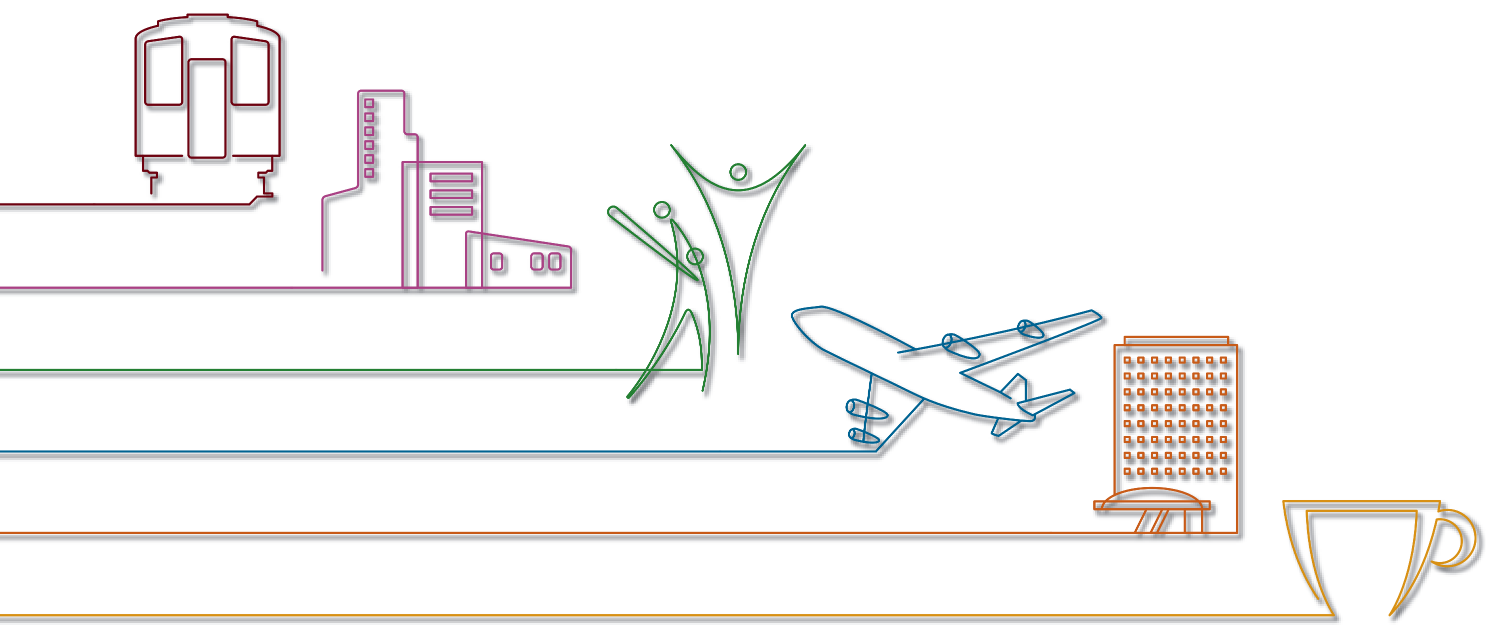
Hankyu Hanshin Holdings

Annual Report 2008



Creating New Ways to Inspire and Satisfy

Urban Transportation

Real Estate

Entertainment and Communications

Travel and International Transportation

Hotels

Retailing

Contents

Mission:

What we are trying to achieve

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

Values:

What is important to us

◎**Customers Come First**

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

◎**Integrity**

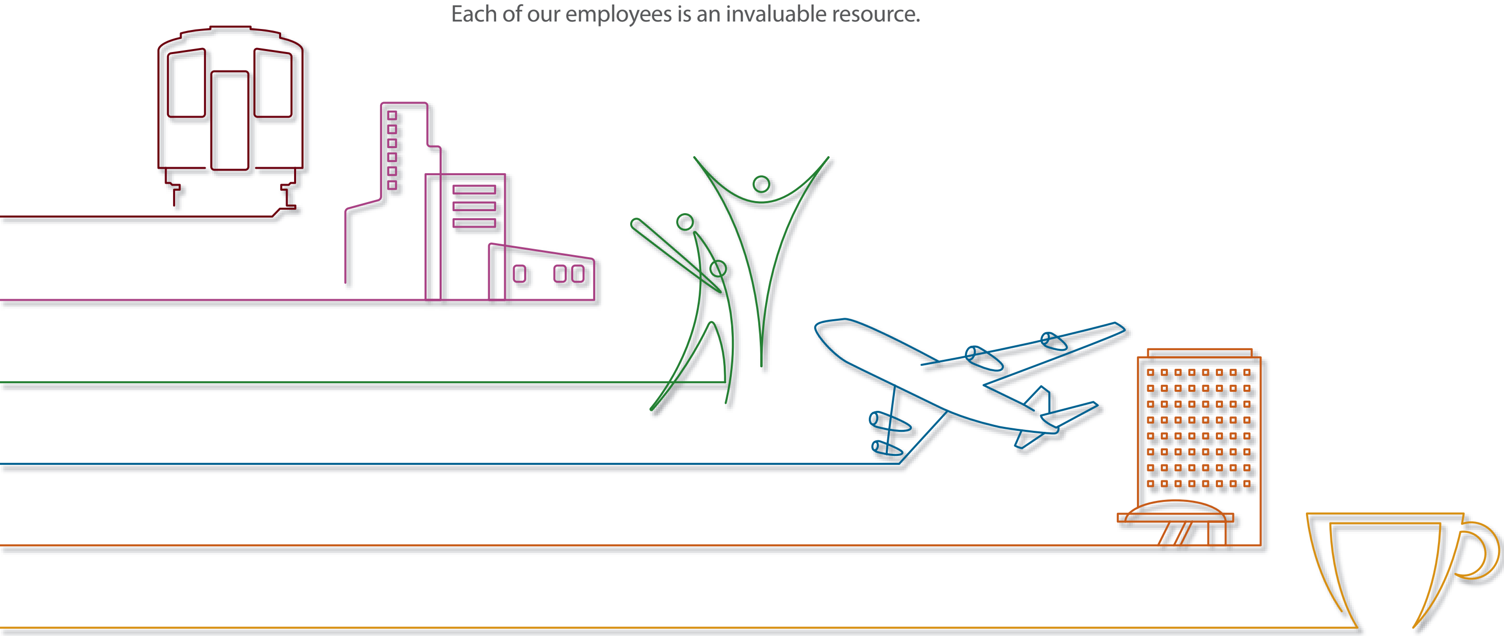
Build trust by always acting with integrity.

◎**Foresight & Creativity**

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

◎**Respect for People**

Each of our employees is an invaluable resource.



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

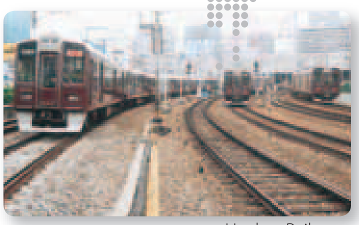
Hankyu Hanshin Holdings, Inc.

Profile

Two companies that have contributed to the prosperity of Kansai for 100 years join hands

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, Inc. and Hanshin Electric Railway Co., Ltd.

Both companies have long histories. Hanshin Electric Railway goes back to 1905, and Hankyu Corporation (forerunner of Hankyu Holdings, Inc.) began life in 1910, as Mino-Arima Electric Railway Company. Since that time, they have helped promote the development of Osaka, the economic heart of west Japan, through their railway operations. Over a century, they have brought entirely new services to the region under a dual-core business model of railway operation and community development, through residential property subdivision and leisure facility management and operation of department stores and commercial facilities at termini.



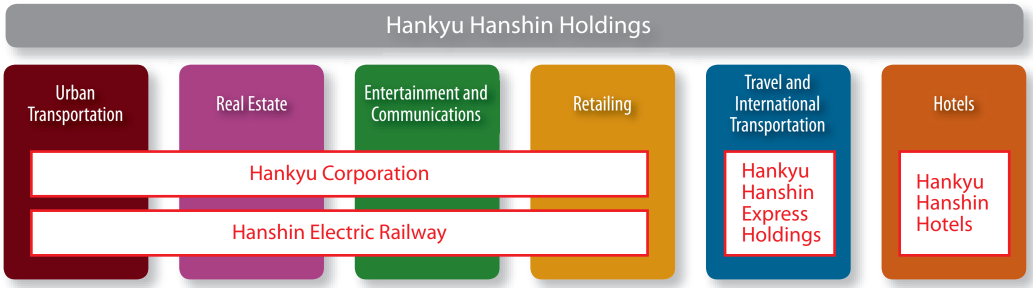
Hankyu Railway

Hanshin Electric Railway

Business Domains and Operating Structures

Building six core businesses under the holding company structure

As a pure holding company, Hankyu Hanshin Holdings, Inc. operates four core companies, Hankyu Corporation, Hanshin Electric Railway Co., Ltd., Hankyu Hanshin Express Holdings Corporation and Hankyu Hanshin Hotels Co., Ltd. It is active in six core business domains, Urban Transportation, Real Estate, Entertainment and Communications, Travel and International Transportation, Hotels and Retailing. We see our mission as delivering serenity and well-being, inspiration and dreams to our customers, to create satisfaction and make a positive contribution to society.

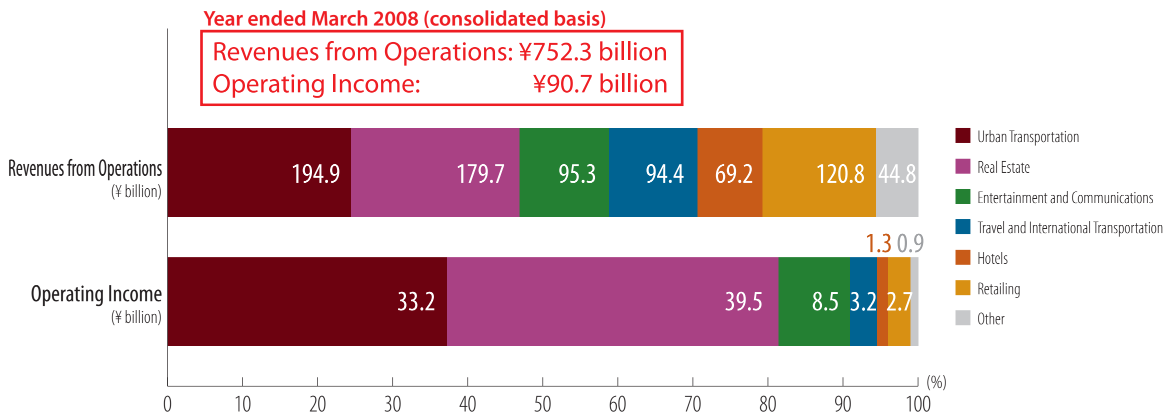


Earnings Structure

Urban Transportation and Real Estate are main drivers

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. Both businesses are centred on the office and commercial districts of Umeda (downtown Osaka), assuring stable cash flows as this is a major business area in a part of Kansai with a high population density.



Note: Revenues from operations and operating income for each segment are before intersegment elimination.

Group Strengths

Two national brands that increase value along Group railway lines and deliver inspiration and dreams

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.

©Hanshin Tigers

©Takarazuka Revue Company

Financial Highlights (consolidated)

Statutory disclosure

	(Millions of yen) 2007*2	(Millions of yen) 2008	(Thousands of U.S. dollars)*1 2008
For the year:			
Revenues from operations	¥ 743,377	¥ 752,301	$ 7,523,010
Operating income	87,003	90,725	907,250
Net income	36,619	628	6,280
Capital investments	53,795	134,307	1,343,070
At year-end:			
Total assets	2,366,694	2,348,476	23,484,760
Total net assets	522,286	476,639	4,766,390
Amounts per share (in yen and dollars):			
Net income - basic	31.84	0.50	0.01
Net income - diluted	—	0.41	0.00
Cash dividends applicable to the year	5.00	5.00	0.05

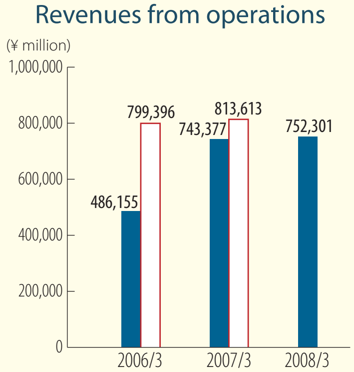
*1 The U.S. dollar amounts have been translated, for convenience only, at ¥100=$1, the prevailing exchange rate on the Tokyo Foreign Exchange Market as of 31st March 2008.
*2 The Hanshin Electric Railway is included in the scope of consolidation with effect from the second quarter.

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

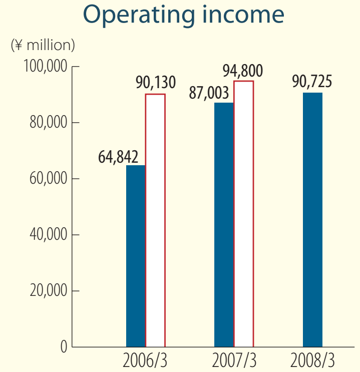
	(Millions of yen) 2007*3	(Millions of yen) 2008	YoY comparisons
For the year:			
Revenues from operations	¥ 813,613	¥ 752,301	–7.5 %
Operating income	94,800	90,725	–4.3 %
Net income	40,507	628	–98.4 %

*3 The figures shown have been calculated on the assumption that Hankyu Holdings and Hanshin Electric Railway merged at the start of the term.
(The above figures have been calculated for convenience of comparison, and have not been audited by the Group's accounting auditor KPMG AZSA & Co.)

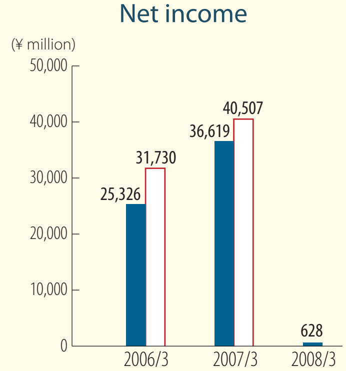
Revenues from operations



Operating income



Net income



■ **Statutory disclosure** (for the term ended March 2006, Hankyu Holdings on a consolidated basis only; in the term ended March 2007, results of Hanshin Electric Railway are included in the scope of consolidation from the second quarter.)

□ **On the assumption of the merger on 1st April 2006** (Simple sum of Hankyu Holdings and Hanshin Electric Railway on a consolidated basis for the term ended March 2006; results for the term ended March 2007 assume the merger of Hankyu Holdings and Hanshin Electric Railway from the beginning of the term.)

To Our Stakeholders

Kazuo Sumi
President

Shinya Sakai
Representative Director

First I would like to thank all our stakeholders for their support over the years.

Net income in the reporting term was sharply below our initial forecasts for fiscal 2008, ended 31st March 2008 (consolidated basis). This was due chiefly to a more cautious revaluation of market values of land held for sale by our subsidiary Hankyu Corporation under the "Saito" International Culture Park Development project, leading to major unrealised losses. The problem was increasing uncertainty over the pace and profitability of future "Saito" businesses, following a revaluation by Urban Renaissance Agency, which is in charge of rezoning works. However, we do not expect further appraisal losses at "Saito," and see the impact as limited to fiscal 2008. We believe this substantial book-value write-down will help us minimise future business risk faced by the Group, and build a healthy financial position.

To realise the goals of the Hankyu Hanshin Holdings Group 2007 Medium-Term Management Plan, ending fiscal 2013, we aim to increase competitiveness in all core businesses, bringing to bear Group collective strength through synergies among core businesses. We are steadily overhauling businesses targeted by the plan, and taking aggressive measures to develop further integration synergies.

Looking ahead, and taking into account financial soundness and capital efficiency, we will work to strengthen profitability and cash flow generation. We will continue to grow as a corporate group trusted and supported by its shareholders, investors and other stakeholders, with a good record in meeting their expectations.

In the name of the Group, I would like to thank our stakeholders for their continued support for our endeavours.

Sustainable growth through greater profitability of core businesses and major projects

The Hankyu Hanshin Holdings Group seeks sustainable growth following the management integration within the framework of its medium-term management plan. In this interview, President Kazuo Sumi discusses the Group's results for the reporting term and management's vision for the future.

The Management Integration

Q1 Over 18 months have now passed since the management integration of the Hankyu and Hanshin groups in October 2006. What kind of reactions have you had to the integration?

A First, I think it is a significant achievement to have made the Hankyu-Hanshin name widely known among the public. We have been able to move quickly into implementation stages with new ventures such as issue of joint promotion tickets, collaborations in the condominium business and partnerships in single-family houses.

Turning to individual businesses, we have various projects underway aimed at generating synergies from the integration. An example is issue of STACIA card on a Groupwide basis in October 2007. I think we have really brought home to customers the benefits of convenience generated by the Hankyu Hanshin integration.

In addition, in October 2007, following the management integration of the Hankyu Department Stores, Inc. with The Hanshin Department Store, Ltd., a new holding company was created for the department store group, H_2O Retailing Corporation, which was made an equity-method affiliate of the Company. In addition to integrating and developing both companies' department stores, we have also strengthened capital links with the department store holding company. I believe the establishment of H_2O Retailing Group enables us to create further synergies in the development of our service areas and operation of department stores.

Business Environment

Q2 How do you view the current business environment facing the Group's railway, real estate and other major businesses?

A Changing demographics (the higher dependency ratio) and a movement of population into the Tokyo area are a concern, but I believe we should follow a basic Group strategy of creating still more appealing communities, and increasing value along our lines as well as residential populations, though scope here is limited.

The Urban Transportation business has benefited in recent years from both a steadily rebounding population in areas along our lines, and an increase in regular passengers as an improving job market boosts commuter numbers. For three continuous years, Hanshin Electric Railway Co., Ltd. has increased its total of passengers carried on a year-on-year base. Even after excluding the boost following the tragic 2005 derailment on JR West's Fukuchiyama Line, Hankyu Corporation still achieved slender year-on-year growth. With the opening of operations in March 2009 of the Hanshin Namba Line, currently at the development stage (please see P.21 for further details), the Group will have the sole rail through-route serving the "Kita" (northern) district of Osaka (centred on Umeda) and the "Minami" (southern) district (centred on Namba). The new line will greatly enhance the value of the areas served by our network. I am really looking forward to the opening of service on this line.

In the Real Estate segment, I believe office demand will hold up. Some commentators have voiced concerns of oversupply, but, unlike Tokyo, the centre of Osaka City is divided into the Kita and Minami districts. Offices are clustering along two streets - Midosuji Street that connects south and north Osaka, and the Yotsubashisuji Street, which links Nakanoshima and Nishi-Umeda. Although the market is smaller than Tokyo's, there is sufficient demand clustered around these two streets. In particular, a lot of our rental properties are located in the centre of the Kita district, and they are unlikely to lose their competitiveness in coming years. I believe they can become a stable source of earnings for us.

The Travel and International Transportation segment faces a difficult operating environment due to soaring oil prices. In April 2008, we placed this business under an intermediary holding company, as part of measures to strengthen our ability to respond quickly to a changing operating environment and manage operations more efficiently.

Results

Q3 What comments do you have on the Company's results for the reporting term?

A First, I would like to apologise to all our shareholders for the steep fall in net income we suffered due to booking of an extraordinary loss including ¥69 billion on the downward revaluation of land for subdivisions. We did at last stay in positive territory.

This was due chiefly to a more cautious revaluation of market values of land held for sale by our subsidiary Hankyu Corporation under the "Saito" International Culture Park Development project, leading to major unrealised losses. The problem was increasing uncertainty over the pace and profitability of future "Saito" businesses, following a revaluation by Urban Renaissance Agency, which is in charge of rezoning works (for more details concerning "Saito," please see P.25).

However this revaluation loss did not have cash flow implications, and over the medium to longer term, I believe we have minimised management risk faced by the Group and placed our finances on a healthier footing.

We treat the revaluation loss very seriously, and shareholders can rest assured we will take every measure to ensure that further revaluation losses do not occur. This is the reason for our very cautious approach in the "Saito" project.

Turning to business operators, we were able to surpass our initial targets due to a robust performance by the Urban Transportation, Real Estate, and other core businesses. We were able to meet our targets for all major performance indicators, with the exception of the debt/equity ratio and return on equity (both on a consolidated basis), which were affected by the land revaluation loss.

Q4 What are your forecasts for the current term?

A We expect our six core businesses to continue to perform well. However, due to the above-mentioned reorganisation of the department store group, we expect a year-on-year decline in revenues from operations, operating income and recurring profit due to the removal from the scope of consolidation of Hanshin Department Store Group (effective from the second half of the reporting term), and an increase in depreciation costs following increases in capital expenditure.

At the same time, due to the non-repetition of the huge extraordinary loss posted for the reporting term, the posting of an revaluation loss at "Saito," we expect to maintain net income at the same level as in the previous term ended 31st March 2007, of approximately ¥34.0 billion.

Major performance indicators (consolidated)

(¥ billion)

	FY2008 (initial estimate)*1	FY2008 (results)	FY2009 (estimate)
Revenues from operations	750.0	752.3	709.0
Operating income	80.0	90.7	84.0
Net income	35.0	0.6	34.0
EBITDA*2 (excluding department store business)	135.0 (132.8)	145.2 (143.2)	142.0
Effects of integration	2.2	2.2	4.6
Interest-bearing debt/EBITDA	9.7x	8.8x	9.4x
Interest-bearing debt	1315.0	1271.1	1335.0
Debt/equity (D/E) ratio*3	2.5x	2.7x	2.6x
ROE*4	6.0%	0.1%	more than 6.0%

*1 Figures are initial estimates (announced 15th May 2007)
*2 EBITDA = operating income + depreciation expenses + amortization of goodwill attendant on the management integration of Hankyu and Hanshin
*3 D/E ratio = Interest-bearing debt/equity
*4 ROE = net income/equity (i.e. average net assets attributable to shareholders for the year)

Medium-term Management Plan

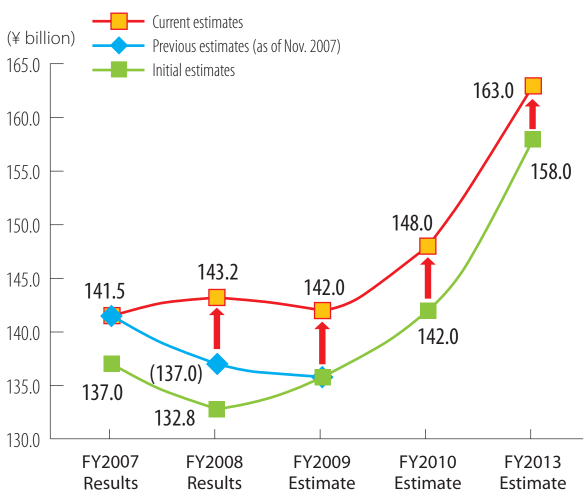
Q5 What are the major points of the revised medium-term management plan unveiled in April 2008?

A One year after our announcement of the plan, we made two major revisions based on our strong current performance and changes in our operating environment.

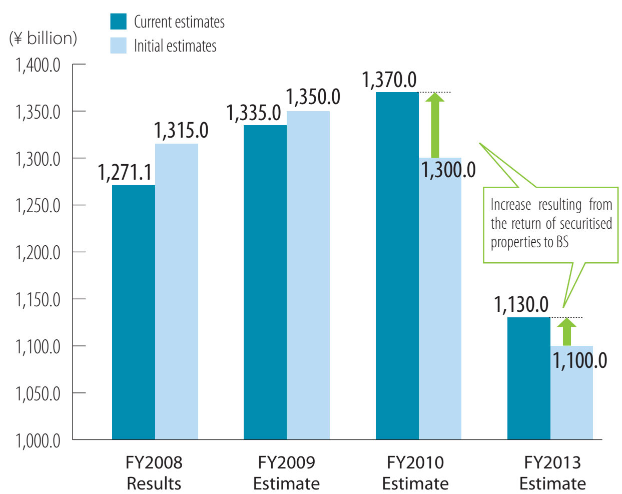
Firstly, we have shifted our emphasis to current earnings growth. Specifically, in the six years up to the fiscal year ending March 2013, particularly in the first three years, we aim to raise the overall earnings baselines, and beat initial forecasts. In tandem, we have raised our EBITDA forecasts (consolidated basis) for the final fiscal year of the plan from an initial ¥150 billion to ¥160 billion.

The second change affects the accounting policy for application of accounting standards to securitised assets. Previously, we maintained a policy of resecuritising all instruments at maturity using special purpose companies. In anticipation of the introduction of more rigorous accounting rules, we have adopted a policy of including such assets on the balance sheet. In line with this, we expect our interest-bearing debt to climb ¥30 billion above our initial forecast to ¥1,130 billion at the end of March 2013.

■ Consolidated EBITDA (excluding department store business)



■ Interest-bearing debt



■ Partial revision of numerical targets (consolidated)

Management indicators		Targets for FY2013
Operating income	Earnings from core businesses	¥100 billion
EBITDA	Cash flow generation capability	¥160 billion or more (¥150 billion or more)
Effects of integration	Quantitative effects of management integration	EBITDA = ¥5 billion or more (per year from FY2010)
Interest-bearing debt/EBITDA	Financial soundness	Around 7 times
Interest-bearing debt	Repayment of all TOB funds	¥1,130 billion or less (¥1,100 billion or less)
Debt/equity (D/E) ratio	Financial soundness	Less than two-fold
ROE	Capital efficiency	6.0% or more

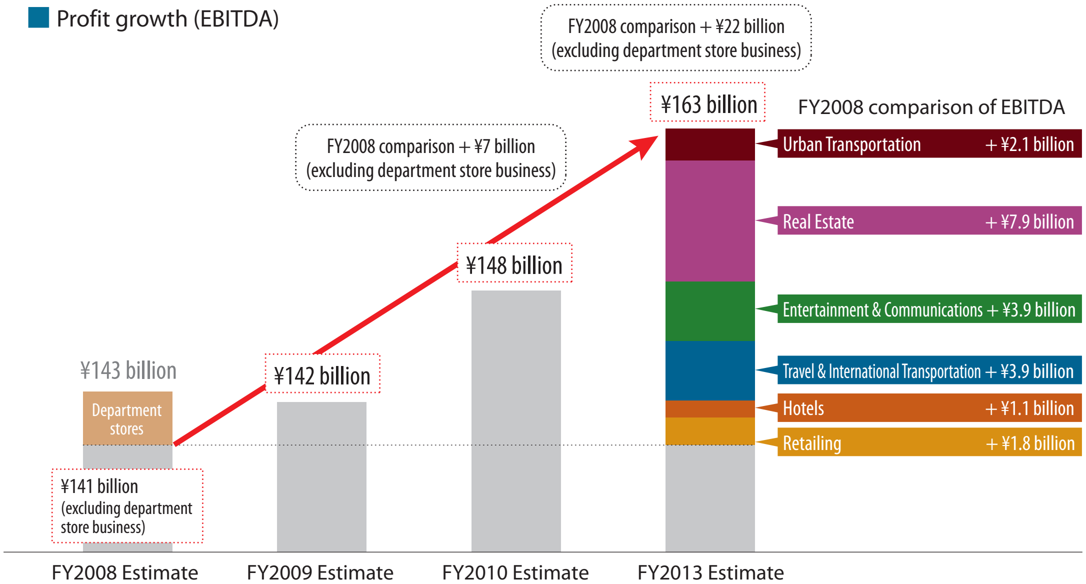
Red ink: current revisions Figures in brackets: figures released in March 2007

Q6 Are you confident that you will reach numerical targets for the fiscal year ending March 2013, the last year of the plan?

A We regard the first period of the plan, from April 2007-March 2010, as a period for investing in development for further growth, and the second half from April 2010-March 2013 as a time for realising the benefits of such large-scale investments. We expect a major contribution from the Real Estate business ahead of the last year of the plan, in particular from the large-scale rental-facility projects at Umeda and Nishinomiya-Kitaguchi.

Of these projects, the most representative is the rebuilding of Umeda Hankyu Building. When completed, this development will house one of Japan's largest department stores and will also have a high-rise office block. In particular, we expect additional net gains from the office wing, scheduled to open in 2010, which is a new departure. However, we only expect full occupancy from April 2013 onward. Our target-planning assumes that occupancy will increase steadily after opening. Because it is not clear what changes the future has in store for the office market, our targets for rental income are also conservative. I think we stand a strong chance of achieving them. I believe we can achieve the final year targets if large-scale projects are implemented as planned, contributing to a major increase in Group profit.

■ Profit growth (EBITDA)



* Comparison is on basis of forecasts at the time of announcement of the revision of the medium-term management plan, on 3rd April 2008. FY2008 result: ¥145.2 billion (excluding department store business, ¥143.2 billion).

Q7 How is progress in other major projects?

A In November 2008, we will begin operations of Hankyu Nishinomiya Gardens, a showpiece line-side development at Nishinomiya-Kitaguchi Station along the Hankyu Kobe Line. We expect some 20 million people a year to use this facility. It will greatly boost passenger volume and increase value along Group railway lines.

With the opening of the Hanshin Namba Line in March 2009, we will have a through-line linking the cities of Kobe, Osaka and Nara. We have high hopes of this project, as it will create the only private line serving both the Kita and Minami districts of Osaka.

In spring 2008 we completed the first phase of renovation works on Hanshin Koshien Stadium. We have already finished in-field seating works and signed the first naming rights contracts with two major companies for new seating installed in the renovation. This is one of several measures we are taking to increase stadium earnings. In October 2008, we will start Phase II works on "Alps" and outfield seating (please see P.27 for more details).

We also plan to complete the Umeda North Yard preliminary development area in the second half of fiscal 2012 (please see P.23-25 for more details).

Q8 What plans do you have for the Tokyo area including the hotel and retailing businesses?

A The know-how we have built up over the years developing our service areas stands us in good stead for developments in the Tokyo area. In April 2008, we opened the AKIBA TOLIM commercial facility in Akihabara, Tokyo, our first full-fledged venture of this kind in the capital area. Occupying an ideal site near the terminus of the Tsukuba Express, the building also houses a new-format hotel, REMM Akihabara.

At 31st March 2008, our 15 Book 1st. stores in the Tokyo area achieved annual sales of more than ¥10 billion. In November 2008, we plan to launch operations of a large-scale outlet in Shinjuku, to serve as our flagship Book 1st. store in the Tokyo area.

Q9 What medium to long-term vision do you have for the Group? How do you see it developing?

A Our corporate philosophy is "delivering serenity and well-being, inspiration and dreams," becoming a company that is supported by its customers.

To achieve this goal, we are providing better transportation services, developing superior housing and working to create robust communities in our service areas, through the joint Hankyu Hanshin brand. I believe we can build sustainable growth for the Group on the basis of comprehensive lifestyle services — unique entertainment businesses such as the Hanshin Tigers and Takarazuka Revue, as well as our commercial facilities, hotel and travel and other business — that attract more customers to service areas of both networks.

To realise these visions, we must not rest on our laurels, but continue our reforms and take measures to bolster the competitiveness of each of our businesses, to ensure that we become the Group of choice for our customers.

Financial Strategy and Return to Shareholders

Q10 Finally, what financial strategy and policy for return to shareholders will the Company follow?

A The Group aims to ensure future growth through a range of large-scale projects. Over the first three years of the plan, interest-bearing debt is set to trend upwards, as capital expenditure will outweigh depreciation. However, in the following three years, these investments will begin to bear fruit, and we will be able to bolster our financial position by reducing interest-bearing debt from cash flow generated by each of our core businesses, mainly the Urban Transportation and Real Estate businesses, and by selling off idle assets and assets that generate a lower rate of return.

Turning to the dividend, our policy is to ensure a stable annual dividend of ¥5 per share in the foreseeable future, while taking measures to strengthen operating and financial fundamentals.

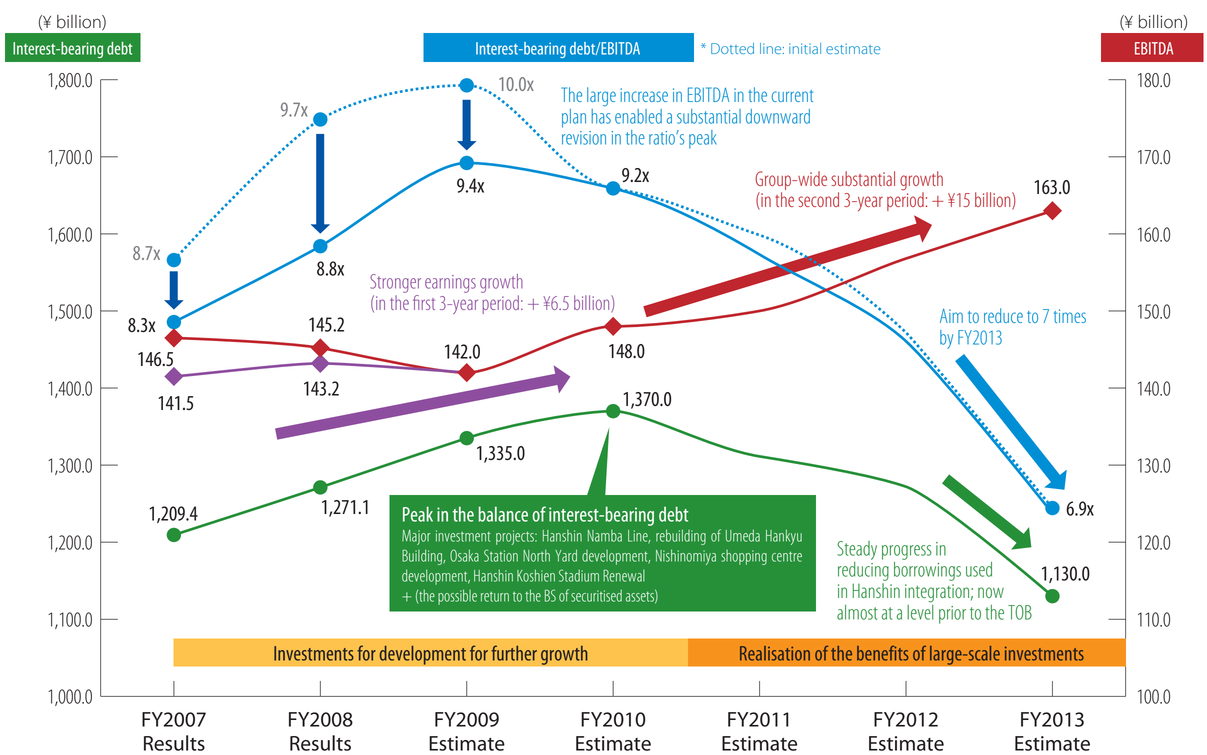
In future, by growing core businesses and improving our financial position, in a balanced way, we will further increase enterprise value, shoring up and improving our share price as expected by our shareholders.

Capital investment and depreciation costs

(¥ billion)

	FY2005-FY2007 (results)	FY2008-FY2010 (estimate)	FY2011-FY2013 (estimate)
Capital investment three-year total	165.0	330.0	223.0
(Capital investment average per year)	55.0	110.0	74.0
Depreciation costs three-year total	138.5	170.0	184.0

Interest-bearing debt/EBITDA



* Figures for fiscal 2007 are calculated on the assumption of merger on 1st April 2006.
* Purple line represents EBITDA excluding department store operations up to the first half of fiscal 2008.

Hankyu Hanshin Holdings Group 2007 Medium-Term Management Plan

On 26th March 2007, the Group announced the “Hankyu Hanshin Holdings Group 2007 Medium-Term Management Plan,” which covers the six years from April 2007 to March 2013. The aim is to enhance the enterprise value of Group companies as a whole. The fiscal year ending March 2013 is the target year, as current major projects (such as the rebuilding of Umeda Hankyu Building and the Hanshin Namba Line (Nishi-Osaka Line Extension Project)) are expected to be mostly completed by the end of that fiscal year.

One year after the initial announcement of the plan, on 3rd April 2008, we released the “Progress Report on the 2007 Medium-Term Management Plan” (including revision of targets) based on performance estimates for the reporting term ended March 2008 and the changes in our operating environment.

Looking ahead, and taking into account financial soundness and capital efficiency, we will work to strengthen profitability and cash flow generation and continue to achieve our goals set for the fiscal year ending March 2013.

Main Points in Revision of Medium-Term Targets

Current sound performance

Review of the plan for expansion of earnings (especially for the first 3-year period)

EBITDA: Raise the targets

Stricter application of accounting standards for assets under securitisation using special purpose companies (SPCs)

Inclusion of securitised assets in on-the-balance-sheet assets, or arrangement of sale to third parties

Interest-bearing debt: Target figures revised

Major Performance Indicators (Consolidated)

(¥ billion)

	FY2007 (results)*1	FY2008 (results)*2	FY2009 (estimate)	FY2010 (estimate)	FY2013 (estimate)
EBITDA*3	146.5 (141.5)	145.2 (143.2)	142.0	148.0	163.0
Effects of integration	—	2.2	4.6	5.6	6.2
Interest-bearing debt/EBITDA	8.3x	8.8x	9.4x	9.2x	6.9x
Interest-bearing debt	1,209.4	1,271.1	1,335.0	1,370.0	1,130.0
Debt/equity (D/E) ratio	2.4x	2.7x	2.6x	2.5x	less than 2x
ROE	—	0.1%	more than 6.0%	more than 6.0%	more than 6.0%

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

About Major Performance Indicators

EBITDA: For the year ending March 2013, we aim to achieve a target of ¥160 billion or more (¥100 billion in operating income) by completing current major projects, which will substantially increase EBITDA for the Group as a whole, taking into account the more than ¥5 billion a year merger benefit from the fiscal year ending March 2010.

Interest-bearing debt: Due to concentration of investments in project developments in the first 3-year period of the plan and inclusion of securitised properties in on-the-balance-sheet assets, there will be a one-time rise in interest-bearing debt. However, thanks to profit growth through completion of large-scale projects and sale of low-yield and idle assets, we aim to decrease interest-bearing debt to ¥1,130 billion or less by the end of March 2013.

Interest-bearing debt/EBITDA: We aim to drastically improve this ratio to around 7 times at the end of March 2013 compared with 8.3 times at the end of March 2007. This will be done by increasing EBITDA while decreasing interest-bearing debt.

Business Performance (Consolidated)

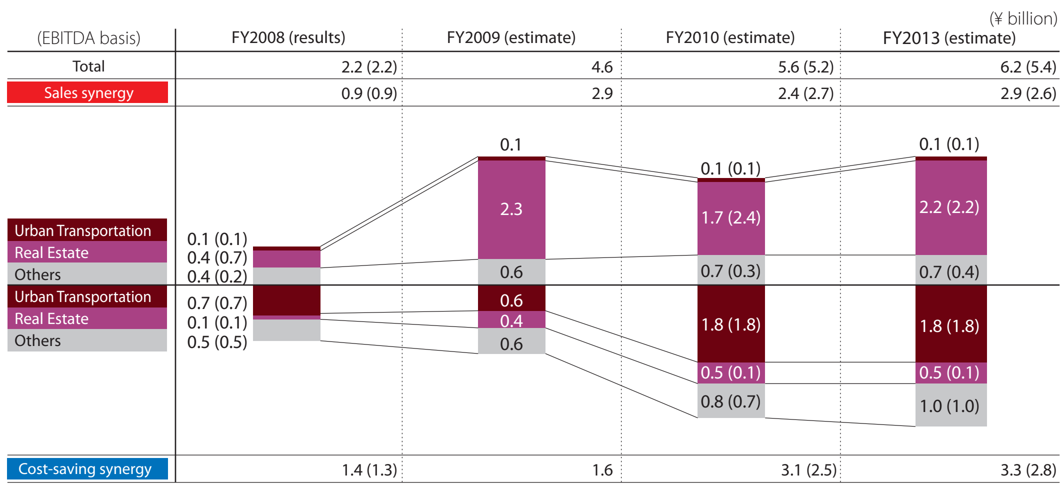
(¥ billion)

	FY2007 (results)*	FY2008 (results)*	FY2009 (estimate)	FY2010 (estimate)	FY2013 (estimate)
Revenues from operations	743.3	752.3	709.0	730.0	780.0
Operating income	87.0	90.7	84.0	84.0	100.0
Recurring profit	74.8	74.8	63.0	62.0	79.0
Net income	36.6	0.6	34.0	35.0	42.0

* Until the first half of fiscal 2008, the department store business fell within the scope of consolidation (including equity-method affiliates).

Benefits of Integration

Numerical targets for core businesses reflect synergy effects, in terms of expansion of sales and cost reduction, for which quantitative estimates are available at the time of revision (made public on 3rd April 2008) of targets of the plan.



* Sums given are those which can be calculated at the current time.
* Figures may not total exactly due to rounding.
* Figures within brackets are initial targets (announced in March 2007).

Sales synergy

- Strengthen alliances within Urban Transportation, use companies of both groups
- Collaborate in condominium unit sales business
- Link up on single-family house 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

[Main factors behind changes compared with initial forecasts]
- Collaboration in international transportation business (active use of co-loading and joint use of overseas logistics facilities)

Cost-savings 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

[Main factors behind changes compared with initial forecasts]
- Improved efficiency of operational system thanks to reorganisation of PMBM (property management & building maintenance) business

Core Businesses: Basic Strategies and Numerical Estimates

Please refer to the section Review of Operations (P18-30) for overview and policies for each core business.

[Notes regarding the numerical estimates for core businesses]
•"Core businesses" refer to units for administrative accounting purposes, these and differ from segments in financial statements.
•Results for fiscal 2007 are calculated assuming that the management integration had occurred at the beginning of the fiscal year.
•EBITDA for each core business does not take into account amortisation of goodwill generated by the merger.
•Figures within brackets are initial estimates (announced in March 2007).

EBITDA (left scale)
Operating income (left scale)
Revenues from operations (right scale)

Urban Transportation

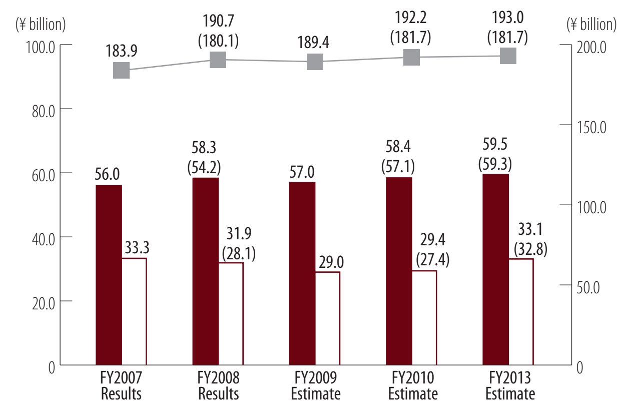
P.20

While addressing the issues of declining population and intensifying competition in areas served by our stations, and responding to calls for greater social responsibility and other structural change in demand and markets, we will build competitiveness for sustainable growth and increase value along Group railway lines.

(1) Provide services of real value to our customers

(2) Rigorously commit to low-cost operation

(3) Provide safe, high-quality transportation services



Real Estate

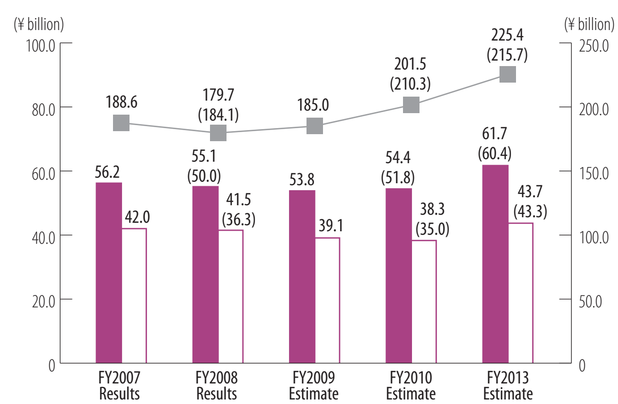
P.22

Leveraging our strengths in brand recognition and trust in the Kyoto-Osaka-Kobe area, and in value creation in areas served by our railways, we have adopted the following priority strategies.

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

(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



Entertainment & Communications

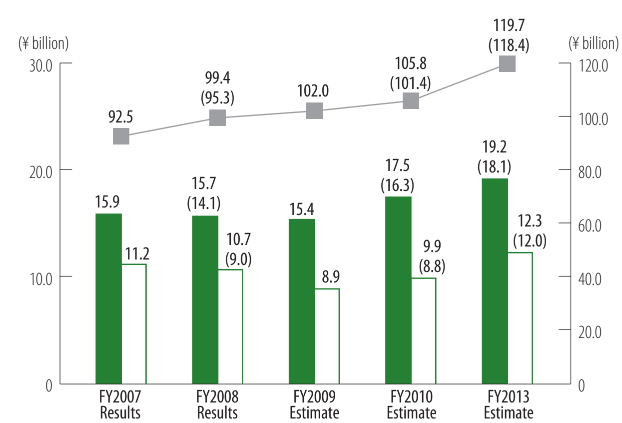
P.26

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

(1) Increasing the appeal of live events

(2) Upgrading and expansion of media use

(3) Leverage our leisure facilities



Travel & International Transportation P.28

<Travel>

By providing high-valued added products that fulfil dreams and inspire, we will consolidate our customer base and generate stable earnings.

(1) Increase customer satisfaction

(2) Strengthen marketing capability (for tailor-made tours and corporate business)

(3) Position the company for stable profit growth (centralised purchasing, etc.)

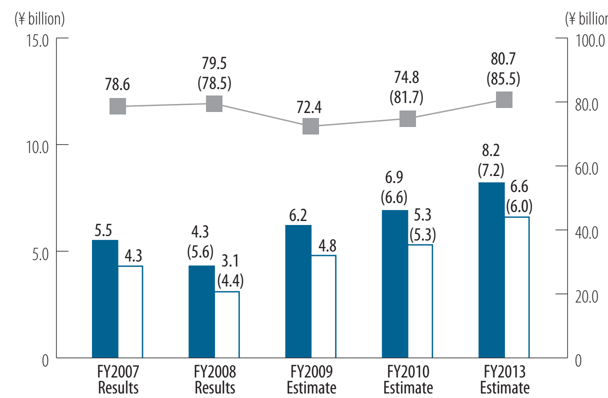
<International Transportation>

Create sophisticated logistics systems to generate stable business growth, based on global networks centred on China and elsewhere in Asia.

(1) Bolster the revenue base (provide higher-quality services, etc.)

(2) Enhance productivity (build alliances with other companies, achieve low-cost operations)

(3) Build up Group collective strength (expand network of local units, etc.)



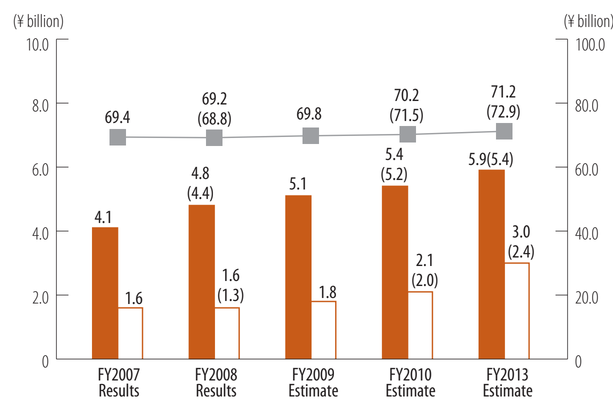
Hotels P.29

Consolidating its management base, this business is pursuing a goal of developing into a well-established hotel chain operator.

(1) Create infrastructure for hotel chain operation

(2) Establish an efficient business management system (solid start of our hotel chain REMM)

(3) Strengthen marketing capabilities of each hotel management company



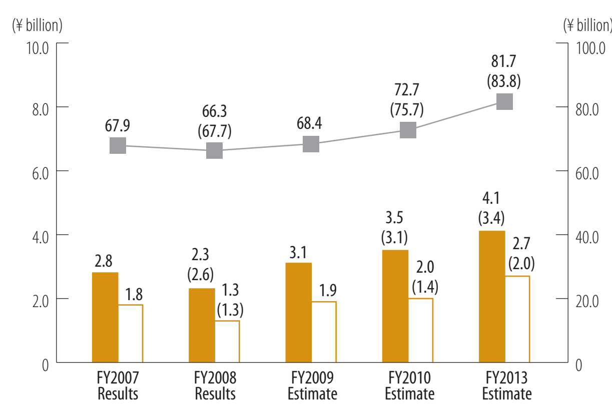
Retailing P.30

Achieve sustainable growth by increasing value along Group railway lines by developing stations and line-side areas, and by expanding business projects outside our service areas.

(1) Revitalise our stores and raise employee standards

(2) Strengthen our capability as an organisation to support sustainable growth (establish logistics infrastructure, etc.)

(3) Find ways to generate synergies from the management integration (purchasing and product delivery, etc.)



*Figures do not include the department store business.

Outline of Group Restructuring

Based on the Hankyu Hanshin Holdings Group 2007 Medium-Term Management Plan, we are steadily overhauling operations to realise the benefits of the integration as soon as possible.

Management Integration Initiatives

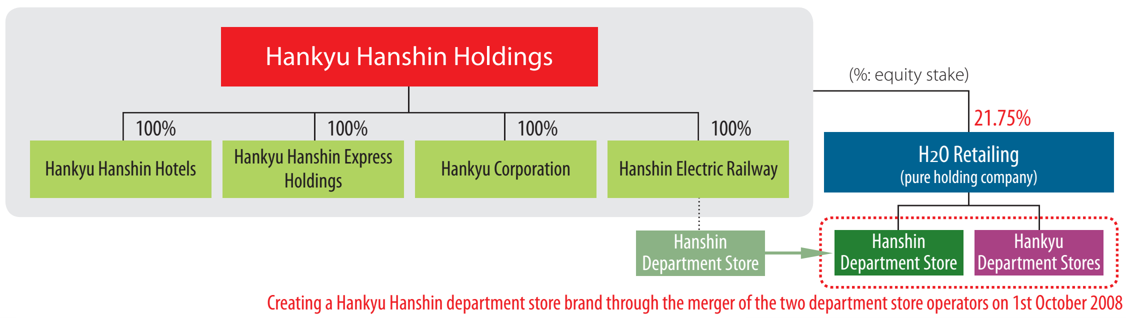
Oct. 2007	Hanshin Department Store	Undertook management integration with the Hankyu Department Stores and switched to a holding company system (with the launch of H_2O Retailing Group) 1
Oct. 2007	Hankyu Facilities Hanshin Engineering	Following the merger of these two companies, the new entity absorbed Hanshin Electric Railway's operations for leasing facility management and administrative operations for buildings located along the railway lines. (After the merger, the new entity was renamed Hankyu Hanshin Building Management.)
Oct. 2007	Itec Hanshin Hankyu Business Associate (Computer-related services)	Carried out a corporate spin-off to create a centralised IT service within the Group. (Following the integration process, the new entity was named Itec Hankyu Hanshin.)
Apr. 2008	Hankyu Express International Hanshin Electric Railway (Travel Section) Hanshin Air Cargo	Hankyu Express International and other travel and transportation operations were reorganised to create an intermediary holding company under the name of Hankyu Hanshin Express Holdings Corporation 2
Apr. 2008	Hankyu Hotel Management Hotel Hanshin Hotel Hanshin Restaurant Systems	Merged three companies to realise further benefits through the integration of hotel operations, and strengthen our management base. (The new entity has been named Hankyu Hanshin Hotels.) 3

Selection and Focus

Mar. 2008	Hankyu Cargo Service	Split into two new entities: Hankyu Cargo Service (domestic logistics services) and Hankyu Logitec (international logistics services) ⇒ On 1st April 2008, all of the investments in Hankyu Cargo Service were sold to Plus Logistics ⇒ On 1st April 2008, Hankyu Logitec was made a subsidiary of Hankyu Express International
Apr. 2008	Hotel New Hankyu Kobe Sanda	The hotel's business rights and assets were transferred to a new hotel operator established by ORIX Real Estate Corporation; Hankyu Hanshin Hotels will continue hotel management operations

❶ Strengthening partnerships with the Department Stores Group under H_2O Retailing

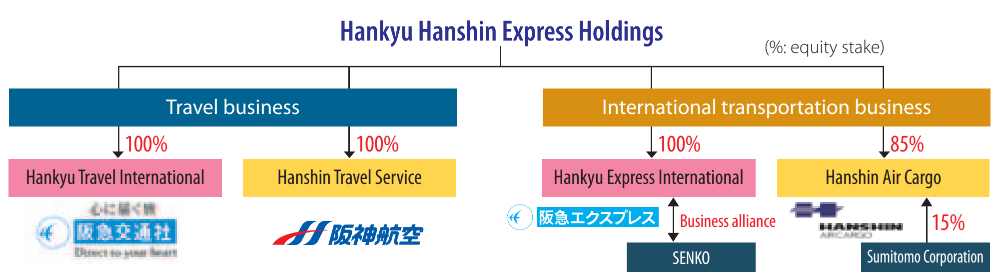
The Company's equity stake in H_2O Retailing increased to 21.75%, leading to its inclusion in the scope of consolidation as an equity method affiliate, and partnerships have been strengthened with the Department Stores Group.



❷ Travel and International Transportation segment: Shift to an intermediary holding company structure

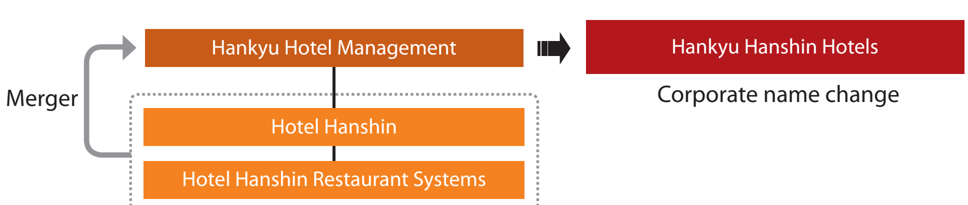
The travel business is managed by two new entities, Hankyu Travel International and Hanshin Travel Service. International transportation services are handled by Hankyu Express International and Hanshin Air Cargo. These four entities have been brought under the umbrella of the intermediary holding company.

⇒Increase competitiveness in Travel and International Transportation by speeding up decision-making and introducing proprietary systems more closely tailored to each specific business.



❸ Merger of Hankyu Hotel Management and Hotel Hanshin

To deepen management integration, Hankyu Hotel Management, the Hotel Hanshin and Hotel Hanshin Restaurant Systems were merged on 1st April 2008 to create a single managing company, Hankyu Hanshin Hotels.



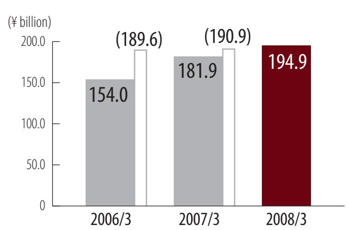
Overview of Core Businesses

Urban Transportation

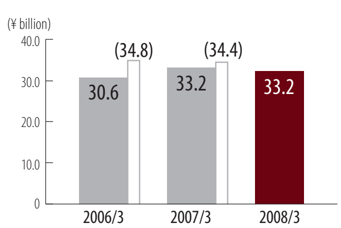
The Urban Transportation business, centred on Hankyu Corporation and Hanshin Electric Railway Co., Ltd., operates railway, bus and taxi services forming an extensive transportation network throughout the Kansai area. Its mission is to provide safe, comfortable and highly convenient transportation services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

Total length of lines operated:
Hankyu Corporation 146.5km
Hanshin Electric Railway 45.1km
(including tier 2 railway operator)

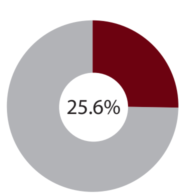
Revenues from operations



Operating income



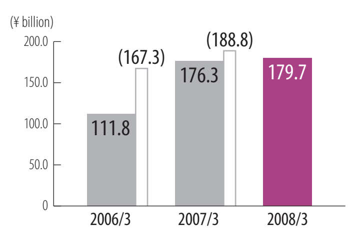
Share of total revenues from operations

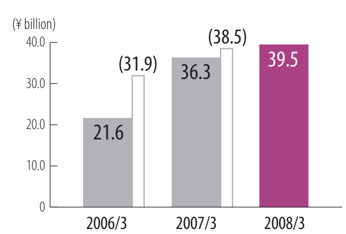


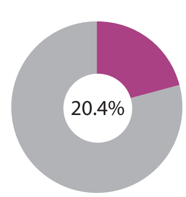
P.20-21>>>

Real Estate

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



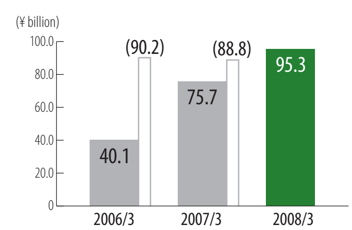


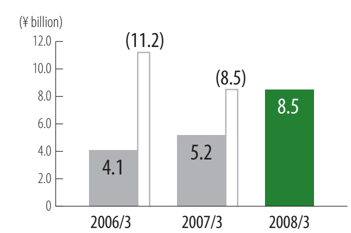


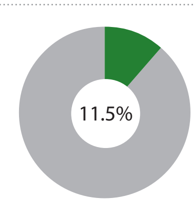
P.22-25>>>

Entertainment and Communications

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



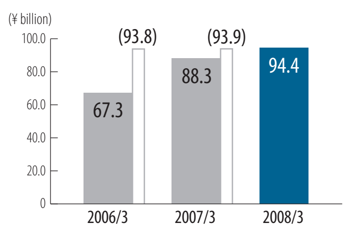


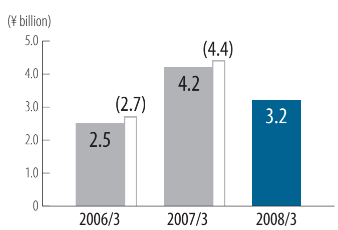


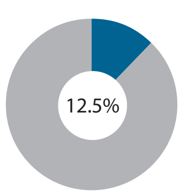
P.26-27>>>

Travel and International Transportation

In April 2008, we shifted to a corporate structure with four core businesses operating under a intermediary holding company, Hankyu Hanshin Express Holdings Corporation. The four businesses are Hankyu Travel International Co., Ltd. and Hanshin Travel Service Co., Ltd., which operate travel businesses, and Hankyu Express International Co., Ltd. and Hanshin Air Cargo Co., Ltd., which handle international transportation. Hankyu Travel International Co., Ltd. offers the Trapics brand of products tailored to customers' vacation styles. Hanshin Travel Service Co., Ltd. offers the high-quality Friend Tour line of package tours, with a focus on European destinations and customised tours for business travellers. The international transportation business offers high-quality logistics services through Hankyu Express International Co., Ltd. and Hanshin Air Cargo Co., Ltd.



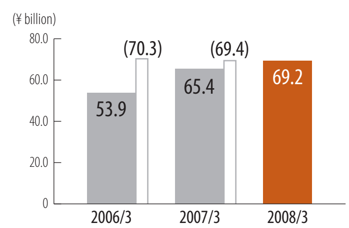


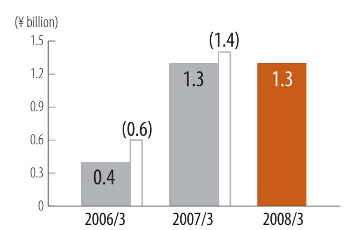


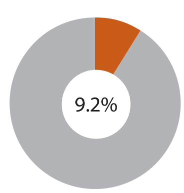
P.28>>>

Hotels

Hankyu-Hanshin-Daiichi Hotel group operates 45 hotels, consisting of 16 directly managed by Hankyu Hanshin Hotels Co., Ltd., and 29 belonging to chains operated by franchise. It is one of Japan's most important hotel chains, with approximately 8,300 guest rooms, as of 30th April 2008. It offers a wide range of hotel formats, from general-purpose "city hotels" to hotels for businessmen (with very limited function facilities), and is particularly strong as a hotel operator with many directly-managed hotels in the Tokyo and Kansai areas. In addition to chain operations, it also manages the new and already very popular The Ritz-Carlton, Osaka, an international luxury brand with which it has formed an alliance.



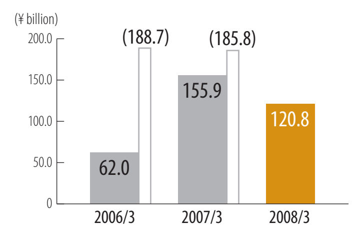


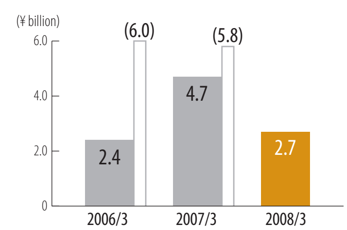


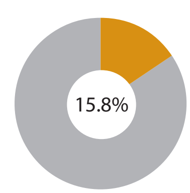
P.29>>>

Retailing

This segment comprises the department store business (The Hanshin Department Store's Umeda store in Osaka as well as the chain operated by The Hanshin Department Store, Ltd.); retailing, which spans a wide range of outlets in areas served by our lines, such as bookshops, convenience stores and cosmetics and accessory stores; and the food and drink business operated by Creative Hankyu Co., Ltd. Our Book 1st. chain has also opened stores in the Tokyo area. In the Department Store Business, The Hanshin Department Store group in October 2007 merged with Hankyu Department Store, and is no longer treated within the scope of consolidation.







P.30>>>

Revenues from operations

Operating income

Share of total revenues from operations

Numerical values are by segment.
Revenues from operations represent amounts prior to consolidation adjustments; that is, revenues from outside customers plus intersegment transfers and transactions
・For the term ended 31st March 2006, consolidated results for Hankyu Holdings are shown and consolidated results for Hankyu Hanshin Holdings (with consolidation of the Hanshin Group dated from the second quarter) are given for the term ended 31st March 2007
・Figures in brackets for the term ended 31st March 2006 are simple additions of the results of Hankyu Holdings and Hanshin Electric Railway, while figures in brackets for the term ended 31st March 2007 assume consolidation of Hanshin Electric Railway at the beginning of the term (12-month period)
Breakdowns of revenues from operations for each segment show proportions of such revenues from outside customers in the term ended 31st March 2008. Others represent 5.0% of the total

Urban Transportation

Core companies: Hankyu Corporation, Hanshin Electric Railway

Overview of the year ended 31st March 2008

Expanding railway revenues by attracting customers through joint promotions

Joint promotions by Group companies

In the railway business, we took measures to attract customers to facilities along our lines through cross-use of the PiTaPa-enabled HANA PLUS Card (Hankyu) and CoCoNet Card (Hanshin)* on lines of both operators, as well as issue of one-day-pass tickets valid on all Hankyu and Hanshin railway lines and joint promotions by Group companies.

* In October 2007, the STACIA card was launched as a new card for use throughout the Group (please see P.31).

Safety measures

Measures to improve safety of transportation include introduction of a centralised earthquake alert system along Hankyu and Hanshin lines.

More convenient bus services

Measures to improve bus service convenience include release of a common Hankyu and Hanshin bus card, and bus shelters with advertising wall panels.

Depreciation costs dampen strong operating-line performance

Revenues from operations increased year-on-year at both Hankyu and Hanshin on the back of a good performance by railway transportation, which benefited from increased customer numbers due to condominium developments along our lines and the general recovery in consumption. However, operating income was slightly down due primarily to an increased depreciation burden following the amendment of tax legislation in Japan.

■ Results for the year ended 31st March 2008

Revenues from operations:
¥194.9 billion (up ¥13.0 billion year-on-year)
Operating income:
¥ 33.2 billion (down by less than ¥0.1 billion year-on-year)

(Note 1) Results for the previous term, the basis for comparison, are inclusive of Hanshin Group results from the second quarter. (Segment results only include the nine-month performance by Hanshin Group).
(Note 2) Assuming full management integration from the beginning of the previous term, on a consolidated basis, revenues from operations would have risen ¥4.0 billion year-on-year and operating income would have fallen ¥1.3 billion.

Policies in the year ending March 2009

Increase value along Group railway lines

- Expansion of the service menu under the STACIA Card
- Attract customers to facilities along our lines
- More convenient bus routes through a joint Hankyu and Hanshin initiative

Expand the network

- Hanshin Namba Line (Nishi-Osaka Line Extension Project)
- Discussion and promotion of new station plans (downtown stations for Settsu and Nagaokakyo)

Share and enhance technology and know-how

- Shared use of facilities
- Joint project ordering, and harmonisation of specifications for station equipment

Infrastructure upgrades along our lines

- Grade separation
- Promote safety improvement policies (install operational status monitoring systems)
- Barrier removal at stations earmarked for upgrades
- Installation of underground disaster prevention facilities

Hankyu Railway

Hanshin Electric Railway

Hanshin Namba Line (Nishi-Osaka Line Extension Project)

Creation of a new railway network linking Kobe, Osaka and Nara

In the Nishi-Osaka Line Extension Project, we are a forming a wide-area railway network linking Kobe, Osaka and Nara by strengthening links between the Kobe-Osaka corridor and downtown Osaka, and sharing lines with Kintetsu railway.

Creation of a wide-area network will greatly increase convenience, creating connections at the new stations Kujo, Dome-mae and Sakuragawa. It will also feature the first private through-route serving the two major railway terminals in Osaka, Umeda and Namba.

The project uses the top-and-bottom (ownership/operation) separation method, in which Nishi-Osaka Railway Co., Ltd., a third-sector company, will construct and own railway facilities (lines and stations) using subsidies from the central local governments. Hanshin Electric Railway, one of the major investors in Nishi-Osaka Railway, will operate the line under a leasing contract.

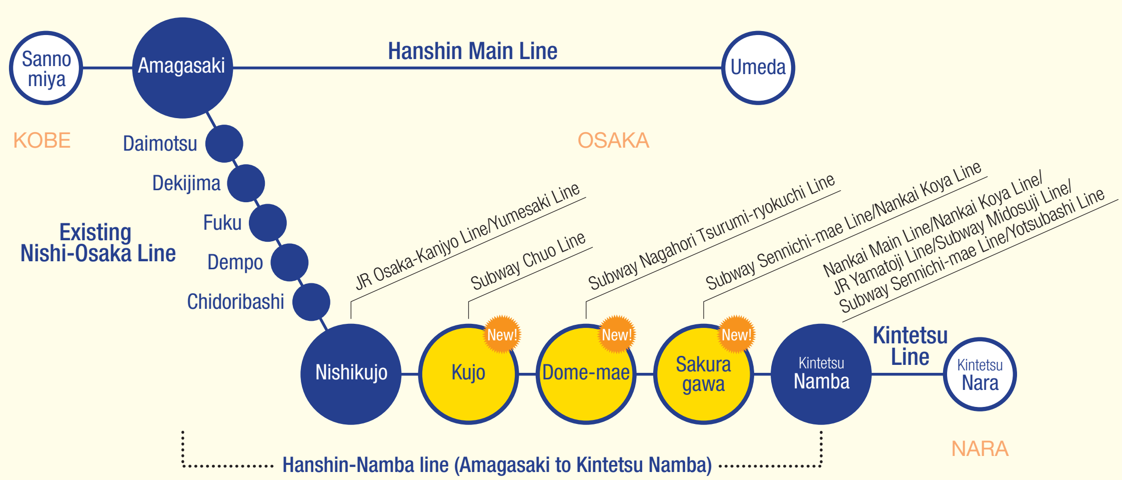
Project overview

- **Project cost:** Approx. ¥127.5 billion (including the extension and existing Hanshin lines.)
  Hanshin Electric Railway will face a total financial burden of approx. ¥23.0 billion.
- **Opening scheduled for:** 20th March 2009
- **Predicted demand:** Approx. 84,000 people per day

神戸・難波・奈良、つながる。
阪神なんば線
'09.3.20 開通予定

Hanshin Namba Line logo

- Hanshin-Namba Line



Real Estate

Core companies: Hankyu Corporation, Hanshin Electric Railway

Overview of the year ended 31st March 2008

Subdivision and rental businesses perform well

Condominiums, residential land both perform well

The Geo Tower Nishinomiya-Kitaguchi (Nishinomiya, Hyogo Prefecture) and Geo Grande Ashiya-Midorigaoka (Ashiya, Hyogo Prefecture) developments led strong condominium subdivision sales, and Kobe Hanayamate Hapia Hills (Kita-ku, Kobe) underpinned robust residential land sales.

Opening of Kotocross Hankyu Kawaramachi and Mikage Classe commercial rental facilities

In rental businesses, Kotocross Hankyu Kawaramachi, a commercial rental facility abutting Hankyu Kawaramachi Station opened in October 2007, and Mikage Classe, a commercial facility at Hanshin Mikage Station, opened in March 2008, performed well. This combined with high occupancy rates and reduced management and operation costs at Group office and commercial facilities to offset the impact of sales of properties in the previous term.

Property management and building maintenance businesses strengthened their marketing and improved the quality of services through integration of Hankyu Hanshin Building Management Co., Ltd., in a measure to consolidate management resources.

Results for the year ended 31st March 2008

Revenues from operations:
¥179.7 billion (up ¥3.4 billion year-on-year)

Operating income:
¥ 39.5 billion (up ¥3.2 billion year-on-year)

(Note 1) Results for the previous term, the basis for comparison, are inclusive of Hanshin Group results from the second quarter. (Segment results only include the nine-month performance by Hanshin Group).
(Note 2) Assuming full management integration from the beginning of the previous term, on a consolidated basis, revenues from operations would have fallen ¥9.1 billion year-on-year and operating income would have risen ¥1.0 billion.

Policies in the year ending March 2009

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

- In the Nishinomiya-Kitaguchi Development Project, we plan to open Hankyu Nishinomiya Gardens in November 2008
- Provide a stable supply of around 1,200 condominium units per year from the year ending March 2010
- Strengthen sales of Minoh Onohara Residence and Takarazuka Yamatedai Residence, the first Hankyu-Hanshin joint ventures in the single-family house subdivision business

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

Raise our profile in the Umeda area, through renovations of established properties

- Raise our profile in the Umeda area through renovations at Umeda Hankyu Building Reconstruction Project, Chayamachi Redevelopment Project (Eastern District), and Osaka Station North Area (Northern Railway Yard of Osaka Station) Development Project

Geo Tower Nishinomiya Kitaguchi (Nishinomiya, Hyogo)

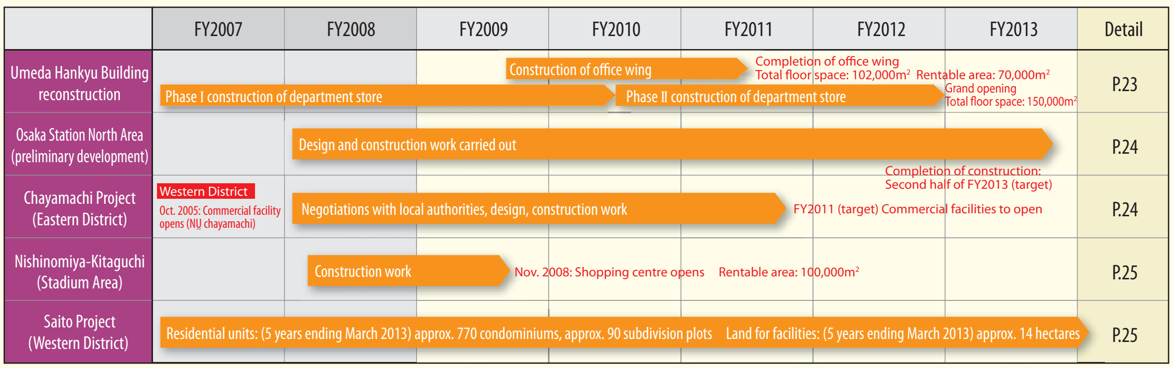
Geo Grande Ashiya-Midorigaoka (Ashiya, Hyogo)

HERBIS ENT (Kita-ku, Osaka)

Major Ongoing Projects

Currently, the Hankyu Hanshin Holdings group has several major projects underway along Group lines. Below are details of progress in these drivers of future growth in the real estate business.

■ Major projects



Rebuilding of Umeda Hankyu Building

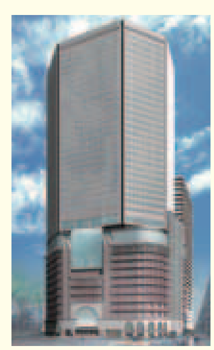
Building a new pillar of real estate operations

We aim to construct a multiple-use commercial building on a scale that will make it a landmark in the premium locations of Umeda area, with barrier-free connections with surrounding facilities and enhanced pedestrian traffic flows.

The application of the Urban Renaissance Special Measures Law, enabling a relaxation in floor-area ratios by 800%, means that we can build to a floor-area ratio of 1,800%. At Umeda we plan one of Japan's largest department stores, occupying 2 floors below ground and 13 floors above ground in a high-rise building that will dwarf rivals in the neighbourhood in terms of earthquake-resistance and profitability. Offices will occupy floors 17-41.

We aim to transform new Umeda Hankyu Building into a pillar of the real estate business, further strengthening the commercial clout of the area and greatly increasing its rentable area with this building.

Currently, we are committed to opening Phase I of the department store in the autumn of 2009, to be followed by the office buildings by the first half of fiscal 2011, with completion of Phase II of the department store (Grand Opening) in spring 2012.


Artist's impression of completed new Umeda Hankyu Building

Project overview

	Former building	Planned building
Scale	2 floors below ground, 12 floors above ground	2 floors below ground, 41 floors above ground, rooftop level
Height	45m	187m
Total area	112,600m²	252,000m²
Floor-area ratio	1,000%	1,800%

Total investment: ¥57.5 billion
Grand opening: Spring 2012

■Hankyu Department Umeda Main Store

Rentable area: Approx. 140,000m²
Sales floor area: Approx. 84,000m²
Two basement floors and 13 floors above ground

■Office use

Rentable area: Approx. 70,000m²
Office floors: 25 (17th - 41st)
Total area per floor: Approx. 3,700m²
Lease area per floor: Approx. 2,800m²

Major Ongoing Projects

Osaka Station North Area (Umeda North Yard) Development

Completion of Osaka's best business address in fiscal 2013

We have begun the redevelopment of the 7-hectare Umeda North Yard preliminary development area, a pillar of the revitalization of the Kansai economy. Umeda North Yard is the premium area around JR Osaka Northern District and one of the best remaining city-centre business locations in Japan. Hankyu Corporation was selected to join the consortium developing Blocks A, B and C. In February 2008, the project was officially approved as a special regeneration zone.

Completion is scheduled for the second half of fiscal 2013, under the slogan "Create a community with a bright future founded on innovation and knowledge." Centred on the "Knowledge Capital" zone (facilities for research into robots and IT), development has begun of a multipurpose complex with one of Kansai's largest office towers, superior commercial facilities, hotels and residential units. Drawing on its track record and expertise in this kind of development, the Group will join hands with bid-competition organisers, Osaka City and members in the developer consortium, and help further revitalise Umeda by helping creating an attractive community.

		A Block	B Block		C Block
Floors		37 floors above ground, 3 floors below	37 floors above ground, 3 floors below	33 floors above ground, 3 floors below	50 floors above ground, 1 floor below
Site area		Approx. 10,570m²	Approx. 22,679m²		Approx. 4,665m²
Building area		Approx. 8,400m²	Approx. 15,700m²		Approx. 2,500m²
Total area subject to calculation of floor-area ratios		Approx. 169,100m²	Approx. 260,800m²		Approx. 53,700m²
Major use		Offices Commercial facilities	South tower: Offices North tower: Offices, hotels & residences Lower-level: Commercial facilities, research facilities		Condominiums
Total floor area	Offices	Approx. 228,800m²			
	Commercial facilities	Approx. 80,700m²			
	Knowledge Capital	Approx. 82,300m²			
	Condominiums	Approx. 52,300m²			
	Hotels & residences	Approx. 39,500m²			

Artist's impression of completed Umeda North Yard

Chayamachi Redevelopment (Eastern District)

Construction of new multipurpose complex in Eastern District

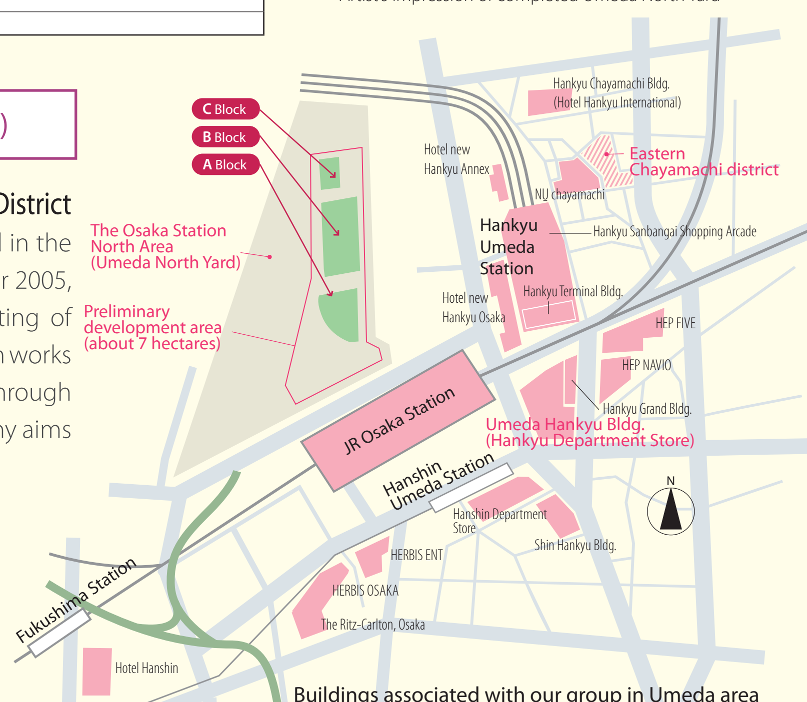
Following the NU chayamachi commercial facility opened in the western district of the Umeda Chayamachi area in October 2005, we launched a compound development project consisting of retail, residential, school and administrative blocks. The main works are scheduled to start by the second half of fiscal 2009. Through its retail facility and condominium operations, the Company aims to create comfortable, bustling communities.

■Outline of project

Site area: 5,130m²
Total floor area: 34,930m²
Building size: 1 floor below ground, 31 floors above
Project type: Compound development consisting of retail, residential, school and administrative blocks

■Outline of project (group only)

Commercial and residential block development
Operation of commercial facilities (1st to 3rd floors)
Subdivision of condominium units (4th to 31st floors)



Buildings associated with our group in Umeda area

Nishinomiya-Kitaguchi Development Project (Hankyu Nishinomiya Gardens)

One of western Japan's largest retail complexes, opening November 2008

In November 2008, one of Japan's largest retail complexes, Hankyu Nishinomiya Gardens, will open on the former site of the Hankyu Nishinomiya Baseball Stadium, which abuts Hankyu Nishinomiya-Kitaguchi Station in the middle of the residential area between Osaka and Kobe. This facility will house a Hankyu department store as a core facility. It will be a mixed retail and entertainment space jointly developed by the Hankyu Hanshin Toho group companies, including a cinema complex created by Toho Cinemas Ltd. and OS Co., Ltd. In combination with the Hyogo Performing Arts Centre and the Kitaguchi-Minami Hankyu building just south of the station, the complex will draw not only local residents but people from a wide area, becoming a nexus in the Osaka-Kobe corridor.

■Outline of facilities

Facility name: Hankyu Nishinomiya Gardens
Site area: Approx. 70,000m^2
Rentable area: Approx. 107,000m^2
Number of retail outlets: 268
Parking: Approx. 3,000 cars

■Core facilities

Department store (Hankyu Department Stores, Inc)
Store area: 25,000m^2
Cinema complex (Toho Cinemas Ltd., OS Co., Ltd)
Size: 12 screens, approx. 2,200 seats
General merchandise store (Izumiya Co., Ltd.)
Store area: 11,500m^2

NISHINOMIYA GARDENS

■Schedule

October 2007: Construction starts
November 2008: Opening planned

"Saito" Development Project

Progress in subdivisions in the western sector

Located approximately 20km north of Osaka City centre in a hilly area comprising the northern part of Ibaraki City and eastern part of Minoh City, the 743-hectare International Culture Park "Saito" is a 21st-century public-private sector new-town development. With harmony between human communities and nature as the theme, we intend the three zones of Saito - western (313 hectares), central (63 hectares), and eastern (367 hectares) - to be a cluster of international academic, cultural and research and development institutions, mainly in the life sciences. Development of a new residential neighbourhood based on the concept of "building a new garden city" is proceeding smoothly. Up to the year ended 31st March 2008, we sold out all cluster condominium, single-family houses and land subdivisions and lots. In March 2007, the Saito-Nishi Station on the Osaka Monorail Saito Line opened, meaning that Senri Chuo Station can be reached in 17 minutes and Umeda Station in 36 minutes (not including time needed to change trains). In March 2008, the total population stood at some 6,000 residents, an increase of around 1,500 year-on-year.

■Outline of "Saito"

Total development area: 743ha (western zone: 313ha)
Use: Single-family houses, condominiums, land for facilities, etc.
Resident population: Approx. 6,000 people (as of 31st March 2008)
Working population: Approx. 1,100 people (as of 31st March 2008)

■Outlook for subdivision business (five-year term ending March 2013)

Condominiums: Approx. 770 units
Subdivisions: Approx. 90 lots
Land for facilities: Approx. 14ha

Entertainment & Communications

Core companies : Hankyu Corporation, Hanshin Electric Railway

Overview of the year ended 31st March 2008

Hanshin Tigers, Takarazuka Revue and Umeda Arts Theatre perform well

In our sports businesses, Central League team Hanshin Tigers reached the playoffs for the Japan Series title in the national baseball competition. Attendance at home games was also higher than in 2005, when they won the Central League pennant.

In the revue and theatre business, a strong performer was "Adieu Marseille," in which the leading male-role actress, Sumire Haruno, gave a farewell performance. Takarazuka Grand Theatre and Tokyo Takarazuka Theatre both enjoyed high seat occupancy. Successful productions at Umeda Arts Theatre included "Elisabeth" by Vereinigte Bühnen Wien (United Stages Vienna) and the Umeda Concert by the NHK Symphony Orchestra.

Other customer draws included the opening of "Billboard Live" club and restaurant chain (Tokyo, Osaka and Fukuoka), launch of cable TV high-speed internet connection services and events staged on top of Mt. Rokko in partnership with Takarazuka Revue.

Results for the year ended 31st March 2008

Revenues from operations:
¥95.3 billion (up ¥19.6 billion year-on-year)
Operating income:
¥ 8.5 billion (up ¥ 3.3 billion year-on-year)

(Note 1) Results for the previous term, the basis for comparison, are inclusive of Hanshin Group results from the second quarter. (Segment results only include the nine-month performance by Hanshin Group).
(Note 2) Assuming full management integration from the beginning of the previous term, on a consolidated basis, revenues from operations would have risen ¥6.5 billion year-on-year and operating income would have grown ¥0.1 billion.

Policies in the year ending March 2009

Hanshin Tigers/Hanshin Koshien Stadium and Takarazuka Revue: Strengthen proprietary brands

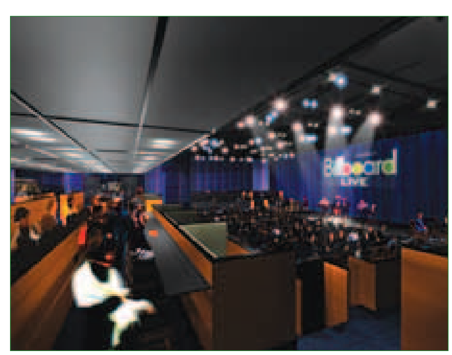
- Create superior content by nurturing and buying the best players and training new talent
- Create a superior spectator environment by renovating Hanshin Koshien Stadium
- Maintain seat occupancy and improve earnings capabilities at Takarazuka Revue by a fundamental review of ticketing and number of shows
- Bring in new customer segments by popularising the Billboard brand

Make more of live events using different media

- Develop multi-use of live-event content through various media formats
- Develop and implement media-mixing policies (bolster relationships among units of our publishing, broadcasting, and advertising operations)
- Expand channels handled and strengthen information delivery (internet and mobile media)

©Hanshin Tigers

©Takarazuka Revue Company



"Billboard Live" club and restaurant

Major Ongoing Projects

Hanshin Koshien Stadium Renovation

Full reopening scheduled for March 2009

From its opening in 1924 right down to the present, Hanshin Koshien Stadium has been loved by many fans as the spiritual home of Japanese baseball. Now, we have launched an approximately ¥20 billion renovation project to completely overhaul facilities for greater safety and comfort.

In the first phase of work, completed in March 2008, we renovated the infield seating, expanded retailing and restaurant facilities and added new advertising space. We are also introducing sales of naming rights at some infield seating, a new departure for the stadium, and have signed contracts with two companies to this effect.

Ahead of the reopening in March 2009, we are creating an even more comfortable, safe spectator environment to draw new customers and boost earnings.

■ Renovation schedule

Phase I construction October 2007 to March 2008	Works on the infield seating area
Phase II construction October 2008 to March 2009	Works on the "Alps" and outfield seating, reinstallation of "silver umbrella" roof cover
Phase III construction October 2009 to March 2010	Works on the Stadium exterior

Renovation of Hanshin Koshien Stadium (artist's impression)

Ahead of the 95th anniversary of the Takarazuka Revue in 2009

□ Increasing the annual number of productions from eight to ten

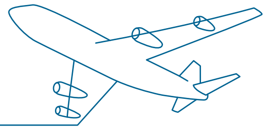
At the moment, a total of eight productions a year are put on by the Takarazuka Revue at its main venues Takarazuka Grand Theatre and Tokyo Takarazuka Theatre. With the formation of the new Sora (Cosmos) troupe, the Revue now has five member troupes (the existing ones being Hana (Flower), Tsuki (Moon), Yuki (Snow) and Hoshi (Star)), meaning that some troupes do only one performance a year. With a 10-show annual schedule, we can offer our customers a broader range of performances, increase the number of performance opportunities for each troupe and help them develop their stage skills, and foster the stars of the future.

□ New seating categories and ticket-pricing

At both theatres, we are changing seating categories and raising prices for certain seats. Specifically, the best seats (SS and S class) have been repriced, A- and B-class seats and on-the-door B seats are unchanged, and discounts have been introduced for advance purchases by members of the Takarazuka Revue official fan club, for some performances. In this way we are creating new opportunities to watch the troupe in action at affordable prices.

Travel and International Transportation

Core companies: Hankyu Express International, Hanshin Electric Railway*



* On 1st April 2008, this company changed its registered name to Hankyu Hanshin Express Holdings

Overview of the year ended 31st March 2008

Despite a buoyant travel business, operating income declines due to high oil prices

Travel operations perform well on strong demand for tourism in Japan

In overseas travel operations, customer numbers on mainstay European destinations remained high due to a focus on profitability and effective advertising campaigns, despite lower growth in overseas tourism from Japan due to fuel surcharges following the surge in oil prices. In travel operations in Japan, bus-tour operations were also popular, due to aggressive marketing backed by early advertising campaigns.

International transportation: Air cargo (imports) continue to struggle

From last year, there were signs of recovery in previously stagnant air cargo movements (exports), but import cargos continued to face difficult conditions, mainly due to the impact of rising transportation costs. At the same time, marine cargos (imports and exports) continued to benefit from the shift away from air transportation.

Profit declines despite overall rising revenues

As a result of the foregoing, revenues increased year-on-year, but operating income declined, due to the very tough operating environment faced by the international transportation business and a decline in rental revenues following the rebuilding of the Hankyu Express International office in Tokyo.

■ Results for the year ended 31st March 2008

Revenues from operations:
¥94.4 billion (up ¥6.2 billion year-on-year)
Operating income:
¥ 3.2 billion (down ¥1.0 billion year-on-year)

(Note 1) Results for the previous term, the basis for comparison, are inclusive of Hanshin Group results from the second quarter. (Segment results only include the nine-month performance by Hanshin Group).
(Note 2) Assuming full management integration from the beginning of the previous term, on a consolidated basis, revenues from operations would have risen ¥0.6 billion year-on-year and operating income would have fallen ¥1.2 billion.

Policies in the year ending March 2009

Reorganisation of Travel and International Transportation Businesses

- In April 2008, we shifted to a four-company structure, with Hankyu Travel International Co., Ltd./Hanshin Travel Service Co., Ltd. (travel), and Hankyu Express International Co., Ltd./Hanshin Air Cargo Co., Ltd. (international transportation) operating under the intermediary holding company Hankyu Hanshin Express Holdings Corporation (please see P.16-17)
- This overhaul was designed to improve competitiveness and speed up decision-making in the Travel and International Transportation businesses

Travel business

- Broaden range of value-added products (expanded hiking holiday options and development of cruise products) to increase customer appeal
- Leverage benefits of scale through cross-marketing of package tours and centralised booking by Hankyu Travel International Co., Ltd. and Hanshin Travel Service Co., Ltd.

International Transportation

- Build up customer base through provision of advanced logistics systems in line with development of bases in growth markets in Asia and Eastern Europe, and expansion of transportation networks in major overseas locations
- Leverage benefits of integration through further expansion of co-loading in air cargo and marine transportation operations, joint use and operation of new warehousing facilities at Narita Airport, and through promotion of collaborations abroad

Hotels

*Core company: Hankyu Hotel Management**

* On 1st April 2008, this company changed its registered name to Hankyu Hanshin Hotels following the merger with Hotel Hanshin, etc.

Overview of the year ended 31st March 2008

Strengthen competitiveness and earnings capability at established hotels and build up chain operations

We are strengthening the competitiveness of established hotels through guestroom refurbishment and facility renovation, as well as aggressive marketing activities. We bolstered our profit base by improving restaurant performance, expanding revenues by taking on consignment operation of restaurants at Takarazuka Grand Theatre, and cutting overall costs through Group economies of scale in areas such as centralised purchasing.

Measures to develop our chains included the opening of REMM Hibiya (255 rooms, Chiyoda-ku, Tokyo) in November 2007, and the addition of Tokyo Dai-ichi Inn Hachinohe and Tokyo Dai-ichi Inn Hachinohe Annex (both in Hachinohe, Aomori Prefecture) to the Group hotel business.

Results for the year ended 31st March 2008

Revenues from operations:
¥69.2 billion (up ¥3.8 billion year-on-year)
Operating income:
¥ 1.3 billion (up less than ¥0.1 billion year-on-year)

(Note 1) Results for the previous term, the basis for comparison, are inclusive of Hanshin Group results from the second quarter. (Segment results only include the nine-month performance by Hanshin Group, from July 2006 to March 2007).
(Note 2) Assuming full management integration from the beginning of the previous term, on a consolidated basis, revenues from operations would have declined ¥0.2 billion year-on-year and operating income would have fallen less than ¥0.1 billion.

Policies in the year ending March 2009

Build up the REMM brand

- Following the opening of REMM Hibiya, in April 2008 we received our first guests at REMM Akihabara (260 rooms, Chiyoda-ku, Tokyo)
- Get both hotels operating smoothly, to strengthen the REMM brand

Integrated management under Hankyu Hanshin Hotels

- Through the April, 2008 merger of Hankyu Hotel Management Co., Ltd., the Hotel Hanshin, Ltd. and Hotel Hanshin Restaurant Systems Co., Ltd., we created a new, more efficient single managing company, Hankyu Hanshin Hotels Co., Ltd., to operate the Hankyu-Hanshin-Daiichi Hotel group chain (please see P.16-17)

Building stronger chain operations

- Bolster and build up chain brands
- Strengthen the service functions as a chain manager, with regard to franchisees and hotels for which operation has been outsourced to us

Overhaul business structure by reconfiguring portfolio

- Deal with outdated hotels and develop new locations

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

Hotel Hankyu International
(Kita-ku, Osaka)

REMM Hibiya
(Chiyoda-ku, Tokyo)

Retailing

Core companies: Hankyu Corporation, Hanshin Electric Railway

Overview of the year ended 31st March 2008

Revenues and income slide due to removal of The Hanshin Department Store group from the scope of consolidation

In the goods-merchandising businesses, we opened new stores in the Book 1st. and Color Field cosmetics and accessories chains, expanding our flower shop chain from its base territory in the Hankyu railway catchment area to the Hanshin railway network, and opening Hanshin Tigers merchandise stores in the Hankyu catchment area too. We strengthened competitiveness by leveraging the know-how of both Hankyu and Hanshin companies.

In restaurant and food-service businesses, we expanded business scale by aggressively opening outlets in our Cook Deli Gozen and other chains both within and beyond our railway catchment areas. However, revenues and income both fell year-on-year, as The Hanshin Department Store, Ltd. and its four subsidiaries were removed from the scope of consolidation at the beginning of the third quarter.

Results for the year ended 31st March 2008

Revenues from operations:
¥120.8 billion (down ¥35.2 billion year-on-year)
Operating income:
¥ 2.7 billion (down ¥ 1.9 billion year-on-year)

(Note 1) Results for the previous term, the basis for comparison, are inclusive of Hanshin Group results from the second quarter. (Segment results only include the nine-month performance by Hanshin Group).
(Note 2) Assuming full management integration from the beginning of the previous term, on a consolidated basis, revenues from operations would have declined ¥65.1 billion year-on-year and operating income would have fallen ¥3.0 billion.

Policies in the year ending March 2009

Develop areas away from our lines by leveraging our experience in store-opening on home turf

- Open outlets of the large-scale Book 1st. bookstores at commercial facilities inside and outside the Group

Major store opening projects for the current term ending March 2009
Apr. 2008: Akihabara, Tokyo (approx. 858m^2)
Apr. 2008: EBISTA Nishinomiya (approx. 462m^2)
Nov. 2008: Shinjuku, Tokyo (tentative name, approx. 3,600m^2)
Nov. 2008: Hankyu Nishinomiya Gardens (tentative name, approx. 1,584m^2)

- Strengthen merchandising and open new outlets of the Color Field cosmetics and accessories chain and the DOUBLEDAY furniture and daily accessories chain

Streamline operation of station shopping centres

- Maximise profit by optimising station store distribution (within station precincts and in underpasses)
- Expansion of services using smart cards
- Create designated logistics system for station stores (within station precincts and in underpasses)

Create business promotion system

- For greater business management flexibility and improved competitiveness, retail businesses under the direct control of Hankyu Corporation will be taken over by Hankyu Retails Corporation, by means of corporate divestiture, and general retail management and shared functions will be centralised under Hankyu Corporation.
- Integrate the *asnas* chain, operated in communities served by the Hankyu lines, and An 3 chain, operated in communities served by Hanshin lines, to create a more closely integrated convenience store business.

Color Field

Book 1st.


Cook Deli Gozen

Measures to expand number of STACIA smart card holders and encourage greater use of the card

STACIA Card, a new Hankyu Hanshin Holding Group card, was issued in October 2007. We are working to expand the number of holders of this multi-functional contactless IC card, as a sales promotion tool to cross-sectionally connect different businesses the Group companies operate.

Features of STACIA card

Multi-functional

- ☐ Transportation (PiTaPa)
- ☐ Shopping on credit
- ☐ Cash advances
- ☐ Anshin Goopas (service by which children under 15 years old passing station exits using the card can alert their guardian's mobile phone)
- ☐ Discounts at Group facilities

Point programs

By shopping on credit using the STACIA card, points can be accumulated. Up to ten times the usual level of points is granted for purchases on Hankyu Hanshin Holdings Group trains and in Group commercial facilities, hotels and other facilities. Accrued points may be exchanged for a "STACIA coupon" that can be used at some Hankyu Hanshin Toho Group facilities, encouraging customer visits.

Smart card strategy

- Aim to be the most popular card among customers who live in Hankyu-Hanshin service areas
- Expand number of STACIA smart card holders, encourage greater use of smart cards to boost the Group's sales and strengthen its customer base

Main steps to realise goals of smart card strategy

1. Promote switch by holders of Group's railway magnetic commuter passes to the use of STACIA smart cards
2. Encourage customers of shopping centres operated by the Group to join the STACIA card plan
3. Strengthen collaborative relationship with H_2O Retailing Group
4. Promote further collaboration with companies outside the Group
5. Enhance Groupwide CRM (Customer Relationship Management) through use of STACIA Card member database

Targets for the term ending March 2011 (FY2011)

Card-holders: 700,000

***PiTaPa**

PiTaPa, a service operated by Surutto Kansai (Through Kansai transportation network), offers a post-paid card settlement service for transportation fares as well as a credit card function for small-amount payments. Centred on the Kyoto-Osaka-Kobe area, most private railway and public transportation companies in the Kansai region accept the cards.

PiTaPa-Surutto Kansai's IC card system

Corporate Governance and Compliance

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

Corporate Governance System

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

The Board of Directors consists of 15 members, three of whom are external appointments. In addition to these three external directors, an additional six directors serving on a non-regular basis perform supervisory and oversight functions as their main duties.

We decided at a regular General Shareholders' Meeting held in June 2006 to limit the term of Directors to one year. The purpose of this move was to clarify responsibility at the Director level. A one-year term was deemed more appropriate as it will give the Board more chance to rethink the conditions for introduction of our anti-takeover defence plan preventing large-scale purchases of our stock.

We have also established a Group Management Committee comprising not only Directors but also senior executives of core businesses operated by Group companies. The Committee will discuss important matters pertaining to Company and Group management strategy and business planning. When Group companies act in matters that have material implications for Group management, for instance when operating companies are planning to make an investment that exceeds a specified amount, they are required to seek prior approval from the Company.

(2) Group Management Policy

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

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

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

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

(3) Auditing

The Company has five statutory auditors, including three external auditors, who audit the performance of directors and the businesses and financial position of the Company and Group companies.

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

In addition, the Group Audit Division carries out internal audits, with audit plans and reports perused by auditors. The auditors also receive a general report on internal audits at the Company and Group companies (including whistle-blowing reports). Moreover, the auditors receive regular reports from the accounting auditors, and also act as observers at on-site audits of the Company and Group companies by accounting auditors.

(4) Ensuring Transparency in Accounting Audits

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

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

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. In future, to deepen such trust and support, we will need to meet the expectations of all our stakeholders (customers, partners, shareholders, regional communities, employees, etc.). We believe this can only be achieved through a management focus on compliance.

The Company has established a compliance office and is taking measures to enhance and strengthen compliance awareness at all Group companies through training and Group newsletters. Our compliance programme currently comprises the following three measures.

(1) Publication of Compliance Manual

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.

(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 preventive or corrective actions, and measures to preempt a recurrence.

Compensation for Directors and Auditors

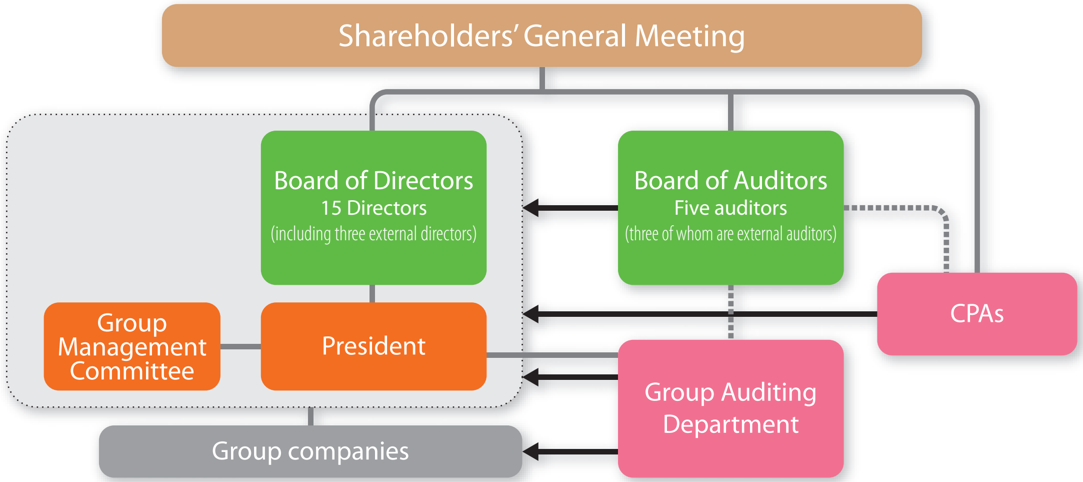
The following table shows the compensation for the Company's directors and statutory auditors for the term ended 31st March 2008.

(¥ million)

	Internal	External	Total
Directors	112	28	140
Auditors	10	8	19
Total	122	37	159

(rounded down to the nearest ¥1 million)

Our Corporate Governance System



Environmental Preservation Activities

Environmental preservation is a part of corporate social responsibility

Environmental Activities Programmes

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

Certification by External Agencies

ISO14001 environmental management certification has been obtained at Shojaku Plant of Hankyu Corporation, Amagasaki rail yard of Hanshin Electric Railway Co., Ltd., the building administration division of Hankyu Hanshin Building Management Co., Ltd., Hankyu Express International Co., Ltd. (specifically the Narita Cargo Centre, the Atsugi Cargo Centre and the Western Japan Logistics Centre), Amanohashidate Hotel Co., Ltd. the Hotel New Hankyu Osaka, the Hotel New Hankyu Annex and other business locations.

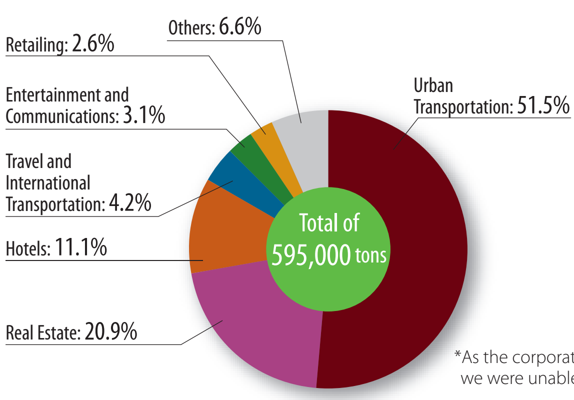
We have also obtained Green Management Certification from the Ministry of Land, Infrastructure and Transport-affiliated Foundation for Promoting Personal Mobility and Ecological Transportation, for Hankyu Bus Co., Ltd.

Green Purchasing

Companies across Japan are now stepping up green purchasing measures, as a means of ensuring more efficient use of resources. The corporate group has compiled a set of basic principles for green purchasing, covering all Group activities. As a result we have achieved a green purchasing rate of 69% at companies that have introduced green purchasing, with 78% of former Hankyu Holdings group departments using green purchasing to source office supplies over the Internet. We are extending the programme to the Hanshin Group in fiscal 2008.

Looking ahead, we will continue to preferentially buy products and services with minimal environmental impact from environment-friendly businesses, and broaden the scope of application of these principles to other units.

Reference: CO_2 emission volumes in fiscal 2007 (by business segment)



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

Our Basic Stance on CSR (Corporate Social Responsibility)

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

Financial Section

Contents

Six-Year Summary Six years in the period ended 31st March 2008

	Millions of yen						Thousands of U.S. dollars (Note)
	2003	2004	2005	2006	2007	2008	2008
For the year:							
Revenues from operations	¥ 477,719	¥ 471,483	¥ 476,623	¥ 486,155	¥ 743,377	¥ 752,301	$ 7,523,010
Operating income	48,068	47,999	58,768	64,842	87,003	90,725	907,250
Income (loss) before income taxes and minority interests	(145,063)	855	36,042	43,217	65,306	26,098	260,980
Net income (loss)	(89,318)	3,102	26,079	25,326	36,619	628	6,280
Capital investments	22,771	24,363	27,489	52,091	53,795	134,307	1,343,070
Depreciation and amortisation	32,109	30,106	29,974	29,612	43,889	51,578	515,780
At year-end:							
Total assets	¥1,754,211	¥1,715,806	¥1,670,911	¥1,609,117	¥2,366,694	¥2,348,476	$23,484,760
Total net assets	229,845	247,840	277,393	360,222	522,286	476,639	4,766,390
Total net assets / total assets	13.10%	14.44%	16.60%	22.39%	21.70%	19.87%	
Per share data (in yen and dollars):							
Net income (loss) — basic	¥ (97.92)	¥ 3.32	¥ 28.11	¥ 25.36	¥ 31.84	¥ 0.50	$0.01
Net income — diluted	—	3.28	27.70	25.22	—	0.41	0.00
Shareholders' equity	251.05	270.72	299.48	343.45	405.35	369.25	3.69
Common stock price range (in yen and dollars):							
High	¥418	¥386	¥460	¥886	¥817	¥719	$7.19
Low	300	296	362	365	502	400	4.00

Notes: 1. The U.S. dollar amounts have been translated from Japanese yen, for convenience only, at the rate of ¥100=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

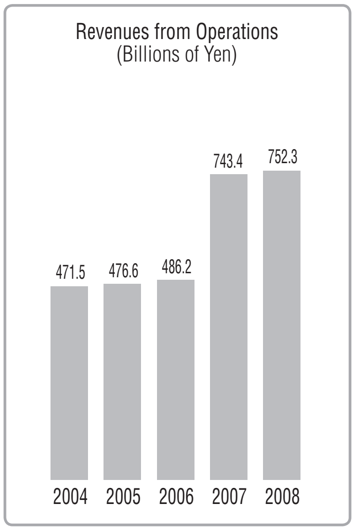
Revenues from Operations

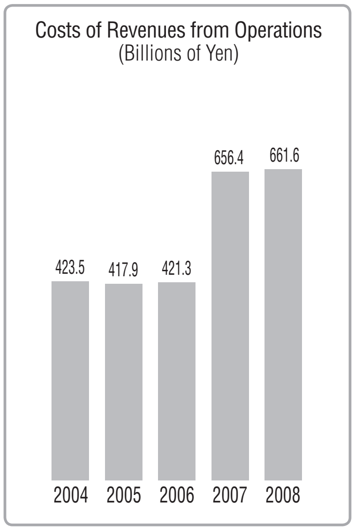
During the term under review (ended 31st March 2008) The Hanshin Department Store, Ltd. and H2O Retailing Corporation (formerly Hankyu Department Stores, Inc.) implemented a management integration on 1st October 2007, after which The Hanshin Department Store, Ltd. and its four subsidiaries were excluded from the scope of consolidation. In spite of this, all six core business segments performed well, and Hanshin Electric Railway Co., Ltd. and its consolidated subsidiaries, who were included in the consolidation as of the second quarter of the previous year, recorded a net increase in the first quarter. As a result, revenues from operations increased 1.2% to ¥752.3 billion (US$7,523.0 million).

In the Urban Transportation Segment, revenues from Tier 1 railway operations were strong for both Hankyu Corporation and Hanshin Electric Railway Co., Ltd., and progress was made on the Hanshin Nishi-Osaka Line Extension Project, which is scheduled to open in the spring of 2009. For the PiTaPa IC card settlement service, we took steps to increase the value-added on the cards, including measures such as promotional campaigns for the use of IC cards incorporating PiTaPa functions. As a result of efforts such as these, revenues from operations in the Urban Transportation Segment increased 7.2% from the previous year to ¥194.9 billion (US$1,949.0 million).

In the Real Estate Segment, in our condominium operations, we provided a stable supply of units — principally of the Geo condominium series — in areas close to our railway lines, and we were an active supplier of units in the Tokyo metropolitan area. In leasing operations, we opened new commercial facilities, and maintaining high occupancy ratios in both rental buildings and commercial facilities while cutting our operating and management costs, increased profitability. In addition, we endeavoured to enhance the brand value of the areas close to our railway lines, including by the rebuilding of the Umeda Hankyu Building and the Nishinomiya-Kitaguchi development project (Hankyu Nishinomiya Gardens) in the Umeda and surrounding areas. With these effects, revenues from operations in the Real Estate Segment grew 1.9% year on year to ¥179.7 billion (US$1,796.9 million).

In the Entertainment and Communications Segment, in the stage revue business, both the Takarazuka Grand Theater and the Tokyo Takarazuka Theater achieved high seat occupancy ratios, owing to factors such as the farewell performances of a retiring top Takarazuka Revue star. In sports operations, the Hanshin Tigers professional baseball team stayed in the race for the pennant until the final stages of the season, resulting in stadium attendance that exceeded the figure recorded in 2005, when the team won the championship. As a result, revenues from operations in the Entertainment and Communications Segment rose 25.9% from the previous year to ¥95.3 billion (US$953.3 million).





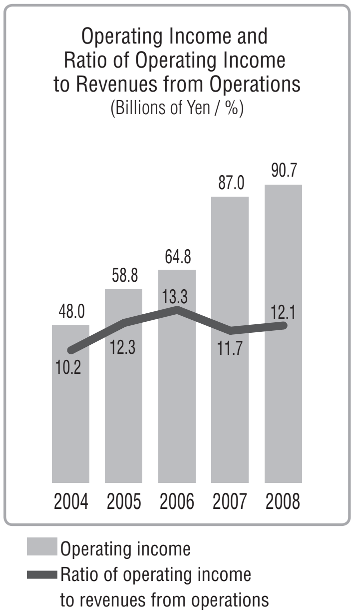
In the Travel and International Transportation Segment, the number of passengers for European destinations remained high in our overseas travel operations. In domestic travel operations, the number of passengers was also high, principally for bus tours. In the international transportation operations, there were signs of a recovery in air shipments for export cargoes, but the situation for import air shipments remained very difficult. In contrast, factors such as the shift away from air transportation gave rise to robust demand for marine transportation for both imports and exports. To further enhance the competitiveness of both our air and marine cargo operations, on 1st April 2008, we carried out a restructuring in which Hankyu Hanshin Express Holdings Corporation (formerly Hankyu Express International Co., Ltd.) became an intermediary holding company. As a result of these developments, revenues from operations in the Travel and International Transportation Segment increased 7.0% from the previous year to ¥94.4 billion (US$944.4 million).

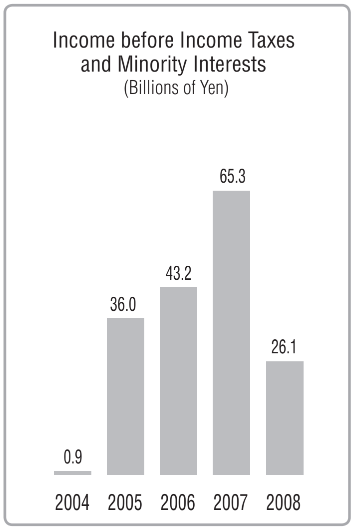
In the Hotels Segment, we took steps to give existing hotels a sharper competitive edge and expand the hotel chain, by opening accommodation-oriented REMM Hotels that target not only our existing customer base but also women and other new prospective customers. As a result of these efforts, revenues from operations in the Hotels Segment were up by 5.8% to ¥69.2 billion (US$692.4 million).

In the Retailing Segment, competitiveness was boosted by the opening of new outlets, including in the Book 1st. bookshop chain and the Color Field chain of cosmetics, clothing and accessories stores. In addition, we took advantage of the business integration by such means as opening flower shops, which previously were mainly along Hankyu railway lines, on Hanshin lines, and opening Hanshin Tigers goods shops along Hankyu lines. However, primarily because The Hanshin Department Store and its four subsidiaries were excluded from the scope of consolidation from the third quarter, revenues from operations in the Retailing Segment fell by 22.5% from the previous year to ¥120.8 billion (US$1,207.5 million).

The Other Segment was affected by factors such as the addition of the first quarter results of Hanshin Kensetsu Co., Ltd. and other Hanshin Group companies. As a result, revenues rose 1.7% from the previous year to ¥44.8 billion (US$448.2 million).

As a result of the developments described above, the ratios of consolidated operating revenues accounted for by each segment were as follows: 25.6% by Urban Transportation, 20.4% by Real Estate, 11.5% by Entertainment and Communications, 12.5% by Travel and International Transportation, 9.2% by the Hotels Segment, 15.8% by Retailing, and 5.0% by the Other Segment.





Operating Income

During the term under review, operating income increased 4.3% year on year to ¥90.7 billion (US$907.3 million). A breakdown for each segment is provided below.

In the Urban Transportation Segment, there was an increase in operating revenue, but owing primarily to a change in the tax system, depreciation charges rose, with the result that operating income slipped 0.1% to ¥33.2 billion (US$331.6 million).

In the Real Estate Segment, factors such as robust condominium sales increased operating income by 8.9%, to ¥39.5 billion (US$395.2 million).

In the Entertainment and Communications Segment, operating income rose 63.2% to ¥8.5 billion (US$85.5 million). This was attributable principally to strong stage revue business and the fact that the Hanshin Tigers continued to compete until the final stages of the season.

In the Travel and International Transportation Segment, travel operations performed well, but the operating environment for the international transportation business was harsh, and the renovation of Hankyu Express International's Tokyo building caused rental income to decline. As a result of these and other factors, operating income was down by 24.5% to ¥3.2 billion (US$32.1 million).

In the Hotels Segment, vigorous marketing activity contributed to a 1.0% increase in operating income to ¥1.4 billion (US$13.5 million).

In the Retailing Segment, owing primarily to the fact that The Hanshin Department Store, Ltd. and its four subsidiaries were excluded from the scope of consolidation, operating income decreased by 41.7% to ¥2.7 billion (US$27.2 million).

The Other Business Segment returned to profitability, posting operating income of ¥0.9 billion (US$9.0 million).

Other Income and Expenses

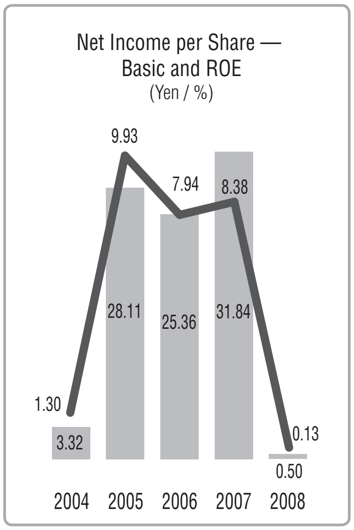
Other expenses exceeded other income by ¥64.6 billion (US$646.3 million). This was attributable principally to an increase in interest payments on interest-bearing debt from capital investments and to the posting of a valuation loss by Hankyu Corporation on its holding of land for sale in the International Culture Park "Saito."

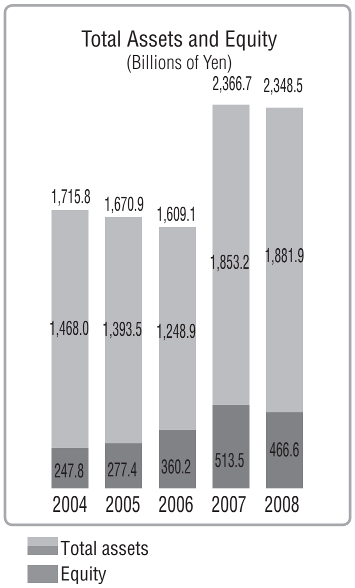
The net result was that income before income taxes and minority interests totalled ¥26.1 billion (US$261.0 million) and that net income was down by 98.3% to ¥0.6 billion (US$6.3 million).

Financial Position

1. Equity

Equity defined as net assets after deduction of minority interests totalled ¥466.6 billion (US$4,665.7 million) at the end of the term under review, representing a year-on-year decline of ¥47.0 billion. Principal factors for the decline included the very modest level of accumulated profit and





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

the impact of factors such as the valuation loss on holdings of land for sale, a fall in retained earnings resulting from changes in the scope of consolidation, and a substantial decline in net unrealised holding gain on securities owing primarily to the sluggishness of share 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 a level of ROE of at least 6.0% by fiscal 2013.

2. Fund Procurement

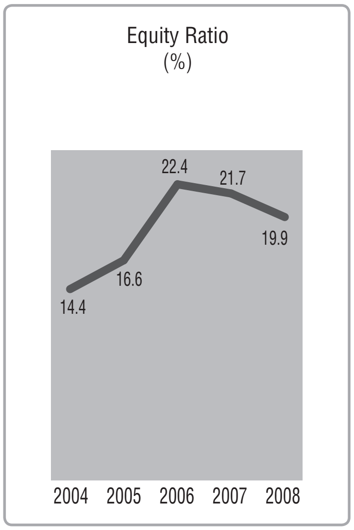
At the end of the term, interest-bearing debt on a consolidated basis totalled ¥1,271.1 billion (US$12,711 million), an increase of ¥61.7 billion from the end of the previous term. A major reason for this was that the aggregate capital investment of operating subsidiaries substantially exceeded depreciation charges.

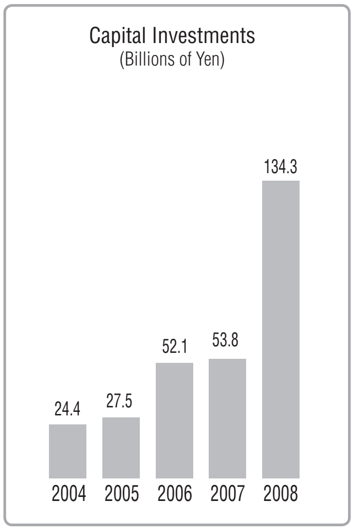
The Hankyu Hanshin Group uses the ratio of interest-bearing debt to EBITDA (earnings before interest, taxes, depreciation and amortization) on a consolidated basis as an indicator of financial soundness. The Hankyu Hanshin Group's goal is to lower this ratio to the 7.0 level by fiscal 2013; the ratio was 8.8 in the term under review.

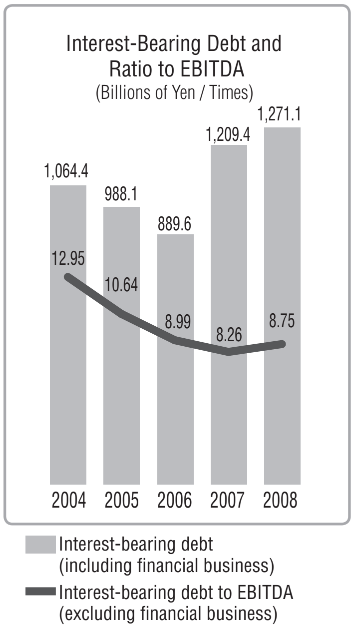
Cash Flows

Cash and cash equivalents declined by ¥9.0 billion from the end of the previous term to ¥31.2 billion (US$311.7 million) at the end of the term under review.

Net cash provided by operating activities totalled ¥74.9 billion (US$749.0 million). Net cash used in investing activities was ¥100.1 billion (US$1,000.6 million), and net cash provided by financing activities totalled ¥36.7 billion (US$367.2 million). The principal factor behind these results was the implementation of large-scale development projects with the use of cash derived from operating activities and borrowing.







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

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; development of Nishinomiya-Kitaguchi Station; development of the former Takarazuka Familyland site; further development of the International Culture Park "Saito" (a new town). These projects are all believed to be key to the Group's future growth, and the Group's management will be working to complete these development projects as soon as possible. However, in the event of rapid and major changes in the business environment, such as in land prices or changes in direction in the urban development plans, the business performance and financial position of the Group could be adversely affected.

Based on a project reappraisal by Urban Renaissance Agency, our subsidiary Hankyu Corporation adopted a conservative estimate of the market value of its holdings of land for sale at the "Saito" international culture park development project in March 2008, in light of deepening uncertainties about the pace and profitability of future development at Saito.

Interest-bearing debt

The balance of interest-bearing debt held by the Group as of the end of March 2008, on a consolidated basis, was ¥1,271,100 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. Additionally, the Group is responding to this increase in the balance of interest-bearing debt as a result of the management integration with Hanshin Electric by diversifying its fund procurement methods, using all possible means to 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., an affiliate accounted for under the equity method (currently a consolidated subsidiary), the company has agreed to a plan transferring that railway's facilities to Kobe Rapid Transit Railway Co., Ltd.

To facilitate the plan, in 2002 we provided Kobe Rapid Transit Railway Co., Ltd. with financing for part of the funds necessary to purchase the facilities.

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.

Consolidated Balance Sheets As of 31st March 2007 and 2008

Assets	Millions of yen 2007	Millions of yen 2008	Thousands of U.S. dollars (Note 1) 2008
Current assets (Note 5):			
Cash and cash equivalents (Note 18)	¥ 41,806	¥ 33,073	$ 330,730
Trade receivables	95,945	102,651	1,026,510
Short-term loans	43,444	46,929	469,290
Allowance for doubtful receivables	(7,270)	(7,666)	(76,660)
Inventories (Note 4)	194,957	146,089	1,460,890
Deferred tax assets (Note 16)	18,778	16,182	161,820
Prepaid expenses and other current assets	37,821	40,280	402,800
Total current assets	425,481	377,538	3,775,380
Investments and other assets (Note 5):			
Investments in:			
Nonconsolidated subsidiaries and affiliates	114,507	158,141	1,581,410
Other securities	163,376	108,622	1,086,220
Long-term loans	42,834	25,336	253,360
Deferred tax assets (Note 16)	6,939	5,207	52,070
Other investments	65,614	60,152	601,520
Allowance for doubtful receivables	(5,852)	(6,153)	(61,530)
Total investments and long-term loans	387,418	351,305	3,513,050
Property and equipment (Note 5):			
Land (Note 2 (j))	777,338	812,870	8,128,700
Buildings and structures	1,093,585	1,110,483	11,104,830
Rolling stock and buses	199,387	212,460	2,124,600
Machinery and equipment	126,093	126,862	1,268,620
Construction in progress	88,180	132,915	1,329,150
	2,284,583	2,395,590	23,955,900
Less accumulated depreciation	(807,664)	(842,011)	(8,420,110)
Property and equipment — net	1,476,919	1,553,579	15,535,790
Intangible assets (Note 5)	76,876	66,054	660,540
	¥2,366,694	¥2,348,476	$23,484,760

See the accompanying notes to the consolidated financial statements.

Liabilities and Net Assets	Millions of yen 2007	Millions of yen 2008	Thousands of U.S. dollars (Note 1) 2008
Current liabilities:			
Short-term borrowings (Note 5)	¥ 137,689	¥ 202,241	$ 2,022,410
Current portion of long-term debt (Note 5)	179,868	139,102	1,391,020
Trade payables	124,314	126,137	1,261,370
Accrued expenses	26,425	22,956	229,560
Income taxes payable	4,959	6,891	68,910
Advances received	52,848	56,506	565,060
Employees' savings deposits	12,529	12,595	125,950
Provision for restructuring costs	201	201	2,010
Other current liabilities (Note 16)	49,999	29,887	298,870
Total current liabilities	588,832	596,516	5,965,160
Long-term liabilities:			
Long-term debt due after one year (Note 5)	891,825	929,757	9,297,570
Deferred tax liabilities related to land revaluation	6,825	7,007	70,070
Employees' severance and retirement benefits (Note 6)	64,405	59,153	591,530
Retirement benefits for directors and corporate auditors	554	705	7,050
Reserve for investment losses	29,785	17,935	179,350
Negative goodwill	2,769	681	6,810
Deposits from tenants (Note 7)	97,007	103,487	1,034,870
Other noncurrent liabilities (Notes 8 and 16)	162,406	156,596	1,565,960
Total long-term liabilities	1,255,576	1,275,321	12,753,210
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	994,750
Capital surplus	150,062	150,134	1,501,340
Retained earnings	228,570	211,758	2,117,580
Less treasury stock, at cost:			
4,536,540 shares in 2007 and 7,857,884 shares in 2008	(2,301)	(3,267)	(32,670)
Total shareholders' equity	475,806	458,100	4,581,000
Accumulated gains from revaluation and translation adjustments			
Net unrealised holding gains on securities	34,583	6,621	66,210
Net unrealised gains on hedging derivatives	204	(557)	(5,570)
Surplus from land revaluation (Note 2(j))	2,604	2,193	21,930
Foreign currency translation adjustments	333	212	2,120
Total accumulated gains from revaluation and translation	37,724	8,469	84,690
Minority interests	8,756	10,070	100,700
Total net assets	522,286	476,639	4,766,390
	¥2,366,694	¥2,348,476	$23,484,760

Consolidated Statements of Income Years ended 31st March 2006, 2007 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2007	2008	2008
Revenues from operations	¥486,155	¥743,377	¥752,301	$7,523,010
Costs of revenues from operations	421,313	656,374	661,576	6,615,760
Operating income	64,842	87,003	90,725	907,250
Other income (expenses):				
Interest and dividend income	1,018	2,733	2,278	22,780
Interest expense	(15,071)	(19,726)	(23,498)	(234,980)
Amortisation of negative goodwill	2,265	1,517	1,048	10,480
Gain on sale of securities	169	780	1,975	19,750
Equity in income of affiliates	4,003	3,675	3,748	37,480
Gain (loss) on disposal of property and equipment — net (Note 2(i))	(2,414)	7,275	6,381	63,810
Special allowance for doubtful receivables	(1,105)	(763)	(1,012)	(10,120)
Special reserve for investment losses	(4,893)	(2,766)	—	—
Loss on financial support to subsidiaries and affiliates	—	(3,930)	—	—
Gain on contributions for construction works — net (Note 2(i))	1,114	2,680	1,463	14,630
Loss on real estate for sale	—	(3,399)	(717)	(7,170)
Write-down of real estate for sale	—	(2,321)	(69,133)	(691,330)
Restructuring costs	(187)	—	—	—
Loss on impairment of fixed assets (Note 11)	(6,988)	(869)	(8,796)	(87,960)
Contribution to construction of Osaka Monorail Saito Line	(1,998)	(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)	—	—
Dividend from investment in silent partnership	6,222	0	16,908	169,080
Gain on change in equity by management integration	—	—	9,956	99,560
Other — net (Note 11)	(3,760)	(3,336)	(5,228)	(52,280)
	(21,625)	(21,697)	(64,627)	(646,270)
Income before income taxes and minority interests	43,217	65,306	26,098	260,980
Income taxes (Note 16):				
Current	2,746	9,314	9,631	96,310
Deferred	14,839	17,874	15,196	151,960
Income before minority interests	25,632	38,118	1,271	12,710
Minority interests in income of consolidated subsidiaries	(306)	(1,499)	(643)	(6,430)
Net income	¥ 25,326	¥ 36,619	¥ 628	$ 6,280
	Yen			U.S. dollars (Note 1)
Net income per share — basic	¥25.36	¥31.84	¥0.50	$0.01
Net income per share — diluted (Note 2(u))	25.22	—	0.41	0.00
Dividends per share of common stock	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 2006, 2007 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2007	**2008**	**2008**
Common stock:				
Balance at beginning of year	¥ 75,969	¥ 97,545	**¥ 99,475**	**$ 994,750**
Stock issued of new share (Note 10)	19,895	1,930	**—**	**—**
Conversion of convertible bonds (Note 10)	1,681	—	**—**	**—**
Balance at end of year	¥ 97,545	¥ 99,475	**¥ 99,475**	**$ 994,750**
Capital surplus:				
Balance at beginning of year	¥ 3,367	¥ 24,985	**¥150,062**	**$1,500,620**
Stock issued of new share (Note 10)	19,812	125,097	**—**	**—**
Conversion of convertible bonds (Note 10)	1,679	—	**—**	**—**
Effect of sale of treasury stock	127	(20)	**72**	**720**
Balance at end of year	¥ 24,985	¥150,062	**¥150,134**	**$1,501,340**
Retained earnings:				
Balance at beginning of year	¥ 76,775	¥196,412	**¥228,570**	**$2,285,700**
Net income	25,326	36,619	**628**	**6,280**
Effect of changes in consolidated subsidiaries and investments accounted for by the equity method — net	871	788	**(11,063)**	**(110,630)**
Transfer from land revaluation	96,261	(1)	**(24)**	**(240)**
Appropriations:				
Cash dividends	(2,781)	(5,248)	**(6,353)**	**(63,530)**
Directors' and corporate auditors' bonuses	(40)	—	**—**	**—**
Balance at end of year	¥196,412	¥228,570	**¥211,758**	**$2,117,580**
Less treasury stock, at cost:				
Balance at beginning of year	¥ 700	¥ 331	**¥ 2,301**	**$ 23,010**
Net changes	(369)	1,970	**966**	**9,660**
Balance at end of year	¥ 331	¥ 2,301	**¥ 3,267**	**$ 32,670**
Net unrealised holding gains on securities:				
Balance at beginning of year	¥ 21,423	¥ 38,817	**¥ 34,583**	**$ 345,830**
Net changes during the year	17,394	(4,234)	**(27,962)**	**(279,620)**
Balance at end of year	¥ 38,817	¥ 34,583	**¥ 6,621**	**$ 66,210**
Net unrealised gains on hedging derivatives:				
Balance at beginning of year	¥ —	¥ —	**¥ 204**	**$ 2,040**
Net changes during the year	—	204	**(761)**	**(7,610)**
Balance at end of year	¥ —	¥ 204	**¥ (557)**	**$ (5,570)**
Surplus from land revaluation:				
Balance at beginning of year	¥100,815	¥ 2,604	**¥ 2,604**	**$ 26,040**
Transfer to retained earnings	(96,261)	—	**—**	**—**
Other — net	(1,950)	—	**(411)**	**(4,110)**
Balance at end of year	¥ 2,604	¥ 2,604	**¥ 2,193**	**$ 21,930**
Foreign currency translation adjustments:				
Balance at beginning of year	¥ (256)	¥ 190	**¥ 333**	**$ 3,330**
Adjustments from translation of foreign currency financial statements	446	143	**(121)**	**(1,210)**
Balance at end of year	¥ 190	¥ 333	**¥ 212**	**$ 2,120**
Minority interests:				
Balance at beginning of year	¥ 1,987	¥ 2,328	**¥ 8,756**	**$ 87,560**
Net increase	341	6,428	**1,314**	**13,140**
Balance at end of year	¥ 2,328	¥ 8,756	**¥ 10,070**	**$ 100,700**

	Number of shares of common stock issued		
	2006	2007	**2008**
At beginning of year	927,867,655	1,049,538,126	**1,271,406,928**
Issue of new shares	121,670,471	214,209,324	**—**
Stock issued on share exchange	—	7,659,478	**—**
At end of year	1,049,538,126	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 2006, 2007 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2007	**2008**	**2008**
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 43,217	¥ 65,306	**¥ 26,098**	**$ 260,980**
Depreciation and amortisation	29,612	43,889	**51,578**	**515,780**
Loss on impairment of fixed assets	6,988	869	**8,797**	**87,970**
Amortisation of goodwill and negative goodwill	(2,265)	719	**1,849**	**18,490**
Equity in income of affiliates	(4,003)	(3,675)	**(3,748)**	**(37,480)**
Decrease in employees' severance and retirement benefits	(2,071)	(2,201)	**(1,817)**	**(18,170)**
Increase in allowance for doubtful receivables	3,071	(3,992)	**729**	**7,290**
Increase in reserve for investment losses	4,558	4,228	**(1,116)**	**(11,160)**
Interest and dividend income	(1,018)	(2,733)	**(2,278)**	**(22,780)**
Interest expense	15,071	19,726	**23,498**	**234,980**
Gain on sale of property and equipment	(333)	(12,592)	**(10,489)**	**(104,890)**
Loss on sale of property and equipment	1,108	866	**391**	**3,910**
Loss on disposal of property and equipment	1,639	2,189	**1,720**	**17,200**
Loss on deduction of property and equipment	240	2,262	**1,997**	**19,970**
Gain on sale of securities	(169)	(2,948)	**(1,975)**	**(19,750)**
Loss on sale of marketable and investment securities	—	1,882	**—**	**—**
Gain on change in equity by management integration (Note 12)	—	—	**(9,956)**	**(99,560)**
Gain on contributions for construction work	(1,016)	(2,312)	**(806)**	**(8,060)**
Dividend from investment in silent partnership	(6,222)	—	**(16,908)**	**(169,080)**
(Increase) decrease in trade receivables	4,642	(25,612)	**(1,731)**	**(17,310)**
(Increase) decrease in inventories	(12,732)	850	**(15,013)**	**(150,130)**
Write-down of real estate for sale	—	2,321	**69,133**	**691,330**
(Increase) decrease in trade payables	8,546	17,566	**(4,612)**	**(46,120)**
Other	1,395	(3,831)	**(5,392)**	**(53,920)**
Subtotal	90,258	102,777	**109,949**	**1,099,490**
Interest and dividends received	8,053	3,698	**3,141**	**31,410**
Interest paid	(13,885)	(20,161)	**(23,135)**	**(231,350)**
Income tax paid	(4,196)	(7,332)	**(15,053)**	**(150,530)**
Net cash provided by operating activities	80,230	78,982	**74,902**	**749,020**
Cash flows from investing activities:				
Purchases of property and equipment	(47,692)	(53,356)	**(133,994)**	**(1,339,940)**
Proceeds from sales of property and equipment	5,296	46,248	**27,848**	**278,480**
Purchases of investment securities	(9,067)	(7,595)	**(5,674)**	**(56,740)**
Proceeds from sales of investment securities	9,739	22,554	**4,232**	**42,320**
Purchases of investments in consolidated subsidiaries affecting scope of consolidation	—	(210,380)	**(528)**	**(5,280)**
Proceeds from sales of investments in consolidated subsidiaries affecting scope of consolidation	—	563	**—**	**—**
Net increase in short-term loans receivable	(8,123)	(5,351)	**(7,202)**	**(72,020)**
Long-term loans advanced	(1,038)	(874)	**(10,948)**	**(109,480)**
Proceeds from collection of long-term loans	873	6,322	**1,008**	**10,080**
Receipt of contributions for construction	2,228	5,542	**3,101**	**31,010**
Receipt of dividend from investment in silent partnership	—	—	**19,562**	**195,620**
Other	4,584	(3,252)	**2,537**	**25,370**
Net cash used in investing activities	(43,200)	(199,579)	**(100,058)**	**(1,000,580)**
Cash flows from financing activities:				
Net increase (decrease) in short-term borrowings	(5,604)	35,362	**45,706**	**457,060**
Proceeds from long-term borrowings	139,487	241,463	**140,920**	**1,409,200**
Repayment of long-term debt	(223,802)	(82,991)	**(117,043)**	**(1,170,430)**
Proceeds from new shares issued	39,433	—	**—**	**—**
Proceeds from new bonds issued	—	—	**39,794**	**397,940**
Redemption of bonds	(15,160)	(49,900)	**(66,000)**	**(660,000)**
Net increase (decrease) in commercial paper	7,000	(7,000)	**—**	**—**
Dividends paid	(2,781)	(5,248)	**(6,353)**	**(63,530)**
Dividends paid to minority shareholders of consolidated subsidiaries	(69)	(74)	**(235)**	**(2,350)**
Other	(464)	678	**(71)**	**(710)**
Net cash provided by (used in) financing activities	(61,960)	132,290	**36,718**	**367,180**
Effect of exchange rate changes on cash and cash equivalents	446	99	**(159)**	**(1,590)**
Increase (decrease) in cash and cash equivalents	(24,484)	11,792	**11,403**	**114,030**
Cash and cash equivalents at beginning of year	52,370	28,375	**40,167**	**401,670**
Increase in cash and cash equivalents from newly consolidated subsidiaries	489	—	**842**	**8,420**
Decrease in cash and cash equivalents due to exclusion of subsidiaries from consolidation	—	—	**(21,245)**	**(212,450)**
Cash and cash equivalents at end of year (Note 18)	¥ 28,375	¥ 40,167	**¥ 31,167**	**$ 311,670**

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.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English, with some expanded descriptions and the inclusion of the 2006 consolidated statements of changes in net assets, 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 2008, which was ¥100 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 65, 96 and 94 subsidiaries for each of the three years in the period ended 31st March 2008.

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 11,11 and 7 significant affiliates, respectively for the three years in the period ended 31st March 2008.

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

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

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

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

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

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

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

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

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

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
   (a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognised in the statement of income in the period which includes the inception date, and
   (b) the discount or premium on the contract (the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognised over the term of the contract.
2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, 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 are recognised.

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

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

(g) Provision for restructuring costs
Provision for restructuring costs is stated as of 31st March 2007 and 2008 at the estimated loss from the reconstruction of Nishinomiya Stadium.

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

Maintenance and repairs, including minor renovations and improvements, are usually charged to 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.

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 ($5,730 thousand) 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 ($23,970 thousand) less for the year ended 31st March 2008 than they would have been with the previous method.

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

1. If assets acquired with contributions are regarded as improving the economic value of the Company, for

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

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

Accumulated amounts of the deductions were ¥153,260 million, ¥323,546 million and ¥324,260 million ($3,242,600 thousand) at 31st March 2006, 2007 and 2008, respectively.

(j) Land revaluation

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

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

The method of land revaluation

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

The excess of book values after revaluation over fair values at 31st March 2007 and 2008 were ¥6,371 million and ¥5,892 million ($58,920 thousand), respectively.

(k) Impairment accounting

In the year ended 31st March 2006, the Company adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on 9th August 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No.6 issued by the Accounting Standards Board of Japan on 31st October 2003). The accumulated impairment losses were deducted from the cost of each fixed asset.

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

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

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

Consolidated statements of changes in net assets for the year ended March 2006 have been prepared in accordance with the New Accounting Standards to conform with the presentation for the year ended March 2007. These restatements had no impact on the Company's business results for the said periods.

(m) Software cost

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

(n) Employees' severance and retirement benefits

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

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

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

(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

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

(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 statement

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

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

(v) Business Combination and Business Separation

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

(w) Reclassification

Due to an amendment to "Regulations for the Preparation of Consolidated Financial Statements," issued on 2nd October 2007, certain prior year amounts have been reclassified to certain to the presentation for the year ended 31st March 2008. Negotiable certificate of deposit, which were previously included in "other investments" under the consolidated balance sheets have been retroactively reclassified to "other securities."

3. Securities

The following table summarises book values and fair values of held-to-maturity debt securities as of 31st March 2007 and 2008:

	Millions of yen						Thousands of U.S. dollars		
	2007			2008			2008		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Securities with available fair value exceeding book value	¥1,400	¥1,412	¥12	¥—	¥—	¥—	$—	$—	$—
Other securities	500	493	(7)	—	—	—	—	—	—
Total	¥1,900	¥1,905	¥ 5	¥—	¥—	¥—	$—	$—	$—

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 2007 and 2008:

Securities with book values exceeding acquisition costs:

	Millions of yen						Thousands of U.S. dollars		
	2007			2008			2008		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥38,823	¥89,801	¥50,978	¥12,639	¥36,398	¥23,759	$126,390	$363,980	$237,590
Bonds	1,847	1,867	20	45	46	1	450	460	10
Other	1,190	1,312	122	47	49	2	470	490	20
Total	¥41,860	¥92,980	¥51,120	¥12,731	¥36,493	¥23,762	$127,310	$364,930	$237,620

Securities with book values not exceeding acquisition costs:

	Millions of yen						Thousands of U.S. dollars		
	2007			2008			2008		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥26,436	¥23,506	¥(2,930)	¥48,844	¥35,178	¥(13,666)	$488,440	$351,780	$(136,660)
Bonds	744	740	(4)	28	28	(0)	280	280	(0)
Other	947	846	(101)	2	2	(0)	20	20	(0)
Total	¥28,127	¥25,092	¥(3,035)	¥48,874	¥35,208	¥(13,666)	$488,740	$352,080	$(136,660)

The following table summarises book values of securities with no available fair values as of 31st March 2007 and 2008:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Held-to-maturity debt securities:			
Discount bank debentures	¥ 20	¥ 5	$ 50
Available-for-sale securities:			
Non-listed equity securities	¥ 4,378	¥ 4,118	$ 41,180
Investments in limited liability investment partnerships and similar investments	¥16,720	¥13,928	$139,280
Negotiable certificate of deposit	¥22,521	¥18,885	$188,850

Sales of available-for-sale securities during the years ended 31st March 2006, 2007 and 2008 amounted to ¥2,589 million, ¥21,101 million and ¥1,988 million ($19,880 thousand), respectively. Within other income (expenses) in the statements of income for the years ended 31st March 2006, 2007 and 2008 were gains on sales of available-for-sale securities amounting to ¥41 million, ¥2,659 million and ¥1,237 million ($12,370 thousand), respectively, which were included in the gain on sale of securities, and losses on sales of available-for-sale securities amounting to nil, ¥841 million and ¥1 million ($10 thousand), respectively, which were included in other-net.

Available-for-sale securities with maturities and held-to-maturity debt securities at 31st March 2007 and 2008 were to mature as follows:

	Millions of yen							
	2007				2008			
	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	¥153	¥2,604	¥1,128	¥327	¥10	¥38	¥26	¥ —
Debentures	—	297	—	—	—	—	—	—
Other	20	—	49	—	5	—	—	—
Total	¥173	¥2,901	¥1,177	¥327	¥15	¥38	¥26	¥ —

	Thousands of U.S. dollars			
	2008			
	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	$100	$380	$260	$—
Debentures	—	—	—	—
Other	50	—	—	—
Total	$150	$380	$260	$—

4. Inventories

Inventories at 31st March 2007 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Real estate for sale	¥173,710	¥127,618	$1,276,180
Finished products and merchandise	10,171	7,314	73,140
Materials, work in progress and supplies	11,076	11,157	111,570
Total	¥194,957	¥146,089	$1,460,890

5. Short-term borrowings and long-term debt

Short-term borrowings are represented generally by notes maturing within one year. The weighted average interest rate for short-term bank loans was 1.4167% at 31st March 2008.

Long-term debt at 31st March 2007 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Secured:			
Banks, 0%–8.5%, maturing through 2028	¥ 115,923	¥ 116,642	$ 1,166,420
Unsecured:			
Banks, insurance companies and others, 0%–6.8%, maturing through 2022	784,669	807,017	8,070,170
1.27% bonds, due June 2007	20,000	—	—
0.96% bonds, due November 2007	10,000	—	—
2.8% bonds, due February 2008	15,000	—	—
2.23% bonds, due July 2008	20,000	20,000	200,000
2.23% bonds, due August 2009	20,000	20,000	200,000
2.46% bonds, due September 2010	10,000	10,000	100,000
1.85% bonds, due July 2012	—	20,000	200,000
1.39% bonds, due November 2011	—	10,000	100,000
1.66% bonds, due November 2013	—	10,000	100,000
Floating rate bonds, due September 2010*1	15,000	15,000	150,000
Floating rate bonds, due June 2011*2	10,000	10,000	100,000
3.1% bonds, due June 2007	20,000	—	—
3.525% bonds, due June 2012	15,000	15,000	150,000
2.22% bonds, due June 2014	10,000	10,000	100,000
0.4%–3.4% bonds issued by consolidated subsidiaries, due August 2005 to November 2008	6,200	5,200	52,000
	1,071,792	1,068,859	10,688,590
Less current portion	179,867	139,102	1,391,020
Less inter transactions	100	—	—
	¥ 891,825	¥ 929,757	$ 9,297,570

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

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

The following table shows the book value of collateral pledged against long-term debt, including the portions due within one year, in the amount of ¥115,923 million and ¥116,642 million ($1,166,420 thousand) as of 31st March 2007 and 2008, respectively.

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Current assets	¥ 153	¥ 29	$ 290
Investments and other assets	28,431	20,257	202,570
Property and equipment	540,650	555,665	5,556,650
Intangible assets	96	1,433	14,330
	¥569,330	¥577,384	$5,773,840

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

The annual maturities of long-term debt as at 31st March 2008 were as follows:

Year ending 31st March	Millions of yen	Thousands of U.S. dollars
2010	¥ 73,208	$ 732,080
2011	124,947	1,249,470
2012	138,676	1,386,760
2013	160,011	1,600,110
2014 and thereafter	432,915	4,329,150
	¥929,757	$9,297,570

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 2007 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Projected benefit obligation	¥150,690	¥136,967	$1,369,670
Prepaid pension cost	2,027	1,967	19,670
Unrecognised prior service costs	969	417	4,170
Less fair value of pension assets	(93,185)	(75,395)	(753,950)
Less unrecognised actuarial differences	3,904	(4,803)	(48,030)
Employees' severance and retirement benefits	¥ 64,405	¥ 59,153	$ 591,530

Included in the consolidated statements of income for the years ended 31st March 2006, 2007 and 2008, were severance and retirement benefit expenses that comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2006	2007	2008	2008
Service costs — benefits earned during the year	¥4,331	¥6,205	¥6,912	$69,120
Interest cost on projected benefit obligation	2,285	2,988	3,033	30,330
Expected return on plan assets	(1,071)	(1,622)	(1,685)	(16,850)
Amortisation of prior service costs	(669)	(663)	(628)	(6,280)
Amortisation of actuarial differences	1,224	530	463	4,630
Severance and retirement benefit expenses	¥6,100	¥7,438	¥8,095	$80,950

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

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

7. Deposits from tenants

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

8. Other noncurrent liabilities

Other noncurrent liabilities at 31st March 2007 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Contributions received from national and municipal governments and other corporations for long-term railway construction work in progress	¥ 6,681	¥ 7,733	$ 77,330
Deferred tax liabilities	138,460	140,556	1,405,560
Other	17,265	8,307	83,070
	¥162,406	¥156,596	$1,565,960

9. Contingent liabilities

At 31st March 2007 and 2008, the Companies were contingently liable for guarantees of loans in the amounts of ¥33,700 million and ¥13,711 million ($137,110 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 one-half of the price of the new shares as statutory reserve (additional paid-in capital), which is included in capital surplus.

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

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

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

At the general meeting of shareholders held on 25th June 2008, the shareholders approved cash dividends amounting to ¥6,340 million ($63,400 thousand). These appropriations have not been accrued in the consolidated financial statements as of 31st March 2008. 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 is included in Other (net).

Breakdown by use

2007

Region	Use	Type of assets	Millions of yen
Osaka	Leasing assets Idle assets, etc. Totalling 20	Land, etc.	¥414
Hyogo, etc.	Leasing assets Idle assets, etc. Totalling 20	Land, etc.	455

2008

Region	Use	Type of assets	Millions of yen	Thousands of U.S. dollars
Osaka	Goodwill, etc. in retailing business Totalling 2	Good will and Land	¥8,395	$83,950
Hyogo	Hotel, etc. Totalling 4	Land, etc.	810	8,100
Tokyo, etc.	Retailing stores Totalling 3	Buildings, etc.	41	410

Breakdown by region

2007

Region	Type of assets	Millions of yen
Osaka	Land	¥152
	Buildings and structures	96
	Construction in progress	144
	Other	22
Hyogo, etc.	Land	182
	Buildings and structures	13
	Construction in progress	20
	Other	240

2008

Region	Type of assets	Millions of yen	Thousands of U.S. dollars
Osaka	Goodwill	¥8,254	$82,540
	Land	141	1,410
Hyogo	Land	450	4,500
	Buildings and structures	172	1,720
	Machinery and equipment	188	1,880
Tokyo, etc.	Buildings and structures	36	360
	Construction in progress	0	0
	Other	3	30
	Intangible assets	2	20

12. Management integration and share exchange

2007

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

(a) Purchase of shares

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

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

	Millions of yen
Current assets	¥120,786
Fixed assets	652,613
Total assets	773,399
Current liabilities	130,165
Noncurrent liabilities	325,994
Total liabilities	456,159
Minority interest	¥ 6,874

	Millions of yen
Sales	¥813,613
Operating income	94,801
Income before income taxes	70,432
Net income	40,507
Net income per share (yen)	¥ 32.47

(b) Exchange of shares

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

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 H2O 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 by management integration and consolidation goodwill. In the consolidated statement of income for the year ended 31st March 2008, gain on change in equity by management integration aggregating ¥9,388 million ($93,880 thousand) 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 ($82,540 thousand) was presented in other expenses containing loss on impairment of fixed assets of ¥8,796 million ($87,960 thousand).

(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 ($568,430 thousand) and ¥1,184 million ($11,840 thousand), 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 2007 and 2008 of derivative transactions for which hedge accounting had not been applied:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Forward exchange contracts:			
Contract principal amount due within one year	¥—	¥146	$1,460
Market value	—	135	1,350
Unrealised gains	¥—	¥ (11)	$ (110)

14. Lease transactions

Information for non-capitalised finance leases at 31st March 2006, 2007 and 2008 was as follows:

	Millions of yen			Thousands of U.S. dollars
The Group as lessees	2006	2007	2008	2008
Original lease obligations for machinery and equipment and other (including finance charges)	¥19,830	¥20,790	¥17,889	$178,890
Minimum lease payments due within one year	¥ 3,294	¥ 3,186	¥ 2,496	$ 24,960
Minimum lease payments due after one year	5,905	5,594	4,690	46,900
Total	¥ 9,199	¥ 8,780	¥ 7,186	$ 71,860

Lease payments under such leases for the years ended 31st March 2006, 2007 and 2008 were ¥3,137 million, ¥3,848 million and ¥3,279 million ($32,790 thousand), respectively.

	Millions of yen			Thousands of U.S. dollars
The Group as lessors	2006	2007	2008	2008
Original lease obligations (machinery and equipment and other)	¥ 4	¥—	¥—	$—
Minimum lease payments due within one year	¥ 0	¥—	¥—	$—
Minimum lease payments due after one year	—	—	—	—
Total	¥ 0	¥—	¥—	$—

Leasing receipts for the years ended 31st March 2006, 2007 and 2008 amounted to ¥1 million, ¥0 million and nil, respectively.
Depreciation for the years ended 31st March 2006, 2007 and 2008 amounted to ¥1 million, ¥0 million and nil, respectively.

Information for operating leases at 31st March 2006, 2007 and 2008 was as follows:

	Millions of yen			Thousands of U.S. dollars
The Group as lessees	2006	2007	2008	2008
Minimum lease payments due within one year	¥12,698	¥11,402	¥ 8,599	$ 85,990
Minimum lease payments due after one year	53,144	42,284	28,679	286,790
Total	¥65,842	¥53,686	¥37,278	$372,780

	Millions of yen			Thousands of U.S. dollars
The Group as lessors	2006	2007	2008	2008
Minimum lease payments due within one year	¥ 82	¥ 82	¥ 82	$ 820
Minimum lease payments due after one year	1,305	1,224	1,142	11,420
Total	¥1,387	¥1,306	¥1,224	$12,240

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 2008 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 Travel and International Transportation Segment included travel and international air cargo services.

The Hotels Segment included hotel ownership and management businesses.

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

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

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

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

By business category:

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

	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

	Thousands of U.S. dollars								
	Urban Transportation	Real Estate	Entertainment & Communications	Travel & International Transportation	Hotels	Retailing	Other	Eliminations	Consolidated
2008									
Net sales:									
Customers	$1,924,620	$1,533,320	$869,060	$941,360	$689,430	$1,187,900	$377,320	$ —	$7,523,010
Intersegment	24,410	263,580	84,220	3,010	2,960	19,620	70,870	(468,670)	—
	1,949,030	1,796,900	953,280	944,370	692,390	1,207,520	448,190	(468,670)	7,523,010
Costs and expenses	1,617,480	1,401,730	867,800	912,300	678,890	1,180,340	439,190	(481,970)	6,615,760
Operating income	$ 331,550	$ 395,170	$ 85,480	$ 32,070	$ 13,500	$ 27,180	$ 9,000	$ 13,300	$ 907,250

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

	Millions of yen								
	Urban Transportation	Real Estate	Entertainment & Communications	Travel & International Transportation	Hotels	Retailing	Other	Corporate and Eliminations	Consolidated
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 of 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

	Millions of yen								
	Urban Transportation	Real Estate	Entertainment & Communications	Travel & International Transportation	Hotels	Retailing	Other	Corporate and Eliminations	Consolidated
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 of 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

	Thousands of U.S. dollars								
	Urban Transportation	Real Estate	Entertainment & Communications	Travel & International Transportation	Hotels	Retailing	Other	Corporate and Eliminations	Consolidated
2008									
Assets	$7,603,920	$10,157,800	$1,337,160	$1,287,500	$828,100	$225,010	$2,324,690	$(279,420)	$23,484,760
Depreciation and amortisation	268,020	132,900	48,690	17,730	31,290	15,930	6,600	(5,380)	515,780
Impairment loss of fixed assets	20	1,410	3,590	—	—	82,940	—	—	87,960
Capital expenditures	225,800	829,840	96,990	18,520	148,440	16,870	7,580	(9,100)	1,334,940

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%, 40.7% and 40.6% for the years ended 31st March 2006, 2007 and 2008, 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 year ended 31st March 2008.

The difference between the rates for the years ended 31st March 2006 and 2007 was immaterial.

	2008
Statutory tax rate	40.6%
Valuation Allowance	151.8
Elimination of dividends from consolidated subsidiaries	27.8
Loss on impairment of fixed assets	12.8
Nondeductible expenses	8.1
Reimbursement of capital surplus from consolidated subsidiaries	(74.0)
Nondeductible income	(52.2)
Gain on change in equity by management integration	(15.5)
Equity in income of affiliates	(5.8)
Other	1.5
Effective income tax rate	95.1%

Significant components of the Companies' deferred income tax assets as of 31st March 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Deferred tax assets:			
Revaluation of assets on consolidation	¥ 53,497	¥ 50,204	$ 502,040
Loss on revaluation of real estate for sale	18,086	47,973	479,730
Tax loss carryforwards	13,910	33,968	339,680
Retirement benefits	24,081	22,872	228,720
Losses on revaluation of investment securities	4,026	8,034	80,340
Special reserve for investment losses	11,978	7,548	75,480
Unrealised profit from assets	7,319	6,920	69,200
Loss on valuation of properties of business reorganisation	5,235	5,103	51,030
Loss on impairment of fixed assets	3,116	3,736	37,360
Allowance for doubtful receivables	7,490	3,006	30,060
Accrued expenses	2,475	2,133	21,330
Enterprise taxes	858	1,594	15,940
Retirement benefits for directors and corporate auditors	227	290	2,900
Other	14,218	13,726	137,260
Subtotal of deferred tax assets	166,516	207,107	2,071,070
Valuation allowance	(24,189)	(57,152)	(571,520)
Less amounts offset against deferred tax liabilities	(116,610)	(128,566)	(1,285,660)
Net deferred tax assets	25,717	21,389	213,890
Deferred tax liabilities:			
Gain on reversal of difference from land revaluation	(102,295)	(131,956)	(1,319,560)
Revaluation of assets on consolidation	(104,451)	(104,648)	(1,046,480)
Net unrealised holding gains on securities	(42,952)	(26,672)	(266,720)
Gain on valuation of properties of business reorganisation	(3,255)	(3,156)	(31,560)
Other	(2,117)	(2,695)	(26,950)
Subtotal of deferred tax liabilities	(255,070)	(269,127)	(2,691,270)
Less amounts offset against deferred tax assets	116,610	128,566	1,285,660
Total deferred tax liabilities	(138,460)	(140,561)	(1,405,610)
Net income tax assets	¥(112,743)	¥(119,172)	$(1,191,720)

Net deferred tax assets as of 31st March 2007 and 2008 were included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Current assets	¥ 18,778	¥ 16,182	$ 161,820
Current liabilities	—	(5)	(50)
Long-term assets	6,939	5,207	52,070
Long-term liabilities	(138,460)	(140,556)	(1,405,560)
Net deferred tax assets	¥(112,743)	¥(119,172)	$(1,191,720)

17. Loan commitments

A consolidated subsidiary had extended loan commitments at 31st March 2007 and 2008 as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Total loan commitments	¥81,953	¥76,067	$760,670
Loans extended	41,866	45,581	455,810
Remaining commitments	¥40,087	¥30,486	$304,860

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

18. Consolidated statements of cash flow

The year-end balances of cash and cash equivalents presented on the consolidated statements of cash flow and on the consolidated balance sheets at 31st March 2007 and 2008 were reconciled as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Cash and cash equivalents in the consolidated balance sheets	¥41,806	¥33,073	$330,730
Deposits with maturities over 3 months	(1,639)	(1,906)	(19,060)
Cash and cash equivalents in cash flow statements	¥40,167	¥31,167	$311,670

19. Subsequent events

Appropriation of retained earnings

An appropriation of retained earnings for the year ended 31st March 2008 was duly approved at the general meeting of shareholders held on 25th June 2008 as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥5.00 per share)	¥6,340	$63,400

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	(A) Diversity and stability of financing	
	2008	
	Millions of yen	Thousands of U.S. dollars
Investment in silent partnerships	¥ 4,042	$ 40,420
Total assets of special purpose entity	89,315	893,150
Total liabilities of special purpose entity	78,832	788,320
Real estate purchased	39,005	390,050
Receivable amount of dividends	5,587	55,870
Distributed income	20,923	209,230
Distributed loss	—	—
Lease payments	8,774	87,740
Management fees	283	2,830

(1) Investments in silent partnerships are recorded as investment in other securities.
(2) Included in receivable amount of dividends are suspense payments totaling ¥5,526 million ($55,260 thousand).
(3) Distributed income included distributed liquidation in the amount of ¥16,908 million ($169,080 thousand) and is presented in other income of 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	(B) Development and value up of assets	
	2008	
	Millions of yen	Thousands of U.S. dollars
Investment in silent partnerships	¥ 9,180	$ 91,800
Total assets of special purpose entity	82,565	825,650
Total liabilities of special purpose entity	56,902	569,020
Real estate purchased	—	—
Receivable amount of dividends	528	5,280
Distributed income	3,846	38,460
Distributed loss	1,016	10,160
Lease payments	—	—
Management fees	484	4,840

(1) Investments in silent partnerships vare recorded as investment in other securities.
(2) Management fees are presented in revenue from operations in the consolidated statements of income.

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 consolidated subsidiaries as of 31st March 2008 and 2007, 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 2008, 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 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended 31st March 2008, in conformity with accounting principles generally accepted in Japan.

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

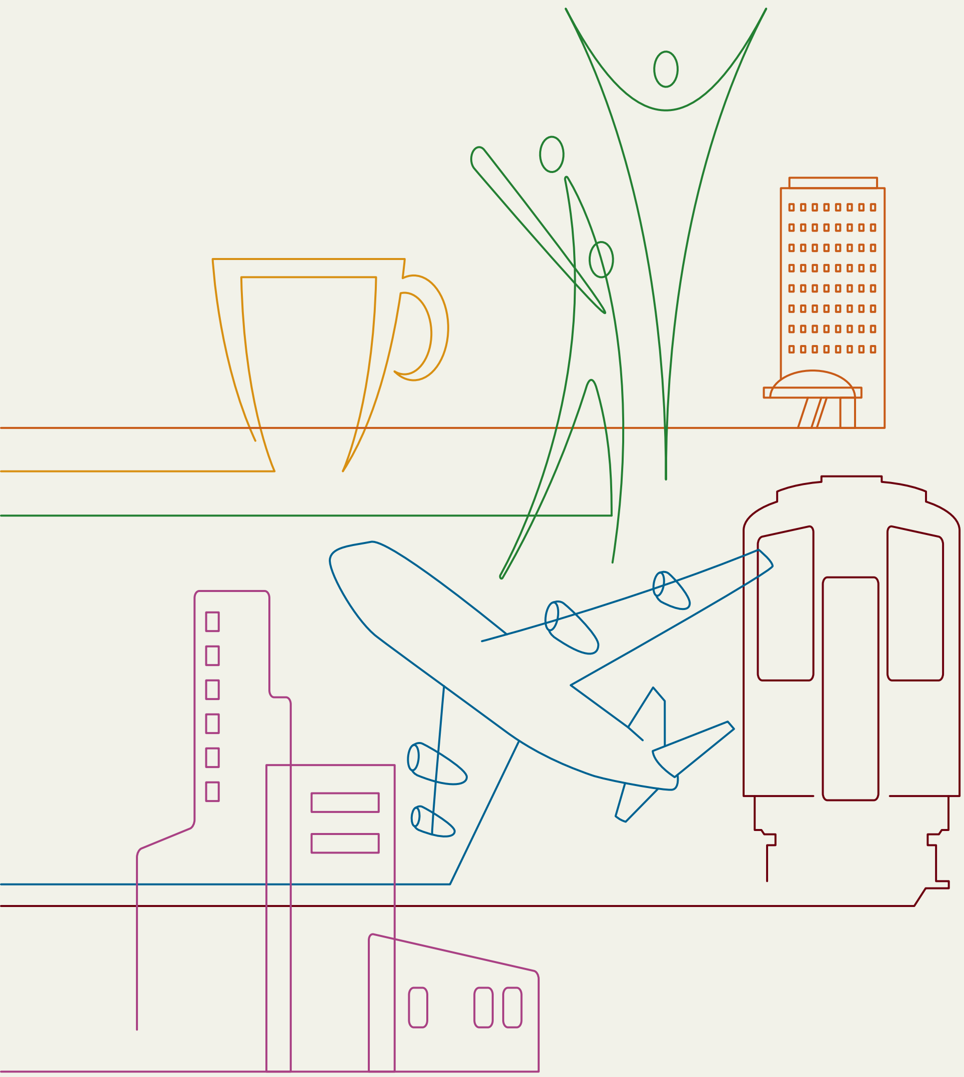
(1) As discussed in Note 2 (i) to the consolidated financial statements, a consolidated subsidiary of Hankyu Hanshin Holdings, Inc., Hankyu Corporation, changed the method of accounting for contributions for construction works.

(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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March 2008 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
25th June 2008



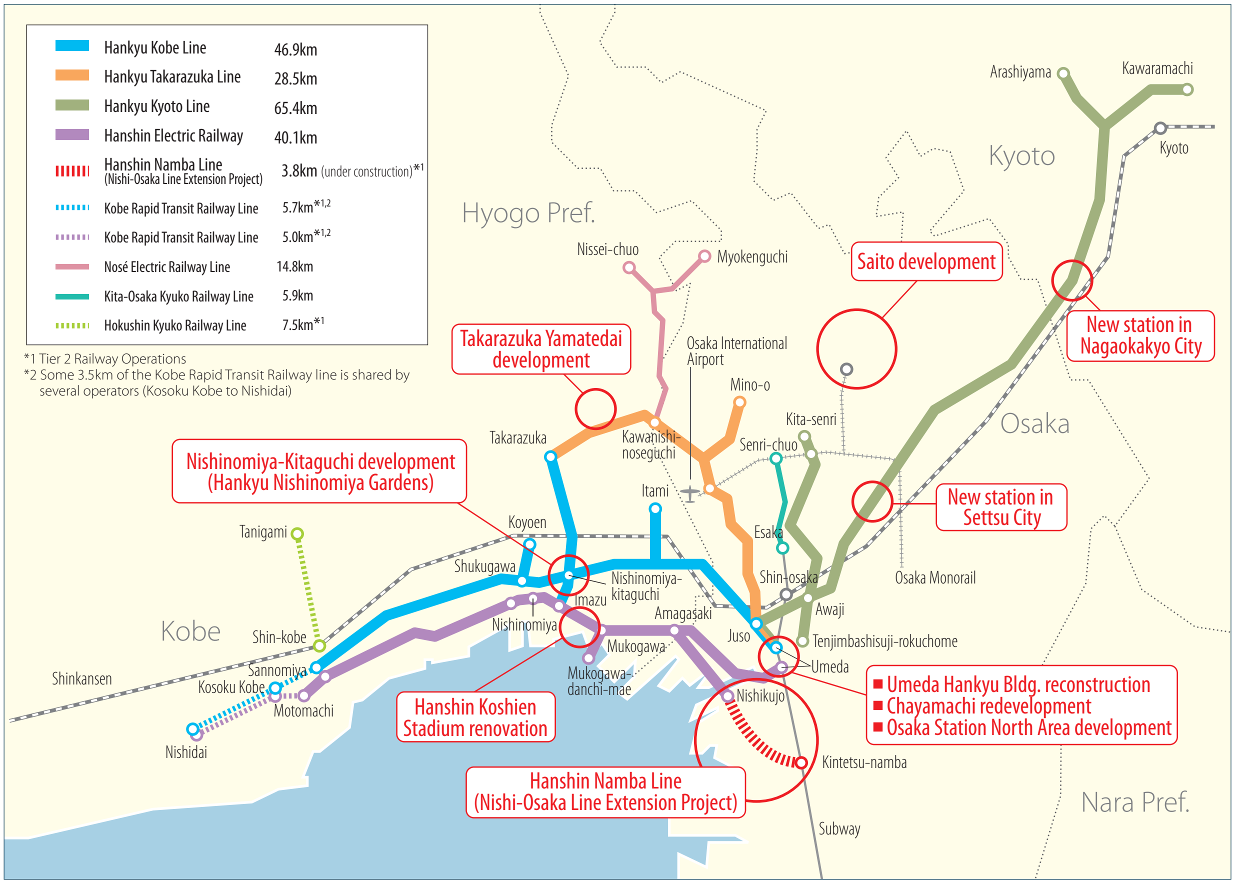
Corporate Information

Contents

Supplementary Data

Hankyu and Hanshin Service Areas

■ Operating Lines and Major Projects



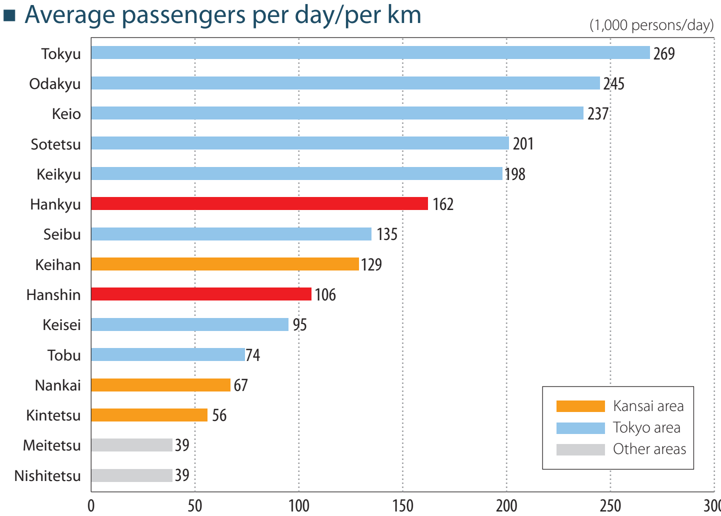
■ Street survey into preferred residential areas (Kansai region)

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

☐ represents areas along Hankyu and Hanshin Lines

Source: Survey of 7th August 2007 by Sumitomo Real Estate and 7 other major real estate firms

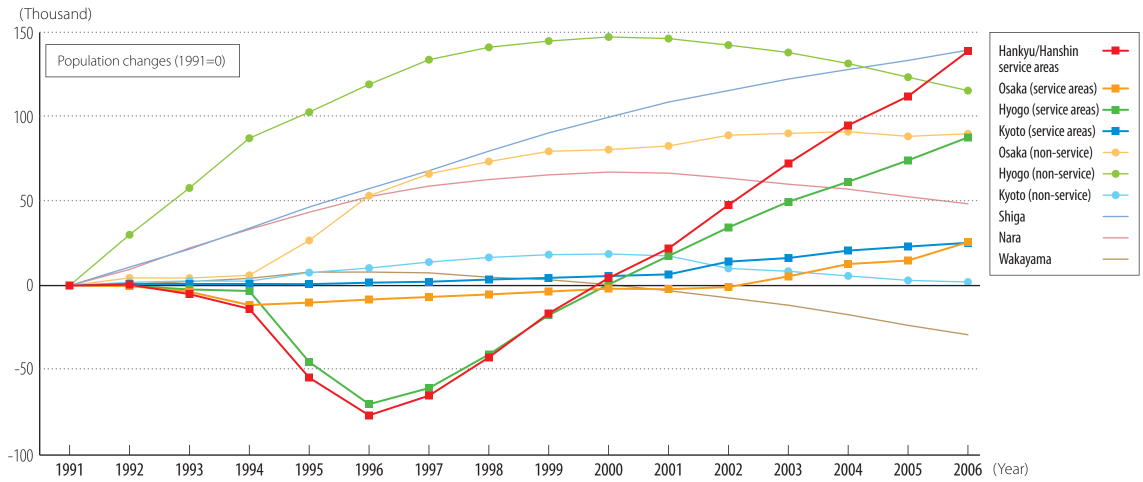
■ Average passengers per day/per km



Note: The above graph includes railways operations under tier 2 as of the end of March 2007.

Source: Website of Ministry of Land, Infrastructure and Transport and Tourism: *The Real Situation of the Major Private-Sector Railway Companies (The Association of Japanese Private Railways)*

■ Population



	Area (km²)	2006 (thousand)
Hankyu/Hanshin service areas	1,486	5,076
Osaka (service areas)	560	2,373
Hyogo (service areas)	528	2,044
Kyoto (service areas)	398	657
Non-Hankyu/Hanshin service areas	25,848	15,587
Osaka (non-service)	1,334	6,290
Hyogo (non-service)	7,865	3,531
Kyoto (non-service)	4,215	1,908
Shiga	4,017	1,365
Nara	3,691	1,430
Wakayama	4,726	1,061
Total	27,334	20,663

Hankyu/Hanshin Service Areas:
Following areas with stations of Hankyu (Tier 1), Hanshin Electric Railway (Tier 1), Kita-Osaka Kyuko Railway, Nosé Electric Railway

Osaka:
Osaka City (Higashi-Yodogawa, Yodogawa, Nishi-Yodogawa, Kita, Konohana, Fukushima Wards out of 24 wards), Toyonaka, Takatsuki, Suita, Ibaraki, Mino-o, Ikeda, and Settsu cities, Shimamoto, Toyono, and Nose towns

Hyogo:
Kobe City (Higashi-Nada, Nada, Chuo Wards out of 9 wards), Amagasaki, Nishinomiya, Takarazuka, Itami, Kawanishi, and Ashiya cities, Inagawa Town

Kyoto:
Kyoto City (Ukyo, Nishikyo, Nakagyo, Shimogyo Wards out of 11 wards), Nagaokakyo and Muko cities, Oyamazaki Town

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

■ Profile of Kansai area private railways

*Excludes stations jointly operated with other companies.

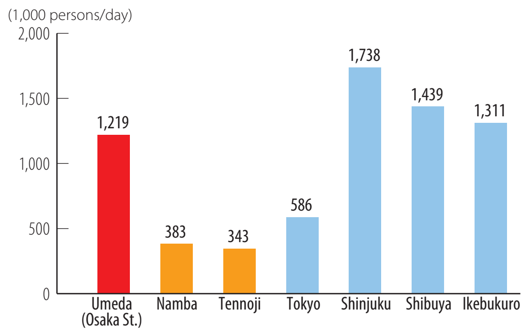
	Combined routes	Average number of passengers per day (thousands)	Total number of stations*	(1) Number of stations serving less than 5,000 passengers per day*	(1) as a percentage of all stations*
Kintetsu	582.3km	1,676	327	207	63%
Hankyu	146.5km	1,695	84	2	2%
Nankai	154.8km	635	99	49	49%
Keihan	88.1km	798	84	27	32%
Hanshin	45.1km	493	41	6	15%

Note: The above graph includes railways operations under tier 2 as of the end of March 2007.

Source: Website of Ministry of Land, Infrastructure, Transport and Tourism:
The Real Situation of the Major Private-Sector Railway Companies (The Association of Japanese Private Railways)

Overview of Umeda District

■ Passengers



Umeda: (Osaka) Osaka Municipal Transportation Bureau (including Nishi-Umeda and Higashi-Umeda), JR West, Hankyu, Hanshin

Namba: Kintetsu, Nankai, Osaka Municipal Transportation Bureau

Tennoji: JR West, Kintetsu (Abenobashi), Hankai Tramway, Osaka Municipal Transportation Bureau

Tokyo: JR East, Tokyo Metro

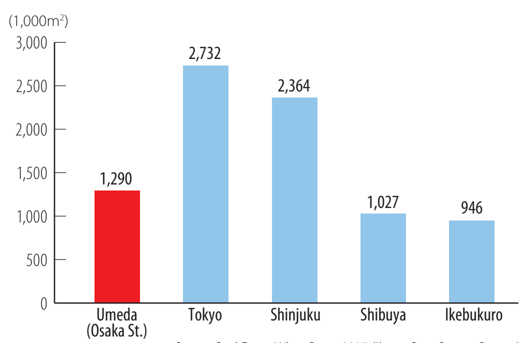
Shinjuku: JR East, Keio, Odakyu, Bureau of Transportation Tokyo Metropolitan Government, Tokyo Metro, Seibu

Shibuya: Tokyu, JR East, Tokyo Metro, Keio

Ikebukuro: JR East, Tobu, Seibu, Tokyo Metro

Source: Urban Transportation Report 2006 Edition (Institution for Transport Policy Studies)

■ Leased office floor area in vicinity of station



Source: Real Estate White Paper 2007 (Ikoma Data Service System)

■ Main commercial facilities

Hankyu Hanshin related facilities

Hankyu Department Stores*	(Before rebuilding) approx. 67,000m^2 (Currently) approx. 50,000m^2
Hanshin Department Store	approx. 54,000m^2
Hankyu-Sanbangai	approx. 40,000m^2
HEP FIVE*	approx. 23,000m^2
HEP NAVIO*	approx. 21,000m^2
Herbis ENT	approx. 21,000m^2
NU chayamachi	approx. 12,000m^2
Herbis OSAKA	approx. 9,000m^2
Diamor Osaka*	approx. 8,000m^2

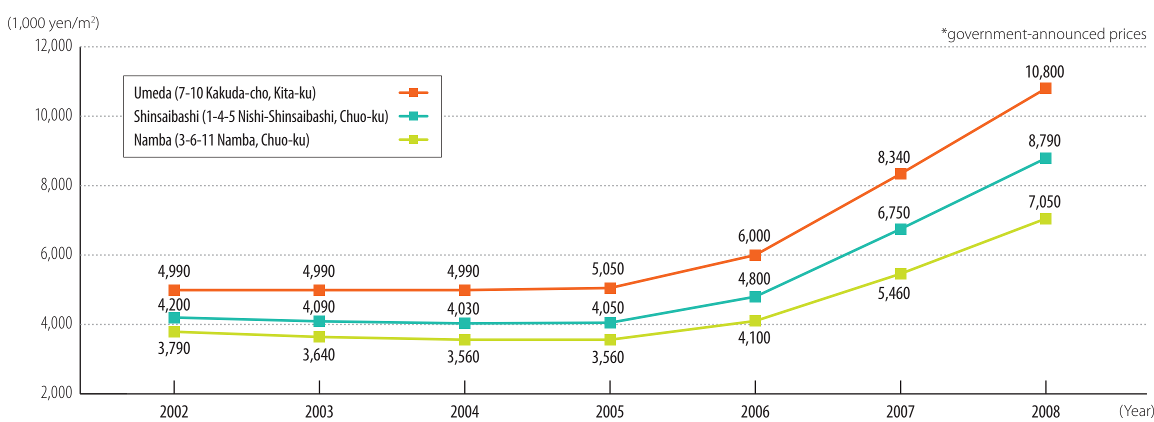
* Includes lease areas other than Hankyu Hanshin's

Facilities other than Hankyu Hanshin's

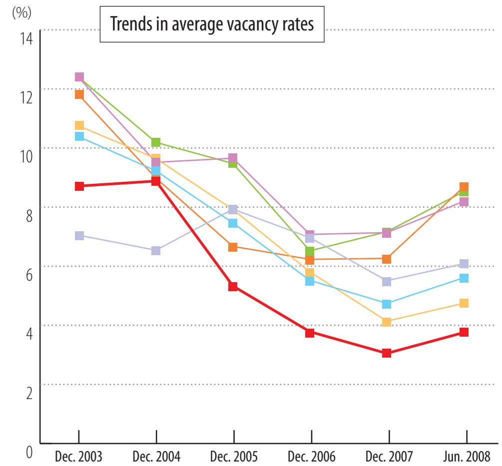
Yodobashi Camera	approx. 45,000m^2
Daimaru Umeda store	approx. 40,000m^2
Hilton Plaza East	approx. 24,000m^2
Hilton Plaza West	approx. 18,000m^2
Whity Umeda	approx. 13,000m^2
E-MA	approx. 8,000m^2

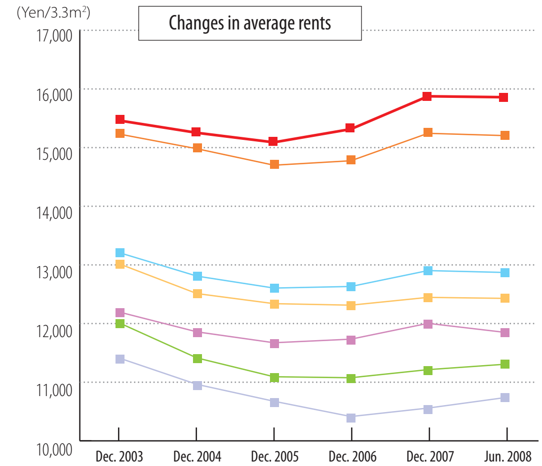
Source: Data from Hankyu Hanshin, Individual company web sites, Materials from Japan Council of Shopping Centers

■ Land prices in major commercial areas of Osaka



■ Osaka business districts: six major districts
Trends in average vacancy rates and changes in average rents





	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Jun. 2008	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Jun. 2008
Osaka business	10.39	9.23	7.45	5.49	4.71	5.58	13,185	12,788	12,584	12,611	12,882	12,850
Umeda	8.71	8.88	5.30	3.74	3.00	3.71	15,441	15,233	15,070	15,296	15,856	15,840
Minami-Morimachi	7.03	6.52	7.92	6.95	5.48	6.06	11,386	10,941	10,653	10,392	10,536	10,715
Yodoyabasgu/Honmachi	10.76	9.65	7.91	5.78	4.10	4.71	12,993	12,490	12,318	12,292	12,425	12,408
Senba	12.40	9.52	9.66	7.06	7.12	8.19	12,172	11,837	11,651	11,712	11,982	11,828
Shinsaibashi/Namba	11.81	8.98	6.65	6.21	6.24	8.68	15,209	14,961	14,680	14,756	15,224	15,185
Shin-Osaka	12.41	10.20	9.48	6.50	7.15	8.52	11,985	11,392	11,071	11,054	11,192	11,284

Source: Miki Shoji "*Osaka Office Building Market Research Report*" (monthly)

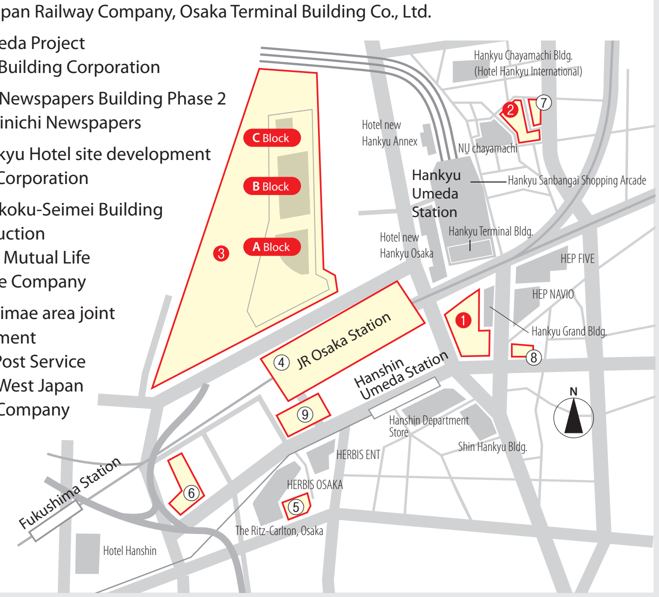
■ Main facilities for lease (As of March 2008)

Building name	General description	Completed
Dai Hanshin Building (Hanshin Department Store)	5 stories below, 11 above ground	Jun. 1963
Umeda Hankyu Building (Hankyu Department's Umeda flagship store)	2 stories below, 8 above ground (12 above in part)	Nov. 1920 (Before rebuilding)
Umeda Hanshin Daiichi Bldg. (HERBIS OSAKA)	5 stories below, 40 above ground	Mar. 1997
Umeda Hanshin Daini Bldg. (HERBIS ENT)	4 stories below, 28 above ground	Nov. 2004
Hankyu Chayamachi Building (Chayamachi Applause)	3 stories below, 34 above ground	Nov. 1992
Hankyu-Sanbangai	2 stories below, 4 above ground (4 below in part)	Nov. 1969
Hankyu Grand Building *1	3 stories below, 32 above	Aug. 1977
Hankyu Terminal Building	4 stories below, 17 above	Mar. 1972
Navio Hankyu *2 (HEP NAVIO)	2 stories below, 10 above ground	Oct. 1980
Hankyu Five Building *2 (HEP FIVE)	3 stories below, 10 above ground	Nov. 1998
Umeda Center Building *2	2 stories below, 32 above	Mar. 1987

*1 We lease land and buildings from a special purpose company, etc.
*2 Owned jointly with another company

■ Developments in Umeda district (red = Company-related Projects)

1. Umeda Hankyu Building reconstruction
2. Chayamachi Eastern District Urban Redevelopment Association
3. Osaka Northern District (North Yard) development
   Preliminary development areas (Blocks A, B, and C)
4. Osaka Station reforms / New Northern Building development / Acty Osaka enlargement
   –West Japan Railway Company, Osaka Terminal Building Co., Ltd.
5. West Umeda Project
   –Sankei Building Corporation
6. Mainichi Newspapers Building Phase 2
   –The Mainichi Newspapers
7. Osaka Tokyu Hotel site development
   –Urban Corporation
8. Osaka Fukoku-Seimei Building reconstruction
   –Fukoku Mutual Life Insurance Company
9. Osaka-ekimae area joint development
   –Japan Post Service Co. Ltd., West Japan Railway Company



Group at a Glance

(As of 31st March 2008)

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 Electric Communication Systems Co., Ltd.
	Hankyu M-TECH Corporation
	Nippon Rent-A-Car Hankyu Inc.
	Alna Sharyo Co., Ltd.

Travel and International Transportation

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

Hotels

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

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.

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 Service	Itec Hankyu Hanshin Co., Ltd.
Publishing	Hankyu Communications Co., Ltd.

Other

Business subsegments for financial reporting purposes	Name of the consolidated subsidiary
Construction	Hanshin Construction Co., Ltd.
	Chuo-Densetsu Co., Ltd.
Consumer Finance	Station Finance Inc.
Group Finance	Hanshin Financial Support Co., Ltd.
Outsourcing Services for Personnel and Accounting Services	Hankyu Business Asssociate Co., Ltd.

Directors and Corporate Auditors

(As of 25th June 2008)

Directors

Kazuo Sumi
President and Representative Director
President, Hankyu Corporation

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

Isao Matsuoka
Director
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 Department Stores, Inc.

Hiroshi Ishikawa
Director (External)
Advisor, The Kansai Electric Power Co., 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
General Manager 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

Yasuro Yamauchi
Standing Corporate Auditor
Standing Corporate Auditor, Hankyu Corporation

Hidekazu Sugisawa
Standing Corporate Auditor
Standing Corporate Auditor, Hankyu Corporation

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

Investor Information

(As of 31st March 2008)

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: 19,892 (consolidated basis)

Authorised Shares: 3,200,000,000

Issued Shares: 1,271,406,928

Number of Shareholders: 138,420

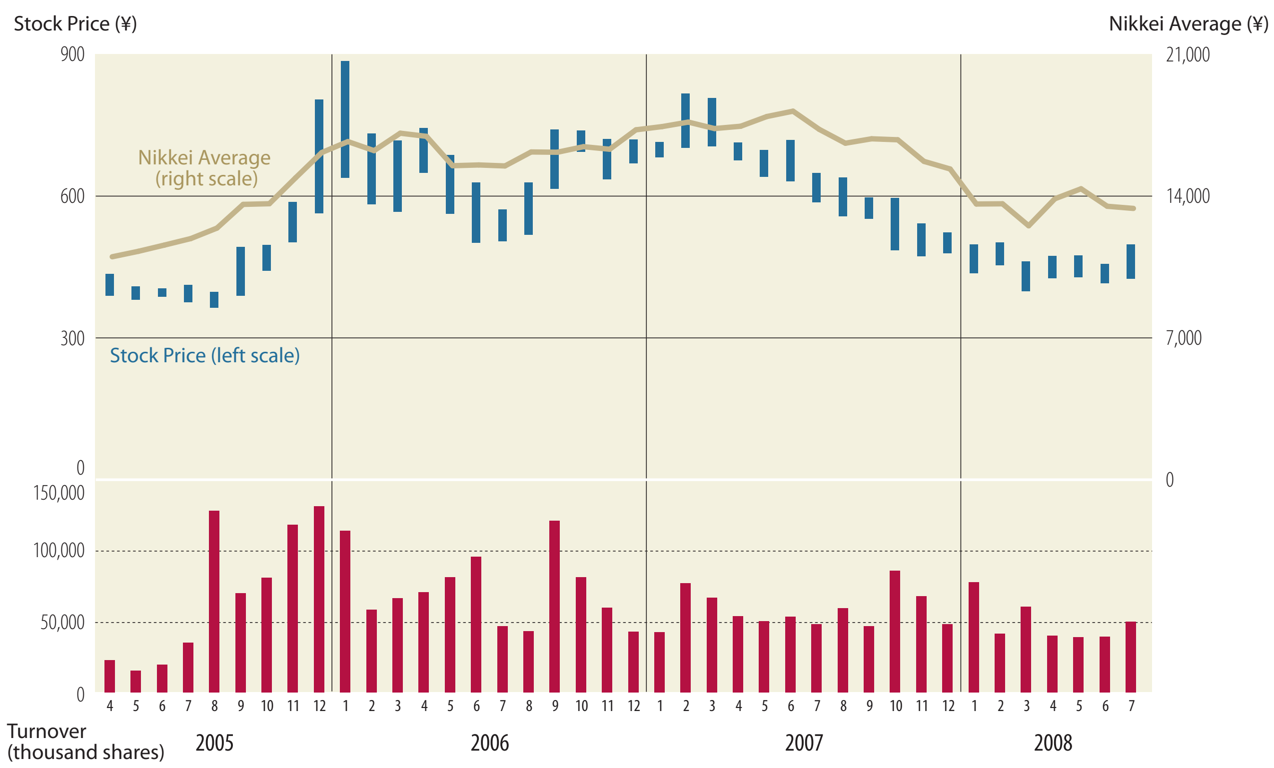
Stock Exchange Listing: Tokyo, Osaka

Transfer Agent: Mitsubishi UFJ Trust and Banking Corporation

Principal Shareholders:

Japan Trustee Services Bank, Ltd. (Trust account)
Nippon Life Insurance Company
The Master Trust Bank of Japan, Ltd. (Trust account)
Sumitomo Mitsui Banking Corporation
H_2O Retailing Corporation
Privee Investment Holdings Co., Ltd.
Japan Trustee Services Bank, Ltd. (Trust account No.4)
The Sumitomo Trust & Banking Co., Ltd.
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Mitsubishi UFJ Trust and Banking Corporation (Trust account)

Stock Price Range / Turnover Trend (Tokyo Stock Exchange)



Hankyu Hanshin Toho Group

The Hankyu Hanshin Holdings Group

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

The revenues from operations of Hankyu Hanshin Holdings on a consolidated basis for the term ended March 2008 was ¥752.3 billion.

The H_2O Retailing Group

On 1st October 2007, a retail group came into being under the control of H_2O Retailing Corporation, the holding company set up after the management integration between Hankyu Department Stores, Inc. and The Hanshin Department Store, Ltd. Under H_2O Retailing Corporation, with Hankyu and Hanshin department stores as core stores, the group operates retail-related businesses such as department stores, a supermarket business, home-delivery service, shopping centres and other businesses.

The revenues from operations of H_2O Retailing on a consolidated basis for the term ended March 2008 was ¥471.6 billion.

The Toho Group

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

The revenues from operations of Toho on a consolidated basis for the term ended February 2008 was ¥205.0 billion.

Hankyu Hanshin Holdings, Inc.
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http://www.hankyu-hanshin.co.jp/english/
Hankyu Hanshin Toho Group