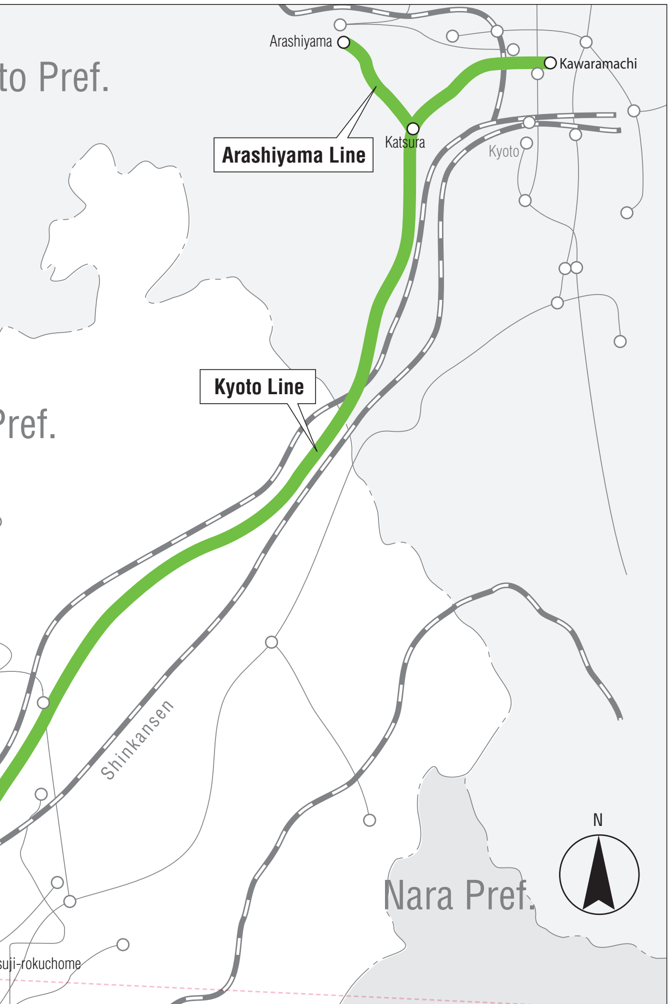
*Excluding a section under the management of Kobe Rapid Transit Railway

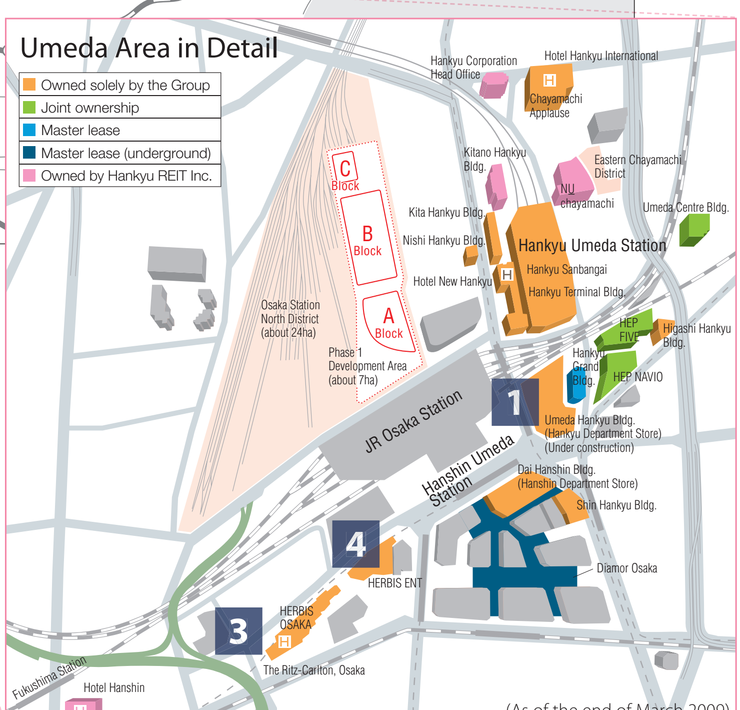
Hanshin Electric Railway Network

The Hanshin network is one of the 16 largest private railways in Japan. The network comprises the Hanshin Main Line, the Hanshin Namba Line, and the Mukogawa Line. The Hanshin Namba Line, which extends the former Nishi-Osaka Line as far as Kintetsu Osaka-Namba Station, was opened in March 2009. The line links the Namba district, which constitutes the core of the "Minami" district, with Kobe, and thus forms part of a wider railway network linking Kobe with Nara via Osaka.

Total length of lines operated:	43.9km
Number of stations:	45
Annual number of passengers carried:	165,655 thousands (fiscal 2009)

*Includes Nishikujo-Osaka Namba segment of Hanshin Namba Line, and excludes a section under the management of Kobe Rapid Transit Railway





* HEP FIVE is jointly owned with Hankyu REIT Inc.
* Hankyu Grand Building is scheduled to be repurchased from a special purpose company
* Hotel Hanshin is operated by Hankyu Hanshin Hotels

1 Umeda Hankyu Building

⇒Please see page 19

2 Hankyu Nishinomiya Gardens

⇒Please see page 31


HERBIS ENT

3 HERBIS OSAKA/ 4 HERBIS ENT
(Osaka-West Umeda area development)

Hanshin Electric Railway is engaged in a major development of the West Umeda area of Osaka. The key tenant of phase I, the HERBIS OSAKA development which opened for business in 1997, is The Ritz-Carlton, Osaka hotel. At phase II, HERBIS ENT, opened in 2004, the key tenant is the Osaka Shiki Theatre, which is dedicated to performances by Shiki Theatre Company. A high-rise multipurpose building comprising retail outlets and offices, it serves as an ideal gateway to the international city of Osaka.

⇒Please see page 32 for structural details of HERBIS OSAKA and HERBIS ENT.

5 Hanshin Koshien Stadium

Eighty-five years have passed since Hanshin Koshien Stadium was built in 1924. With its colourful history, it is known throughout the country as the spiritual home of baseball in Japan. In March 2009, renovation work on the main stadium was completed. In this project, while respecting the history and traditions of Koshien, we aimed to raise safety standards by strengthening earthquake-resistance, and enhance spectator comfort by improving and expanding seating to cater for all comers and by upgrading restaurants and shops.

Total area:	38,500m² (ground: 13,000m²)
Total of seats:	47,808

6 Takarazuka Grand Theatre

The Takarazuka Grand Theatre was founded as a theatre for the troupes in 1924. In the run-up to the 80th anniversary of the founding of the troupes, a refurbishment was carried out with reopening in 1993, creating a split-level zigzag alignment enabling comfortable viewing of the stage from anywhere within the Theatre. Then, in 2005, in order to make the performers on the "Silver Bridge" apron stage easier to see from the second story, the "Silver Bridge" was reshaped into a gentle curve. This has enabled the installation of an extra 23 seats in the front row of the central area, bringing the total seating up to 2,550.

In addition, we have introduced a computerized lighting system capable of memorising 1,000 scenes, and introduced a live orchestra to create a more dramatic performance space.

Financial Highlights (Consolidated)

	FY2007*2	FY2008	FY2009 (Millions of yen)	FY2009 (Thousands of U.S. dollars)*1
Result of Operations:				
Revenues from operations	¥ 743,377	¥ 752,301	**¥ 683,715**	**$ 6,976,686**
Operating income	87,003	90,725	**77,824**	**794,122**
EBITDA*3	146,500	145,200	**135,300**	**1,380,612**
Net income	36,619	628	**20,551**	**209,704**
Operating Expense:				
Costs of revenues from operations	¥ 656,374	¥ 661,576	**¥ 605,891**	**$ 6,182,564**
Depreciation and amortization	43,889	51,578	**54,799**	**559,169**
Capital Expenditure:				
Capital expenditure	¥ 53,795	¥ 134,307	**¥ 109,688**	**$ 1,119,265**
Cash Flows:				
Cash flows from operating activities	¥ 78,982	¥ 74,902	**¥ 108,598**	**$ 1,108,142**
Cash flows from investing activities	(199,579)	(100,058)	**(115,048)**	**(1,173,956)**
Cash flows from financing activities	132,290	36,718	**7,015**	**71,577**
Financial Position:				
Total assets	¥2,366,694	¥2,348,476	**¥2,307,332**	**$23,544,205**
Total net assets	522,286	476,639	**473,879**	**4,835,498**
Interest-bearing debt	1,209,382	1,271,100	**1,275,621**	**13,016,540**
Per Share Data (yen and U.S. dollars):				
Net income — Basic	¥ 31.84	¥ 0.50	**¥ 16.28**	**$ 0.17**
Net income — Diluted	–	0.41	**16.18**	**0.17**
Net assets	405.35	369.25	**366.96**	**3.74**
Dividend	5.00	5.00	**5.00**	**0.05**
Ratios:				
Interest-bearing debt/EBITDA (times)	8.3	8.8	**9.4**	**–**
Shareholders' equity (%)	21.7	19.9	**20.1**	**–**
ROE (%)*4	8.4	0.1	**4.4**	**–**
Debt/equity (D/E) ratio (times)*5	2.4	2.7	**2.8**	**–**

*1 The U.S. dollar amounts have been translated, for convenience only, at ¥98=$1, the prevailing exchange rate on the Tokyo Foreign Exchange Market as of 31st March 2009.

*2 In fiscal 2007, consolidated results of Hanshin Electric Railway are included as a result of management integration, in the scope of consolidation of the Group from the second quarter.
Assuming the integration of Hankyu and Hanshin from the beginning of the term, revenues from operations would have been ¥813,613 million, operating income ¥94,800 million and net income ¥40,507 million.

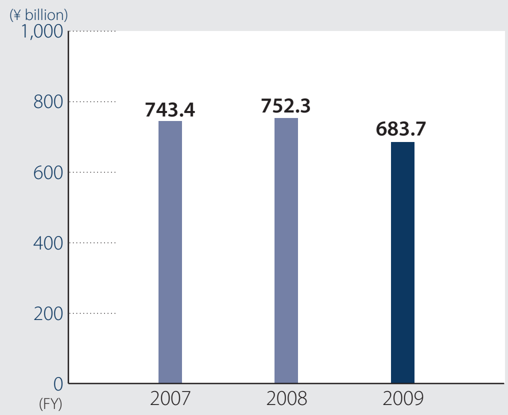
*3 EBITDA = operating income + depreciation expenses + amortisation of goodwill attendant on the management integration of Hankyu and Hanshin
EBITDA figures are rounded to the nearest ¥100 million.

*4 ROE = net income/equity (i.e. average net assets attributable to shareholders for the year)

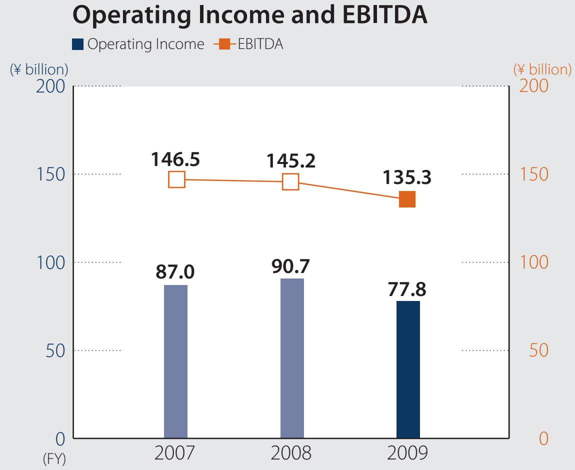
*5 D/E ratio = interest-bearing debt/equity

Result of Operations

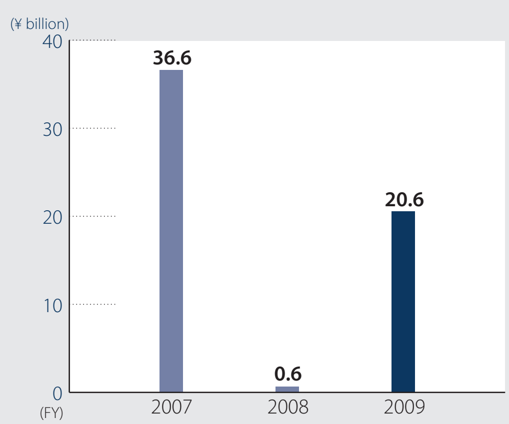
Revenues from Operations



Operating Income and EBITDA

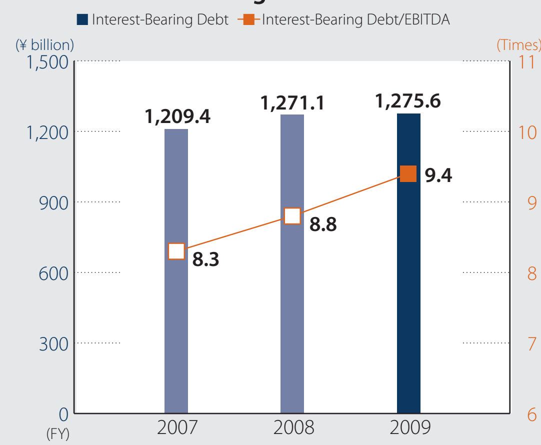


Net Income

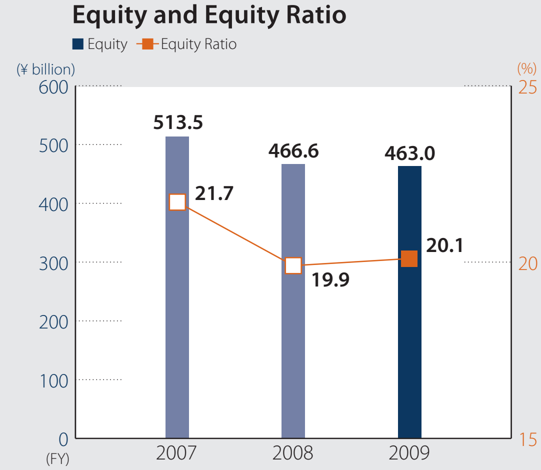


Financial Position

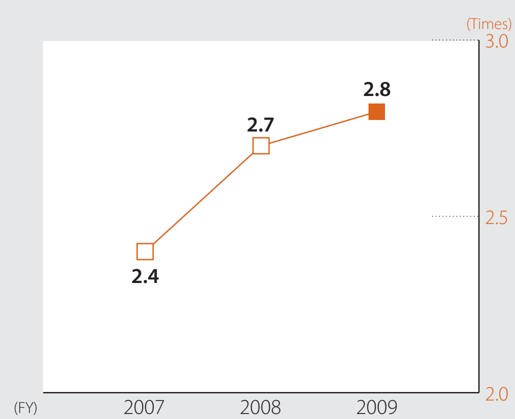
Interest-Bearing Debt and Interest-Bearing Debt/EBITDA



Equity and Equity Ratio



Debt/Equity Ratio



Message from the Management

Tomokazu Yamazawa
Director
(President of Hankyu Hanshin Hotels Co., Ltd.)

Shinya Sakai
Representative Director
(President of Hanshin Electric Railway Co., Ltd.)

Kazuo Sumi
President
(President of Hankyu Corporation)

Hiroshi Ojima
Director
(President of Hankyu Hanshin Express Holdings Corporation)

First, let us thank our shareholders who have supported and encouraged us over the years.

The Hankyu Hanshin Holdings Group did not escape the serious deterioration in the world economy following the collapse of Lehman Brothers in September 2008. Many of our businesses were significantly affected. Operating income on a consolidated basis for the period ended 31st March 2009 fell 14.2% year-on-year to ¥77,824 million due in particular to recognition of losses on valuation at cost or market (whichever is lower) of land and buildings for subdivisions, following the slump in the real estate market. However, as a result of measures to strengthen the competitiveness of our core businesses, operating income margin on a consolidated basis stood at 11.4%, the highest level among the major private railway operators in Japan, and net income also reached the highest level of all our private-sector peers, at ¥20,551 million.

Although there are some bright signs now in the economy, we expect a full recovery to take several years, in light of the severe dampening of consumer sentiment among our customers. However, the multiple major development projects which will serve as the driver of the future earnings growth for the Group are proceeding smoothly. Three major projects were completed on schedule — Hankyu Nishinomiya Gardens (with commercial launch in November 2008), Hanshin Namba Line (operations launched in March 2009) and Hanshin Koshien Stadium renovation (main work completed in March 2009). All three have performed robustly since completion. Reconstruction work is also proceeding smoothly at Umeda Hankyu Building, the lynchpin project in the current Medium-Term Management Plan, and we are on schedule for the grand opening in spring 2012.

While taking measures against adverse business conditions, we regard continued investment in creation of attractive communities as the key to improvement in value along our lines and higher enterprise value over the long-term. Looking ahead, we will further deepen the trust and good reputation that the Group enjoys, with all employees of the Group from executives downward uniting to achieve the goals of the Medium-Term Management Plan and meet our stakeholders' expectations.

We would like to thank our shareholders and investors for their continued understanding and support for this endeavour.

June 2009

Kazuo Sumi
President

Shinya Sakai
Representative Director

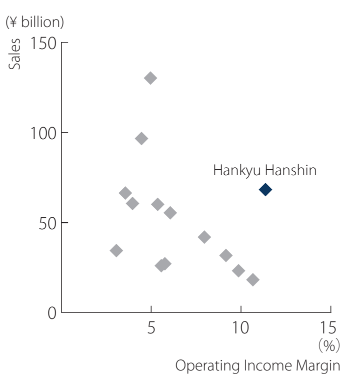
Interview with the President

Business Environment and Assessment of Financial Results

Q. Can you provide an overview of the business environment and Company performance looking back on fiscal 2009?

A. **Despite a dramatic decline in the business environment, resulting in a reduced operating income, we were able to secure an operating income margin in excess of 11%. This was the best results among all the major private railway operators.**

Fiscal 2009 Performance for the Major Private Railway Operators



The impact of the global economic downturn during fiscal 2009 extended into the major business lines of the Group. In particular, our condominium business struggled as the real estate market continued to deteriorate. The global economic deceleration and skyrocketing fuel costs contributed to stagnation in our Travel and International Transportation Business, while our Hotels Business and Retailing Business — ever susceptible to changes in business conditions — experienced a very challenging business environment. At the same time, our core Urban Transportation Business and real estate leasing business continued to perform well despite the worsening economy. The Hanshin Tigers baseball games and the Takarazuka Revue (Entertainment and Communications business segment) enjoyed continued popularity among many baseball fans and theatre-goers.

Year-on-year revenues from operations decreased significantly in fiscal 2009, mainly due to the exclusion of the Hanshin Department Store Group* from the scope of consolidation at the beginning of the last half of the previous fiscal year.

Meanwhile, operating income declined year-on-year, mainly due to valuation losses recorded as a result of the application of the lower of cost or market method for real estate for sale. Our operating income margin amounted to 11.4%. While certainly not a satisfactory figure, this was among the highest of all listed major private railway operators. Net income increased significantly year-on-year, owing to non-repetition of one-time losses on valuation of land held for sale under the "Saito" International Culture Park Development project.

The Company announced a downward revision in earnings forecasts for fiscal 2009 in February 2009, reflecting a downward trend in the performance of our real estate subdivision business, Travel and International Transportation Business, and Hotels Business, all of which changed into a severe business environment. However, the effect of subsequent cost-cutting and other measures ultimately resulted in operating income for fiscal 2009 falling only 7% compared with our original projections, showing an underlying strength relative to other industries.

See Financial Section on

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for more about company performance

* Here and below, the Hanshin Department Store, Ltd. (now Hankyu Hanshin Department Stores, Inc.) and four subsidiaries.

Performance Outlook for Fiscal 2010

Q. It seems that this challenging business environment is likely to continue for the time being. How do you see the outlook for Company performance during fiscal 2010?

A. **We anticipate revenues from operations at roughly the same level as the previous year, but we expect a lower operating income due to increasing depreciation.**

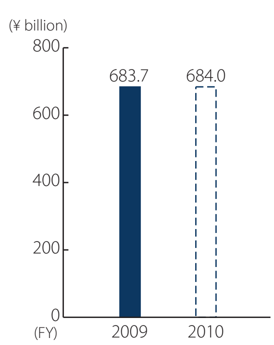
We have incorporated the following factors into our calculations for full-year performance projections.

With respect to revenues from operations, we expect the Hanshin Namba Line and the Hankyu Nishinomiya Gardens (opened during the second half of fiscal 2009) to contribute to full-year revenue growth. However, the rebuilding of the department store section of the Umeda Hankyu Building will enter Phase II Work, which will decrease the space available for rent. We also forecast downward pressure on revenues stemming from our withdrawal from the consumer credit business during the previous fiscal year, as well as pressures on our Retailing Business and Hotels Business associated with the ongoing economic malaise. As a result of these factors, we are forecasting revenues from operations in the same range as fiscal 2009.

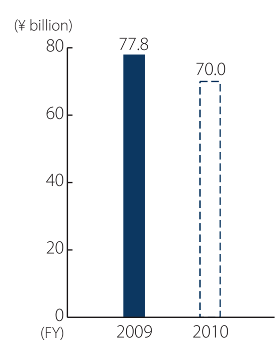
Meanwhile, we are forecasting a decrease in operating income due to further depreciation in line with the completion of construction on Hanshin Namba Line, Hankyu Nishinomiya Gardens, and the second phase of renovation work on Hanshin Koshien Stadium.

We expect the environment surrounding the Group to remain challenging throughout fiscal 2010, but by marshalling our Group capacity to the greatest extent possible, we will be able to get through this difficult situation.

Revenues from Operations



Operating Income



Medium-Term Management Plan Progress

Q. The Company's Medium-Term Management Plan has been revised once again during the current fiscal year. Unlike the last revision, this time plan figures have been revised downward. Can you explain the reasons and major points behind these changes?

A. **We made changes to our profit plan, mainly in those businesses for which the effects of a worsening business environment are most significant. While our numerical plans overall have been unavoidably revised downward, we have not made any changes to our numerical targets for fiscal 2013, and we are taking the necessary steps to ensure we reach those goals.**

The three most significant points related to our revised management plan figures are as follows:

First, most of our profit plan changes are based on fiscal 2009 performance, and have to do with the four businesses that we believe will be most affected by a deeper deterioration of the business environment in fiscal 2010 and beyond (our condominium, travel, international transportation, and hotels businesses). As a result, despite incorporating additional revenue generation and expense reduction measures into our core businesses to the greatest extent possible, overall Group EBITDA is now projected to be lower than the previous plan.

The second point is that we have reflected in our plan our initiatives to hold down increases in interest-bearing debt in response to the softening of the pace of reduction in interest-bearing debt in conjunction with decreases in EBITDA. By (1) holding down low priority investments; (2) scrutinising investment amounts and timing based on the current state of affairs; and (3) closely reviewing new investment plans, we have made a disciplined review of our investment plans, and are committed to reducing the increase in interest-bearing debt between fiscal 2010 and fiscal 2013 as much as possible.

The third point is that we have made a decision for dealing with so-called "securitised assets" that we have not recorded on our balance sheets. Under the previous plan, we expected to include an increase in interest-bearing debt (related to the Hankyu Grand Building and Dai-ichi Hotel Tokyo in liquidation) on the fiscal 2010 balance sheet, based on the likelihood that SPC would be consolidated as required by changes in financial accounting standards. However, we then decided to wait for subsequent developments before determining whether we would buy back the properties or engage in re-securitisation. The recently revised plan assumes the buyback of these properties, considering that financial institutions may be disinclined to lend money on properties that are intended for liquidation and solely capitalised by the original owner.

While the newly revised plan shows fiscal 2013 plan figures below targets in most key performance indicators, the future business environment is difficult to predict with certainty at present, and the assumptions and projections incorporated into our Medium-Term Management Plan could indeed change significantly. Accordingly, we have not made any changes to our numerical targets for fiscal 2013 from the previous plan. We will be investigating and implementing initiatives necessary for reaching our goals, eliminating the discrepancies between our planned and target figures.

See Medium-Term Management Plan Progress on

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for more regarding numerical plans and targets

Contribution of Major Development Projects

Q. The Company is in the middle of several major development projects. However, the real estate market has deteriorated significantly since those plans were formulated. Can we still expect each project to contribute to profits as planned?

A. **The majority of major development projects currently underway are located in areas within Umeda (central Osaka) considered to have a high potential for future growth. Umeda will feature a large volume of new lease properties, including numerous projects by other companies. We believe that our development properties will be very highly competitive, and will contribute to profits according to plan.**

Of the major development projects to be completed during the time encompassed by our Medium-Term Management Plan, the Hanshin Namba Line, Hankyu Nishinomiya Gardens, and the renovation of the main section of Hanshin Koshien Stadium have already been completed. These properties are in heavy use by many customers, and are contributing to Company performance as expected.

Of our current projects, the one expected to make the greatest contribution to profits in the future is the Rebuilding of Umeda Hankyu Building, which represents the completion of multi-use buildings (consisting of one of Japan's largest department stores and a high-rise office building). In particular, the office building section scheduled to open in April 2010 will provide new floor space not available before the start of the project, serving as a net increase in our revenue base. However, our numerical plans do not show the office space operating at full capacity from the start; occupancy will grow steadily after opening for tenants. Our plan calls for full capacity from fiscal 2014 (beyond the last year of the Medium-Term Management Plan). Given the lack of clarity in the market outlook, our rent forecasts reflect a rather conservative approach, and we believe the likelihood of achieving the planned figures to be high.

We have several other development projects, including Osaka Station North District Phase 1 Development Area Project and Chayamachi Redevelopment (Eastern District). Developments designed to contribute to the growth and revitalisation of an area must be approached from a long-term view. We plan to pursue these projects steadily, without being unduly influenced by short-term economic developments.

See Special Feature on
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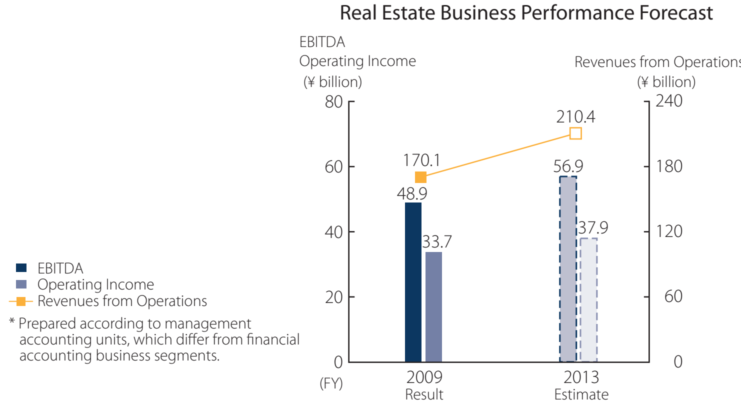
for more about major development projects

Real Estate Business Performance Forecast



* Prepared according to management accounting units, which differ from financial accounting business segments.

Stronger Competitive Edge through Management Integration

Q. Almost two-and-a-half years have passed since the management integration. What effect has this had on maximising the group value and sustainable growth of the Hankyu Hanshin Holdings Group?

A. **Each of our business segments has benefited from the management integration as we originally anticipated. Our revised Medium-Term Management Plan includes a higher bar for target figures reflecting the synergistic effects of our integration.**

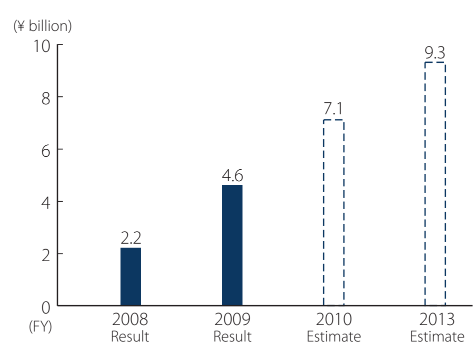
Since the integration, we have unified the management resources of each company, taking measures to improve our competitive ability in six major business fields as we work toward the Group's basic strategies ("Build Value along Our Railway Lines" and "Revitalise the Umeda Area"). One of the significant developments from our integration is that we have further strengthened our presence in the Umeda area, which demonstrates the greatest potential for growth anywhere in the Kansai District of Japan, since both Hankyu and Hanshin have established Umeda as the main terminals for their railway lines, owning numerous real estate assets in and around the Umeda area. An increased presence in the Umeda area not only contributes to the revitalisation of the local community, but also has a significant influence on improving the value along the Hankyu and Hanshin railway lines, bringing synergies to every other business segment that we operate.

We are pursuing the concrete expression of the synergies that integration brings to our firm, moving rapidly towards greater efficiencies in our business and administrative operations. We have also made Kobe Rapid Transit Railway Co., Ltd. a consolidated subsidiary and reorganised our International Transportation Business into the newly revised Medium-Term Management Plan, introducing higher target figures to reflect the effects of integration.

Looking over a longer-term time frame, we believe that we can make a deeper contribution in several socially significant ways, including community building and traffic network improvement.

See Medium-Term Management Plan Progress on
P.16
for more about integration synergies

Integration Synergies (Total Revenue/Cost Synergies)



Environmental Initiatives

Q. Can you tell us more about the Hankyu Hanshin Holdings Group approach and initiatives regarding environmental preservation?

A. As a Group, we are working to build a more convenient system of public transportation with reduced levels of CO_2 emissions as one way of doing our part to provide a healthy environment for the next generation.

For over 100 years, the companies under the Hankyu Hanshin Holdings Group have operated their businesses and built up relationships of trust in the areas served by the Hankyu and Hanshin lines, while enriching their communities. To fulfil our role as a member of the local community for the next 100 years, each and every employee will strive to create an enjoyable living environment in their local communities, while working together within the Group to create a healthy environment for the future.

It is particularly important to emphasise that our Urban Transportation Business (one of our core Group businesses) provides an indispensable function in creating sustainable communities. The CO_2 emission intensity of a train is extremely low — only one-tenth to one-ninth that of a regular passenger car. A bus puts out only three-tenths the CO_2 emissions of a regular passenger car, making the role of railways and buses invaluable in the reduction of global warming. US President Obama recently announced the framework of a US$13 billion high-speed rail project, showing again the importance of rail transportation as one element in the realisation of a low-carbon society.

In December 2008, Hankyu Corporation began operating the "Eco-Train: Dreams and Communities of the Future" to reacquaint the public living near the railway lines with the environmentally friendly features of rail transportation, as well as to create an opportunity to come together with local citizens, the government and other corporations to consider ways to create an environmentally conscious society. Japan's Minister of the Environment was among the dignitaries participating in the opening ceremonies for the project, which were extensively covered by Japan's mass media. The "Eco-Train" is decorated on the inside with environmentally themed posters and stickers provided by cooperating companies and local government agencies, and the entire train is designed to communicate the importance of preserving the environment.

We are maintaining a Group-wide approach to making the train more convenient among a wider range of users, one aspect of which has been the popularly received "rent-a-cycle" program recently launched.

See Corporate Social Responsibility on

P.52

for more about environmental initiatives

Shareholder Returns

Q. Finally, please tell us more about Company policies regarding returns to shareholders.

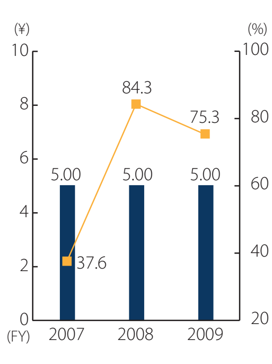
A. **At present we are pursuing a basic policy of stable dividends that sets a minimum annual dividend of ¥5 per share. At the conclusion of our Medium-Term Management Plan (fiscal 2013), we will take another look at our shareholder return policies, including our dividends policy.**

Under the current Medium-Term Management Plan, we have designated the first three years of the plan as an "Investment in Development for Further Growth," while the second three years of the plan are the "Realisation of the Benefits of Large-Scale Investments." The first three years of the plan call for capital investment to outpace depreciation during the six-year period. At present, we are heavily involved in the investment to Rebuilding of Umeda Hankyu Building, which we view as a pillar supporting profit growth during the plan period. For the time being, we will be investing capital in these types of projects in order to enhance enterprise value, rather than pursuing shareholder return policies such as increased dividends or stock buy-backs. Accordingly, our dividends policy calls for a stable minimum annual ¥5 per share dividend, while we work to reinforce our management foundation and financial strength. For fiscal 2009, we declared an annual dividend of ¥5 per share as in the previous fiscal year, which is the same dividend level that we plan for fiscal 2010.

Cash flows from core businesses such as our Urban Transportation Business and Real Estate Business will begin to increase in fiscal 2011 (the first of the last three years of our current Medium-Term Management Plan), spurred by returns on these earlier investments. The funds generated at this time will be put to use in reducing our interest-bearing debt for the improvement of our financial soundness.

By fiscal 2013, which is the final year of our current Medium-Term Management Plan, major projects now under construction, including Rebuilding of Umeda Hankyu Building, will have reached full operational status, significantly contributing to Group profits. At that time, we will revisit our shareholder return policies, including dividend payments. We believe that moving forward in our projects according to plan, realising greater profits, and achieving the numerical targets of our Medium-Term Management Plan will enhance our enterprise value. In this way, we intend to support our share price and meet the expectations of our valued shareholders.

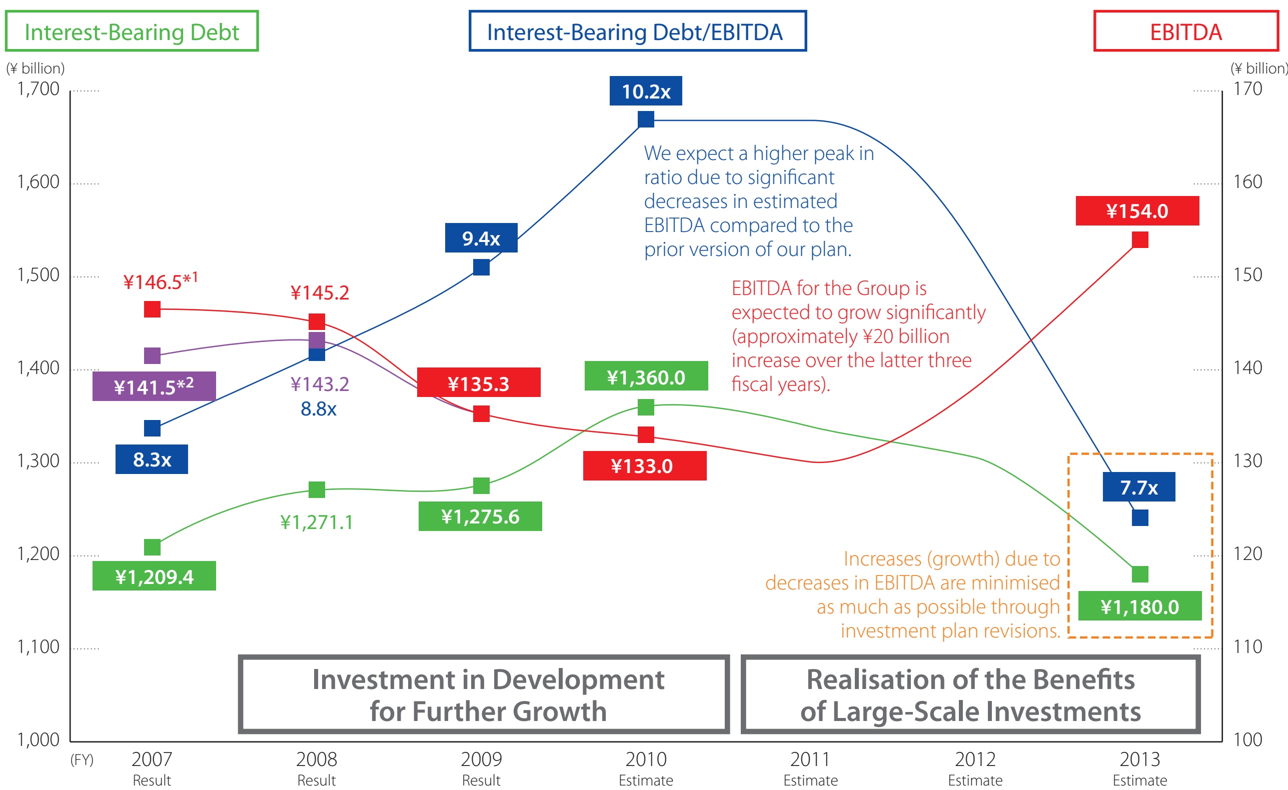
Dividends per Share and Payout Ratio (Non-Consolidated)



Medium-Term Management Plan Progress

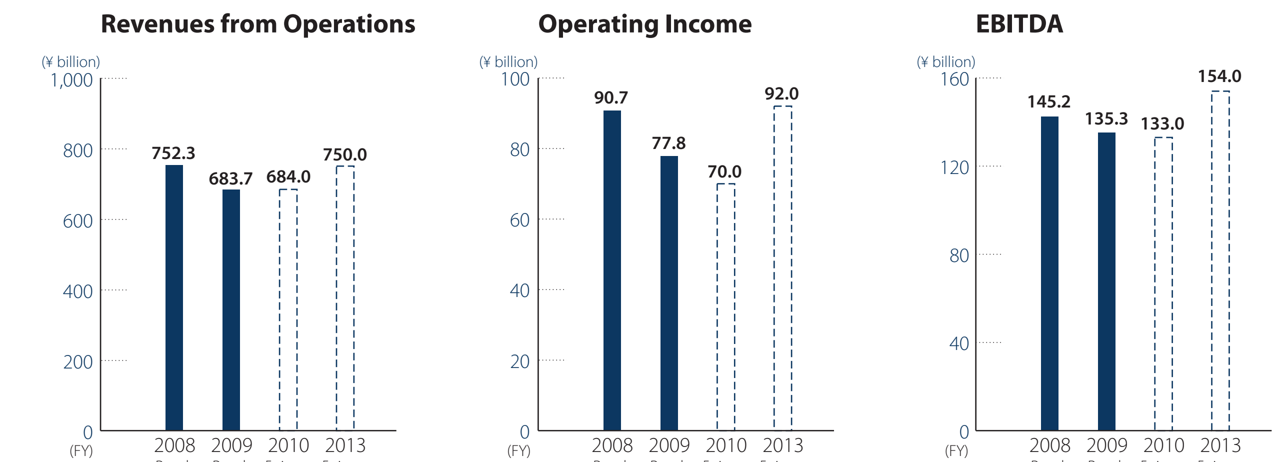
At present, we are pursuing our "Hankyu Hanshin Holdings Group 2007 Medium-Term Management Plan" ending in fiscal 2013. Every fiscal year, we make revisions to this plan according to our progress and changes in the operating environment. The following is our latest plan, reflecting the most recent revisions.

Interest-Bearing Debt/EBITDA



*1 Fiscal 2007 results were calculated assuming management integration from the start of the period.
*2 Figures for the first half of fiscal 2008 include department store business (Hanshin Department Store Group) results; results excluding department store business figures are displayed in **purple**.

Performance Indicators (Financial Accounting)

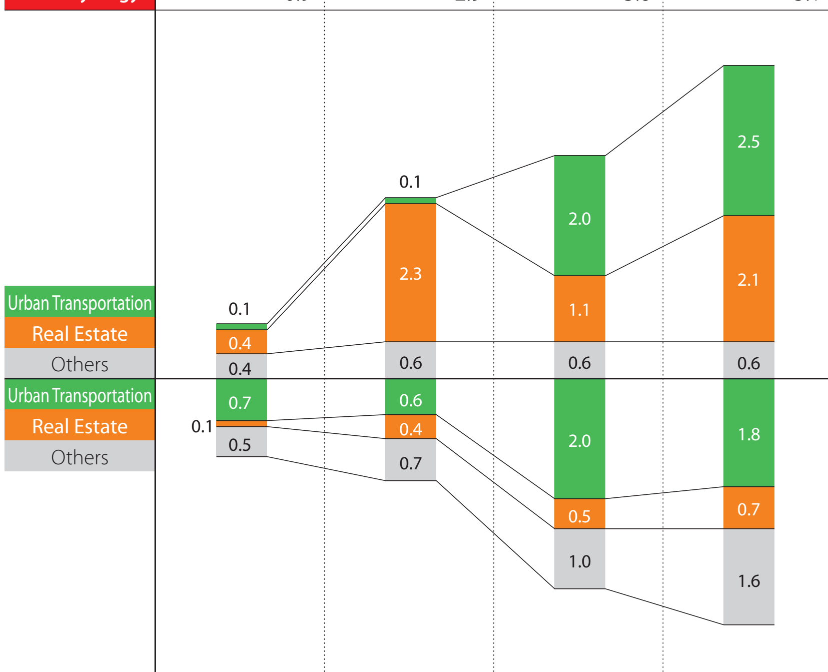


* The first half of fiscal 2008 includes results of the department store business (Hanshin Department Store Group)

Integration Synergies

(¥ billion)

(EBITDA basis)	FY2008 (results)	FY2009 (results)	FY2010 (estimate)	FY2013 (estimate)
Total	2.2	4.6	7.1	9.3
Sales Synergy	0.9	2.9	3.6	5.1
Cost-Saving Synergy	1.4	1.7	3.5	4.2



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

[Sales synergy]

- Strengthen alliances within Urban Transportation, use companies of both groups
- Joint operations in the housing business
- Strengthen collaboration in advertising
- Open retail outlets at facilities of both companies
- Use joint sales promotion of travel products using stores as well as direct mailing and websites
- Collaboration in international transportation business (active use of co-loading, etc.)

[Main factors behind changes compared with initial forecasts]

- Kobe Rapid Transit Railway converted to consolidated subsidiary

[Cost-saving synergy]

- Effective use of human resources and know-how
- Strengthen purchasing at each business
- Withdraw from duplicated facilities and rationalise duplicated businesses
- Streamlining and system harmonisation at support departments
- Improved efficiency of operational system thanks to reorganisation of PMBM (Property Management & Building Maintenance) business

[Main factors behind changes compared with initial forecasts]

- Reorganisation in the international transportation business provided cumulative synergies (integration of overseas entities, etc.)
- Purchase cost reductions provided through convenience store business integration

Numerical Targets (Consolidated)

* See Interview with the President on P.11 for more about how the Group is approaching fiscal 2013 numeric targets.

Management Indicators	Definition	Targets for FY2013
Operating income	Earnings from core businesses	¥100 billion
EBITDA	Cash flow generation capability	¥160 billion or more
Effects of integration	Quantitative effects of management integration	EBITDA = ¥5 billion or more (per year from FY2010)
Interest-bearing debt/EBITDA	Financial soundness	Around 7 times
Interest-bearing debt	Repayment of all TOB funds	¥1,130 billion or less
Debt/equity (D/E) ratio	Financial soundness	Less than two-fold
ROE	Capital efficiency	6.0% or more

Special Feature

Hankyu Hanshin Holdings Group Growth Drivers

Major Development Projects in and around Umeda

At present, the Group is engaged in several major development projects that will serve as profit growth drivers in the future. These projects are part of the Hankyu Hanshin Holdings Group 2007 Medium-Term Management Plan, which focuses activities in areas located adjacent to Hankyu and Hanshin railway lines.

In particular, Rebuilding of Umeda Hankyu Building, Osaka Station North District Phase 1 Development Area Project, and Chayamachi Redevelopment (Eastern District) in Umeda, the heart of Osaka, will serve to revitalise the Umeda area, which is a central part of the Group's ongoing strategy. At the same time, these projects will lead to improved value along the Hankyu and Hanshin railway lines that use Umeda Station as a hub, bringing synergies to Group companies that operate mainly in areas served by these tracks.

This special feature will help readers understand more about the Group's growth strategy, which is built on a foundation of greater fundamental competitive strength. We will discuss the features and progress of projects in the Umeda area that capitalise on our ability to create value in areas served by our railway lines, a competitive advantage we hold as a corporate group.

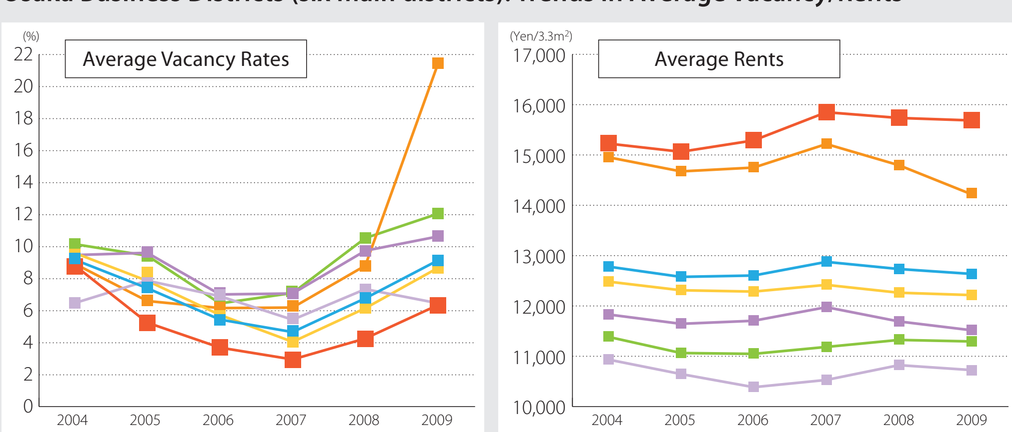
Schedule

	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Rebuilding of Umeda Hankyu Building	Department Store Phase I Work		Office Building Section Work April 2010 Completion; 3rd September 2009 Opened	Department Store Phase II Work			Spring 2012 Grand Opening (scheduled)
Osaka Station North District Phase 1 Development Area Project		Design, construction, and other work progressing on schedule		Second Half, Fiscal 2010 (scheduled) Start of Construction		Second Half, Fiscal 2013 (scheduled) Completion of Construction	
Chayamachi Redevelopment (Eastern District)	Western District October 2005 Commercial Facilities Opened (NU chayamachi)	Negotiations with local authorities, design, and construction work progressing on schedule		December 2008 Start of Construction	Spring 2011 (scheduled) Completion of Construction		

Umeda: Western Japan's largest commercial hub goes on growing

Umeda is defined as the area immediately surrounding the Osaka and Umeda train stations. This retail and business district boasts the highest concentration of department stores, commercial buildings, office buildings, and hotels in western Japan. This area is also a strategic traffic hub into which JR, Hankyu Railway, Hanshin Electric Railway, and Osaka Municipal Subway all feed. On a typical day, nearly 2.4 million passengers pass through it. The Hankyu Group and the Hanshin Group have developed and operated numerous commercial facilities and office buildings in prime locations, to the east and west of Osaka Station respectively. The integration of these companies has resulted in an entity with the capacity to develop the entire Umeda area.

Osaka Business Districts (six main districts): Trends in Average Vacancy/Rents



Source: Miki Shoji, Latest trends in the office-building market

Rebuilding of Umeda Hankyu Building

An Umeda landmark; Building the pillar of the future rental business

The Umeda Hankyu Building is home to the flagship store in the Hankyu Department Store network. The store opened in 1929, and was the first in the world to be located within a train terminal. Today this store boasts the greatest revenues of any department store in western Japan. At present, we are rebuilding this building as a major multi-use commercial building, featuring the latest advances in earthquake resistance and eco-friendly functions. Having received a variance under the Urban Renaissance Special Measures Law, we are enlarging the department store and constructing new office space in the high-rise section of the building.

We have divided the construction areas into north and south, pursuing the project in two phases. We will rebuild the office space portion of the building while keeping the department store open for business. The Phase I Department Store in the lower tier of the building in the south construction area will be open for business in September 2009, while the high-rise office spaces are scheduled to open in April 2010. The Phase II Department Store construction in the north area is planned for completion in spring 2012 in time for the grand opening. We project a total investment of ¥57.5 billion for the project.

Grand opening scheduled in spring 2012

The Umeda Hankyu Building under Rebuilding (July 2009)

A new landmark contributing to the revitalisation of the Umeda area

The "New Umeda Hankyu Building" will be one of the largest major multi-use commercial building in Japan to include both a department store and a high-rise office building in one facility. We expect this building to play a part in the revitalisation of Umeda as a new landmark in the heart of Osaka. The Group plans to make the New Umeda Hankyu Building the pillar of our rental business, capitalising on the location potential for Umeda, and providing outstanding facilities management.

Yoshihiro Ishida

Manager, Real Estate Development Dept
Real Estate Business Headquarters
Hankyu Corporation

Features of the New Umeda Hankyu Building

1. Floor-area ratio variance granted due to the nature of the public contribution (800 percentage point increase compared to pre-rebuilding)

The New Umeda Hankyu Building was granted a floor-area ratio variance under the Urban Renaissance Special Measures Law based on the fact that the Group is providing a barrier-free (handicapped-friendly) integration with neighbouring facilities — a feature viewed as a contribution to the public good. After completion, the new building will have a floor-area ratio of 1,800%, representing an 800 percentage point increase compared to the building prior to rebuilding. This variance has facilitated the construction of a major multi-use commercial building with floor space twice that of the pre-rebuilding layout.

■ Rebuilding of Umeda Hankyu Building: Plan Overview

	Before Rebuilding	After Rebuilding
Structure	SRC construction	Steel frame construction (SRC construction underground)
Number of Floors	2 floors below ground; 12 floors above ground	2 floors below ground; 41 floors above ground; 1 Penthouse Floor
Height	Approx. 45m	Approx. 187m
Floor Space	Department store: 107,600m^2	Department store: 140,000m^2
	Concourse: 5,000m^2	Concourse: 10,000m^2 Office space: 102,000m^2
	Total: 12,600m^2	Total: 252,000m^2
Floor-Area Ratio*	1,000% 174,600m^2	1,800% 314,000m^2

*Including floor space of Hankyu Grand Building on the same site

2. One of the largest department stores in Japan

The department store located in the New Umeda Hankyu Building will celebrate its grand opening in spring 2012, rebuilt as one of the largest such stores in Japan. The shopping facility will consist of a total of 15 floors (13 above ground; two below ground) and 84,000m^2 of total sales floor space (37% increase compared to pre-rebuilding). Intent on maintaining this location as the pre-eminent shopping destination in Japan in terms of scale and ability to attract customers to the Umeda area (expected to experience major growth as a commercial district in Osaka), H_2O Retailing Corporation (an equity-method affiliate of the Company) is already planning the creation of a superlative department store.

3. Improved pedestrian flow

The current construction project also includes the improvement of a barrier-free underground entrance that will serve as a pedestrian walkway linking public transportation (Hankyu Railway, Hanshin Electric Railway, Osaka Municipal Subway, etc.) and other surrounding facilities. This feature will enhance customer attraction to the New Umeda Hankyu Building by facilitating movement.

4. New high-quality, competitive office space

The new office spaces in the New Umeda Hankyu Building will be accessible through a dedicated entrance on the ground floor that connects directly to the 15th floor sky lobby (equipped with various business support services such as café, convenience stores) via a large-scale shuttle elevator. The office building consists of three banks (A bank on floors 17-25; B bank on floors 26-33; C bank on floors 34-41), with each bank having its own access elevator, connecting each floor from the sky lobby.

The office section of the building comprises a total floor space of 102,000m^2. A wide, unobstructed space of 2,800m^2 (standard floor configuration) on each floor provides the flexibility to meet a wide variety of business office needs. Staircases inside each space can be installed when several connected floors are to be used simultaneously, allowing businesses to maximise the use of a multi-dimensional office layout. Making the most of the prime Umeda location, advanced security features, the latest in office functions, and eco-friendly design, the New Umeda Hankyu Building offers a comfortable, quality business space in which companies can thrive.

Underground Entrance Conceptual Diagram

Sky Lobby Conceptual Diagram

Osaka Station North District Phase 1 Development Area Project

Project — A worthy gateway to Osaka

This project is a major undertaking to develop the Phase 1 Development Area (7 hectares) in the Osaka Station North District ("Umeda North Yard"; 24 hectares) on the north side of the JR Osaka Station. The project is being undertaken by a consortium of which Hankyu Corporation is a member, and a multi-use complex is being developed, including offices, commercial facilities, a hotel, residences, and more. The Phase 1 Development Area will be divided into Blocks A, B, and C.

This project in the Osaka Station North District — considered to be the last prime location in a major urban hub anywhere in Japan — will include the latest advancements from an eclectic collection of fields, including technology, the arts, and entertainment. This integration of concepts will culminate in a "Knowledge Capital" zone, creating a base of knowledge and expertise that can lead to new approaches to business. This will be a project truly worthy of being the new gateway to Osaka.

Construction planned for completion during the second half of fiscal 2013

Project Conceptual Diagram

■ Osaka Station North District Phase 1 Development Area Project: Plan Overview

Blocks		A Block	B Block		C Block
Number of Floors		37 floors above ground; 3 floors below ground	37 floors above ground; 3 floors below ground	33 floors above ground; 3 floors below ground	50 floors above ground; 1 floor below ground
Site Area		Approx. 10,570m^2	Approx. 22,679m^2		Approx. 4,665m^2
Floor-Area Ratio		1,600%	1,150%		1,150%
Space Subject to Floor-Area Ratio Calculations		Approx. 169,100m^2	Approx. 260,800m^2		Approx. 53,700m^2
Major Use		Offices Commercial facilities	South tower: Offices North tower: Offices, hotels & residences Lower tier: Commercial facilities; Knowledge Capital		Condominiums
Total Floor Area	Office Space	Approx. 228,800m^2			
	Commercial Facilities	Approx. 80,700m^2			
	Knowledge Capital	Approx. 82,300m^2			
	Apartment Units	Approx. 52,300m^2			
	Hotel/Residential Units	Approx. 39,500m^2			

(As of 25th February 2008)

Chayamachi Redevelopment (Eastern District)

Building a new multi-use complex on the east side of Hankyu Umeda Station

The Chayamachi District lies adjacent to the Hankyu Umeda Station. This district, which occupies a corner of Umeda, has an enormous potential for the development of commercial facilities, hotels and cultural facilities. The "NU Chayamachi," a large-scale commercial complex, was opened in October 2005, and is being operated by the Hankyu Hanshin Holdings Group. In December 2008 work was started on a multi-use development project in the Chayamachi Eastern District, which will consist of commercial facilities, residences, schools, and businesses. When the project is complete, the Group will be responsible for operating commercial facilities and for the sale of condominiums.

Developing an attractive new facility in the Chayamachi District will contribute to creating a lively, bustling community, while at the same time revitalising the entire surrounding area by increasing the traffic in and around the entire Umeda district.

Planned completion in spring 2011

Conceptual Diagram

Chayamachi Redevelopment (Eastern District): Plan Overview

Site Area	Approx. 5,130m^2
Total Floor Area	Approx. 35,870m^2
Building Scale	1 floor below ground; 31 floors above ground
Building overview	Multi-use development including commercial, residential, school, and business facilities

Umeda Area Development (As of November 2008)

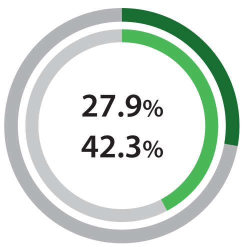
At a Glance
Financial Highlights
Message
Special Feature
Overview of Core Businesses
Management Organisation
Financial Section

Overview of Core Businesses

Urban Transportation

Percentage of Group Total

Revenues from operations **¥195.2 billion**
Operating income **¥32.5 billion**



Nature of Business

Centred on Hankyu Corporation and Hanshin Electric Railway, this segment operates railway, bus and taxi services forming an extensive transportation network throughout Kansai region. With the opening in March 2009 of the Hanshin Namba Line, we have created a railway network linking Kobe, Osaka and Nara, while serving Osaka's two major terminals, Umeda and Namba. This will further revitalise areas along our lines. With ongoing grade separation (track elevation) projects and work to make facilities barrier-free, this segment is committed to providing safe, convenient and appealing transit services.

Total length of lines operated:
Hankyu Corporation 146.5km
Hanshin Electric Railway 48.9km
(including tier 2 railway operator)

Major Companies

- Hankyu Corporation
- Hanshin Electric Railway
- Nosé Electric Railway
- Kita-Osaka Kyuko Railway
- Hokushin Kyuko Railway
- Kobe Rapid Transit Railway
- Hankyu Bus
- Hanshin Bus
- Hankyu Taxi
- Hanshin Taxi

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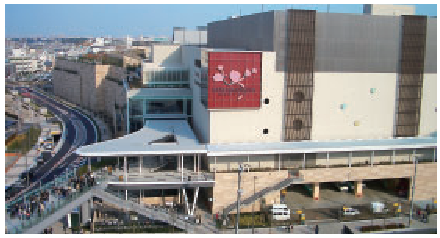
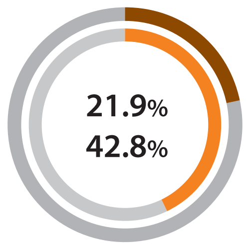
Real Estate



Percentage of Group Total

Revenues from operations **¥171.7 billion**
Operating income **¥32.8 billion**



Nature of Business

Consisting of real estate leasing, dealership and management businesses, the Real Estate segment derives its revenue base from property leasing and management (retail and offices) and its condominium business. It boasts a varied and attractive business portfolio including commercial facilities such as Hankyu-Sanbangai and HERBIS OSAKA/ENT, and the highly regarded GEO condominium brand in the Kyoto-Osaka-Kobe area. Based on its proven track record in creating value along railway lines, founded on project-development capabilities developed over many years, the segment is enjoying steady progress in large-scale projects that are revitalising line-side areas, such as Rebuilding of Umeda Hankyu Building and Chayamachi Redevelopment.

Major Companies

- Hankyu Corporation
- Hanshin Electric Railway
- Hankyu Realty
- Osaka Diamond Chikagai
- Hankyu Hanshin Building Management
- Hanshin Real Estate

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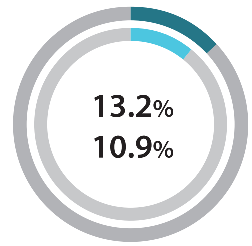
Entertainment and Communications

©Hanshin Tigers

Percentage of Group Total

Revenues from operations **¥100.6 billion**
Operating income **¥8.4 billion**



Nature of Business

This segment offers a wide variety of live entertainment, centred on the sports business — the nationally popular Hanshin Tigers professional baseball team and their home ground and high-school baseball mecca, Hanshin Koshien Stadium — and the stage revue business, based on the hugely popular, globally renowned and original Takarazuka Revue. Other businesses include our advertising agency, which uses advertising spaces on railways and other public transport; our cable TV business serving areas along Hanshin lines; and publishing (magazines and books). With this rich and broad media portfolio, the Entertainment and Communications segment aims to deliver inspiration and dreams to customers all over Japan.

Major Companies

- Hanshin Electric Railway
- Hanshin Tigers Baseball Club
- Hankyu Corporation
- Takarazuka Creative Arts
- Umeda Arts Theatre
- Bay Communications
- Itec Hankyu Hanshin

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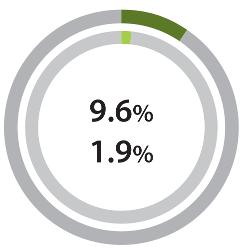
Travel and International Transportation

■ Revenues from operations **¥65.8 billion**
■ Operating income **¥1.5 billion**



In April 2008, we shifted to a corporate structure with four core businesses operating under an intermediary holding company, Hankyu Hanshin Express Holdings.* In our travel business, Hankyu Travel International offers an original product range led by the comprehensive and varied Trapics brand, while Hanshin Travel Service offers Friend Tour line of package tours, with a focus on European destinations, and customised tours for business travellers. The international transportation business offers high-quality logistics services through Hankyu Express International and Hanshin Air Cargo.

* We plan to reorganise the travel and international transportation business from October 2009 to April 2010. Please see P.39 for more information.

- Hankyu Hanshin Express Holdings
- Hankyu Travel International
- Hanshin Travel Service
- Hankyu Express International
- Hanshin Air Cargo

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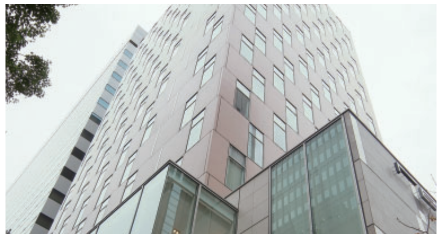
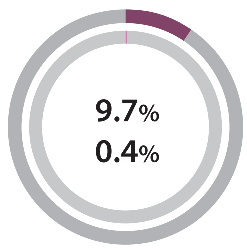
Hotels



■ Revenues from operations **¥66.5 billion**
■ Operating income **¥0.3 billion**



The Hankyu-Hanshin-Daiichi Hotel Group operates 45 hotels, consisting of 19 that are directly managed and 26 belonging to chains operated by franchise. It is one of Japan's most eminent hotel chains, with approximately 8,500 guest rooms, as of 30th April 2009. The segment offers a wide range of hotel formats, from general-purpose "city hotels" to hotels for businessmen (with very limited function facilities), and is particularly strong as a hotel operator with many directly-managed hotels in the Tokyo and Kinki areas, Japan's two major markets. In addition to chain operations, it also manages The Ritz-Carlton, Osaka, an international luxury brand with which it has formed an alliance.

- Hankyu Hanshin Hotels
- Hanshin Hotel Systems
- Arima View Hotel
- Hotel New Hankyu Kochi

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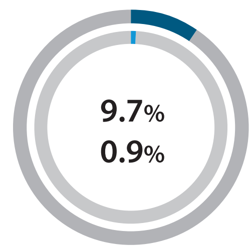
Retailing

■ Revenues from operations **¥67.6 billion**
■ Operating income **¥0.7 billion**



This segment comprises the Book 1st. bookstore chain, the *asnas* convenience store chain, the Color Field cosmetics and accessories chains, the DOUBLEDAY furniture and daily accessories chain and other sale-of-goods outlets, as well as the restaurant and ready-to-eat meal businesses Hankyu Soba (*udon* and *soba* noodles), Natural Kitchen KOJI (*izakaya* bars) and Cook Deli Gozen (ready-to-eat meals). In addition to its extensive presence along the Hankyu and Hanshin lines, we have also opened Book 1st. stores in the Tokyo area, drawing on our long experience in developing businesses along our lines to strengthen our competitive edge.

- Hankyu Corporation
- Hankyu Retails
- Iina Dining
- Creative Hankyu

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* Segment results are on a financial accounting basis.
* Figures for segment revenues from operations as a percentage of Group totals are calculated on the basis of sales to external customers; while figures for operating income as a percentage of Group totals are based on figures prior to consolidation adjustment (in both cases, as of 31st March 2009).
* Revenues from operations in other businesses accounted for 8.0%, and operating income for 0.7%.

Urban Transportation

Hankyu Railway

Major Businesses

- Railway operations : Hankyu Corporation [passenger journeys per year: 601,244 thousands]
  Hanshin Electric Railway [passenger journeys per year: 165,655 thousands]
  * Passenger journeys in year to 31st March 2009; does not include Kobe Rapid Transit Railway.
  Other consolidated subsidiaries:
  Nosé Electric Railway, Kita-Osaka Kyuko Railway, Hokushin Kyuko Railway, Kobe Rapid Transit Railway
- Bus operations : Hankyu Bus, Hanshin Bus
  Other consolidated subsidiaries:
  Hankyu Kanko Bus, Osaka Airport Transport, Hankyu Denen Bus
- Taxi operations : Hankyu Taxi, Hanshin Taxi

Core Companies

Hankyu Corporation, Hanshin Electric Railway

Basic Information and Business Environment

Attracting more people to live along Group lines

In recent years, the population of the Kansai area has been in decline, with a low birth-rate and a rising proportion of elderly people. However, areas along Group lines are popular and populations here have maintained growth momentum since the trough of 1996, the year after the Great Hanshin-Awaji earthquake.

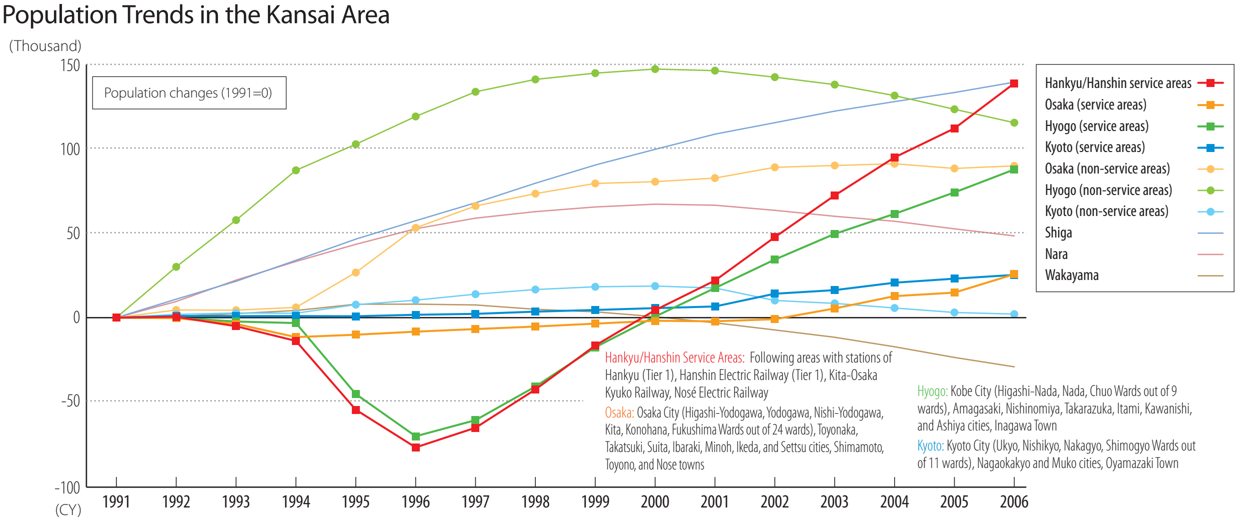
Furthermore, Umeda, the main hub of the Hankyu and Hanshin network, contains the largest concentration of retail premises in Kansai. Including lines operated by other companies, approximately 2.4 million people use Umeda (Osaka) station each day, making it the busiest station in Kansai. It also has the fourth-largest service catchment area*[1] of any station in Japan, after the three Tokyo terminals of Shinjuku, Ikebukuro and Shibuya. *[2]

This success is due to the Group's dedication since its founding to safe and convenient urban transportation services, coupled with our commitment to creation of appealing residential and commercial areas along our lines through development of premium residential areas and retail facilities (such as the world's first department store in a railway terminal (now Hankyu Department Store Umeda Main Store)), our proprietary entertainment enterprises, and other businesses flowing organically out of our railway operations.

*[1] Service catchment area of stations: Area around stations from which customers using the stations are drawn, including people residing, working, studying, etc. in the area. Bus routes bringing people in can also be counted as being in a catchment area.

*[2] Source: Urban Transportation Report 2008 Edition (Institution for Transport Policy Studies). Figures are for 2006.

Population Trends in the Kansai Area



Source: The Basic Resident Register, end of March each year

Revenues from railway operations remain firm

Thanks to rising populations and the development of commercial facilities along our lines, revenues from railway operations have increased year-on-year since fiscal 2007* in the case of Hankyu Corporation, and, in the case of Hanshin Electric Railway, since fiscal 2006. Likewise in fiscal 2009, although most major private railway operators in the Kanto (Tokyo) and Kansai areas recorded a decrease in revenues from railway operations, the Hankyu and Hanshin networks maintained stable or firm growth momentum.

* Excluding the boost following the tragic 2005 derailment on JR West's Fukuchiyama Line

Building out the network to boost passenger volumes

The Group not only provides railway services, but is also working to offer better bus, taxi, bicycle parking lot and bicycle rental services from stations where passengers get off their trains. We are committed to developing urban transportation services that include a broad range of travel options, not only point-to-point along our lines, but also providing total catchment area coverage. Other initiatives to encourage greater use of public transport include extension of the network with the opening of the Hanshin Namba Line, special promotions jointly planned in alliance with other companies, and an expanded "points" system using the STACIA PiTaPa smart card (PiTaPa means "Postpay IC for Touch and Pay.")

Hankyu Corporation also has plans to build new downtown stations, Settsu-Shi Station (to open in spring 2010) and Nagaokakyo new station (name and date of opening undecided). Settsu-Shi Station is being built in tandem with the Minami-Senrioka project in an environment-friendly urban hub development in Settsu City between Shojaku and Minami-Ibaraki stations. This station project uses solar paneling and other energy-saving measures, and will be Japan's first carbon neutral station. Zero carbon dioxide emissions will be achieved by these methods in addition to purchases of carbon credits to offset emissions.

To ensure good interconnections at the Nagaokakyo new station, to be built between Oyamazaki and Nagaoka-Tenjin stations, plans will be aligned with the Kyoto second outer ring road project now under construction. The station will form part of an interchange with park-and-ride and high-speed bus stop facilities. This will give motorists and high-speed bus users easy access to the new station, bringing more people onto the railway network. It is also expected to syphon off some of the private-car traffic flows into Kyoto city centre.

With only one-ninth of their carbon dioxide emission levels, railways perform far better in terms of environment-friendliness than cars. By raising public awareness of the eco-advantages of railways, we are deepening understanding of environmental issues and the encouraging the use of public transport.

Nosé Electric Railway

Kita-Osaka Kyuko Railway


Hankyu Bus

Hanshin Bus

Performance for Fiscal 2009

Steady passenger volumes as more people move to areas along Group lines and commercial developments come onstream

In the year under review, revenues from railway operations* on Hankyu lines were virtually unchanged (-0.1% for commuter passes, +0.1% for other tickets) to ¥90,425 million, due chiefly to the opening of the major commercial development Hankyu Nishinomiya Gardens abutting Hankyu Nishinomiya-Kitaguchi Station, which offset a decline in passenger volumes due to the economic slowdown. At the same time, revenues from operations* on Hanshin Electric Railway lines increased 1.5% year-on-year (+1.6% for commuter passes, +1.5% for other tickets) to ¥23,688 million, due chiefly to the opening of the Hanshin Namba Line in March 2009 and progress in construction of new condominium blocks along Hanshin lines (please see P.27, Topics).

In bus operations, we improved customer convenience by opening a new route for passengers leaving Hanshin Tigers night games linking Hanshin Koshien Stadium with Hankyu Nishinomiya-Kitaguchi station, and by unifying the various types of bus cards issued by Hankyu Bus and Hanshin Bus from March 2009.

As a result of these measures, revenues from operations in the year under review increased 0.2% or ¥341 million year-on-year to ¥195,244 million, but operating income declined 2.0% or ¥665 million to ¥32,490 million due to the recording of business startup expenses in connection with the opening of the Hanshin Namba Line.

* Excluding revenues from the Kobe Rapid Transit Railway.

Future Growth Strategy

Basic strategy

In the long term, while addressing the issues of declining population and intensifying competition with private transportation, and responding to calls for greater social responsibility (creating barrier-free facilities) and other structural change in demand and markets, we will build competitiveness for sustainable growth and increase value along Group railway lines, through the following policies.

(1) Provide services of real value to our customers

(Various marketing policies and network development projects)

- Marketing initiatives to increase passenger numbers on the Hanshin Namba Line
- Integrated management including the Kobe Rapid Transit Railway

(2) Rigorously commit to low-cost operation

(Sharing and upgrading technologies and know-how)

(3) Provide safe, high-quality transportation services that fully justify public trust

- Steady progress in large-scale projects, grade separation work, and installation of barrier-free facilities

Topics

Hanshin Namba Line begins operation on 20th March 2009
Becomes the first private operator to serve the two major terminals in Osaka — Umeda and Namba

Development work on the Nishi-Osaka Line Extension Project was completed after the project launch five-and-a-half years earlier in October 2003, and the Hanshin Namba Line, the stretch of line resulting from the extension, began operations on 20th March 2009. In this project, the Hanshin Electric Railway-invested third-sector company Nishi-Osaka Railway Co., Ltd. constructed and owns the railway facilities (lines and stations), supported by state and local government subsidies, while Hanshin Electric Railway leases and operates the line, under the top-and-bottom (ownership/operation) separation method.

The opening of the Hanshin Namba Line has added a large terminal and interchange station, Namba — second only to Umeda in the Kansai region — to the Hanshin Electric Railway network. At the same time, it has enriched the railway network in the Osaka central area through connections with other subway and overground lines at each of the three new stations on the Namba line, Kujo, Dome-mae and Sakuragawa.

The Hanshin Namba Line also serves to increase the potential of areas along Group lines by promoting greater mobility within the broader Kobe-to-Nara belt under a shared-line-use agreement with Kintetsu Corporation enabling a direct connection between Kobe and Nara. This has made the Hanshin Namba Line a powerful competitive asset.

Target Figures

Passenger usage: 84 thousands people per day (67 thousands per day in the first year)
Revenue increase: ¥3.8 billion per year (¥3.0 billion in the first year)

* In the first year of operation (fiscal 2010), we expect to reach only 80% of passenger usage and revenue increase targets. We have assumed an increase of five percentage points per year going forward.

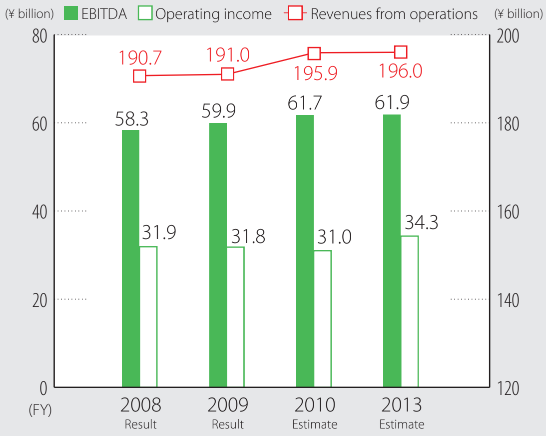
Hanshin Namba Line (wrapping train)

Future Plan and Outlook (2007 Medium-Term Management Plan)

*Figures below are based on management accounting, and are different from financial accounting.

Our fiscal 2010 EBITDA estimate is ¥61.7 billion, up ¥1.8 billion (3%) year-on-year, in light of an expected improvement in revenues from operations from the full-year contribution of the new Hanshin Namba Line, inclusion in the scope of consolidation of Kobe Rapid Transit Railway Co., Ltd. and the divestiture of the bus operations of Hanshin Electric Railway.

The EBITDA estimate for fiscal 2013, the final year of the Medium-Term Management Plan, is ¥61.9 billion, a ¥200 million (0.3%) increase over fiscal 2010 estimates. Although we expect a slight decline in revenues from operations of lines other than the Hanshin Namba Line, revenue growth is likely to be driven by increased passenger numbers on the Hanshin Namba Line, higher passenger numbers on lines feeding Umeda Hankyu Building, for which the grand opening is scheduled for spring 2012, and the opening of the new Settsu-Shi Station of Hankyu Railway, scheduled for spring 2010.



Message from Heads of Urban Transportation Business

Tsuneo Wakabayashi

Managing Director
Head of Urban Transportation business
Hankyu Corporation

Naturally, ensuring safety is the primary mission for railway operators such as ourselves. At the same time, I also regard it as an important task to encourage people to make their homes and fulfil their ambitions in the areas along our lines.

One element of helping people fulfil their ambitions is the planned opening of the Hankyu Settsu-Shi Station between Shojaku and Minami-Ibaraki stations in spring 2010, and the opening of Nagaokakyo new station (name as yet undecided) between Oyamazaki and Nagaoka-Tenjin stations. Located in a model zone for global-warming measures, Settsu-Shi Station will be Japan's first carbon neutral station. At the same time, Nagaokakyo new station will be located by the Kyoto second outer ring road, now under construction, with a park-and-ride enabling visitors to Kyoto city centre to drive to the station and continue their journey by train. This new station brings together highway and railway in a new joint transit concept. We see both Settsu-Shi and Nagaokakyo as models for the future development of stations.

Takaoki Fujiwara

Managing Director
Head of Urban Transportation business
Hanshin Electric Railway

On the 20th March 2009, the Hanshin Namba Line went into service. Because it enables direct access on Hanshin lines to Namba and Nara, under a line-sharing arrangement with Kintetsu, and includes stations offering transfers to Osaka municipal subway lines and the Nankai Line, the Hanshin Namba Line is seen as a boon by people not only in west Osaka but also across the broader Kansai region, as a component in a comprehensive urban transportation network. The line has got off to a good start, but we will take measures to publicise as widely as possible the convenience of the Hanshin Namba Line and the attractiveness of the areas it serves, to maximise passenger numbers.

At the same time, we will remain absolutely committed to safety. The Hanshin Namba Line was constructed using state-of-the-art technology, and rolling stock likewise includes safety systems that are more advanced than others currently available. However, I constantly remind our staff that merely because we use the latest technologies, this does not mean we can afford to relax our vigilance. Our employees are trained to never lose sight of safety, even for one instant.

Real Estate

HERBIS OSAKA

Major Businesses

- **Real estate leasing :** Extensive property-holdings, mainly along Hankyu and Hanshin lines
  [For details of major properties, please see P.32]
  Major companies: Hankyu Corporation, Hanshin Electric Railway
- **Real estate dealership :** Subdivision and sale of residential land lots and sale of condominiums and single-family housing, mainly along Hankyu and Hanshin lines
  Major companies: Hankyu Corporation, Hanshin Electric Railway, Hankyu Realty
- **Real estate management :** Operation and management of buildings of various formats in the Kyoto-Osaka-Kobe and Tokyo areas, including buildings owned by the Group
  Major companies: Hankyu Hanshin Building Management

Core Companies

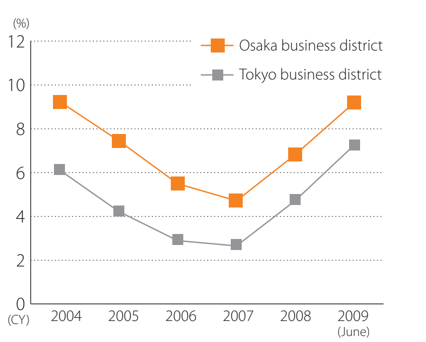
Hankyu Corporation, Hanshin Electric Railway

Basic Information and Business Environment

Real estate market deteriorates dramatically

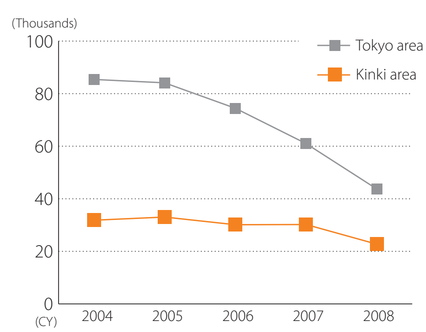
In fiscal 2009, the real estate market went into sharp decline under the impact of the global financial crisis triggered by the subprime crisis originating in the United States in fiscal 2008. Since the collapse of Lehman Brothers in September 2008, business conditions in the real estate market in Japan have worsened rapidly, due to a dramatic drying up of credit and cooling of consumer sentiment, creating an extremely difficult business environment for the dealership (land-lot subdivision) and other real estate businesses.

Average Vacancy Rates in the Osaka and Tokyo Business Areas



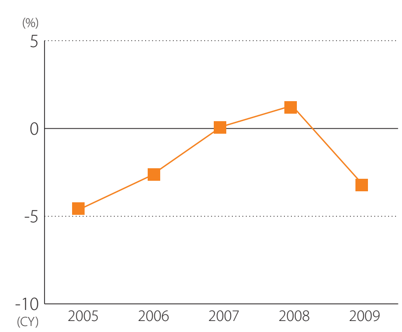
Source: Miki Shoji, latest trends in the office-building market

Condominium Sales (units marketed)



Source: Real Estate Economic Institute Co., Ltd., survey into trends in the condominium market

Change Ratio of Land Prices (national averages for all categories of use)



Source: Ministry of Land, Infrastructure, Transport and Tourism, "Official Land Prices"

Group rental properties perform robustly

Most operating income in the Real Estate segment of the Group is generated by rental operations. Approximately half of the rentable area is in properties owned by the Group in the Umeda area.

The Umeda area has the highest land prices in Osaka, and is also highly competitive compared with other parts of Osaka in terms of tenant-leasing attractiveness and ability to draw in customers. The average vacancy rate for office buildings in the Umeda area, which briefly sank as low as 3% in 2007, climbed to 6.40% in June 2009 as business conditions in the real estate market worsened. But this is still a relatively low level compared with the current 9.19% rate for all Osaka business areas and 7.25% for Tokyo business areas. Furthermore, rents remained at the highest level among Osaka business districts.

Currently, the average vacancy rate at a major office buildings owned by the Group in Umeda is lower than overall district rates partly because many of Group properties are in highly attractive and competitive locations.

We expect tougher competition around the edges of the Umeda area as new supply — large-scale rental developments other than the Group's ongoing Umeda Hankyu Building project — comes onstream. However, we are confident we can maintain and extend our competitive lead in the Umeda market.

Condominium business feels effects of rapidly cooling market

In the subdivision business, we market condominiums, single-family houses and residential land lots. The condominium business, centred on the GEO brand, has maintained a strong brand image in areas along Hankyu and Hanshin lines as well as in the Tokyo area, on the strength of excellent property locations and value-added features.

However, due to extreme sluggishness in the Tokyo and Kansai markets, the number of units sold (aggregate of all condominium developer) in 2008 fell 7,475 (24.7%) year-on-year in the Kinki region, and the total rate of contracted sales over the year declined 5.8 percentage points to 78.0% of all units marketed.* This means that the price of condominiums has peaked.

* Survey carried out by Real Estate Economic Institute Co., Ltd.

Performance for Fiscal 2009

Deteriorating business conditions leave their mark

In the leasing business, footfall and tenants' sales remained robust at Hankyu Nishinomiya Gardens, despite a difficult business environment amid a slowdown in consumer spending. Hankyu Nishinomiya Gardens, the fruit of a Group-wide project and one of the largest shopping centres in western Japan, opened its doors in November 2008. In the Tokyo area, in addition to opening the AKIBA TOLIM shopping centre in April 2008, we made a Group-wide effort to keep occupancy rates high at Group-owned office buildings and commercial facilities while cutting management and operational costs.

In the subdivision business, condominium sales centred on the GEO Senri Momoyamadai (Toyonaka, Osaka Prefecture) and GEO Kitasenri Furuedai (Suita, Osaka Prefecture) developments. Residential land-lot sales centred on the Minoh Onohara Residence (Minoh, Osaka Prefecture) and Takarazuka Yamatedai Residence (Takarazuka, Hyogo Prefecture) developments.

We have also made good progress with large-scale development projects such as the Rebuilding of Umeda Hankyu Building (for details, please see the feature on P.18)

However, revenues from operations in this segment fell ¥8,004 million (4.5%) to ¥171,686 million, due chiefly to a weak performance in the subdivision business amid deterioration in the overall real estate market. Operating income also declined by ¥6,702 million (17.0%) to ¥32,816 million, on recording of an appraisal loss under the lower of cost or market method on subdivided land and structures (¥3,820 million), and a loss on valuation of the real estate fund business (¥2,283 million).

GEO Senri Momoyamadai

Takarazuka Yamatedai Residence

Future Growth Strategy

Basic strategy

We are taking the following measures as a matter of priority to further capitalise on our ability to create value along railway lines, which is underpinned by our strong brand image and sound reputation in the Kyoto-Osaka-Kobe area, and our project planning capabilities in commercial facility development, mainly in the Umeda area, and the GEO brand-led condominium business.

(1) By leveraging our expertise in community building, provide safe and convenient basic infrastructure and provide services that support community lifestyles

- Step up measures to ensure stable operations at Hankyu Nishinomiya Gardens
- Supply housing lots in a joint project with Hankyu Realty and Hanshin Electric Railway, particularly in areas along Hankyu and Hanshin lines

(2) Enhance enterprise value and optimise cash flow by striking an appropriate balance between investments and returns

(3) Raise our profile in the Umeda area, through renovations of our properties

- Rebuilding of Umeda Hankyu Building, Chayamachi Redevelopment (Eastern District), and Osaka Station North District Phase 1 Development Area Project

Topics

Hankyu Nishinomiya Gardens, one of the largest commercial facilities in western Japan, opens its doors

In November 2008, Hankyu Nishinomiya Gardens, one of the largest retail complexes in western Japan, opened its doors. Fruit of a redevelopment project on the site of the Hankyu Nishinomiya Stadium adjacent to the Hankyu Nishinomiya-Kitaguchi station, the mall provides a commercial and entertainment space drawing on the comprehensive resources of the Hankyu Hanshin Toho Group. One of the main attractions of the Hankyu Nishinomiya Gardens is the Hankyu Department Store, and they also contain a cinema complex managed by Toho Cinemas Ltd. and OS Co., Ltd. Combined with the Hyogo Performing Arts Center and the Kitaguchi-Minami Hankyu Building located south of the station, this development with its ability to draw in customers from a wide area is becoming a new hub in the Osaka-Kobe belt.

In the first fiscal year, we aim to attract approximately 20 million visitors and post sales of approximately ¥60 billion (full-year basis). As of 13th July 2009, visitors totalled 12.65 million and sales approximately ¥47 billion, a solid performance despite difficult business conditions with weak personal spending.

Outline of Facilities

Site area: Approximately 70,000m²
Rentable area: 107,000m²
Number of outlets: 268
(of which 69 will be debut openings in the Kansai area)
Parking spaces: Approximately 3,000

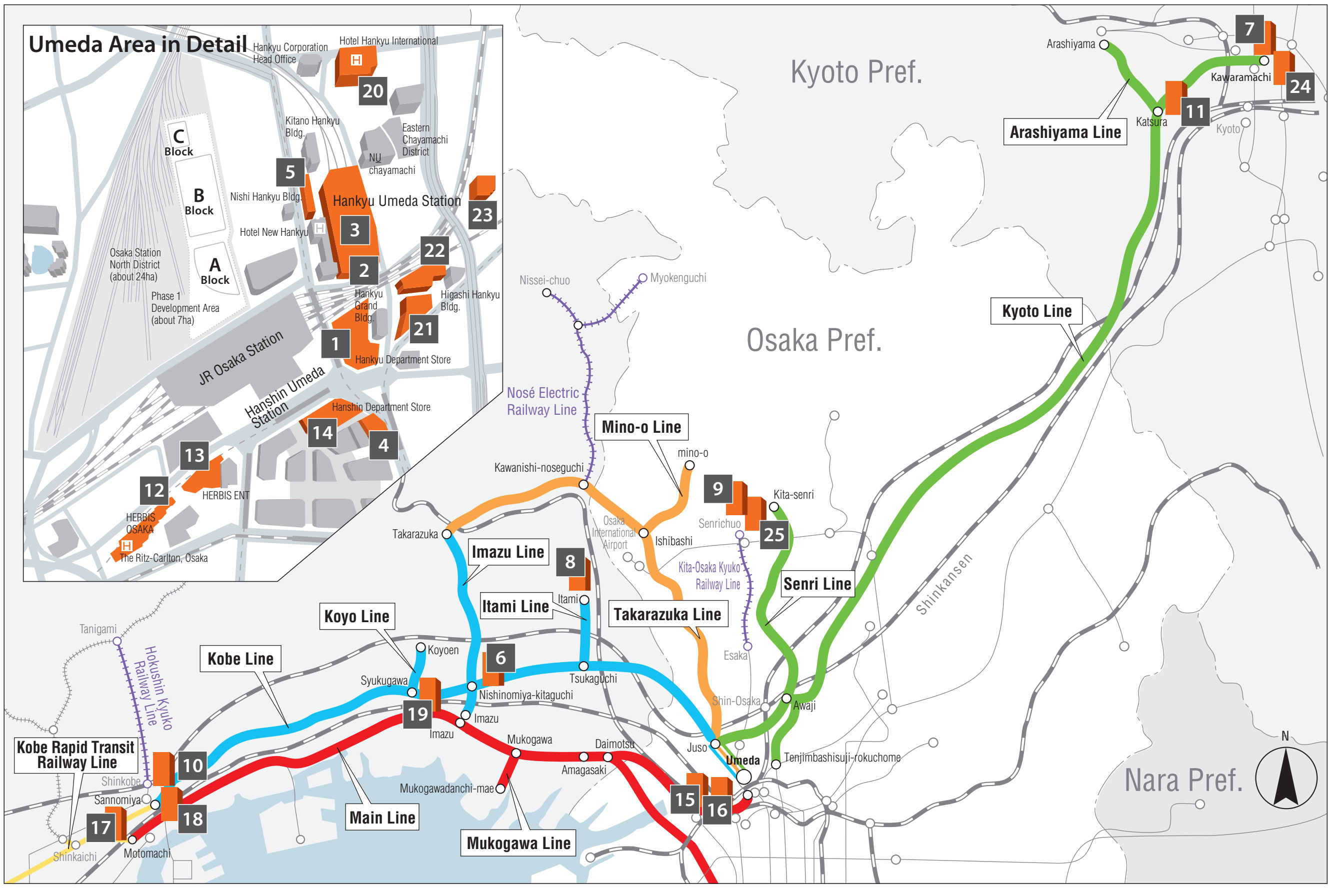
Core Facilities

Department store (Hankyu Department Stores)
Cinema complex (Toho Cinemas Ltd. and OS Co., Ltd.); 12 screens, 2,200 seats
General merchandise store (Izumiya Co., Ltd.)

"Sky Garden" featuring rooftop greenery

The mall has 268 specialist retail outlets

Major Group Properties (as of 31st March 2009)



No.	Property Name	Completed	Area for Lease (m^2)*1
Hankyu Corporation			
1	Umeda Hankyu Bldg.	1920	77,908
2	Hankyu Terminal Bldg.	1972	26,440
3	Hankyu Sanbangai Shopping Arcade	1969	40,018
4	Shin Hankyu Bldg.*2	1962	30,613
5	Kita Hankyu Bldg.	1971	12,343
6	Hankyu Nishinomiya Gardens	2008	108,186
7	Kotocross Hankyu Kawaramachi	2007	2,965
8	Itami Hankyu Station Bldg. (Itami Reita)	1998	10,009
-	AKIBA TOLIM	2008	10,294
9	Senri Asahi Hankyu Bldg.	1992	12,522
10	Kobe Hankyu Bldg.	1936	7,901
-	Miyazu Hankyu Bldg. (Mipple)	1997	20,021
11	Katsura Higashi Hankyu Bldg.	1993	2,793
Hanshin Electric Railway			
12	Umeda Hanshin Daiichi Bldg. (HERBIS OSAKA)	1997	78,708
13	Umeda Hanshin Daini Bldg. (HERBIS ENT)	2004	54,602
14	Dai Hanshin Bldg. (Hanshin Department Store)	1963	98,578
15	Noda Hanshin Bldg.	1992	41,086
16	Fukushima Hanshin Bldg.	1987	21,764
17	Motomachi Hanshin Bldg.	1987	7,865
18	Sannomiya Hanshin Bldg.	1933	13,672
19	EBISTA Nishinomiya (Commercial facility under an elevated railway tracks)	2003	10,359

No.	Property Name	Completed	Area for Lease (m^2)*1
Hankyu Realty			
20	Hankyu Chayamachi Bldg. (Chayamachi Applause)	1992	51,865
21	Navio Hankyu (HEP NAVIO)	1980	15,499
22	Hankyu Five Bldg. (HEP FIVE)	1998	11,466
23	Umeda Center Bldg.	1987	9,893
24	Hankyu Kawaramachi Bldg.	1970	38,237
25	Hankyu Senri Chuo Bldg.	1980	12,503

*1 Area for lease does not include areas for public use.
*2 Land for Shin Hankyu Bldg. is rented from Hanshin Electric Railway.


3 Hankyu Sanbangai Shopping Arcade

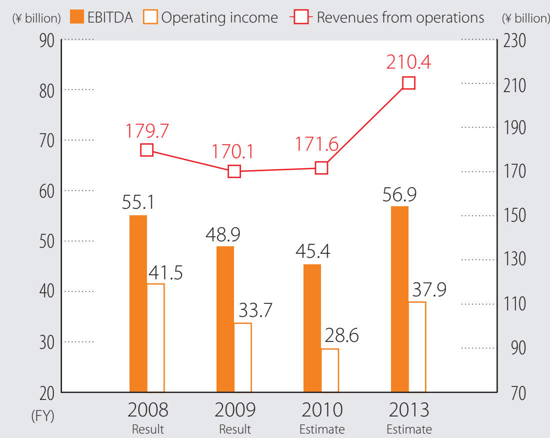

14 Dai Hanshin Bldg. (Hanshin Department Store)


22 Hankyu Five Bldg. (HEP FIVE)

Future Plan and Outlook (2007 Medium-Term Management Plan)

*Figures below are based on management accounting, and are different from financial accounting.

We expect to post a ¥3.5 billion (7.2%) year-on-year decline in EBITDA to ¥45.4 billion in fiscal 2010. A decline in rental revenues (office buildings and commercial facilities) due to the economic downturn and a reduction in area for lease following completion of Phase I (department store building) and Phase II demolition work at the Umeda Hankyu Building are likely to outweigh the projected full-year earnings from Hankyu Nishinomiya Gardens, which opened its doors in November 2008. In fiscal 2013, we expect EBITDA to increase by ¥11.5 billion (25.3%) to ¥56.9 billion compared with fiscal 2010 estimate. Chief factors will be completion in April 2010 of the office building wing of the Umeda Hankyu Building reconstruction project, expected to be the biggest driver of the earnings growth under the Medium-Term Management Plan, and the grand opening of the complex following completion of Phase II work at the department store of the New Umeda Hankyu Building in spring 2012.



Message from Heads of Real Estate Business

Takashi Shimada

Managing Director
Head of Real Estate operations
Hankyu Corporation

The job of the Group's Real Estate businesses is to create communities — communities that people want to live, work and enjoy themselves in. The basic idea is the railway comes first, then the real estate business builds the community, and Group service businesses then supply the amenities that make the community viable. We differ from conventional real estate businesses in that we place heavy emphasis on the medium-to-long term. We are committed to dynamic community creation not only in the area served by our lines but across the whole Kansai area.

Key to this concept is our regeneration of the Umeda area of Osaka, where we are currently engaged in a number of projects such as Rebuilding of Umeda Hankyu Building (the flagship of Hankyu Department Stores, Inc.), Chayamachi Redevelopment, and Osaka Station North District Phase 1 Development Area Project. Our focus is not only upgrading facilities operated by Hankyu and Hanshin groups, but creation of a fully interlinked zone in the Umeda area with above-ground and below-ground spaces connected by escalators and elevated walkways between buildings, enabling completely untrammelled circulation. I believe we are helping to create an even more dynamic hub for the future Kansai area.

Yoshihiro Iwase

Senior Managing Director
(Representative Director)
Head of Real Estate operations
Hanshin Electric Railway

Some five years have passed since HERBIS ENT opened its doors. In that time, we have focused efforts on development of the areas around stations along our lines. In future, we plan to continue developing areas around major stations and refurbishing commercial facilities. In contrast to specialist real estate companies that focus on expanding business scale, the real estate division of a railway company is also expected to help encourage greater use of the railways. We see our mission as building communities along our lines and providing the amenities they need.

In this endeavour, the Umeda area is a strategic hub for both Hankyu and Hanshin. Looking ahead, we must continue to work to raise the profile of this area. In addition to the ongoing Rebuilding of the Umeda Hankyu Building, we are committed to the development of a "greater Umeda area" including West Umeda, where we at Hanshin Electric Railway are also involved in various projects. We regard this as an important future mission for The Hankyu Hanshin Holdings Group. I believe the combined expertise built up by our two brands positions us for further exciting business development.

Entertainment and Communications

©Takarazuka Revue Company

Major Businesses

- Sports business : Professional baseball business (the Hanshin Tigers) and Hanshin Koshien Stadium, and related businesses
- Revue and theatre business : Takarazuka Revue and related businesses; operation of Umeda Arts Theatre and promotion of stage productions
- Advertising agency, publishing/broadcasting, musical entertainment ("Billboard Live" club and restaurant chain), information technology services, and other business

Core Companies

Hankyu Corporation, Hanshin Electric Railway

Basic Information and Business Environment

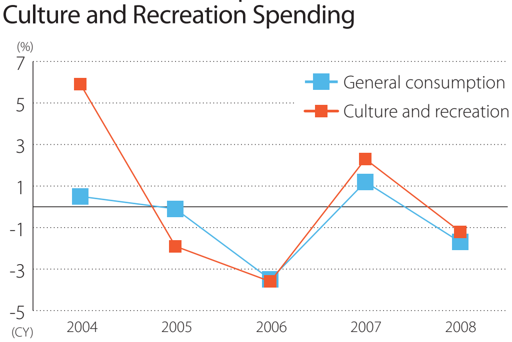
Strong fan base keeps the crowds coming

According to recent household spending surveys carried out by the Statistics Bureau of the Ministry of Internal Affairs and Communications, overall household consumption in 2008 declined 1.7% in real terms, after adjustment for price fluctuation, and cultural and recreational expenditure likewise fell 1.2%, creating a difficult operating environment for this segment. But the mainstay sports and revue businesses kept the crowds coming during this difficult year, thanks to their strong fan bases.

The Hanshin Tigers and Hanshin Koshien Stadium (sports business) and the Takarazuka Revue (stage revue and theatre business) both enjoyed high levels of popularity not only in the Kansai area but also throughout Japan, and retain excellent brand images. Other railway groups have nothing to compare with these two powerful attractions, which have become significant assets for the Group, contributing strongly to brand value growth.

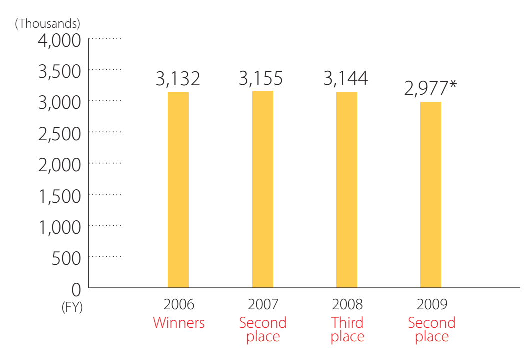
As interests and leisure pastimes diversify, we expect competition to come in future from the whole spectrum of commercial entertainment, not just from other spectator sports and live-performance formats. Accordingly, we are taking steps to build brand strength and customer loyalty by ensuring a consistently high level of performance quality in future.

General Household Expenditure and Culture and Recreation Spending



Source: Household spending surveys, Ministry of Internal Affairs and Communications

Spectator Numbers at Hanshin Tigers Home Games



* In the fiscal 2009 season, there were approximately 4,000 fewer seats than in the previous season, due to refurbishment work to upgrade infield seating.

Performance for Fiscal 2009

Sports business drives earnings

In our sports operations the Hanshin Tigers remained in the pennant race right up to the season's end, which kept the seats at our Hanshin Koshien Stadium filled with enthusiastic fans. Taking advantage of the opportunities provided by the renovation of Hanshin Koshien Stadium, we revised upward baseball game ticket prices, expanded restaurants and shops, and added new advertising space. As a result, revenues from our sports operations increased.

In our stage revue operations, we enjoyed particularly positive critical acclaim for the *Tsukigumi* (Moon troupe) show *Me and My Girl* and the *Hoshigumi* (Star troupe) shows *My Dear New Orleans* and *A Bientôt*, and all these shows recorded strong ticket sales. In theatre operations, the Umeda Arts Theatre put on performances of a number of plays that were much talked about in theatrical circles, notably *Kurobe no Taiyo*, which is a stage adaptation of a movie.

In the cable television business, we enjoyed steady growth in subscriber numbers through our Cable-Plus Phone service, which offers lower rates for land-line phone and other services offering free calls to mobile-phone subscribers. We also succeeded in attracting an increased number of visitors to our facilities on Mt. Rokko. We conducted vigorous marketing activities promoting the Rokko-Maya Enjoy Pass, a ticket that lets customers use all Group facilities, and hosting the Mt. Rokko Ice Festival.

As a result of the above, revenues from operations increased ¥5,233 million (5.5%) year-on-year to ¥100,561 million, but operating income slipped ¥164 million (1.9%) to ¥8,384 million, due mainly to increased depreciation expenses following completion of Phases I and II of the renovation of Hanshin Koshien Stadium.

Future Growth Strategy

Basic strategy

By further enhancing the appeal of our proprietary Hanshin Tigers professional baseball team/Hanshin Koshien Stadium and Takarazuka Revue, which provide "inspiration and dreams," and by broadening the channels through which we deliver these attractions, we will strengthen our revenue base, enhance the aura of the Group and build brand strength and greater value along our lines. In this endeavour, we are taking the following priority measures.

(1) Increasing the appeal of live events (Hanshin Tigers, Takarazuka Revue, Umeda Arts Theatre, Billboard Live)
- Create superior content, and foster or acquire star talent
- Increase the appeal of live-event venues

(2) Upgrading and expansion of media use
- Broaden the range of media channels and strengthen online publicity
- Increase the appeal of our publishing, broadcasting and advertising operations and develop a better media mix

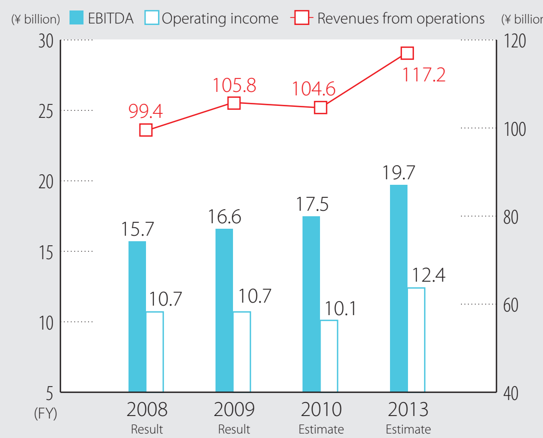
(3) Maximise the value of the Hanshin Tigers, Koshien and Takarazuka brands
- Further enhance multiple use of content
- Strengthen sales promotion and broaden media exposure

(4) Leverage our leisure facilities (facilities on top of Mt. Rokko, Takarazuka Garden Fields, etc.)
- Strengthen alliances and ties between Group facilities with strong spectator appeal

Future Plan and Outlook (2007 Medium-Term Management Plan)

*Figures below are based on management accounting, and are different from financial accounting.

Our EBITDA estimate for fiscal 2010 is ¥17.5 billion, a ¥900 million (5.4%) increase over fiscal 2009 results, reflecting increased profitability of Hanshin Koshien Stadium after completion of main structure work, an increase in the number of Hanshin Tigers host games, revised seating prices at Takarazuka Revue theatre and an increase in scheduled performances in Tokyo, as well as an expected jump in the number of subscribers to the cable television business. Our EBITDA estimate for fiscal 2013 is ¥19.7 billion, an increase of ¥2.2 billion (12.6%) from the estimate for fiscal 2010. We expect the growth drivers here to be a further rise in the number of cable TV subscribers following strengthened marketing of our "triple service" package (cable television, high-speed internet connection and IP phone services), in the information services business, development of our Internet, healthcare system, and solution businesses, which we have positioned as growth fields.



Message from Heads of Entertainment and Communication Business

Eiji Igata

Managing Director
Head of Entertainment business
Hankyu Corporation

Every year, the Takarazuka Revue stages over 450 scheduled performances at the 2,550-seat Takarazuka Grand Theatre and the 2069-seat Tokyo Takarazuka Theatre. The more than 400 performers who make up the five troupes (*Hana* (Flower), *Tsuki* (Moon), *Yuki* (Snow), *Hoshi* (Star) and *Sora* (Cosmos)) work to an annual 10-show schedule, with troupes performing in rotation. With shows proving consistently very popular, they are truly one of leaders in live entertainment in Japan. Attracting 2.5 million spectators annually, they account for over one-tenth of the total stage-show market in Japan. Since its re-opening in 2001, the Tokyo Takarazuka Theatre has always been booked out.

Revue performers and support staff are all based in Takarazuka City in Hyogo Prefecture, where on- and off-stage rehearsal facilities are also clustered. This means that shows are taken until around the country only after opening at the Takarazuka Grand Theatre. Performances are broadcast across the nation using the Takarazuka Sky Stage communication satellite-broadcasting service and are also covered in a range of revue magazines and other drama publications. Young candidates from all over Japan also take examinations to get into the Takarazuka Music School, where the next generation of Revue talent is given basic training and fostered.

Looking ahead, we plan to further expand our share of the stage-show market in Japan, generating synergy from our Takarazuka and Tokyo theatre and other live, cinema, broadcast and printed-media entertainment in combination with the theatre business at Umeda Arts Theatre.

Toshihiro Makita

Managing Director
Head of EC business
Hanshin Electric Railway

Work began at Hanshin Koshien Stadium in the spring of 1923, with the aim of outdoing the newly completed Yankee Stadium of the New York Yankees. For over 80 years, Koshien has been the home of the National High School Baseball Championship and the home ground of the Hanshin Tigers. In October 2007, with the aim of upholding the history and traditions of the venue as a place of excitement and dream fulfilment, we launched refurbishment work, with completion of the new main structure in March 2009.

Baseball is currently reforming its business model, relying not only on ticket sales and broadcasting rights, but also broadening revenue sources through the more effective use of stadium facilities and product merchandising. The Company will continue to build up profitability and satisfy its customers through its long-term commitment to the Hanshin Tigers brand, and through various measures at Hanshin Koshien Stadium, such as construction of "Royal Suite" seating, introduction of sales of naming rights at some infield seating, installation of the "Liner Vision" video display, and construction of large merchandise stores.

Travel and International Transportation

Major Businesses

☐ **Travel Business :** Hankyu Travel International, Hanshin Travel Service

Business Volume :

Overseas Travel	¥246.3 billion	(No. 3 in the Industry)
Domestic Travel	¥137.4 billion	(No. 5 in the Industry)
Total Business Volume	¥385.0 billion	(No. 4 in the Industry)

* Business Volume is based on fiscal 2009 actual results; total of Hankyu Travel International and Hanshin Travel Service.

☐ **International Transportation Business :**

Hankyu Express International, Hanshin Air Cargo

Sales ¥83.0 billion

* Sales are actual figures for fiscal 2009; total of Hankyu Express International and Hanshin Air Cargo.

Core Companies

Hankyu Hanshin Express Holdings

Basic Information and Business Environment

Travel

Skyrocketing fuel surcharges and economic stagnation make for a rapid deterioration in the business environment

The Hankyu Hanshin Holdings Group is particularly strong in the overseas travel segment, consolidating the No. 3 position in overseas travel business volume in the industry (combined Hankyu and Hanshin business results) during fiscal 2009. The Group continues to experience growth in the domestic travel segment, having reached the No. 5 position in that industry.

Developing attractive products and exercising thorough quality management, Hankyu Travel International operates the Trapics and other brands, providing services tailored to the individual style and objectives of customers. Hanshin Travel Service offers the Friend Tour line of package tours (mainly to Europe) and other high-quality overseas travel support products and services that meet customer needs.

The operating environment for overseas travel has been severely impacted by the 9/11 terror attacks in the United States, the Iraq War, and the SARS epidemic. While the industry had been experiencing a mild recovery, the continuing increases in fuel surcharges since fiscal 2008 have led to another reduction in the number of travellers. During fiscal 2009 in particular, fuel surcharges reached a historic high, and combined with the effects of the global financial crisis, the industry experienced a challenging management environment. However, the Group believes that there is latent demand for overseas travel among the Baby Boomer generation and among single adults. Enhanced Customer Relationship Management (CRM) strategies will be implemented to win new clients and increase the percentage of repeat customers.

Travel Agency Ranking by Business Volume

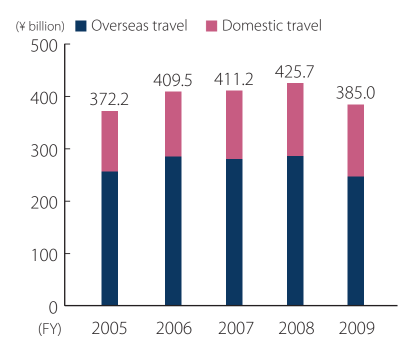
(¥ million)

Overseas Travel			Domestic Travel		
1	JTB*[1]	442,512	1	JTB*[1]	790,679
2	H.I.S.	305,790	2	Kinki Nippon Tourist*[3]	385,716
3	Hankyu Hanshin Group*[2]	246,254	3	NIPPON TRAVEL AGENCY	284,080
4	Kinki Nippon Tourist*[3]	198,257	4	ANA Sales	198,147
5	NIPPON TRAVEL AGENCY	131,235	5	Hankyu Hanshin Group*[2]	137,445

*[1] Total for 14 JTB Group companies
*[2] Total of Hankyu Travel International and Hanshin Travel Service
*[3] Total for Kinki Nippon Tourist and KNT Tourist

Source: Japan Tourism Agency Bulletin: Business Volume for Major Travel Agents (April 2008 to March 2009)

Travel Business Volume of Hankyu Hanshin Group



International Transportation

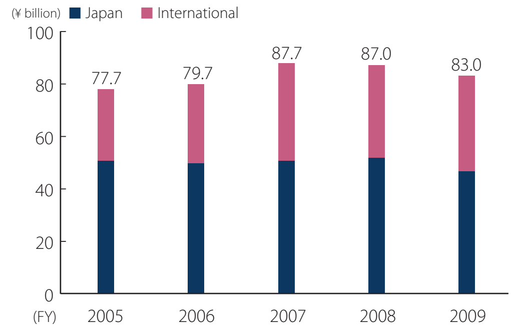
Rapid deterioration in the business environment due to the global financial crisis and worldwide economic recession

The Group was one of the first in the air freight forwarding industry to begin operating in the marine transportation business, constructing a system to function as one link in our customers' supply chain management. The efficient combination of air and ocean transportation modes forms an infrastructure allowing us to respond to the complex logistics needs of our customers as a total logistics provider.

Since late 2008, the global financial crisis and resulting economic recession have created a broad year-on-year decline in the volume of air and ocean shipments.

For the time being, we expect the business environment to continue to be extremely challenging. However, we will be actively establishing operations in growth markets and taking advantage of the synergies of the Hankyu/Hanshin integration to find growth despite such conditions.

International Transportation Business Sales of Hankyu Hanshin Group



Performance for Fiscal 2009

Transition to a new structure: Hankyu Hanshin Express Holdings as an intermediate holding company

The number of customers interested in travelling to Europe and other distant locations decreased due to the effects of soaring oil prices necessitating higher fuel surcharges. Travel to China also declined, due to food safety incidents and earthquakes occurring during the fiscal year. Meanwhile, regional bus tours and other domestic travel enjoyed a strong performance.

With respect to the International Transportation Business, air transportation was severely affected by the global economic recession that began in the autumn of last year. Demand for both imports and exports fell dramatically. Meanwhile, marine transportation, which had been enjoying a steady performance due to aggressive sales efforts, experienced a severe downturn as a whole. Despite marine imports on a par with the prior year, demand for marine exports experienced the same precipitous decline that affected air transportation.

To develop a stronger capacity to compete in the market, both the Travel and International Transportation Businesses were reorganised under Hankyu Hanshin Express Holdings (an intermediate holding company) on 1st April 2008. In conjunction with this reorganisation, the domestic logistics business, which had been included under the Travel and International Transportation Business, was placed under the "other business" segment beginning this fiscal year. As a result, the business segment experienced an approximately ¥15 billion decrease in revenues. The sale of Hankyu Cargo Service to an outside entity resulted in a further ¥10.5 billion reduction in revenues.

As a result, revenues from operations experienced a ¥28,631 million (30.3%) year-on-year decrease, amounting to ¥65,806 million. Operating income amounted to ¥1,452 million, representing a ¥1,755 million (54.7%) year-on-year decline.

Future Growth Strategy

Basic strategy

Travel

Under a basic strategy calling for "delivering inspiration and dreams" through the development of feature-rich products, the Travel Business has been pursuing a course of high-value-added product development. The objective is to win over the genuine support of customers, secure consistent profits, and achieve improvement in the following areas.

(1) Raise customer satisfaction levels

- Consistent quality management; improve employee skills; comprehensive risk management

(2) Stronger sales capacity (planned travel packages; corporate customer sales)

- Comprehensive brand management; stronger planned travel package sales; expanded sales channels; stronger corporate client sales

(3) Foundation for consistent profits

- Stronger, more efficient purchasing department; improved process efficiencies in back office/administrative departments

International Transportation

The International Transportation Business is pursuing a basic strategy that calls for "delivering reliable services and well-being" through an advanced logistics systems network. Aggressive investment and network construction in this area will lead to stability and growth, driven by improvements in the following areas.

(1) A stronger revenue base

- Expanded business in East Asia, focused on China; stronger imports from North America and Europe, expanded exports to East Asia; promotion of consolidation and improved transportation quality; expanded involvement in the marine cargo/logistics business*

* Logistics business: Logistics services that supplement air/marine transportation, such as warehousing and inventory management

(2) Capitalising on integration synergies

- Reduced costs/expenses through coordinated Hankyu/Hanshin business processes

(3) Stronger network

- Accelerated expansion of operating locations; stronger coordination with sales agents

Topics

Travel and International Transportation Business Reorganisation

The Travel and International Transportation Business will undergo a reorganisation in October 2009 (International Transportation) and April 2010 (Travel Business). The objectives of this reorganisation are to further strengthen competitive capacity and to maximise integrated synergies.

The Travel Business will consolidate planned travel packages and group travel under Hankyu Travel International. Business travel will be covered by Hankyu Hanshin Business Travel exclusively. This reorganisation by business function will facilitate decision-making, as well as faster management/sales responses. The Travel Business will work to reinforce its structure towards becoming the No. 1 company in international planned travel packages, while improving services and expanding market share in the business travel market segment.

In the international transportation business, we will establish Hankyu Hanshin Express through the integration of Hankyu Express International and Hanshin Air Cargo, under Hankyu Hanshin Express Holdings. The integration of these two entities will lead to more effective use of management resources, generating the benefits of scale and establishing a more prominent position in the industry. This integration will also serve as a springboard towards improved service levels domestically, a more extensive international network, a stronger competitive platform, and a greater share of the worldwide market.

Prior to Reorganisation

- Hankyu Hanshin Express Holdings
  - Hankyu Travel International
  - Hanshin Travel Service
  - Hankyu Express International
  - Hanshin Air Cargo

After Reorganisation (April 2010)

- Hankyu Hanshin Express Holdings
  - Hankyu Travel International — Planned Travel Packages/Group Travel
    - Hankyu Hanshin Business Travel — Business Travel
  - Hankyu Hanshin Express — International Transportation

Future Plan and Outlook (2007 Medium-Term Management Plan)

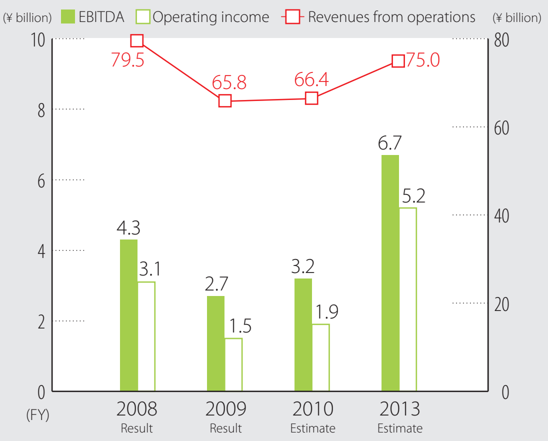
*Figures below are based on management accounting, and are different from financial accounting.

The EBITDA estimate for fiscal 2010 incorporates profit stabilisation through cost reductions in international transportation. Accordingly, we have set this estimate at ¥3.2 billion, representing a ¥500 million (18.5%) increase compared to the fiscal 2009 actual result.

This plan assumes continued negative consumer sentiment throughout fiscal 2010 affecting the Travel Business. However, we believe that there will be an abatement in the effects of fuel surcharges, and a recovery in overseas travel, during the second half of fiscal 2010. As a result, we project that our operating results will have bottomed during the first half of fiscal 2010.

Meanwhile, we predict a recovery in demand for our International Transportation Business after fiscal 2011, assuming fiscal 2010 earnings bottom out.

Our EBITDA estimate for fiscal 2013 is ¥6.7 billion, higher than the fiscal 2008 profit level. We believe this figure is justified based on our assumption of greater revenues (particularly overseas travel) and stronger product sales in our Travel Business, coupled with economic recovery, accelerated expansion into growth markets, and synergistic benefits from our business reorganisation affecting our International Transportation Business.



Message from Head of Travel and International Transportation Business

Hiroshi Ojima

President
Hankyu Hanshin Express Holdings

●About the Travel Business

The Trapics and Friend Tour names are widely recognised as powerful brands in the travel industry. Combined, Hankyu Travel International and Hanshin Travel Service represent the fourth-largest company in the travel industry in terms of business volume, and are close to overtaking the No. 2 and No. 3 firms in the industry. Both companies have a high ratio of sales in overseas travel. However, we believe that capitalising on the popular Hanshin brand while placing more focus on domestic travel will help us near the upper echelon of the industry. Our mission in this segment is to be a firm that is particularly oriented towards "travel quality," winning the dedicated support of our clients, while building ongoing volume.

●About the International Transportation Business

Hankyu Express International and Hanshin Air Cargo are integrating facilities and co-loading according to plan, beginning joint operations of new facilities at the Kansai International Airport, as well as offices and warehouses in the United States and Great Britain. These advances have contributed to greater efficiencies and cost reductions in our business processes. We will continue to integrate overlapping operations overseas, expanding our international network by redirecting excess management resources to Asia (primarily China and India) and Eastern Europe, markets where we see significant growth.

Hotels


Hotel Hankyu International

Major Businesses

☐ Principal directly operated hotels :

Hotel Hankyu International [Number of rooms: 168; total capacity: 316]
Hotel New Hankyu Osaka [Number of rooms: 922; total capacity: 1,304]
Dai-ichi Hotel Tokyo [Number of rooms: 277; total capacity: 554]
The Ritz-Carlton Osaka* [Number of rooms: 292; total capacity: 584]

* The Ritz-Carlton Osaka is operated by the Ritz-Carlton hotel chain under the management of Hanshin Hotel Systems.

Core Companies

Hankyu Hanshin Hotels (operates Hankyu-Hanshin-Daiichi Hotel Group)

Basic Information and Business Environment

One of the leading hotel groups in Japan

Since the opening of the Takarazuka Hotel in 1926, the Hankyu-Hanshin-Daiichi Hotel Group has grown steadily in size to the point where it is now one of the leading hotel groups in Japan, with a total of 45 hotels and 8,548 guest rooms. Approximately half are located in the Tokyo and Kinki areas.

*As of 31st March 2009

Sales Share of Japan's Hotel Chain (FY2009)

(%)

Rank	Hotel Chain Name	Share	YoY difference
1	Prince Hotels Group	10.4	-0.6
2	Tokyu Group	4.6	-1.0
3	Hankyu-Hanshin-Daiichi Hotel Group	4.2	+0.3
4	Imperial Hotel Group	3.2	0
5	The Royal Hotel Group	3.1	-0.1

Source: Survey by Nikkei Sangyo Shimbun (Nihon Keizai Shimbun), 6th August 2009

Intensifying competition

The number of hotels in Japan has increased steadily*1 since the Ministry of Health, Labour and Welfare (formerly the Health and Welfare Ministry) began keeping such statistics 40 years ago. This trend can be expected to continue with new business hotel openings in urban areas and project announcements. However, according to estimates by Japan Productivity Center for Socio-Economic Development*2, sales per hotel have been declining, as the total number of hotels increases within a market capped at somewhat over ¥1 trillion since 1996. In other words, hotel operation in Japan has become an increasingly competitive business.

To address these challenges, the Group has launched large-scale refurbishment of established general-purpose "city hotels" mainly in the Tokyo area to improve their competitiveness, and at the same time has targeted the upper end of the city-centre no-frills "business hotel" market with the new REMM brand, a format featuring specially designed guest rooms ensuring "a good night's sleep," including custom-made beds.

*1 Report on Public Health Administration and Services (public health administration case report), fiscal 2008 edition, Ministry of Health, Labour and Welfare
*2 Leisure white paper, fiscal 2009 edition, Japan Productivity Center for Socio-Economic Development

Economic downturn creates harsh business conditions

Since the outbreak of the global financial crisis, there has been a dramatic deterioration in business conditions, particularly at city hotels in the Kinki area, which have been hit by a fall in demand from overseas tourists and in corporate demand for business trips and hospitality functions. In future, we are looking to cut costs by further streamlining operations and strengthening online marketing.

Occupancy Rates at Major Hotels

(%)

	FY2008	FY2009
Hotel New Hankyu Osaka	92.7	89.3
Hotel Hankyu International	87.2	81.4
Dai-ichi Hotel Tokyo	82.9	79.5
Senri Hankyu Hotel	89.2	86.4
The Hotel Hanshin	87.2	87.4
Dai-ichi Hotel Tokyo Seafort	85.8	84.8
REMM Hibiya	72.7	80.3
REMM Akihabara	—	75.5

Performance for Fiscal 2009

Demand remains robust in the Tokyo area, but the Kinki area feels impact of economic downturn

In addition to the opening of REMM Akihabara in April 2008, we have refurbished guest rooms and other facilities at our hotels as part of efforts to improve competitiveness. We also stepped up promotional activities, including a special sales campaign for imported goods taking advantage of the high yen. However, the economic downturn has undermined demand, and performance was particularly weak in the Kinki area.

In October 2008, in measures to acquire franchise or management contracts for chain-hotel operations, we established new logos for Hankyu Hanshin Hotels Co., Ltd. and Hankyu-Hanshin-Daiichi Hotel Group to raise awareness of the brands.

As a result of the above, revenues from operations fell ¥2,781 million (4.0%) year-on-year to ¥66,458 million and operating income slumped ¥1,008 million (74.7%) to ¥342 million.

Future Growth Strategy

Basic strategy

Hankyu-Hanshin-Daiichi Hotel Group is undertaking the following priority policies to consolidate its management base centred on Hankyu Hanshin Hotels, enabling it to develop its fundamental strength as a hotel chain operator.

(1) Create infrastructure for hotel chain operation
- Strengthen platforms for supporting hotel chain marketing and management
- Ensure solid start for REMM hotel chain

(2) Restructure to establish a more efficient business management system

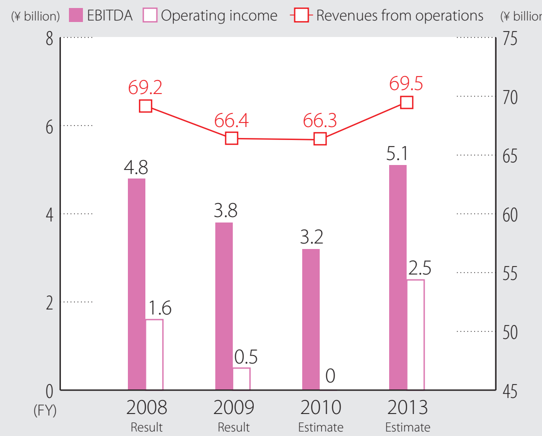
(3) Strengthen the earnings base by overhauling the business portfolio
- Develop hotels using franchise-management contracts, based on operational capabilities and brand strength

Future Plan and Outlook (2007 Medium-Term Management Plan)

*A Core Business is a unit used in management accounting, and differs from business segments in financial accounting

The EBITDA estimate for fiscal 2010 is ¥3.2 billion, ¥600 million (15.8%) lower than the fiscal 2009 result, in light of our expectations of lower profit due to the economic downturn, which has affected the Kinki area particularly badly.

For fiscal 2013, we forecast EBITDA of ¥5.1 billion, an increase of ¥1.9 billion (59.4%) compared with our estimate for fiscal 2010. We have assumed that earnings will bottom out during fiscal 2010 in the hotel business, and gradually recover in line with a resurgent economy in the years to fiscal 2013. In addition, we expect the bottom line to benefit from refurbishment at established hotels and cost-cutting measures undertaken as part of streamlining.



Message from Head of Hotels Business

Tomokazu Yamazawa

President
Hankyu Hanshin Hotels

The hotel industry is facing difficult operating conditions in all categories due to the slump in consumer spending amid the economic downturn and the spectre of swine influenza.

Against this backdrop, we enjoyed a successful reception for our new REMM brand with its theme of offering "a good night's sleep," after openings in Tokyo in November 2007 in Hibiya and in April 2008 in Akihabara. Building on the popularity of these two hotels, we plan to further expand our revenue base through new projects centred on the REMM brand, while giving due consideration to operational risk. In addition, we are creating a more competitive portfolio by selecting the best performers among established hotel operators and focusing resources on them. In measures to strengthen the fundamentals of our established hotels, we are undertaking structural reforms to bolster profitability, and in April 2009 established a project team to focus on strengthening marketing and increasing efficiency.

On 1st April 2008, the Company launched operations as Hankyu Hanshin Hotels following the merger of Hankyu Hotel Management, The Hotel Hanshin and Hotel Hanshin Restaurant Systems. Under a new concept of providing "customer delight," we are committed to delivering "serenity and well-being, inspiration and dreams." To fulfil this mission, we will consolidate our position as a hotel chain operator through the above policies, helping ensure the sustainable growth of the Hankyu-Hanshin-Daiichi Hotel Group.

Retailing

COLOR FiELD ReLaX

Major Businesses

Retail : Hankyu Retails

Bookstore chain Book 1st., music shop chain Sound 1st., convenience store chain *asnas*, station kiosk chain Lagare shop, café bakery chain FREDS, cosmetics and accessories chain COLOR FiELD and COLOR FiELD ReLaX, high-end supermarket chain Seijo Ishii*

Doubleday Hankyu

Furniture and daily accessories chain DOUBLEDAY

* Seijo Ishii is operated under a franchise agreement with Seijo Ishii Co., Ltd.

Restaurant : Creative Hankyu

Udon and *soba* noodles chain Hankyu Soba, *izakaya* bars (Japanese pubs) chain Suibo Chotto, Natural Kitchen KOJI, etc.

Core Companies

Hankyu Corporation, Hanshin Electric Railway * as of 31st March 2009

Basic Information and Business Environment

Expansion for retail businesses, mainly inside train stations

Unlike many private railway groups, our Retailing Business does not include department stores business*. Rather, the core of our retail business is represented by retailing stores such as kiosks and convenience stores located mainly inside railway stations ("Ekinaka"). Other retail formats are included within this segment, including bookstore chains (Book 1st.) that we are expanding not only in Kansai in areas adjacent to our railway lines but also in Tokyo.

* As one component of group reorganisation related to the Hankyu/Hanshin management integration, the Hanshin Department Store, Ltd. and Hankyu Department Stores, Inc. integrated their managements in October 2007, resulting in the formation of H_2O Retailing Corporation, a pure holding company for the department store group. At present, the Company owns 21.75% of the outstanding shares of H_2O Retailing Corporation, accounting for the company as an equity-method affiliate.

The Ekinaka business provides a format for stable sales

The Group was one of the first rail operators to realise the value of real estate located inside heavily trafficked train stations. In April 1995, the Group opened the first-ever convenience store on a train platform. Since that time, the Group has continued to build its Ekinaka business in variety of formats.

Retailing is highly susceptible to domestic economic conditions. Negative consumer sentiment during periods of economic recession such as the present one inevitably impacts on the Group's Retailing Business. However, the Group's Ekinaka business makes the most of the advantages of location and varied business formats, raising the prospect of stable store and service sales. We view this as one of the competitive advantages of our Retailing Business compared to the competition.

Performance for Fiscal 2009

Business expansion through an aggressive store roll-out strategy

In addition to opening the bookstore Book 1st. and the high-end supermarket Seijo Ishii in the Hankyu Nishinomiya Gardens complex, we opened Book 1st. Shinjuku as our flagship bookstore in the Tokyo area, pursuing a course of aggressive expansion. We also worked to enhance the competitive capacity of our existing stores, including makeovers for cosmetics/accessory retailer COLOR FiELD, café bakery FREDS, and others. We integrated the operations of the *asnas* and An 3 convenience stores located along the Hankyu and Hanshin railway lines, established stronger coordination in purchasing and merchandising, and engaged in other measures that improved operational efficiencies.

In our restaurant and food-service business, we continued to expand the scope of our business through the opening of new locations.

Revenues from operations in this segment amounted to ¥67,581 million, representing a year-on-year decrease of ¥53,170 million (44.0%). Operating income experienced a year-on-year decrease of ¥2,021 million (74.4%), falling to ¥697 million. This decrease was mainly due to the fact that the Hanshin Department Store (now Hankyu Hanshin Department Stores, Inc.) and its four subsidiaries were removed from the scope of consolidation at the beginning of the third quarter of the prior fiscal year.

Future Growth Strategy

Basic strategy

We will contribute to increased value along Group railway lines by cultivating train stations and locations adjacent to railway lines through improved and enhanced business infrastructure (product merchandising capacity, human resources, IT environment, organisation, logistics, etc.). Concurrently, we will achieve sustainable growth by developing services that provide reliability and well-being, as well as inspiration and dreams to our customers, including those who live outside the areas adjacent to our railway lines. In pursuit of this strategy, we will be implementing improvement in the following important areas.

(1) Rejuvenate stores, which are our point of contact with customers; improve employee skill levels
- Strengthen programmes to improve employee satisfaction/motivation
- Provide an IT environment for greater efficiencies and advancement in store operations

(2) Strengthen our capability as an organisation to support sustainable growth
- Improve business management structures towards stronger competitive capacity and better operational efficiencies
- Strengthen merchandising capacity and improve logistics systems
- Stronger property development systems supporting the opening of more locations outside areas adjacent to our railway lines

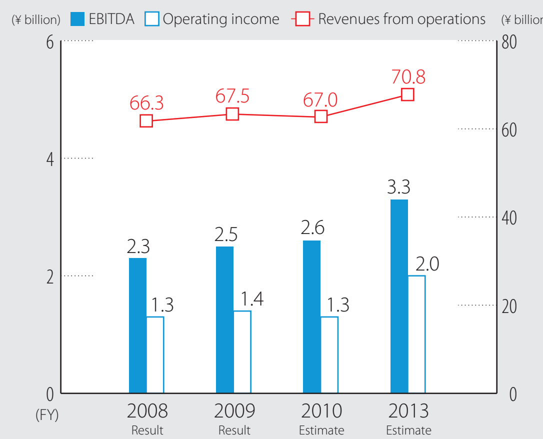
(3) Initiatives to capitalise on the synergies of the Hankyu/Hanshin integration
- Improve operational efficiencies through convenience store business integration and brand unification

Future Plan and Outlook (2007 Medium-Term Management Plan)

*Figures below are based on management accounting, and are different from financial accounting.

The plan for fiscal 2010 takes the impact of stagnated consumer spending into account, with the EBITDA estimate at ¥2.6 billion, representing a ¥100 million (4.0%) increase compared to fiscal 2009 actual results.

The EBITDA estimate for fiscal 2013 is ¥3.3 billion, an increase of ¥0.7 billion (26.9%) from the estimate for fiscal 2010. Although it seems that this challenging business environment is likely to continue, we expect our bookstore (Book 1st.) and general merchandise (DOUBLEDAY, COLOR FiELD) businesses to grow. The Group plans to expand from a base of 456 retail locations (all business formats) in March 2009 to 478 locations by the end of fiscal 2010, and 515 locations by the end of fiscal 2013.



Message from Head of Retailing Business

Yoshihiro Nakagawa

Managing Director
Head of Retailing
Hankyu Corporation

Beginning with the food safety concerns and soaring raw materials prices of 2007, and continuing through the "once-in-one-hundred-years" global economic recession sparked by the late-2008 subprime loan crisis, the economic environment surrounding our Retailing Business has been experiencing a dramatic deceleration. Experts have yet to predict when this economic stagnation will end.

Despite these circumstances, we have a significant asset that other retailing companies lack. The Hankyu Hanshin Group is able to conduct business in areas adjacent to the Hankyu and Hanshin railway lines, boasting significant purchasing power. We are also creating greater brand awareness in the market through our flagship bookstore in the Tokyo area and our shops located in major train station commercial facilities.

We have identified several issues within the Group that indicate the need for organisational restructuring in the Retailing Business. For example, our first priority to date has been expanding the scale of our businesses in this segment. Now, we are planning to transition to a strategy that emphasises quality over quantity so as to create a stronger business portfolio.

We will continue to address issues as rapidly as they are identified, making revisions to our businesses as required. Delivering reliable services and well-being, as well as inspiration and dreams, to our customers will contribute to further growth in the Retailing Business and improved value in areas along our lines, enhancing the Hankyu/Hanshin brand in the market.

Management Organisation

To uphold the trust of all our customers and other stakeholders, the Hankyu Hanshin Holdings Group is strengthening its management organisation and contributing to the creation of a sustainable society.

Corporate Governance

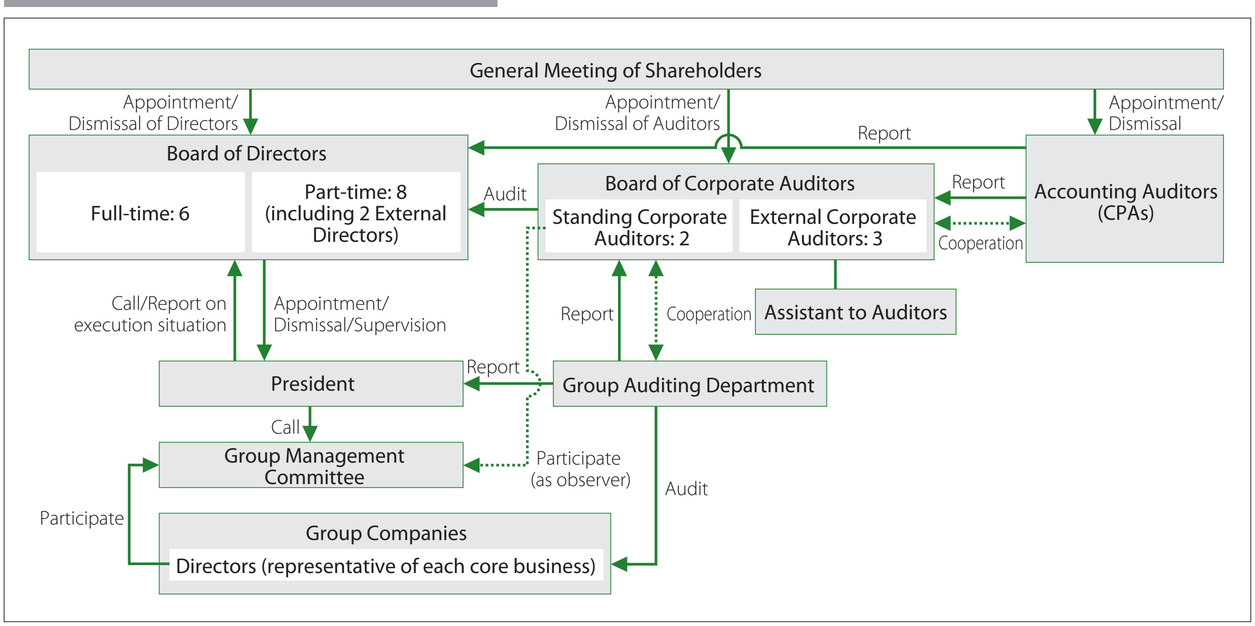
Basic Approach

The Hankyu Hanshin Holdings Group seeks to maximise enterprise value through a corporate structure in which four core companies—Hankyu Corporation, Hanshin Electric Railway, Hankyu Hanshin Express Holdings and Hankyu Hanshin Hotels—operate their businesses in alliance under the Company, which is a pure holding company. Each core company manages its subsidiaries and affiliates in line with the Group Company Operational Standards, ensuring more transparent and sound Group management.

For performance management, the Group has established six core business units responsible for meeting targets within set parameters in the Medium-Term Management Plan. Each core business is given significant autonomy in this business planning, to speed up decision-making. At the same time, each core business has its own Core Business Strategy Council for discussion of management plans, including future business development, by representatives of the Company and each core business. In a further measure to ensure effective governance, we have also established a Group Management Committee with powers of review and approval regarding material matters of business execution such as investments that exceed a certain amount or restructuring.

Because we are a pure holding company and already have an adequate supervisory role over operating subsidiaries (responsible for core businesses), we have no intention of adopting the committee-based system of corporate governance. However, we believe it important that external directors be appointed to carry out oversight functions, and that our companies set up Boards of Corporate Auditors including external Corporate auditors working in partnership with accounting auditors (CPAs) to foster greater audit efficiency.

Corporate Governance System



Board of Directors etc.

(1) Directors etc.

Our Board of Directors has 14 members, ensuring flexibility of management without compromising efficacy of supervisory functions. Two of these directors, Noriyuki Inoue and Shunichi Sugioka, are external directors. They contribute to the Company by enlivening deliberations of the Board of Directors with outside viewpoints and bring greater objectivity to management judgment.

The term of office of directors was reduced to one year at the general meeting of shareholders in June 2006, to clarify management responsibilities following the introduction of anti-takeover measures (prevention of large-scale Company share purchases).

Relations with External Directors

	Reason for appointment, and potential conflict of interest with the Company
Noriyuki Inoue	Representative Director, Daikin Industries, Ltd. Also vice-chairman of Kansai Economic Federation. Appointed for his wealth of management experience and perspectives from top business circles. No particular conflict of interest with the Company exists.
Shunichi Sugioka	Representative Director, H_2O Retailing Corporation, the core company in The Hankyu Hanshin Toho Group. Appointed to contribute opinions reflecting the views of The Hankyu Hanshin Toho Group in business matters such as increasing value along Group railway lines. Sugioka is chairman and CEO of H_2O Retailing Corporation, which is an affiliate of Hankyu Hanshin Holdings. The Company has a 7.5%*[1] stake in H_2O Retailing Corporation, and H_2O Retailing Corporation has 1.6% of the Company's shares. These shareholdings are not large enough to raise conflict of interest concerns.

*[1] The Group overall has 22% of the voting rights in H_2O Retailing.
*[2] External directors attended 85% of meetings of the Board of Directors held in fiscal 2009.

(2) Board of Directors

The Board of Directors has powers of approval over management policy, strategy and planning of the Company and the Group as a whole, and also over medium-term and annual management planning of core businesses. It also raises the standard of operations at each core business under the Group governance rules requiring reporting of major investments and reorganisations by Group companies.

In fiscal 2009, the Board dealt with management planning issues such as amendment of the Medium-Term Management Plan, and reviewed and gave approval for reorganisation of the Travel and International Transportation segment. When necessary, it also issued reports on progress in new railway line construction, and on new station and major redevelopment projects and other investment projects at Group companies. The Board of Directors met 10 times in the fiscal year under review, with average attendance at 93% for Directors and 90% for Corporate Auditors.

(3) Group Management Committee

The Group Management Committee, comprising full-time Directors (President, representative directors, head of Personnel and General Affairs Dept. and head of Corporate Planning Dept.) and representatives of each core business, meets to discuss matters subject to Board of Directors resolutions, systems and rules for Group company management strategy and business planning and maintenance of the holding company system, and major Group management matters such as investments beyond above set parameters and reorganisations. During the year under review, the Group Management Committee met 16 times.

(4) Core Business Strategy Councils

Each core business has a Core Business Strategy Council, comprising President, representative directors, the director in charge of the Corporate Planning Dept. of the Company and representatives of each core business. The councils deliberate future business development for each core business and discuss business plans and progress management (performance evaluation). Each Core Business Strategy Council met three times in the year under review.

(5) Better fund procurement regime

As part of efforts to build up comprehensive Group strength, we have centralised fund procurement under the holding company, with funding allocated to operating companies as needed within approved parameters based on the business plan. By strengthening governance provisions in this area, we are eliminating flaws in our funding framework.

(6) Initiatives to foster solidarity within the Group

The Group Presidents' Meeting, held twice a year, brings together presidents of over 150 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. To ensure a joint sense of commitment to the Medium-Term Management Plan, awards are made to subsidiaries that boost earnings or individuals and groups that successfully launch initiatives or make significant contributions at their units.

Board of Corporate Auditors

The Company uses the corporate auditor system to bolster management oversight. We have five Corporate Auditors, who monitor the business performance and financial position of the Company and its subsidiaries, and audit the performance of duties by directors. Of the five Corporate Auditors, three are outside experts (legal professionals and scholars), ensuring more objective oversight.

Specialist staff members are appointed to assist the Corporate Auditors in the performance of their duties. As a rule, the Corporate Auditors meet once a month to discuss issues and take executive decisions.

The Group Audit Division directly under the president, comprising internal audit staff, carries out internal audits, with audit plans and reports perused by Corporate Auditors. The Corporate Auditors also receive a general report on internal audits at the Company and Group companies (including whistle-blowing reports). Moreover, the Corporate Auditors receive regular reports from the CPAs, and also act as observers at on-site audits of the Company and Group companies by CPAs.

In a further commitment to improving auditing efficiency, the standing Corporate Auditors attend Group Management Committee meetings as observers.

Relations with External Auditors

	Reason for appointment, and potential conflict of interest with the Company
Takaharu Dohi	Former prosecutor-general, currently a lawyer. Appointed to advise on more compliance-based management. No particular conflict of interest with the Company exists.
Haruo Sakaguchi	Former vice-chairman of Japan Federation of Bar Associations, currently a lawyer. Appointed to advise on more compliance-based management. No particular conflict of interest with the Company exists.
Hideki Yoshihara	Former head of Research Institute for Economics & Business Administration, Kobe University. Appointed to advise as an expert in business science. No particular conflict of interest with the Company exists.

* External auditors attended 83% of Board of Directors' meetings held during fiscal 2009, and 87% of the meetings of the Board of Corporate Auditors.

Promotion of Compliance-Focused Management

The growth of the Group has been supported over the years by the trust it has won through development of areas along its railway lines. To contribute to social development through our business activities and meet the expectations of all our stakeholders (customers, business partners, shareholders, local communities and employees, etc.), we believe that compliance-focused management is a *sine qua non*.

In this regard, the Company is working to improve and strengthen compliance awareness through measures such as training programmes and Group newsletters. Currently, our compliance promotion policies have the following three focuses.

(1) Our Compliance Manual and Training Programmes

This manual voices the Company's determination to not tolerate violation of laws or social norms or betrayal of customer trust, by any Group employee from executives down. It also aims to raise awareness by pointing out cases where compliance errors can easily be made.

In addition to providing concentrated compliance training on a Group-wide basis for new employees, midcareer hires and newly appointed executives, we aim to instil compliance awareness through a range of seminars for Group companies. In addition, we hold compliance seminars for ordinary employees of Group companies. Group companies also arrange their own training programs tailored to job grade and function, aiming to further increase compliance awareness.

(2) Corporate Ethics Consultation Desk (internal whistle-blower procedures)

We have set up a dedicated whistleblower hotline enabling all employees to discuss or quickly bring to management's notice 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.

(3) Risk Management Committee

In case of actual or suspected major legal violations, the risk management committee is convened with the President as Chair, and decisions are taken after discussion of corrective actions and measures to prevent their recurrence.

■ Compliance Card

The Compliance Card, with the Company code of conduct and details of consultation desks, is small enough to be carried around by employees.

*Hanshin Group's Compliance Card

Directors and Corporate Auditors (As of 17th June 2009)

Directors

Kazuo Sumi
President and Representative Director

President, Hankyu Corporation

Shinya Sakai
Representative Director

President, Hanshin Electric Railway Co., Ltd.

Isao Matsuoka
Director

Honorary Chairman, Toho Co., Ltd.

Noriyuki Inoue
Director (External)

Chairman and CEO, Daikin Industries, Ltd.

Shunichi Sugioka
Director (External)

Chairman and CEO, H_2O Retailing Corporation
Chairman, Hankyu Hanshin Department Stores, Inc.

Hiroshi Ojima
Director

President, Hankyu Hanshin Express Holdings Corporation

Tomokazu Yamazawa
Director

President, Hankyu Hanshin Hotels Co., Ltd.

Tadashi Sano
Director

President, Bay Communications Inc.

Nobuo Minami
Director

President, Hanshin Tigers Baseball Club, Ltd.

Koichi Kobayashi
Director

Chairman, Takarazuka Revue Company

Mitsuo Nozaki
Director

Head of Personnel and General Affairs Dept.

Takehiro Sugiyama
Director

Head of Corporate Planning Dept.

Masao Shin
Director

Head of Personnel and General Affairs Dept.

Toru Nakashima
Director

Head of Corporate Planning Dept.

Corporate Auditors

Hidekazu Sugisawa
Standing Corporate Auditor

Standing Corporate Auditor, Hankyu Corporation

Chikashi Suehara
Standing Corporate Auditor

Standing Corporate Auditor, Hanshin Electric Railway Co., Ltd.

Takaharu Dohi
Corporate Auditor (External)

Lawyer and Corporate Auditor, Hankyu Corporation (External)

Haruo Sakaguchi
Corporate Auditor (External)

Lawyer and Corporate Auditor, Hankyu Corporation (External)

Hideki Yoshihara
Corporate Auditor (External)

Professor of Graduate School of Business Administration, Nanzan University, and Corporate Auditor of Hanshin Electric Railway Co., Ltd. (External)

Presidents of Core Companies

Hankyu Corporation
Kazuo Sumi

Hanshin Electric Railway Co., Ltd.
Shinya Sakai

Hankyu Hanshin Express Holdings Corporation
Hiroshi Ojima

Hankyu Hanshin Hotels Co., Ltd.
Tomokazu Yamazawa

Corporate Social Responsibility

For over 100 years, the companies under The Hankyu Hanshin Holdings Group have operated their businesses and built up relationships of trust in the areas served by Hankyu and Hanshin lines, while enriching their communities. As a member of the local community, we will aim to create a better living environment for everybody in the areas served by our lines in the coming 100 years too. Each of our companies will, as far as resources allow, meet corporate social responsibility expectations.

Social Contribution Activities

The Hankyu Hanshin Dreams and Communities of the Future project

Communities are comprised of people and the environment around them. Based on this idea, our social contribution activities aim to create environments and nurture human capital for the future. In April 2009 we launched the Hankyu Hanshin Dreams and Communities of the Future project.

A better environment

As a business tied to a particular locality, 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

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

Concept of the symbol mark

The symbol mark consists of a railway line representing the future, a child reaching out to a heart and a leaf symbolising children's dreams and community-building within a rich natural environment. It is meant to evoke the spirit of our project, which aims to bring greater prosperity and content to local society.

Three core aspects of the project

(1) Programme for approving and fostering social contribution activities at Group companies

This programme is designed to ensure that the social and community contribution activities carried out by each company of the Group follow the above Group-wide plan. As of the end of August 2009, 66 projects had been approved.

(2) Hankyu Hanshin Dreams and Communities of the Future Fund

Employees of the Group are encouraged to contribute to this fund, with the collected proceeds distributed as grants to citizens' groups involved with the above plan in the areas served by the Hankyu and Hanshin railway lines. Hankyu Hanshin Holdings matches employee donations by an equal amount and transfers the donations to the citizens' groups.

(3) Points-based social contribution activities

This programme enables employees and former employees of the Group to support social contribution activities as individuals. If they apply under it to engage in volunteering activities, they get points, which can be saved up and translated into donations to (1) non-government groups (2) a project to plant seedlings on Mt. Rokko, or (3) exchanged for Fair Trade products. The programme was devised to spread our social contribution activities more widely around the community.

Major Group Company Initiatives

A better environment

Spreading the environmental message with the Eco-train

Organised by: Hankyu Corporation

Our Eco-train titled "Dreams and Communities of the Future" was operated between December 2008 and July 2009, to help foster sustainable creation of communities for the future. Designed in cooperation with a non-profit organisation to encourage joint environmental initiatives by enterprises, local authorities and citizens in areas along our lines, the train's interior carried posters on various aspects of environmental protection.

Eco-train

Environmental protection poster

Human capital

Pavilion exhibition at KidZania Koshien

Organised by: Hanshin Electric Railway, Hankyu Hanshin Hotels

Our pavilion at KidZania Koshien is designed to give children an idea of working life as an adult in society. By giving them hands-on experience of railway and hotel jobs, we are providing young people with a fun way of learning about usually unseen but important aspects of work.

KidZania Koshien

Train driver simulation system

Trying out a chambermaid's job

Children's emergency sanctuary programme for taxis and stores

Organised by: Hankyu Taxi, Hankyu Retails, Hanshin Station Net and Bay Communications

The children's emergency sanctuary programme is designed to improve neighbourhood security, particularly for children. In our capacity as a local business operator, we provide places of refuge such as taxis, offices and stores carrying identification stickers for children trying to get away from unpleasant encounters. Our goal is to create a safer community.

For more detailed information on the Hankyu Hanshin Dreams and Communities of the Future project, please visit the following website.
http://www.hankyu-hanshin.co.jp/yume-machi (Japanese version only)

Environmental Protection Activities

Frameworks for Environmental Protection Activities

In October 2006, when the company was launched, we set up an Environmental Committee, chaired by the President of Hankyu Hanshin Holdings, to create a Group-wide mechanism for environmental preservation activities.

The Environmental Committee is charged with oversight of the environmental activities of the core companies. Each core company ensures that environmental activities conform to legal requirements, reduce environmental load, and promote environmental awareness among employees at each core business unit. Through an environmental team of experts that acts as a secretariat, we also offer advice and support in environmental protection activities to each company in the Group.

ISO14001 environmental management certification has been obtained by the Shojaku Plant of Hankyu Corporation, the Amagasaki rail yard of Hanshin Electric Railway, the building administration division of Hankyu Hanshin Building Management operating Applause Tower, Hankyu Express International (the Narita Cargo Centre, and the Western Japan Logistics Centre administrative section), Amanohashidate Hotel, the Hotel New Hankyu Osaka, Hotel New Hankyu Annex, ITEC Hankyu Hanshin and other business units.

We have also obtained Green Management Certification from the Ministry of Land, Infrastructure, Transport and Tourism-affiliated Foundation for Promoting Personal Mobility and Ecological Transportation, for six depots of Hankyu Bus.

Major Initiatives by Group Companies

Japan's first carbon neutral station
Hankyu Corporation: Settsu-Shi Station

We are preparing to open the first carbon neutral station in Japan at Settsu-Shi on the Hankyu Kyoto Line, with opening scheduled for spring 2010. Solar panels and energy-saving amenities will be used to more than halve carbon dioxide emissions given off at the new station (54% reduction), with emission trading used to offset emissions that are difficult to reduce directly.

Environmental measures along Hanshin Namba Line
Hanshin Electric Railway, Nishi-Osaka Railway

The above-ground Nishikujo-Kujo section of the Hanshin Namba Line, opened on 20th March 2009, incorporates energy-saving systems and environment-friendly measures such as semi-shelter-type noise-abatement walling, use of ice storage air conditioning systems with low nocturnal electricity consumption and low CO_2 emissions as heat source in station air-conditioning, and illumination control systems which match platform lighting to train length.

Biodiesel buses
Hankyu Bus, Hankyu-Hanshin-Daiichi Hotel Group

Hankyu Bus operates buses that run entirely on biodiesel fuel manufactured from processed waste food oil from company staff canteens and selected hotels of the Hankyu-Hanshin-Daiichi Hotel Group. Use of vegetable oil means the biodiesel is a zero-waste fuel with no carbon dioxide emission into the environment, unlike fossil fuels. Nor does it emit another atmospheric pollutant, SOx (sulphur oxides), which is a cause of acid rain.

Environmental measures at Hankyu Nishinomiya Gardens
Hankyu Corporation, Hankyu Hanshin Building Management

We aim to reduce environmental load by introducing up to 9,000m^2 of rooftop greenery and solar and wind power generation facilities, with waste reduction achieved through a system of rigorous garbage measurement.

Financial Section

Contents

Six-Year Summary Six years in the period ended 31st March 2009

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2004	2005	2006	2007	2008	**2009**	**2009**
For the year:							
Revenues from operations	¥ 471,483	¥ 476,623	¥ 486,155	¥ 743,377	¥ 752,301	**¥ 683,715**	**$ 6,976,686**
Operating income	47,999	58,768	64,842	87,003	90,725	**77,824**	**794,122**
Income before income taxes and minority interests	855	36,042	43,217	65,306	26,098	**34,064**	**347,593**
Net income	3,102	26,079	25,326	36,619	628	**20,551**	**209,704**
Capital investments	24,363	27,489	52,091	53,795	134,307	**109,688**	**1,119,265**
Depreciation and amortisation	30,106	29,974	29,612	43,889	51,578	**54,799**	**559,169**
At year-end:							
Total assets	¥1,715,806	¥1,670,911	¥1,609,117	¥2,366,694	¥2,348,476	**¥2,307,332**	**$23,544,205**
Total net assets	247,840	277,393	360,222	522,286	476,639	**473,879**	**4,835,498**
Total net assets / total assets	14.44%	16.60%	22.39%	21.70%	19.87%	**20.07%**	
Per share data (in yen and dollars):							
Net income — basic	¥ 3.32	¥ 28.11	¥ 25.36	¥ 31.84	¥ 0.50	**¥ 16.28**	**$0.17**
Net income — diluted	3.28	27.70	25.22	—	0.41	**16.18**	**0.17**
Shareholders' equity	270.72	299.48	343.45	405.35	369.25	**366.96**	**3.74**
Common stock price range (in yen and dollars):							
High	¥386	¥460	¥886	¥817	¥719	**¥539**	**$5.50**
Low	296	362	365	502	400	**406**	**4.14**

Notes: 1. The U.S. dollar amounts have been translated from Japanese yen, for convenience only, at the rate of ¥98 = US$1.00.
2. Effective from the year ended 31st March 2007, the Company and its domestic consolidated subsidiaries have adopted the new accounting standard, the Accounting Standard for Presentation of Net Assets in the Balance Sheet (Statement No. 5 issued by the Accounting Standards Board of Japan on 9th December 2005) and the Implementation Guidance for the Accounting Standard for Presentation of Net Assets in the Balance Sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on 9th December 2005) (collectively, the "New Accounting Standards").
By adoption of the new accounting standard for presentation of equity, minority interests and net unrealised gains on hedging derivatives were included in total net assets for the year ended 31st March 2007 and will be thereafter.

Consolidated Financial Review

Business Performance

Revenues from Operations

Owing to the exclusion from the scope of consolidation of The Hanshin Department Store, Ltd. (now the Hankyu Hanshin Department Stores, Inc. under the holding company H_2O Retailing Corporation) and its four subsidiaries in October 2007, revenues from operations for the reporting period (the fiscal year ended March 2009) on a consolidated basis, declined 9.1% from the previous fiscal year to ¥683.7 billion (US$6,976.7 million).

In the Urban Transportation Segment, in our railway operations we conducted a special sales promotion campaign for the PiTaPa smart card settlement service and also marketed special Hankyu-Hanshin one-day train passes. This was part of wider collaboration efforts between the Group companies to generate greater use of our transportation services. On 20th March 2009, the Hanshin Namba Line was opened, enabling direct journeys between Hanshin Sannomiya Station in Kobe and Kintetsu Nara Station. Meanwhile, we started bus operations to take spectators from the Hanshin Koshien baseball stadium after the conclusion of night games to Hankyu Nishinomiya-Kitaguchi Station, and from March 2009, all bus cards issued by Group companies have been freely transferable among all the bus networks. These measures have greatly increased convenience for our customers. To address the increasingly important issue of global warming, we encouraged the increased use of public transport, which has a small carbon footprint, we launched publicity initiatives, such as running the Eco Train. As a result of the efforts described above, revenues from operations in the Urban Transportation Segment came to ¥195.2 billion (US$1,992.3 million), for a year-on-year increase of 0.2%.

In the Real Estate Segment, we recorded sales of condominiums — principally of the Geo condominium series — in areas served by our railway lines, while in the field of land subdivision we also recorded sales of plots at Minoh Onohara Residences (Minoh, Osaka Prefecture) and Takarazuka-Yamatedai Residences (Takarazuka, Hyogo Prefecture). In leasing operations, we opened the Hankyu Nishinomiya Gardens shopping centre in November. This project, which is the largest shopping centre in Western Japan, has been pursued through close collaboration by the entire Group and has got off to a smooth start despite the current weak consumer spending environment. In April 2008, we opened Akiba Tolim — a large-scale commercial facility in Akihabara, Tokyo — and we are continuing to maintain a high occupancy rate at our leased office buildings and commercial facilities while taking steps to keep down operating costs. Work is also being pursued energetically on other large-scale projects such as the rebuilding of the Umeda Hankyu Building, and the Osaka Station North Area (Umeda North Yard) development. However, given the rapid deterioration in the real estate market, the business environment during the reporting term was very difficult, particularly for our condominium and lot-subdivision operations. As a result, revenues from operations in the Real Estate Segment decreased by 4.5% to ¥171.7 billion (US$1,751.9 million).

Turning to the Entertainment and Communications Segment, in our sports operations the Hanshin Tigers baseball team remaining in the pennant race right up to the season's end had a positive impact on the Group's public image. Phase II renovation work on the Hanshin Koshien Stadium was completed in March 2009, and all spectator seating has been upgraded for customer comfort. In our stage revue operations, we enjoyed particularly positive critical acclaim for the *Tsukigumi* (Moon troupe) show *Me and My Girl* and the *Hoshigumi* (Star troupe) shows *My Dear New Orleans* and *A Bientôt*, and all these shows recorded strong ticket sales. In theatre operations, the Umeda Arts Theatre put on performances of a number of plays that were much talked about in theatrical circles, notably *Kurobe no Taiyo*, which is a stage adaptation of a movie. In the Group's cable television operations, our new land-line phone service Cable-Plus Phone, which allows users to make calls to certain mobile phones free of charge, proved very popular, and the number of subscribers grew steadily. We also succeeded in attracting an increased number of visitors to our facilities on Mt. Rokko. We conducted vigorous marketing activities promoting the Rokko-Maya Enjoy Pass, a ticket that lets customers use all Group facilities, and hosting the Mt. Rokko Ice Festival. As a result of our efforts, revenues from operations in the Entertainment and Communications Segment rose by 5.5% to ¥100.6 billion (US$1,026.1 million).

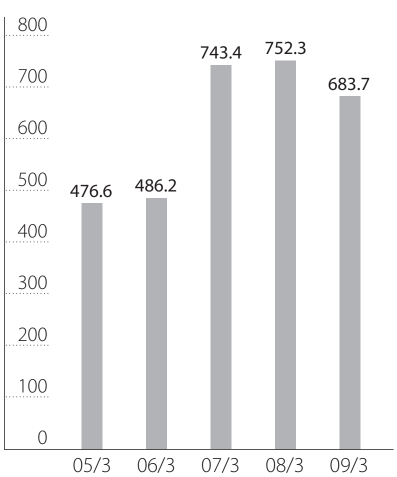
In the Travel and International Transportation Segment, declines were recorded in the number of passengers on long-haul routes such as to European destinations. This was mainly due to higher airline ticket prices as a result of rising fuel surcharges stemming from the high cost of oil, as well as the depressive impact on spending of the global economic downturn. In travel operations to China too, the number of passengers was down as a result of the food safety scandals and the aftereffects of the Sichuan Earthquake. In domestic travel operations, demand stayed firm for day-trip bus tours. In international transportation operations, the rapid deterioration in the business environment from the autumn of 2008 caused a sharp drop in air cargo both into and out of Japan. On the other hand, imports by sea held firm at the previous year's level, benefiting from a shift away from air transport. As in the case of air transportation, however, seagoing cargo exports suffered from the impact of the business downturn, and the situation was very difficult for transportation operations as a whole. To raise the competitiveness of both the Group's travel and international transportation operations, we transferred these operations to the newly-established intermediate holding company Hankyu Hanshin Express Holdings Corporation on 1st April 2008. As a result, the business results of certain subsidiaries that had been included in the Travel and International Transportation Segment up until fiscal 2008 have been recorded under "Other Operations" from the first quarter of fiscal 2009. As a result of this change, revenues from operations in the Travel and International Transportation Segment recorded a year-on-year decline of 30.3% to ¥65.8 billion (US$671.5 million).

In the Hotels Segment, in April we opened the REMM Akihabara, a new-format hotel incorporating the theme of a good night's sleep. We also embarked on a program of renovation and upgrading of guest rooms and other facilities at our existing hotels to improve competitiveness. We also conducted a number of aggressive sales campaigns, including one under the slogan of returning some of the benefits of the strong yen to our customers. Despite all these efforts, however, demand remained weak amid the business downturn, particularly in the Kinki region (centered in Osaka). In October, we unveiled a new corporate logo for Hankyu Hanshin Hotels Co., Ltd. and a Group logo for the Hankyu-Hanshin-Daiichi Hotel Group to help raise the brand recognition of our hotel group. As a result of our activities, we were able to limit the decline in revenues from operations in the Hotels Segment to only 4.0%, at ¥66.5 billion (US$678.1 million).

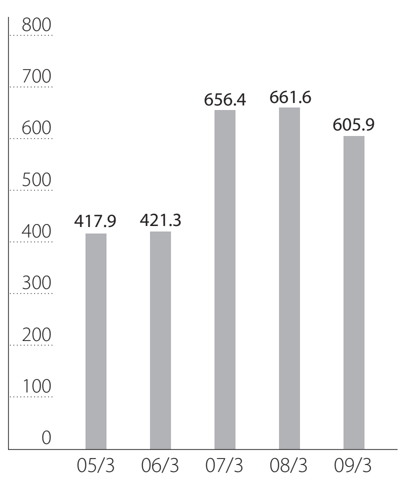
In the Retailing Segment, a branch of the Book 1st bookshop chain and the Seijo-Ishii high-end food supermarket were opened in the Hankyu Nishinomiya Gardens shopping centre. A Book 1st store was also opened in the Shinjuku, Tokyo district to serve as the flagship store for the whole Tokyo area, and renovation work was undertaken on the cosmetics and accessories outlet COLOR FiELD as well as the café-bakery FREDS CAFE, among other retail outlets. These projects were undertaken to raise the competitiveness of our existing retail chains. To integrate the operations of the convenience store chains whose stores are located in areas served by the Hankyu and Hanshin railway lines, i.e. asnas and An 3, we have taken steps to further collaboration between the two in procurement and product delivery for improved operational efficiency. In our restaurant and takeout meals businesses, too, we continued to expand the scale of business through the opening of new outlets. Despite all our efforts, however, owing to the exclusion from the scope of consolidation of The Hanshin Department Store, Ltd. and its four subsidiaries in October 2007, revenues from operations in the Retailing Segment came to ¥67.6 billion (US$689.6 million) for a sharp year-on-year decline of 44.0%.

In the Other Segment, the business results of certain subsidiaries that had up until fiscal 2008 been included in the Travel and International Transportation Segment were recorded

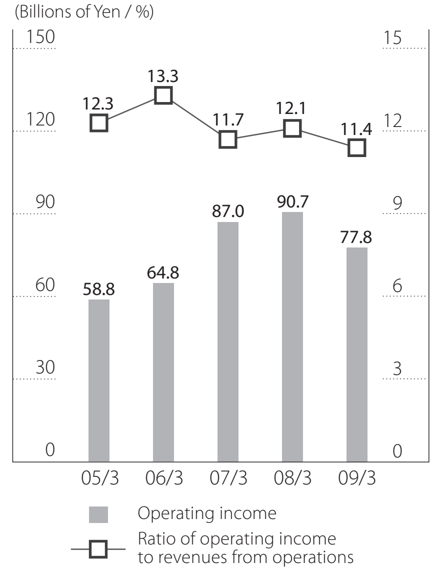
Revenues from Operations
(Billions of Yen)



Costs of Revenues from Operations
(Billions of Yen)



Operating Income and Ratio of Operating Income to Revenues from Operations
(Billions of Yen / %)



under "Other Operations" from the first quarter of fiscal 2009, as mentioned above. As a result, revenues from operations in the Other Segment rose by 35.1% to ¥60.5 billion (US$617.7 million).

Note: Profits and losses posted by H_2O Retailing are accounted for using the equity method.

Operating Income

Operating income for the term under review decreased by 14.2% year-on-year to ¥77.8 billion (US$794.1 million), due to the posting of valuation losses on land for lot-subdivision, and subdivision buildings to which the lower of cost or realizable value method was applied as a result of the weakened real estate market. A breakdown for each segment is provided below.

In the Urban Transportation Segment, although operating revenue increased, operating income declined by 2.0% to ¥32.5 billion (US$331.5 million) after recording advance investment expenses for the opening of the Hanshin-Namba Line.

In the Real Estate Segment, the application of the lower of cost or market method to land for lot-subdivision and subdivision buildings led to the recording a valuation loss and a decrease in operating income by 17.0% to ¥32.8 billion (US$334.9 million).

In the Entertainment and Communications Segment, operating revenue rose, but operating income declined by 1.9% to ¥8.4 billion (US$85.6 million), partly due to a rise in depreciation expenses attendant on the completion of Phases I and II of the Hanshin Koshien Stadium renovation work.

In the Travel and International Transportation Segment, both the Group's travel operations and international transportation operations faced difficult business conditions, and operating income dropped sharply by 54.7% to ¥1.5 billion (US$14.8 million).

In the Hotels Segment, the business downturn caused operating income to plunge by 74.7% to ¥0.3 billion (US$3.5 million).

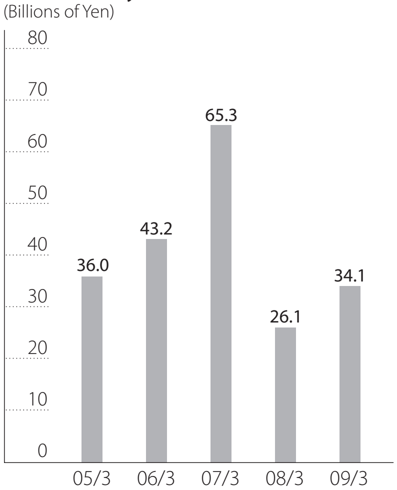
In the Retailing Segment, operating income was down sharply, by 74.4% to ¥0.7 billion (US$7.1 million), owing to the exclusion of Hanshin Department Store, Ltd. and its four consolidated subsidiaries from the scope of consolidation from the third quarter of fiscal 2008.

In the Other Segment, operating income fell by 36.9%, to ¥0.6 billion (US$5.8 million) owing to an increase in loan-loss write-offs and repayment of interest at Station Finance Inc., which was excluded from the scope of consolidation following the sale of shares on 27th February 2009.

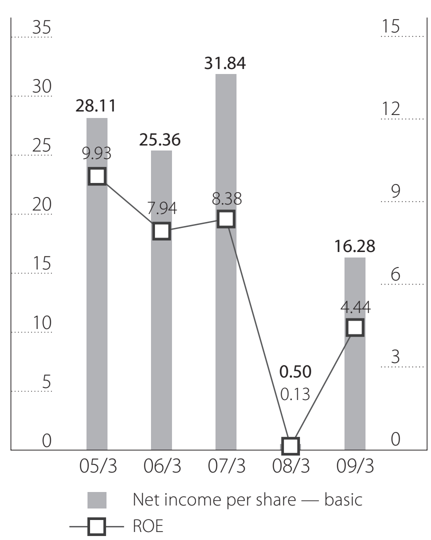
Other Income and Expenses

After deduction of other income from other expenses for the reporting period, net other expenses decreased to ¥43.8 billion (US$446.5 million). This was due to the fact that a substantial loss on valuation of land for sale under the Saito development project recorded in the previous period was larger than a decline in gains on equity-method investments and business withdrawal expenses involved in the sell-of Station Finance Inc. recorded in the period under review.

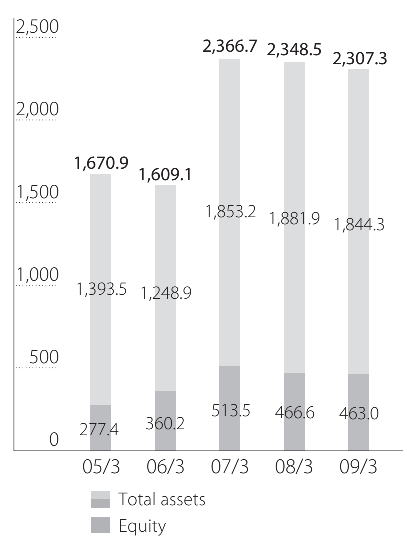
Income before Income Taxes and Minority Interests
(Billions of Yen)



Net Income per Share — Basic and ROE
(Yen / %)



Total Assets and Equity
(Billions of Yen)



As a result, income before income taxes and minority interests came to ¥34.1 billion (US$347.6 million), while net income (adjusted to minority interests) posted an improvement to ¥20.6 billion (US$209.7 million).

Financial Position

1. Equity

Equity defined as net assets after deduction of minority interests at the reporting term-end totalled ¥463.0 billion (US$4,724.2 million), for a decline of ¥3.6 billion from the previous term-end. Although retained earnings increased, there was also a major increase in net unrealized losses on securities holdings as a result of the across-the-board weakness in stock prices.

The Hankyu Hanshin Group uses ROE (return on equity) on a consolidated basis as an indicator of capital efficiency. Its goal is to achieve an ROE of at least 6.0% by the term ending March 2013. ROE for the reporting term stood at 4.4% on a consolidated basis.

2. Fund Procurement

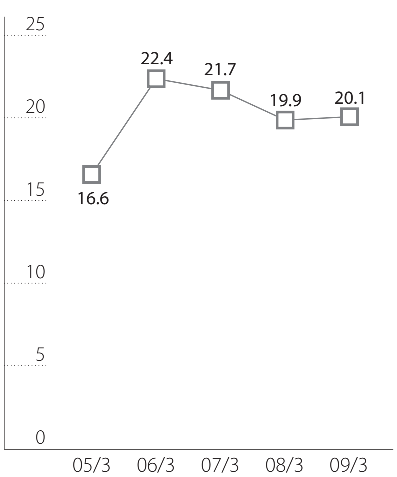
Despite capital investment conducted by the Group during the reporting term, notably for the Hankyu Nishinomiya Gardens development project, the majority of these funds were financed by net cash provided by operating activities. As a result, interest-bearing debt at the reporting term-end stood at ¥1,275.6 billion (US$13,016.5 million), for a small year-on-year increase of ¥4.5 billion. In line with a change in accounting standards, the balance of interest-bearing debt on a consolidated basis included lease obligations as of the end of the reporting term.

The Hankyu Hanshin Group uses the ratio of interest-bearing debt to EBITDA (earnings before interest, taxes, depreciation and amortization) on a consolidated basis as an indicator of financial soundness. The Group's goal is to lower this ratio to 7.0 by the term ending March 2013. The ratio stood at 9.4 for the term under review.

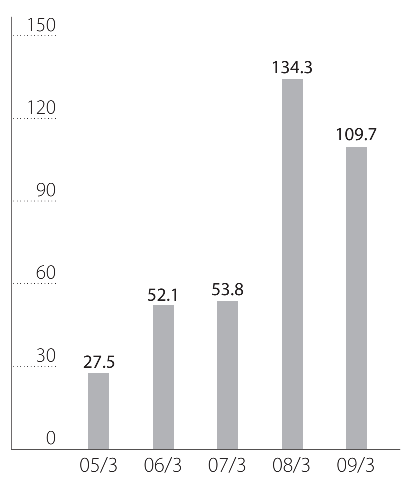
3. Cash Flows

Cash and cash equivalents at the reporting term-end declined by ¥0.5 billion from the previous term-end to ¥30.7 billion (US$313.2 million). This was the result of progress made in pressing forward with large-scale projects and by utilizing funds provided by operating activities and financing activities. Net cash provided by operating activities came to ¥108.6 billion (US$1,108.1 million), net cash used in investing activities came to ¥115.0 billion (US$1,174.0 million), and net cash provided by financing activities came to ¥7.0 billion (US$71.6 million).

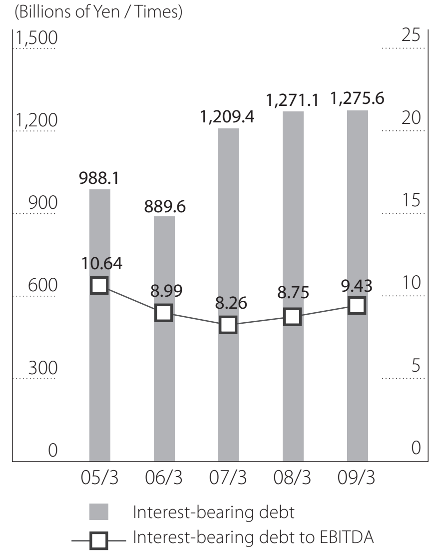
Equity Ratio
(%)



Capital Investments
(Billions of Yen)



Interest-Bearing Debt and Ratio to EBITDA
(Billions of Yen / Times)



Note: EBITDA = operating income + depreciation and amortisation expenses + amortisation of goodwill attendant on the management integration of Hankyu and Hanshin

Business Risks

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

Legal risk

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

Progress in large-scale development projects

The Group is working to utilise its working assets more effectively to facilitate the development of areas served by the Hankyu and Hanshin railway lines. To raise its asset effectiveness, the Group is pursuing the following initiatives: reconstruction of the Umeda Hankyu Building; development of the Chayamachi area of the Umeda district; further development of the International Culture Park "Saito" (a new town). These projects are all believed to be key to the Group's future growth, and the Group's management will be working to complete these development projects as soon as possible. However, in the event of rapid and major changes in the business environment, such as in land prices or changes in urban development plans, the business performance and financial position of the Group could be adversely affected.

At the previous term-end, in line with a reappraisal by the Urban Renaissance Agency of the profitability of the Saito development project, Land in light of deepening uncertainties about the pace and profitability of future development at Saito, we adopted a conservative estimate of the market value of land helds by Hankyu Corporation, a consolidated subsidiary for sale in the Saito area.

Interest-bearing debt

The balance of interest-bearing debt held by the Group as of the end of March 2009, on a consolidated basis, was ¥1,275,620 million.

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

Transfer of equity-method affiliate

In order to ensure greater convenience for users of the Hokushin Kyuko Railway Co., Ltd., a consolidated subsidiary of Hankyu Corporation has agreed to a plan transferring railway facilities held by Hokushin Kyuko Railway to Kobe Rapid Transit Railway Co., Ltd. (a consolidated subsidiary effective from the current term ending March 2010).

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

In September 2007, our equity method affiliate, Kobe Electric Railway Co., Ltd., temporarily suspended support for the rehabilitation of Hokushin Kyuko Railway Co., Ltd. To maintain 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 second-tier 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 valuation losses or impairment losses will likely have a negative impact on the earnings performance and financial position of the Hankyu Hanshin Holdings Group.

Consolidated Balance Sheets As of 31st March 2008 and 2009

Assets	Millions of yen 2008	Millions of yen 2009	Thousands of U.S. dollars (Note 1) 2009
Current assets (Note 5):			
Cash and cash equivalents (Note 18)	¥ 33,073	¥ 31,974	$ 326,263
Trade receivables	102,651	95,703	976,566
Short-term loans	46,929	—	—
Allowance for doubtful receivables	(7,666)	(2,765)	(28,218)
Inventories (Note 4)	146,089	152,523	1,556,355
Deferred tax assets (Note 16)	16,182	16,064	163,916
Prepaid expenses and other current assets	40,280	43,816	447,111
Total current assets	377,538	337,315	3,441,993
Investments and other assets (Note 5):			
Investments in:			
Nonconsolidated subsidiaries and affiliates	158,141	155,240	1,584,077
Other securities	108,622	84,328	860,489
Long-term loans	25,336	24,867	253,741
Deferred tax assets (Note 16)	5,207	5,293	54,014
Other investments	60,152	59,285	604,946
Allowance for doubtful receivables	(6,153)	(7,314)	(74,630)
Total investments and other assets	351,305	321,699	3,282,637
Property and equipment (Note 5):			
Land (Note 2(j))	812,870	819,898	8,366,311
Buildings and structures	1,110,483	1,149,225	11,726,786
Rolling stock and buses	212,460	219,878	2,243,651
Machinery and equipment	126,862	133,030	1,357,452
Construction in progress	132,915	131,667	1,343,535
	2,395,590	2,453,698	25,037,735
Less accumulated depreciation	(842,011)	(870,319)	(8,880,802)
Property and equipment — net	1,553,579	1,583,379	16,156,933
Intangible assets (Note 5)	66,054	64,939	662,642
	¥2,348,476	¥2,307,332	$23,544,205

See the accompanying notes to the consolidated financial statements.

Liabilities and Net Assets	Millions of yen 2008	Millions of yen 2009	Thousands of U.S. dollars (Note 1) 2009
Current liabilities:			
Short-term borrowings (Note 5)	¥ 202,241	¥ 210,073	$ 2,143,604
Current portion of long-term debt (Note 5)	139,102	76,833	784,013
Trade payables	126,137	111,220	1,134,895
Accrued expenses	22,956	22,739	232,030
Income taxes payable	6,891	3,489	35,606
Advances received	56,506	51,201	522,460
Employees' savings deposits	12,595	12,826	130,877
Provision for restructuring costs (Note 2(g))	201	—	—
Other current liabilities (Note 16)	29,887	25,275	257,909
Total current liabilities	596,516	513,656	5,241,394
Long-term liabilities:			
Long-term debt due after one year (Note 5)	929,757	986,718	10,068,550
Deferred tax liabilities related to land revaluation	7,007	6,862	70,018
Employees' severance and retirement benefits (Note 6)	59,153	57,067	582,319
Retirement benefits for directors and corporate auditors	705	701	7,150
Reserve for investment losses	17,935	6,499	66,313
Negative goodwill	681	—	—
Deposits from tenants (Note 7)	103,487	107,120	1,093,057
Other noncurrent liabilities (Notes 8 and 16)	156,596	154,830	1,579,906
Total long-term liabilities	1,275,321	1,319,797	13,467,313
Contingent liabilities (Note 9)			
Net assets (Note 10):			
Shareholders' equity:			
Common stock			
Authorised — 3,200,000 thousand shares			
Issued — 1,271,407 thousand shares	99,475	99,475	1,015,050
Capital surplus	150,134	150,134	1,531,983
Retained earnings	211,758	227,338	2,319,776
Less treasury stock, at cost: 7,857,884 shares in 2008 and 9,761,510 shares in 2009	(3,267)	(4,143)	(42,281)
Total shareholders' equity	458,100	472,804	4,824,528
Accumulated gains from revaluation and translation adjustments:			
Net unrealised holding gains on securities	6,621	(9,253)	(94,419)
Net unrealised gains on hedging derivatives	(557)	(682)	(6,958)
Surplus from land revaluation (Note 2(j))	2,193	1,979	20,187
Foreign currency translation adjustments	212	(1,875)	(19,130)
Total accumulated gains from revaluation and translation	8,469	(9,831)	(100,320)
Minority interests	10,070	10,906	111,290
Total net assets	476,639	473,879	4,835,498
	¥2,348,476	¥2,307,332	$23,544,205

Consolidated Statements of Income Years ended 31st March 2007, 2008 and 2009

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2008	2009	2009
Revenues from operations	¥743,377	¥752,301	¥683,715	$6,976,686
Costs of revenues from operations	656,374	661,576	605,891	6,182,564
Operating income	87,003	90,725	77,824	794,122
Other income (expenses):				
Interest and dividend income	2,733	2,278	2,056	20,977
Interest expense	(19,726)	(23,498)	(23,703)	(241,868)
Amortisation of negative goodwill	1,517	1,048	739	7,546
Gain on sale of securities	780	1,975	785	8,014
Equity in income of affiliates	3,675	3,748	887	9,046
Gain (loss) on disposal of property and equipment — net (Note 2(i))	7,275	6,381	(10,781)	(110,005)
Special allowance for doubtful receivables	(763)	(1,012)	(458)	(4,669)
Special reserve for investment losses	(2,766)	—	(1,644)	(16,778)
Loss on financial support to subsidiaries and affiliates	(3,930)	—	—	—
Gain on contributions for construction works — net (Note 2(i))	2,680	1,463	7,044	71,874
Loss from disposal of real estate for sale	(3,399)	(717)	—	—
Loss on valuation of real estate for sale	(2,321)	(69,133)	—	—
Write-down of inventories	—	—	(1,000)	(10,207)
Restructuring costs (Note 2(g))	—	—	(18,431)	(188,074)
Loss on impairment of fixed assets (Note 11)	(869)	(8,796)	(3,448)	(35,182)
Contribution to construction of Osaka Monorail Saito Line	(4,346)	—	—	—
Gain on transfer of professional baseball player to U.S. major leagues	3,091	—	—	—
Provision for accruing interest on past consumer loans	(1,992)	—	—	—
Income from investments in silent partnerships	0	16,908	8,531	87,052
Gain on change in equity	—	9,956	—	—
Other — net (Note 11)	(3,336)	(5,228)	(4,337)	(44,255)
	(21,697)	(64,627)	(43,760)	(446,529)
Income before income taxes and minority interests	65,306	26,098	34,064	347,593
Income taxes (Note 16)**:**				
Current	9,314	9,631	6,814	69,535
Deferred	17,874	15,196	6,071	61,944
Income before minority interests	38,118	1,271	21,179	216,114
Minority interests in income of consolidated subsidiaries	(1,499)	(643)	(628)	(6,410)
Net income	¥ 36,619	¥ 628	¥ 20,551	$ 209,704
	Yen			U.S. dollars (Note 1)
Net income per share — basic (Note 2(t))	¥31.84	¥0.50	¥16.28	$0.17
Net income per share — diluted (Note 2(t))	—	0.41	16.18	0.17
Dividends per share of common stock (Note 2(u))	5.00	5.00	5.00	0.05

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Net Assets Years ended 31st March 2007, 2008 and 2009

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2008	2009	2009
Common stock:				
Balance at beginning of year	¥ 97,545	¥ 99,475	¥ 99,475	$1,015,050
Changes for the period:				
Issuance of new shares (Note 10)	1,930	—	—	—
Balance at end of year	¥ 99,475	¥ 99,475	¥ 99,475	$1,015,050
Capital surplus:				
Balance at beginning of year	¥ 24,985	¥150,062	¥150,134	$1,531,983
Changes for the period:				
Issuance of new shares (Note 10)	125,097	—	—	—
Disposal of treasury stock	(20)	72	—	—
Balance at end of year	¥150,062	¥150,134	¥150,134	$1,531,983
Retained earnings:				
Balance at beginning of year	¥196,412	¥228,570	¥211,758	$2,160,797
Changes for the period:				
Net income	36,619	628	20,551	209,704
Change in scope of consolidation	788	(11,063)	1,156	11,794
Reversal of revaluation reserve for land	(1)	(24)	213	2,171
Dividends from surplus	(5,248)	(6,353)	(6,340)	(64,690)
Balance at end of year	¥228,570	¥211,758	¥227,338	$2,319,776
Less treasury stock, at cost:				
Balance at beginning of year	¥ 331	¥ 2,301	¥ 3,267	$ 33,337
Changes for the period:				
Net changes	1,970	966	876	8,944
Balance at end of year	¥ 2,301	¥ 3,267	¥ 4,143	$ 42,281
Net unrealised holding gains on securities:				
Balance at beginning of year	¥ 38,817	¥ 34,583	¥ 6,621	$ 67,561
Changes for the period:				
Net changes in items other than shareholders' equity	(4,234)	(27,962)	(15,874)	(161,980)
Balance at end of year	¥ 34,583	¥ 6,621	¥ (9,253)	$ (94,419)
Net unrealised gains on hedging derivatives:				
Balance at beginning of year	¥ —	¥ 204	¥ (557)	$ (5,687)
Changes for the period:				
Net changes in items other than shareholders' equity	204	(761)	(125)	(1,271)
Balance at end of year	¥ 204	¥ (557)	¥ (682)	$ (6,958)
Surplus from land revaluation:				
Balance at beginning of year	¥ 2,604	¥ 2,604	¥ 2,193	$ 22,375
Changes for the period:				
Net changes in items other than shareholders' equity	—	(411)	(214)	(2,188)
Balance at end of year	¥ 2,604	¥ 2,193	¥ 1,979	$ 20,187
Foreign currency translation adjustments:				
Balance at beginning of year	¥ 190	¥ 333	¥ 212	$ 2,167
Changes for the period:				
Net changes in items other than shareholders' equity	143	(121)	(2,087)	(21,297)
Balance at end of year	¥ 333	¥ 212	¥ (1,875)	$ (19,130)
Minority interests:				
Balance at beginning of year	¥ 2,328	¥ 8,756	¥ 10,070	$ 102,754
Changes for the period:				
Net changes in items other than shareholders' equity	6,428	1,314	836	8,536
Balance at end of year	¥ 8,756	¥ 10,070	¥ 10,906	$ 111,290

	Number of shares of common stock issued		
	2007	2008	2009
Balance at beginning of year	1,049,538,126	1,271,406,928	1,271,406,928
Issue of new shares	214,209,324	—	—
Stock issued on share exchange	7,659,478	—	—
Balance at end of year	1,271,406,928	1,271,406,928	1,271,406,928

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows Years ended 31st March 2007, 2008 and 2009

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2008	2009	2009
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 65,306	¥ 26,098	¥ 34,064	$ 347,593
Depreciation and amortisation	43,889	51,578	54,799	559,169
Loss on impairment of fixed assets	869	8,797	3,448	35,182
Amortisation of goodwill and negative goodwill	719	1,849	1,938	19,772
Equity in income of affiliates	(3,675)	(3,748)	(887)	(9,047)
Decrease in employees' severance and retirement benefits	(2,201)	(1,817)	(1,185)	(12,090)
Increase (decrease) in allowance for doubtful receivables	(3,992)	729	750	7,648
Increase (decrease) in reserve for investment losses	4,228	(1,116)	—	—
Restructuring costs (Note 2(g))	—	—	18,431	188,074
Interest and dividend income	(2,733)	(2,278)	(2,056)	(20,977)
Interest expense	19,726	23,498	23,703	241,868
Gain on sale of property and equipment	(12,592)	(10,489)	—	—
Loss on sale of property and equipment	866	391	—	—
Gain and loss on sale of property and equipment, net	—	—	(120)	(1,221)
Loss on disposal of property and equipment	2,189	1,720	3,973	40,539
Loss on deduction of property and equipment	2,262	1,997	6,927	70,687
Gain on sale of securities	(2,948)	(1,975)	—	—
Loss on sale of marketable and investment securities	1,882	—	—	—
Gain and loss on sale of marketable and investment securities	—	—	(773)	(7,885)
Gain on change in equity by management integration (Note 12)	—	(9,956)	—	—
Gain on contributions for construction works	(2,312)	(806)	(7,044)	(71,874)
Income from investments in silent partnerships	—	(16,908)	(8,531)	(87,052)
(Increase) decrease in trade receivables	(25,612)	(1,731)	22,207	226,601
(Increase) decrease in inventories	850	(15,013)	644	6,570
Loss on valuation of real estate for sale	2,321	69,133	—	—
(Increase) decrease in trade payables	17,566	(4,612)	(7,423)	(75,748)
Increase (decrease) in other current liabilities	—	—	(11,376)	(116,084)
Other	(3,831)	(5,392)	2,528	25,793
Subtotal	102,777	109,949	134,017	1,367,518
Interest and dividends received	3,698	3,141	3,008	30,696
Interest paid	(20,161)	(23,135)	(23,328)	(238,042)
Income taxes paid	(7,332)	(15,053)	(4,908)	(50,080)
Extra retirement payment	—	—	(191)	(1,950)
Net cash provided by operating activities	78,982	74,902	108,598	1,108,142
Cash flows from investing activities:				
Purchases of property and equipment	(53,356)	(133,994)	(120,346)	(1,228,023)
Proceeds from sale of property and equipment	46,248	27,848	1,066	10,882
Purchases of investment securities	(7,595)	(5,674)	(8,340)	(85,106)
Proceeds from sale of investment securities	22,554	4,232	1,940	19,797
Purchases of investments in consolidated subsidiaries affecting scope of consolidation	(210,380)	(528)	—	—
Proceeds from sale of investments in consolidated subsidiaries affecting scope of consolidation	563	—	(1,778)	(18,140)
Net increase in short-term loans receivable	(5,351)	(7,202)	(2,464)	(25,140)
Long-term loans advanced	(874)	(10,948)	(11,900)	(121,433)
Proceeds from collection of long-term loans	6,322	1,008	5,615	57,292
Receipt of contributions for construction works	5,542	3,101	12,900	131,632
Receipt of repayment of investments in silent partnerships	—	19,562	9,181	93,685
Other	(3,252)	2,537	(922)	(9,402)
Net cash used in investing activities	(199,579)	(100,058)	(115,048)	(1,173,956)
Cash flows from financing activities:				
Net increase in short-term borrowings	35,362	45,706	12,982	132,471
Proceeds from long-term borrowings	241,463	140,920	118,524	1,209,427
Repayment of long-term debt	(82,991)	(117,043)	(111,979)	(1,142,648)
Proceeds from new bonds issued	—	39,794	19,910	203,158
Redemption of bonds	(49,900)	(66,000)	(25,200)	(257,143)
Net decrease in commercial paper	(7,000)	—	—	—
Dividends paid	(5,248)	(6,353)	(6,340)	(64,690)
Dividends paid to minority shareholders of consolidated subsidiaries	(74)	(235)	(267)	(2,725)
Other	678	(71)	(615)	(6,273)
Net cash provided by financing activities	132,290	36,718	7,015	71,577
Effect of exchange rate changes on cash and cash equivalents	99	(159)	(2,740)	(27,956)
Increase (decrease) in cash and cash equivalents	11,792	11,403	(2,175)	(22,193)
Cash and cash equivalents at beginning of year	28,375	40,167	31,167	318,029
Increase in cash and cash equivalents from newly consolidated subsidiaries	—	842	1,693	17,273
Decrease in cash and cash equivalents due to exclusion of subsidiaries from consolidation	—	(21,245)	—	—
Increase in cash and cash equivalents resulting from merger with nonconsolidated subsidiary	—	—	5	58
Cash and cash equivalents at end of year (Note 18)	¥ 40,167	¥ 31,167	¥ 30,690	$ 313,167

See the accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Basis of presenting consolidated financial statements

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

Until the fiscal period ended 31st March 2008, the accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accounts of overseas consolidated subsidiaries for the year ended 31st March 2009 are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for six specified items as applicable.

The accompanying consolidated financial statements have been restructured and translated into English, with some expanded descriptions, from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at 31st March 2009, which was ¥98 to $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

(a) Consolidation

The consolidated financial statements include the accounts of the Company and significant subsidiaries (together, the "Group" or "Companies") that meet the control requirements for consolidation. The consolidated financial statements comprise the accounts of 96, 94 and 98 subsidiaries for each of the three years in the period ended 31st March 2009.

The Company has adopted the equity method of accounting for investments in which the Company owns 20-50% or exerts influence over financial and operational policies 11, 7 and 8 significant affiliates, respectively for the three years in the period ended 31st March 2009.

All significant intercompany transactions and accounts have been eliminated.

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

The difference between the cost of investments in subsidiaries and affiliates and the equity in their net assets at the date of acquisition is amortised over five years. The difference derived from the management integration with Hanshin Electric Railway Co., Ltd. and H_2O Retailing Corporation is, amortised in equal amounts over twenty years.

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

(b) Securities

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

Held-to-maturity debt securities are stated at amortised cost, net of the amount considered not collectible. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities are stated as explained below.

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

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

(c) Allowance for doubtful receivables

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

(d) Inventories

Inventories are stated at cost, which is determined by the identified cost method for real estate for sale and principally by the moving average method for other inventories. The Company and its domestic consolidated subsidiaries have adopted the new accounting standard, "Accounting Standard for Valuation of Inventories "(Statement No. 9 issued by the Accounting Standards Board of Japan on 5th July 2006) requiring the write-down of inventories at the time of decline in future profitability.

By the adoption of this rule, operating income and income before income taxes and minority interests for the year ended 31st March 2009 decreased ¥3,857 million ($39,354 thousand) and ¥4,857 million ($49,561 thousand), respectively, from the amounts that would have been recorded without the adoption.

(e) Derivatives and hedge accounting

The Companies state derivative financial instruments at fair value and recognise changes in the fair value as gain or loss unless the derivative financial instruments was used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gain or loss resulting from a change in the fair value of the derivative financial instruments until the related loss or gain on the hedged item is recognised.

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

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
   (a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognised in the statement of income in the period which includes the inception date, and
   (b) the discount or premium on the contract (the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognised over the term of the contract.
2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, gain or loss on the future transaction due to market fluctuation will be deferred as assets or liabilities using the market value estimated by the financial institution at the balance-sheet date, and no gain or loss on the forward foreign exchange contract will be recognised.

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

(f) Reserve for investment losses

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

(g) Provision for restructuring costs and recorded restructuring costs

Provision for restructuring costs is stated as of 31st March 2008 at the estimated loss from the reconstruction of Nishinomiya Stadium.

Restructuring costs relating to the exclusion of Station Finance Inc. from the scope of consolidation consist of a loss of ¥538 million ($5,487 thousand) from the sale of the shares of the Company held by Hankyu Corporation and a loss of ¥17,893 million ($182,587 thousand) from the sale of receivables on financing to third parties.

(h) Property and equipment

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

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

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

The Company changed the depreciation method for property and equipment due to the revision of Japanese Corporation Tax Law and its regulation on 31st March 2008.

1. The depreciation method for property and equipment acquired after 31st March 2007 changed to a method based on the Japanese Corporation Tax Law after the revision. By the change, operating income and income before income taxes and minority interests were ¥573 million less for the year ended

31st March 2008 than they would have been with the previous method.

2. Property and equipment acquired before 1st April 2007 were allowed, after depreciating to 95% of their acquisition cost, to be equally depreciated to memorandum value over five years. By the change, operating income and income before income taxes and minority interests were ¥2,397 million less for the year ended 31st March 2008 than they would have been with the previous method.

(i) Contributions for construction works

Effective from the year ended 31st March 2007, Hankyu Corporation, a consolidated subsidiary of the Company, changed the method of accounting for contributions for construction works under which all assets acquired using the contributions are now stated in property and equipment at acquisition cost after deducting the amounts corresponding to the contributions. The subsidiary changed methods in order to unify accounting policy across the Group following the management integration with Hanshin Electric Railway Co. Ltd. and to recognize the purpose of contributions for construction works, which is that a local authority grants property acquisition funds to serve the public interests and urban planning, etc., but a railroad enterprise constructs railroad facilities and acquires property.

Accumulated amounts of the deductions were ¥323,546 million, ¥324,260 million and ¥330,683 million ($3,374,317 thousand) at 31st March 2007, 2008 and 2009, respectively.

(j) Land revaluation

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

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

The method of land revaluation

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

The excess of book values after revaluation over fair values at 31st March 2008 and 2009 were ¥5,892 million and ¥5,043 million ($51,454 thousand), respectively.

(k) Impairment accounting

The Company adopted the accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on 9th August 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on 31st October 2003). The accumulated impairment loss was deducted from the cost of each fixed asset.

(l) Statements of changes in net assets

The Company and its domestic consolidated subsidiaries have adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on 27th December 2005) and "Implementation Guidance for the Accounting Standard for Statement of Changes in Net Assets" (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on 27th December 2005).

(m) Software cost

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

(n) Employees' severance and retirement benefits

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

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

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

(o) Translation of foreign currencies

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

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

(p) Finance leases

Until the fiscal period ended 31st March 2008, finance leases which did not transfer ownership were accounted for in the same manner as operating leases in accordance with Japanese GAAP, except for those of some overseas consolidated subsidiaries which were capitalised. Effective from the year ended 31st March 2009, the Company and its domestic consolidated subsidiaries have adopted the new accounting standards, the Accounting Standard for Lease Transactions (Statement No. 13 issued by the Accounting Standards Board of Japan on 30th March 2007 and the Financial Accounting Standard Implementation Guidance No. 16 issued by the Accounting Standards Board of Japan on 30th March 2007). Effective from the year ended 31st March 2009, the Company and its domestic consolidated subsidiaries adopted the new accounting standards for finance leases commencing after 31st March 2008 and capitalised assets under such leases, except for certain immaterial or short-term finance leases, which are accounted for as operating leases. As permitted, finance leases which commenced prior to 1st April 2008 and have been accounted for as operating leases, continue to be accounted for as operating leases, with the disclosure of certain "as if capitalised" information. The new standard requires the recording of capital leases as a ordinary buying and selling transactions.

The adoption of this rule had little and no total assets was income, respectively.

(q) Bond and new share issue costs

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

(r) Income taxes

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

(s) Cash flow statements

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

(t) Net income per share

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

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

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

(u) Dividends per share

In accordance with the Japanese Corporate Law, declarations of dividends and appropriations of retained earnings are approved at the general meeting of shareholders held after the end of the fiscal year. Therefore, cash dividends per share shown in the consolidated statements of income reflect the final dividends approved after the end of the relevant fiscal year.

(v) Business combinations and business separation

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

(w) Related parties

Effective from the year ended 31st March 2009, the Company and its domestic consolidated subsidiaries have adopted the new accounting standards, the Accounting Standard for disclosure of related parties (Statement No. 11 issued by the Accounting Standards Board of Japan on 17th October 2006 and the Financial Accounting Standard Implementation Guidance No. 13 issued by the Accounting Standards Board of Japan on 17th October 2006). The new standards require additional reporting of the transactions with consolidated subsidiaries of related parties.

3. Securities

There was no balance of held-to-maturity debt securities as of 31st March 2008 or 2009.

The following tables summarise acquisition costs and book values (fair values) of available-for-sale securities with available fair market values as of 31st March 2008 and 2009:

Securities with book value exceeding acquisition cost:

	Millions of yen						Thousands of U.S. dollars		
	2008			2009			2009		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥12,639	¥36,398	¥23,759	¥11,486	¥24,250	¥12,764	$117,203	$247,445	$130,242
Bonds	45	46	1	64	65	1	649	664	15
Other	47	49	2	47	47	0	482	485	3
Total	¥12,731	¥36,493	¥23,762	¥11,597	¥24,362	¥12,765	$118,334	$248,594	$130,260

Securities with book value not exceeding acquisition cost:

	Millions of yen						Thousands of U.S. dollars		
	2008			2009			2009		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥48,844	¥35,178	¥(13,666)	¥48,371	¥25,748	¥(22,623)	$493,581	$262,731	$(230,850)
Bonds	28	28	(0)	2	2	(0)	20	20	(0)
Other	2	2	(0)	2	2	(0)	21	21	(0)
Total	¥48,874	¥35,208	¥(13,666)	¥48,375	¥25,752	¥(22,623)	$493,622	$262,772	$(230,850)

The following table summarises the book values of securities with no available fair values as of 31st March 2008 and 2009:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Held-to-maturity debt securities:			
Discount bank debentures	¥ 5	¥ 5	$ 51
Available-for-sale securities:			
Non-listed equity securities	¥ 4,118	¥ 4,827	$ 49,256
Investments in limited liability investment partnerships and similar investments	¥13,928	¥11,149	$113,764
Negotiable certificates of deposit	¥18,885	¥18,248	$186,205

Sales of available-for-sale securities during the years ended 31st March 2007, 2008 and 2009 amounted to ¥21,101 million, ¥1,988 million and ¥1,266 million ($12,923 thousand), respectively. Within other income (expenses) in the statements of income for the years ended 31st March 2007, 2008 and 2009 were gains on sales of available-for-sale securities amounting to ¥2,659 million, ¥1,237 million and ¥738 million ($7,527 thousand), respectively, which were included in the gain on sale of securities, and losses on sales of available-for-sale securities amounting to ¥841 million, ¥1 million and ¥39 million ($400 thousand), respectively, which were included in other-net.

Available-for-sale securities with maturities and held-to-maturity debt securities at 31st March 2008 and 2009 were to mature as follows:

	Millions of yen							
	2008				2009			
	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								
Government bonds	¥10	¥38	¥26	¥—	¥10	¥12	¥45	¥—
Other	5	—	—	—	5	—	—	—
Total	¥15	¥38	¥26	¥—	¥15	¥12	¥45	¥—

	Thousands of U.S. dollars			
	2009			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Bonds				
Government bonds	$102	$123	$460	$—
Other	51	—	—	—
Total	$153	$123	$460	$—

4. Inventories

Inventories at 31st March 2008 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Real estate for sale	¥127,618	¥134,831	$1,375,826
Finished products and merchandise	7,314	7,105	72,500
Materials, work in progress and supplies	11,157	10,587	108,029
Total	¥146,089	¥152,523	$1,556,355

5. Short-term borrowings and long-term debt

Short-term borrowings consisted primarily of notes maturing within one year. The weighted average interest rate for short-term bank loans was 1.18% at 31st March 2009.

Long-term debt at 31st March 2008 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Secured:			
Banks, 0%–8.5%, maturing through 2029	¥ 116,642	¥ 105,716	$ 1,078,738
Unsecured:			
Banks, insurance companies and others, 0%–6.8%, maturing through 2022	807,017	817,835	8,345,253
2.23% bonds, due July 2008	20,000	—	—
2.23% bonds, due August 2009	20,000	20,000	204,082
2.46% bonds, due September 2010	10,000	10,000	102,041
1.85% bonds, due July 2012	20,000	20,000	204,082
1.39% bonds, due November 2011	10,000	10,000	102,041
1.66% bonds, due November 2013	10,000	10,000	102,041
Floating rate bonds, due September 2010*1	15,000	15,000	153,061
Floating rate bonds, due June 2011*2	10,000	10,000	102,041
1.46% bonds, due July 2011	—	20,000	204,082
3.525% bonds, due June 2012	15,000	15,000	153,061
2.22% bonds, due June 2014	10,000	10,000	102,041
3% bonds issued by consolidated subsidiaries, due May 2008 to November 2008	5,200	—	—
Capital lease obligations	—	1,997	20,372
	1,068,859	1,065,548	10,872,936
Less current portion	139,102	77,283	788,598
	¥ 929,757	¥ 988,265	$10,084,338

*1 The floating rate was then the 20-year swap rate minus the 2-year swap rate plus 0.95% from 1st October 2001. (If the result of this calculation was below 0, the rate would be 0%)
*2 The floating rate was then the 20-year swap rate minus the 2-year swap rate plus 0.15% from 29th June 2004. (If the result of this calculation was below 0, the rate would be 0%)

The following table shows the book value of collateral pledged against long-term debt, including the portions due within one year, in the amount of ¥116,642 million and ¥105,716 million ($1,078,738 thousand) as of 31st March 2008 and 2009, respectively.

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Current assets	¥ 29	¥ 5	$ 53
Investments and other assets	20,257	18,303	186,767
Property and equipment	555,665	551,570	5,628,267
Intangible assets	1,433	1,433	14,618
	¥577,384	¥571,311	$5,829,705

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

The annual maturities of long-term debt as at 31st March 2009 were as follows:

Year ending 31st March	Millions of yen	Thousands of U.S. dollars
2011	¥128,624	$ 1,312,495
2012	163,172	1,665,021
2013	167,272	1,706,859
2014	192,865	1,968,005
2015 and thereafter	336,332	3,431,958
	¥988,265	$10,084,338

6. Employees' severance and retirement benefits

Employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of 31st March 2008 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	**2009**	**2009**
Projected benefit obligation	¥136,967	**¥130,786**	**$1,334,556**
Prepaid pension cost	1,967	**1,965**	**20,056**
Unrecognised prior service costs	417	**(168)**	**(1,716)**
Less fair value of pension assets	(75,395)	**(61,581)**	**(628,382)**
Less unrecognised actuarial differences	(4,803)	**(13,935)**	**(142,195)**
Employees' severance and retirement benefits	¥ 59,153	**¥ 57,067**	**$ 582,319**

Included in the consolidated statements of income for the years ended 31st March 2007, 2008 and 2009 were severance and retirement benefit expenses that comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2007	2008	**2009**	**2009**
Service costs — benefits earned during the year	¥6,205	¥6,912	**¥6,900**	**$70,410**
Interest cost on projected benefit obligation	2,988	3,033	**2,809**	**28,662**
Expected return on plan assets	(1,622)	(1,685)	**(1,445)**	**(14,742)**
Amortisation of prior service costs	(663)	(628)	**(599)**	**(6,113)**
Amortisation of actuarial differences	530	463	**1,269**	**12,949**
Severance and retirement benefit expenses	¥7,438	¥8,095	**¥8,934**	**$91,166**

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

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

7. Deposits from tenants

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

8. Other noncurrent liabilities

Other noncurrent liabilities at 31st March 2008 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	**2009**	**2009**
Contributions received from national and municipal governments and other corporations for long-term railway construction work in progress	¥ 7,733	**¥ 8,513**	**$ 86,873**
Deferred tax liabilities	140,556	**138,765**	**1,415,967**
Other	8,307	**7,552**	**77,066**
	¥156,596	**¥154,830**	**$1,579,906**

9. Contingent liabilities

At 31st March 2008 and 2009, the Companies were contingently liable for loan guarantees in the amount of ¥13,711 million and ¥22,788 million ($232,536 thousand), respectively.

10. Net assets

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

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

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

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

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

At the general meeting of shareholders held on 17th June 2009, the shareholders approved cash dividends amounting to ¥6,335 million ($64,648 thousand). These appropriations have not been accrued in the consolidated financial statements as of 31st March 2009. Such appropriations are recognised in the period in which they are approved by the shareholders.

11. Impairment loss on fixed assets

Details of impairment loss are as follows:

In the loss for 2008, a ¥450 million loss from the transfer of fixed assets and certain businesses in the Hotels segment was included in Other (net).

Breakdown by use

2008

Region	Use	Type of assets	Millions of yen
Osaka	Goodwill, etc. in retailing business Totalling 2	Goodwill and Land	¥8,395
Hyogo	Hotel, etc. Totalling 4	Land, etc.	810
Tokyo, etc.	Retailing stores, etc. Totalling 3	Buildings, etc.	41

2009

Region	Use	Type of assets	Millions of yen	Thousands of U.S. dollars
Osaka	Idle assets, etc. Totalling 3	Construction in progress, etc.	¥2,091	$21,335
Kochi	Hotel Totalling 1	Land and buildings, etc.	1,200	12,245
Kyoto, etc.	Retailing stores, etc. Totalling 6	Land and buildings, etc.	157	1,602

Breakdown by region

2008

Region	Type of assets	Millions of yen
Osaka	Goodwill	¥8,254
	Land	141
Hyogo	Land	450
	Buildings and structures	172
	Machinery and equipment	188
Tokyo, etc.	Buildings and structures	36
	Construction in progress	0
	Other	3
	Intangible assets	2

2009

Region	Type of assets	Millions of yen	Thousands of U.S. dollars
Osaka	Buildings and structures	¥ 15	$ 146
	Construction in progress	2,075	21,176
	Other	1	13
Kochi	Land	645	6,582
	Buildings and structures	555	5,663
Kyoto, etc.	Land	69	706
	Buildings and structures	68	697
	Machinery and equipment	2	20
	Other	18	178
	Intangible assets	0	1

12. Management integration and share exchange

2008

For the purpose of obtaining a competitive advantage in the retailing business in Umeda market, the central area in Kansai district, improving customer satisfaction and maximising shareholder value, Hankyu Department Stores Inc., one of the major companies of the Hankyu Hanshin Toho Group, agreed to integrate the management of Hanshin Department Store, Ltd., one of the consolidated subsidiaries of the Company through the share exchange on 1st October 2007. By the integration, Hankyu Department Stores Inc. changed the name of the company as H_2O Retailing Corporation and is now an affiliate applying equity method.

(a) Outline of the accounting method was as follows:

The difference between the increase in the equity of the Company relating to Hankyu Department Stores Inc. and the decrease in the equity of the Company relating to Hanshin Department Store, Ltd. was treated separately as gain on change in equity and consolidation goodwill. In the consolidated statement of income for the year ended 31st March 2008, gain on change in equity aggregating ¥9,388 million was presented in other income and impairment loss of unamortised consolidation goodwill excluding the retailing business of Hanshin Department Store, Ltd. and its subsidiaries by aggregating ¥8,254 million was presented in other expenses containing loss on impairment of fixed assets of ¥8,796 million.

(b)

Revenue from operations and operating income included in the consolidated statement of income for the year ended 31st March 2008 of Hanshin Department Store, Ltd. and its subsidiaries were ¥56,843 million and ¥1,184 million, respectively.

13. Derivative financial instruments and hedging transactions

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

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

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

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

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

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

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

The following table summarises market value information as of 31st March 2008 and 2009 of derivative transactions for which hedge accounting had not been applied:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Forward exchange contracts:			
Contract principal amount due within one year	¥146	¥461	$4,710
Market value	135	369	3,769
Unrealised gains	¥ (11)	¥ (92)	$ (941)

14. Lease transactions

Information for non-capitalised finance leases at 31st March 2007, 2008 and 2009 was as follows:

	Millions of yen			Thousands of U.S. dollars
The Group as lessee	2007	2008	2009	2009
Original lease obligations for machinery and equipment and other (including finance charges)	¥20,790	¥17,889	¥11,195	$114,231
Minimum lease payments due within one year	¥ 3,186	¥ 2,496	¥ 1,432	$ 14,612
Minimum lease payments due after one year	5,594	4,690	3,203	32,687
Total	¥ 8,780	¥ 7,186	¥ 4,635	$ 47,299

Lease payments under such leases for the years ended 31st March 2007, 2008 and 2009 were ¥3,848 million, ¥3,279 million and ¥2,386 million ($24,352 thousand), respectively.

The Group as the lessor

There was no balance of original lease obligations as lessor side as of 31st March 2007, 2008 or 2009.

Both leasing receipts and depreciation for the year ended 31st March 2007 amounted to ¥0 million. The figures for the year ended 31st March 2008 and 2009 were nil, respectively.

Information for operating leases at 31st March 2007, 2008 and 2009 was as follows:

	Millions of yen			Thousands of U.S. dollars
The Group as lessee	2007	2008	2009	2009
Minimum lease payments due within one year	¥11,402	¥ 8,599	¥ 7,629	$ 77,844
Minimum lease payments due after one year	42,284	28,679	19,565	199,641
Total	¥53,686	¥37,278	¥27,194	$277,485

	Millions of yen			Thousands of U.S. dollars
The Group as lessor	2007	2008	2009	2009
Minimum lease payments due within one year	¥ 82	¥ 82	¥ 82	$ 833
Minimum lease payments due after one year	1,224	1,142	1,060	10,824
Total	¥1,306	¥1,224	¥1,142	$11,657

15. Segment information

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

The seven businesses segments for the three years ended 31st March 2009 comprised the following:

The Urban Transportation Segment included railways, buses and taxis, and the manufacture of rolling stock .

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

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

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

The Hotels Segment included hotel ownership and management businesses.

The Retailing Segment included retail sales, food and drink sales, and department stores (up to September 2007).

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

* In line with the reorganisation of the Travel and International Transportation Segment in April 2008, domestic logistics services have been transferred from the Travel and International Transportation Segment to the Other Segment.

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

By business category:

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

	Millions of yen								
	Urban Transportation	Real Estate	Entertainment & Communications	Travel & International Transportation	Hotels	Retailing	Other	Eliminations	Consolidated
2008									
Net sales:									
Customers	¥192,462	¥153,332	¥86,906	¥94,136	¥68,943	¥118,790	¥37,732	¥ —	¥752,301
Intersegment	2,441	26,358	8,422	301	296	1,962	7,087	(46,867)	—
	194,903	179,690	95,328	94,437	69,239	120,752	44,819	(46,867)	752,301
Costs and expenses	161,748	140,173	86,780	91,230	67,889	118,034	43,919	(48,197)	661,576
Operating income	¥ 33,155	¥ 39,517	¥ 8,548	¥ 3,207	¥ 1,350	¥ 2,718	¥ 900	¥ 1,330	¥ 90,725

	Millions of yen								
	Urban Transportation	Real Estate	Entertainment & Communications	Travel & International Transportation	Hotels	Retailing	Other	Eliminations	Consolidated
2009									
Net sales:									
Customers	**¥190,775**	**¥149,756**	**¥ 90,334**	**¥65,596**	**¥66,042**	**¥66,291**	**¥54,921**	**¥ —**	**¥683,715**
Intersegment	**4,469**	**21,930**	**10,227**	**210**	**416**	**1,290**	**5,614**	**(44,156)**	**—**
	195,244	**171,686**	**100,561**	**65,806**	**66,458**	**67,581**	**60,535**	**(44,156)**	**683,715**
Costs and expenses	**162,754**	**138,870**	**92,177**	**64,354**	**66,116**	**66,884**	**59,967**	**(45,231)**	**605,891**
Operating income	**¥ 32,490**	**¥ 32,816**	**¥ 8,384**	**¥ 1,452**	**¥ 342**	**¥ 697**	**¥ 568**	**¥ 1,075**	**¥ 77,824**

	Urban Transportation	Real Estate	Entertainment & Communications	Travel & International Transportation	Hotels	Retailing	Other	Eliminations	Consolidated
	Thousands of U.S. dollars								
2009									
Net sales:									
Customers	$1,946,679	$1,528,126	$ 921,778	$669,346	$673,897	$676,439	$560,421	$ —	$6,976,686
Intersegment	45,609	223,769	104,357	2,143	4,245	13,167	57,277	(450,567)	—
	1,992,288	1,751,895	1,026,135	671,489	678,142	689,606	617,698	(450,567)	6,976,686
Costs and expenses	1,660,755	1,417,042	940,579	656,676	674,657	682,495	611,899	(461,539)	6,182,564
Operating income	$ 331,533	$ 334,853	$ 85,556	$ 14,813	$ 3,485	$ 7,111	$ 5,799	$ 10,972	$ 794,122

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

	Urban Transportation	Real Estate	Entertainment & Communications	Travel & International Transportation	Hotels	Retailing	Other	Corporate and Eliminations	Consolidated
	Millions of yen								
2008									
Assets	¥760,392	¥1,015,780	¥133,716	¥128,750	¥82,810	¥22,501	¥232,469	¥(27,942)	¥2,348,476
Depreciation and amortisation	26,802	13,290	4,869	1,773	3,129	1,593	660	(538)	51,578
Impairment loss on fixed assets	2	141	359	—	—	8,294	—	—	8,796
Capital expenditures	22,580	82,984	9,699	1,852	14,844	1,687	758	(910)	133,494

	Urban Transportation	Real Estate	Entertainment & Communications	Travel & International Transportation	Hotels	Retailing	Other	Corporate and Eliminations	Consolidated
	Millions of yen								
2009									
Assets	¥787,774	¥1,041,786	¥149,247	¥93,622	¥79,479	¥24,278	¥185,456	¥(54,310)	¥2,307,332
Depreciation and amortisation	28,340	14,979	5,549	1,212	3,109	1,019	1,130	(539)	54,799
Impairment loss on fixed assets	5	2,087	—	57	1,200	99	—	—	3,448
Capital expenditures	29,814	57,980	15,060	1,522	1,964	2,290	1,005	(763)	108,872

	Urban Transportation	Real Estate	Entertainment & Communications	Travel & International Transportation	Hotels	Retailing	Other	Corporate and Eliminations	Consolidated
	Thousands of U.S. dollars								
2009									
Assets	$8,038,506	$10,630,474	$1,522,929	$955,328	$811,007	$247,734	$1,892,405	$(554,178)	$23,544,205
Depreciation and amortisation	289,186	152,843	56,624	12,370	31,727	10,395	11,532	(5,508)	559,169
Impairment loss on fixed assets	51	21,297	—	582	12,245	1,007	—	—	35,182
Capital expenditures	304,223	591,629	153,675	15,530	20,041	23,365	10,258	(7,783)	1,110,938

16. Income taxes

The Companies are subject to a number of income taxes, which, in the aggregate, indicate an aggregate statutory income rate in Japan of approximately 40.7%, 40.6% and 40.6% for the years ended 31st March 2007, 2008 and 2009, respectively.

The following table summarises the significant differences between the aggregate statutory income tax rate and the Companies' effective income tax rate for financial statement purposes for the years ended 31st March 2008 and 2009.

The difference between the rates for the year ended 31st March 2007 was immaterial.

	2008	2009
Statutory tax rate	40.6%	40.6%
	40.6	40.6
Valuation allowance	151.8	5.2
Elimination of dividends from consolidated subsidiaries	27.8	17.8
Loss on impairment of fixed assets	12.8	—
Nondeductible expenses	8.1	2.8
Amortisation of goodwill	—	2.3
Reimbursement of capital surplus from consolidated subsidiaries	(74.0)	—
Per capita amount of citizen tax	—	1.4
Nondeductible income	(52.2)	(18.1)
Effect of Station Finance Inc.'s secession from the Group	—	(12.7)
Gain on change in equity from management integration	(15.5)	—
Equity in income of affiliates	(5.8)	(1.1)
Other	1.5	(0.4)
Effective income tax rate	95.1%	37.8%

Significant components of the Companies' deferred income tax assets as of 31st March 2008 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Deferred tax assets:			
Revaluation of assets on consolidation	¥ 50,204	¥ 50,197	$ 512,209
Loss on revaluation of real estate for sale	47,973	49,191	501,947
Tax loss carryforwards	33,968	25,762	262,882
Retirement benefits	22,872	22,397	228,539
Losses on revaluation of investment securities	8,034	7,624	77,798
Special reserve for investment losses	7,548	7,699	78,566
Unrealised profit from assets	6,920	7,007	71,504
Loss on valuation of properties of business reorganisation	5,103	5,035	51,375
Loss on impairment of fixed assets	3,736	4,263	43,497
Allowance for doubtful receivables	3,006	3,153	32,174
Accrued expenses	2,133	2,068	21,103
Enterprise taxes	1,594	620	6,330
Depreciation and amortisation	—	307	3,131
Retirement benefits for directors and corporate auditors	290	289	2,952
Other	13,726	11,174	114,021
Subtotal of deferred tax assets	207,107	196,786	2,008,028
Valuation allowance	(57,152)	(53,269)	(543,564)
Less amounts offset against deferred tax liabilities	(128,566)	(122,160)	(1,246,534)
Net deferred tax assets	21,389	21,357	217,930
Deferred tax liabilities:			
Gain on reversal of difference from land revaluation	(131,956)	(132,199)	(1,348,968)
Revaluation of assets on consolidation	(104,648)	(103,422)	(1,055,325)
Net unrealised holding gains on securities	(26,672)	(19,069)	(194,580)
Gain on valuation of properties of business reorganisation	(3,156)	(3,066)	(31,289)
Other	(2,695)	(3,173)	(32,379)
Subtotal of deferred tax liabilities	(269,127)	(260,929)	(2,662,541)
Less amounts offset against deferred tax assets	128,566	122,160	1,246,534
Total deferred tax liabilities	(140,561)	(138,769)	(1,416,007)
Net income tax assets	¥(119,172)	¥(117,412)	$(1,198,077)

Net deferred tax assets as of 31st March 2008 and 2009 were included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Current assets	¥ 16,182	¥ 16,064	$ 163,916
Current liabilities	(5)	(4)	(39)
Long-term assets	5,207	5,293	54,014
Long-term liabilities	(140,556)	(138,765)	(1,415,968)
Net deferred tax assets	¥(119,172)	¥(117,412)	$(1,198,077)

17. Loan commitments

A consolidated subsidiary had extended loan commitments at 31st March 2008 and 2009 as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Total loan commitments	¥76,067	¥—	$—
Loans extended	45,581	—	—
Remaining commitments	¥30,486	¥—	$—

The above loan commitments may not be exercised in full as the consolidated subsidiary extends loans within limits set in light of the proposed use of funds and the borrower's financial position. The subsidiary was excluded from the scope of consolidation due to a sale of equity shares on 27th February 2009.

18. Consolidated statements of cash flow

The year-end balances of cash and cash equivalents presented on the consolidated statements of cash flow and on the consolidated balance sheets at 31st March 2008 and 2009 were reconciled as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Cash and cash equivalents in the consolidated balance sheets	¥33,073	¥31,974	$326,263
Deposits with maturities over 3 months	(1,906)	(1,284)	(13,096)
Cash and cash equivalents in cash flow statements	¥31,167	¥30,690	$313,167

19. Related party transactions

There were no transactions required to be reported for the year ended 31st March 2008. A summary of related party transactions for the ended 31st March 2009 is as follows:

Transactions of related party with a consolidated subsidiary

2009

Contents of relation	Name of the company	Capital	Contents of business	Related transactions	Transaction and volume	Millions of yen	Thousands of U.S. dollars
Directors and related family owns majority shares	Tateishi Sangyo Co., Ltd.	100	Real estate	Lease of real estate Mutual engagement of director	Rent income	¥ 17	$ 172
					Rent expense	273	2,783
					Lease deposit	31	316

20. Special purpose entities

Some consolidated subsidiaries invest in the following two kinds of special purpose entities. These investments have no voting rights and dispatch no directors or employees. Loss of the investment is limited to the amount invested.

Purpose of establishment	Millions of yen		Thousands of U.S. dollars
(A) Diversity and stability of financing	2008	2009	2009
Investment in silent partnerships (Note 1)	¥ 4,042	¥ 3,392	$ 34,612
Total assets of special purpose entity	89,315	72,645	741,279
Total liabilities of special purpose entity	78,832	63,465	647,605
Real estate purchased	39,005	11,300	115,306
Receivable amount of dividends (Note 2)	5,587	5,718	58,342
Distributed income (Note 3)	20,923	11,275	115,052
Lease payments (Note 3)	8,774	5,376	54,860
Management fees (Note 4)	283	255	2,599

Notes:

(1) Investments in silent partnerships are recorded as investment in other securities in the consolidated balance sheets.

(2) Included in receivable amount of dividends for the years ended 31st March 2008 and 2009 were suspense payments totalling ¥5,526 million and ¥5,656 million ($57,717 thousand), respectively.

(3) Distributed income for the years ended 31st March 2008 and 2009 included distributed liquidation in the amount of ¥16,908 million and ¥8,531 million ($87,052 thousand), respectively, and the figures are presented in other income in the consolidated statements of income. Residual amounts of the distributed income is presented in costs of revenues from operations after offsetting lease payments.

(4) Management fees are presented in revenue from operations in the consolidated statements of income.

Purpose of establishment	Millions of yen		Thousands of U.S. dollars
(B) Development and increase value of assets	2008	2009	2009
Investment in silent partnerships (Notes 1 and 2)	¥ 9,180	¥ 7,741	$ 78,993
Total assets of special purpose entity	82,565	81,316	829,758
Total liabilities of special purpose entity	56,902	54,564	556,780
Receivable amount of dividends (Note 4)	528	534	5,446
Distributed income (Note 3)	3,846	1,192	12,160
Distributed loss (Note 5)	1,016	18	179
Management fees (Note 6)	484	1,234	12,587

Notes:

(1) Accrued future loss from valuation of investments in the aggregate amount of ¥2,283 million ($23,292 thousand) for the year ended 31st March 2009 was recorded.

(2) Investments in silent partnerships are recorded as investment in other securities in the consolidated balance sheets.

(3) Distributed income was recorded in revenue from operations.

(4) Dividend receivable was reserved for payment.

(5) Distributed loss was recorded in costs of revenues from operations.

(6) Management fees are presented in revenue from operations in the consolidated statements of income.

21. Subsequent events

Appropriation of retained earnings

An appropriation of retained earnings for the year ended 31st March 2009 was duly approved at the general meeting of shareholders held on 17th June 2009 as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥5.00 per share)	¥6,335	$64,648

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Hankyu Hanshin Holdings, Inc. and its consolidated subsidiaries as of 31st March 2009 and 2008, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended 31st March 2009, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hankyu Hanshin Holdings, Inc. and subsidiaries as of 31st March 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended 31st March 2009, in conformity with accounting principles generally accepted in Japan.

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

(1) As discussed in Note 2(i) to the consolidated financial statements, a consolidated subsidiary of Hankyu Hanshin Holdings, Inc., Hankyu Corporation, changed the method of accounting for contributions for construction works.
(2) As discussed in Note 2(h) to the consolidated financial statements, Hankyu Hanshin Holdings, Inc. and consolidated subsidiaries changed the depreciation method for property and equipment acquired after 31st March 2007 due to the revision of the Japanese Corporation Tax Law and its regulation.
(3) As discussed in Note 2(d) to the consolidated financial statements, effective 1st April 2009 ,Hankyu Hanshin Holdings, Inc. and its domestic consolidated subsidiaries have adopted the new accounting standard, "Accounting Standard for Valuation of Inventories."

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Osaka, Japan
17th June 2009

Group at a Glance (As of 31st March 2009)

Urban Transportation

Business subsegments for financial reporting purposes	Name of the consolidated subsidiary
Railway Operations	Hankyu Corporation
	Hanshin Electric Railway Co., Ltd.
	Nosé Electric Railway Co., Ltd.
	Kita-Osaka Kyuko Railway Co., Ltd.
	Hokushin Kyuko Railway Co., Ltd.
Bus Operations	Hanshin Electric Railway Co., Ltd.
	Hankyu Bus Co., Ltd.
	Hankyu Kanko Bus Co., Ltd.
	Hanshin Bus Co., Ltd.
	Osaka Airport Transport Co., Ltd.
	Hankyu Denen Bus Co., Ltd.
Taxi Operations	Hankyu Taxi Inc.
	Hanshin Taxi Co., Ltd.
Other	Hankyu Railway Service Co., Ltd.
	Railway Technology Co., Ltd.
	Globaltech Co., Ltd.
	Hankyu Hanshin Electric System
	Hankyu M-TECH Corporation
	Nippon Rent-A-Car Hankyu Inc.
	Alna Sharyo Co., Ltd.

Real Estate

Business subsegments for financial reporting purposes	Name of the consolidated subsidiary
Rental of Real Estate	Hankyu Corporation
	Hanshin Electric Railway Co., Ltd.
	Hankyu Realty Co., Ltd.
	Osaka Diamond Chikagai Co., Ltd.
	Hanshin Real Estate Co., Ltd.
Purchase and Sale of Real Estate	Hankyu Corporation
	Hanshin Electric Railway Co., Ltd.
	Hankyu Realty Co., Ltd.
Property Management	Hankyu Hanshin Building Management Co., Ltd.
	Hankyu Community Service Co., Ltd.
	High Security System Co., Ltd.
REIT Operations	Hankyu REIT Asset Management, Inc.

Entertainment and Communications

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

Travel and International Transportation

Business subsegments for financial reporting purposes	Name of the consolidated subsidiary
Travel Agency	Hankyu Hanshin Express Holdings Corporation
	Hankyu Travel International Co., Ltd.
	Hanshin Travel Service Co., Ltd.
	Hankyu Travel Support Co., Ltd.
International Transportation	Hankyu Hanshin Express Holdings Corporation
	Hankyu Express International Co., Ltd.
	Hanshin Air Cargo Co., Ltd.

Hotels

Business subsegments for financial reporting purposes	Name of the consolidated subsidiary
Hotel Management	Hankyu Hanshin Hotels Co., Ltd.
	Dai-ichi Hotel Kyushu Co., Ltd.
	Arima View Hotel Co., Ltd.
	Amanohashidate Hotel Co., Ltd.
	Hotel New Hankyu Kochi Co., Ltd.
	Hanshin Hotel Systems Co., Ltd.

Retailing

Business subsegments for financial reporting purposes	Name of the consolidated subsidiary
Sales of Goods	Hankyu Corporation
	Hankyu Retails Co., Ltd.
	Iina Dining Co., Ltd.
	Doubleday Hankyu Co., Ltd.
	Hanshin Station Net Co., Ltd.
Restaurants, etc.	Creative Hankyu Co., Ltd.

Other

Business subsegments for financial reporting purposes	Name of the consolidated subsidiary
Construction	Hanshin Construction Co., Ltd.
	Chuo-Densetsu Co., Ltd.
Domestic Logistics	Sanyo Jidosha Unso Co., Ltd.
Group Finance	Hankyu Hanshin Financial Support Co., Ltd.
Outsourcing Services for Personnel and Accounting Services	Hankyu Hanshin Business Asssociate Co., Ltd.

Investor Information (As of 31st March 2009)

Hankyu Hanshin Holdings, Inc.

Head Office:

1-16-1, Shibata, Kita-ku, Osaka 530-0012, Japan
Phone: +81-6-6373-5001
(Corporate Planning Dept., IR Office)
Fax: +81-6-6373-5042

Tokyo Office (Personnel and General Affairs Dept.):

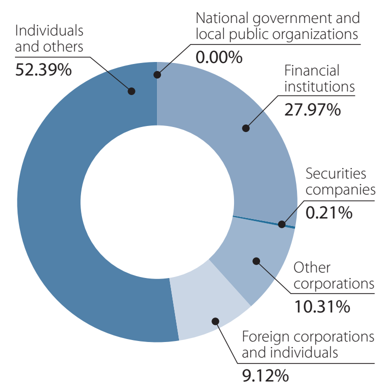
Toho Twin Tower Bldg.,
1-5-2, Yurakucho, Chiyoda-ku, Tokyo 100-0006, Japan
Phone: +81-3-3503-1568
Fax: +81-3-3508-0249

Paid-in Capital:	¥99,475 million
Fiscal Year-End:	31st March
Number of Employees:	20,805 (consolidated basis)
Authorised Shares:	3,200,000,000
Issued Shares:	1,271,406,928
Number of Shareholders:	135,049
Unit of Trading:	1,000 shares
Stock Exchange Listing:	Tokyo, Osaka
Transfer Agent:	Mitsubishi UFJ Trust and Banking Corporation

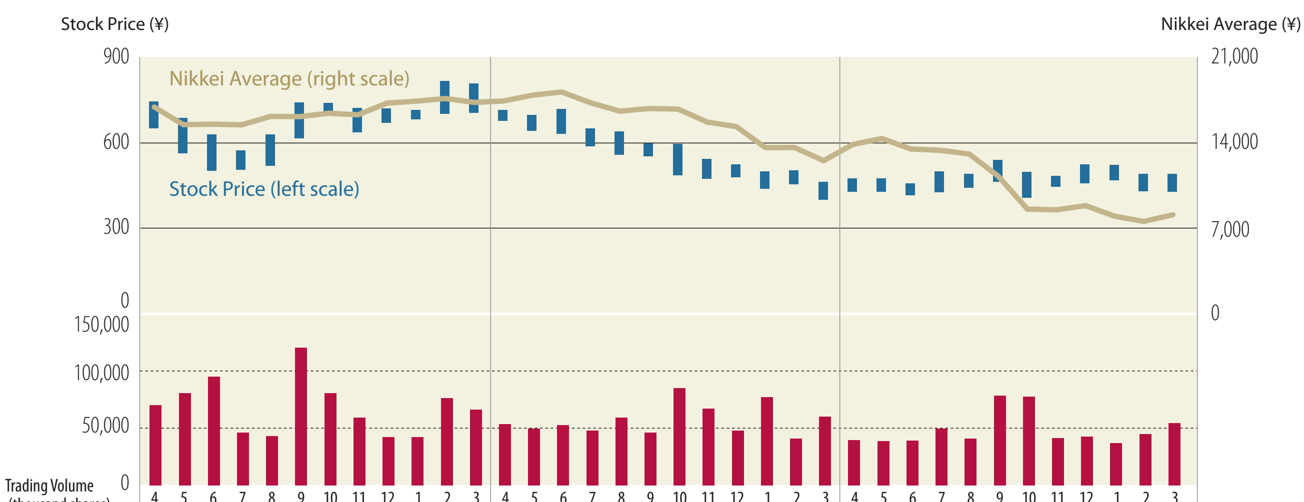
Principal Shareholders:

Name	Number of shares (thousands)	Percentage (%)
Japan Trustee Services Bank, Ltd. (Trust account 4G)	60,668	4.77
Japan Trustee Services Bank, Ltd. (Trust account)	56,999	4.48
Nippon Life Insurance Company	42,680	3.35
The Master Trust Bank of Japan, Ltd. (Trust account)	38,244	3.00
Sumitomo Mitsui Banking Corporation	30,947	2.43
H_2O Retailing Corporation	20,418	1.60
Japan Trustee Services Bank, Ltd. (The Sumitomo Trust & Banking Co., Ltd. Retirement Benefit Trust Account)	13,665	1.07
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	11,190	0.88
Japan Trustee Services Bank, Ltd. (Trust account 4)	9,475	0.74
Takenaka Corporation	9,291	0.73

Ownership Breakdown:



Stock Price Range and Trading Volume (Tokyo Stock Exchange):



	Fiscal 2007	Fiscal 2008	Fiscal 2009
High	817	719	539
Low	502	400	406
At year-end	713	431	447

Hankyu Hanshin Holdings, Inc.
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