Message from the President

Management and Strategic Direction

We will enhance enterprise value over the medium- to long-term, even in the new management phase from fiscal 2016 and beyond.

Since the management integration of October 2006, the Group has operated under the three basic policies of (1) strengthening the competitiveness of each business and raising profitability, (2) rigorously pursuing and developing integration effects, and (3) improving financial position and obtaining a higher return on assets. In particular, in recent years our primary focus has been to improve our financial position, an urgent task, and in fiscal 2014 we achieved our initial target of an interest-bearing debt/EBITDA ratio of around seven times thanks to a detailed review of capital investments. In addition, in our fiscal 2015 forecast, we expect to achieve a consolidated interest-bearing debt/EBITDA ratio of 6.8 times, our fiscal 2016 plan announced in May 2013, one year ahead of schedule.

In light of these circumstances, we will move to the next management phase in fiscal 2016 and after, and not only focus on improving our financial position, but establish new business strategies and financial policies for future growth, and raise enterprise value over the medium- to long-term while building relationships of trust with various stakeholders.

Specifically, we have positioned the period between fiscal 2016 and fiscal 2019 as a time for developing the infrastructure for medium- to long-term growth and will address, as a new management direction, the financial policy of flexibly allocating funds on a well-balanced basis for the two business strategies of "enhancing value along rail lines including the Umeda area" and "developing new markets (Tokyo area, overseas, etc.) for medium- to long-term growth," and the three themes of "forward-looking investments," "continuous strengthening of our financial standing," and "returns to shareholders."

Taking on the challenge of a new management phase.

Business Strategy 1

Enhance value along rail lines including the Umeda area

To date, a pillar of the Group's management strategy has been to "build good rail lines, build good communities." Since our foundation, centring on railway operation business, we have also been operating real estate and leisure oriented businesses along our railway lines. Having received high ratings for increases in value along our railway lines as a result of these synergies, the population living along these lines is still now steadily growing (see page 13 for details on the population along the lines). Accordingly, in order for the Group to maintain sustainable growth for the future, it first needs to continuously improve value of the areas along its railway lines, its most important operating foundation.

Therefore, we will build an area along our railway lines that makes people think how fortunate they are to live there, and is an area where they will want to go to have fun time and again.

In the Umeda area, the Group's most important base, the Umeda 1-1 Project is about to begin, which involves rebuilding both the Dai Hanshin Building (in which the Hanshin Department Store Umeda Flagship Store is located) and the adjacent Shin Hankyu Building in an integrating way. The Group is scheduled to begin demolition work on the Shin Hankyu Building around the autumn of 2014 and will steadily press ahead to final completion around the spring of 2022. Further, we will revitalise and improve the attractiveness of the Umeda area in all areas to create a community that meets today's needs.

We are considering the revitalisation of major bases, even along other Hankyu and Hanshin lines, and will systematically implement facility reconstruction along existing rail lines, thereby making the areas along those lines more attractive.

In addition, the Urban Transportation Business provides safe and high-quality transportation services that are socially trusted and the Group is encouraging greater use by upgrading station facilities and expanding networks. We will continue to improve standards of convenience for customers and make our railway lines more safe, secure and appealing by expanding our general transportation services, especially our rail lines. Moreover, the project to extend the Kita-Osaka Kyuko Line (see page 34 for details) will continue to collaborate with municipalities.

The Group's unique Hanshin Tigers and Hanshin Koshien Stadium, and Takarazuka Revue brands retain their passionate fans not only in the Kansai area, but all over Japan. We will work to maximise brand value by pursuing high-quality performances that deliver inspiration and dreams to our customers.

Business Strategy ❷

Developing new markets (Tokyo area, overseas, etc.) for the medium- to long-term growth

As previously stated, the population living along the Group's rail lines is now increasing, but when seen from a medium- to long-term timeline against a backdrop of declining birth rates and an aging population, a decline in the population living along the Group's rail lines and shrinking of the Kansai economy are also sufficiently possible. With the expected arrival of such a harsh business environment, we must have our sights set on growth by enhancing value along our rail lines and developing new markets in order to achieve sustained growth into the future. Based on this concept, we will begin to strengthen businesses outside of the Hankyu and Hanshin lines including the Tokyo metropolitan area, a large market, and overseas markets that are growing at a significant rate.

With respect to business expansion in the Tokyo area, the costs for construction and acquisition of sites for holding the 2020 Tokyo Olympics and building the Linear Chuo Shinkansen will likely remain high for some time, but we will take steps to increase earnings while closely monitoring market trends.

First, the real estate sales business is emphasising operating margins while keeping a watchful eye on market trends, aggressively capturing business opportunities, especially in the Jonan, Josai, and Yokohama areas, and will continue to raise its visibility in the Tokyo area. The residential land-lot subdivisions business, in light of its sales record and the business environment in the Tokyo area, will expand the scale of its business and strengthen its foundation by aggressively capturing business opportunities, mainly in areas where it has a clear shot at high price range sales.

In the real estate leasing business, we will ensure medium- to long-term earnings in the leasing business in the Tokyo area and try to establish a business foundation. We will consider various policies and measures such as acquiring properties for development and management, while carefully monitoring market conditions. To that end, we will collaborate more closely with other business operators, gather information, and create business opportunities for future development projects by acquiring and reconstructing old buildings and participating in the urban redevelopment business.

In the Travel Business, we will pursue cross-media strategies and raise our visibility with the aim of strengthening business

in the Tokyo area. Further, in the REMM, a hotel that prioritises a good night's sleep over other services, and information services business field, we will expand our business base in the Tokyo area.

Overseas, in the International Transportation Business, we will further expand our global network centred on Asia while providing a high value-added comprehensive logistics service for customers and increase the scale of our business. As one part of this, in the ASEAN region, where growth in logistics demand is expected, we are considering the purchase of a logistics warehouse through collaboration and cooperation with the Real Estate Business. In the Travel Business, we reinforced purchasing of travel products and raised quality by setting up a business base overseas, and we would like to get involved in travel to various countries outside of Japan over the medium- to long-term.

The Takarazuka Revue's performance in Taiwan in April 2013, which was well received, is preparing for its second performance scheduled for August 2015.

Financial Policy

Because the improvement of the Group's financial position had been its greatest management challenge, it has kept total capital investment to roughly the equivalent of depreciation and amortisation, and preferentially allocated surplus funds for the repayment of interest-bearing debt. However, we reviewed that policy for fiscal 2016 and beyond and will allocate surplus funds in a well-balanced manner between "forward-looking investments," "continuous strengthening of our financial standing," and "returns to shareholders."

First, with regard to "forward-looking investments," we have decided to allocate funds mainly for the aforementioned Strategies 1 and 2 without regard to past levels of roughly the equivalent of depreciation and amortisation. During the four-year period from fiscal 2016 through 2019, we anticipate capital investments and loans of around ¥300.0 billion. Of this amount, around ¥150.0 billion is projected for investment in maintaining and upgrading existing infrastructure (investments in railway safety, and renovation pertaining to the real estate leasing business) and ¥100.0 billion for investment in large-scale development and new market development.

Meanwhile, to "continuous strengthening our financial standing," we will constantly reduce interest-bearing debt, yet at a slower pace than before. This is because we have, to deal with risk associated with interest rate increases and ensure a medium-to long-term surplus.

Although "returns to shareholders" will be discussed in detail later, starting in fiscal 2014 (dividend payment in June 2014), in order to enhance profit returns to shareholders, the annual dividend per share was raised from ¥5 to ¥6. We will work to maintain a stable dividend while balancing forward-looking investments with the need to strengthen our financial standing. At the same time, our approach to shareholder returns will be continuously reviewed.

Targeted Management Indicators (through fiscal 2019)

Based on the business strategies and financial policies outlined above, we have set operating income and the balance of interest-bearing debt as our management indicators for the period from fiscal 2016 to fiscal 2019.

First, despite declining profit levels due to lower rental income (rental area) associated with progress on the Umeda 1-1 Project, we will seek to maintain operating income at the ¥80.0 billion mark from fiscal 2016 and beyond. In order to increase future earnings, it is inevitable that profits will fall to a certain level. However, we want to strengthen the competitiveness of each business and ensure this level.

On the other hand, despite forward-looking investments, we will continuously strengthen our financial standing with the aim of steadily reducing interest-bearing debt to under ¥900.0 billion by the end of fiscal 2019.

In addition to these two goals, aiming for a longer term perspective with the idea of providing the highest level of financial soundness for a private railway operator group line, we established, as guidelines, an interest-bearing debt/EBITDA ratio over the medium- to long-term of five times level and a D/E ratio over the medium- to long-term of one time.

Medium-Term Management Plan

In March 2007, the Group announced its first Medium-Term Management Plan since the management integration.
Since then, we have worked together as a team to achieve the plan's targets while making yearly adjusted estimates.
The target of an interest-bearing debt/EBITDA ratio of around seven times, viewed as our top management target, was reached in fiscal 2014.
In the forecast for fiscal 2015, we are expected to achieve the previous target figures for fiscal 2016 (announced in May 2013) one year ahead of schedule. Therefore, from fiscal 2016 and after, we will move to a new management phase and enhance enterprise value over the medium- to long-term.

New Management Phase (fiscal 2016 through fiscal 2019)

Targeted Management Indicators (through fiscal 2019)

Operating income: Maintain ¥80.0 billion level

Interest-bearing debt: Steadily reduce to under ¥900.0 billion by end of fiscal 2019

Looking Back on the 2007 Medium-Term Management Plan

March 2007 Formulation of Medium-Term Management Plan

After the management integration, we drew up our first Medium-Term Management Plan and set a target of achieving an interest-bearing debt/EBITDA ratio of around seven times in fiscal 2013 by balancing EBITDA expansion with interest-bearing debt reduction.

Operating income	¥100.0 billion
EBITDA	¥150.0 billion or more
Interest-bearing debt	¥1,100.0 billion or less
Interest-bearing debt/EBITDA ratio	Around 7 times
ROE	6.0% or more
D/E ratio	Around 2 times

Formulation of Medium-Term Management Plan

March 2010 rolling forecast
Not expected to achieve target (interest-bearing debt/EBITDA ratio of around seven times) by fiscal 2013 due to rapidly deteriorating economic situation triggered by the Lehman Brothers' collapse in the autumn of 2008

March 2012 rolling forecast
Plan's duration extended to fiscal 2016

March 2013 rolling forecast
Aiming for the plan's fiscal 2016 targets of interest-bearing debt of ¥980.0 billion and interest-bearing debt/EBITDA ratio of 6.8 times and to achieve interest-bearing debt/EBITDA ratio of around 7 times as early as possible

Targeted fiscal year achieving initial plan

Achieve one year ahead of schedule

Expected outstanding balance of interest-bearing debt at end of fiscal 2015 is ¥970.0 billion, and interest-bearing debt/EBITDA ratio is 6.7 times, and fiscal 2016 targets (announced in May 2013) are scheduled to be achieved one year ahead of schedule

Duration of initial plan extended

FY2008 FY2009 FY2010 FY2011 FY2012 FY2013 FY2014 FY2015 FY2016 FY2017 FY2018

Fiscal 2015 Outlook

Outstanding balance of interest-bearing debt: ¥970.0 billion (forecast)

Interest-bearing debt/EBITDA ratio 6.7 times

Fiscal 2014 Status

Revenues from operations: Initial forecast ¥670.0 billion → Results ¥679.2 billion
Operating income: Initial forecast ¥84.0 billion → Results ¥91.8 billion
Both revenues from operations and operating income are substantially above initial targets

Interest-bearing debt/EBITDA ratio 6.9 times

Achieve the target of interest-bearing debt/EBITDA ratio of around seven times, the top management target, at the end of fiscal 2014

Investment in developments for growth → Payback from major projects → Improvement of financial standing → Create foundation for medium- to long-term growth

Future Management Direction (fiscal 2016 through fiscal 2019)

Positioned as a time for developing the infrastructure for medium- to long-term growth

The period up to fiscal 2019 is positioned as a time for developing the infrastructure for medium- to long-term growth, during which we will address the two business strategies and the financial policies as basic strategies and policies.

Business Strategy

1 Enhance value along rail lines including the Umeda area

Build areas along rail lines where people will want to live for many years to come and will want to go to have fun time and again

<Umeda 1-1 Project>
Construction on the Umeda 1-1 Project, which involves rebuilding the Dai Hanshin Building in which the Hanshin Department Store (Hanshin Umeda Flagship Store) is located, and the adjacent Shin Hankyu Building into an integrated complex, began in the autumn of 2014 and is targeted for completion in 2022.
☞See pages 32–33 for details.

<Extension of Kita-Osaka Kyuko Line>
The Kita-Osaka Kyuko Line, a shared-line service with the Osaka Municipal Transportation Bureau's Midosuji Line, is scheduled to be extended 2.5km from Senrichuo Station to the north.
☞See pages 34–35 for details.

<Acquisition of Amagasaki Municipal Bus Business>
The acquisition of the bus line of Amagasaki City, a key area of the bus business, is under discussion for 2016 for integrated operation by the Group.

2 Development of new markets (Tokyo area, overseas, etc.) for medium- to long-term growth

Begin to expand business in Tokyo area and develop new business overseas

Tokyo area

<Residential Business>
Emphasising profitability while keeping a watchful eye on market trends, we will aggressively obtain business opportunities, especially in the Jonan, Josai, and Yokohama areas, and further increase recognition of *Geo* brand condominiums in the Tokyo area.

<Leasing Business/Development Business>
Purchase properties depending on market conditions and participate in future development projects. Collaborate on an ongoing basis with the Hotels Business for joint development of REMM.

<Travel Business>
Promote cross-media strategy and increase recognition of Trapics with the aim of strengthening business in the Tokyo area.

Overseas

<Acquisition of overseas logistics warehouse>
In the International Transportation Business, we will further expand our global network centred on Asia and, collaborating with the Real Estate Business, we will purchase a logistics warehouse in the ASEAN region.

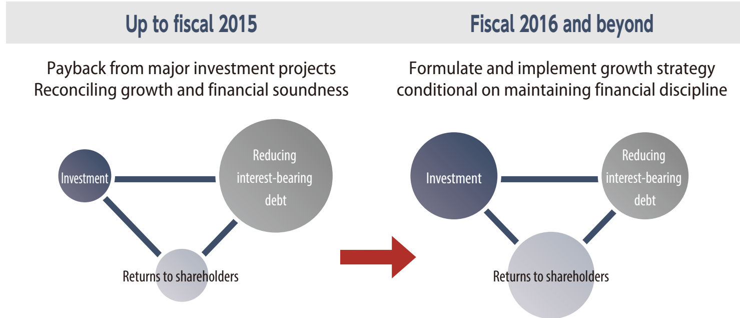
<Overseas Performance of Takarazuka Revue>
The Takarazuka Revue is eagerly preparing for its second performance in Taiwan scheduled for August 2015.

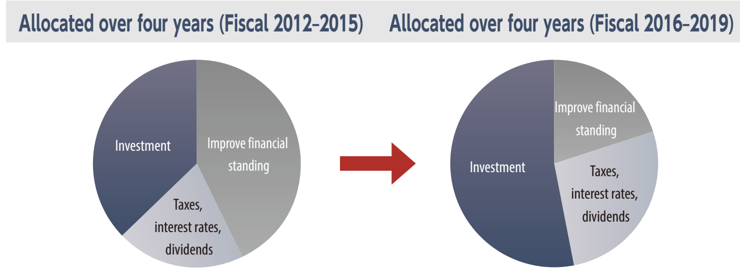
<Establishment of Overseas Subsidiary (Travel Business)>
Established Singapore subsidiary (April 2014). Reinforce purchasing of travel products and improve quality with aim of gaining inbound customers in the future.

Financial Policy

Distribute cash flow in a balanced and flexible manner

To date, we had improved our financial standing by keeping total capital investment to roughly the equivalent of depreciation and amortisation and preferentially allocating surplus funds to reduce interest-bearing debt. However, from fiscal 2016 and after, we will allocate funds in a well-balanced manner between (1) forward-looking investments, (2) continuous strengthening of our financial standing, and (3) returns to shareholders.





(1) Forward-looking investments

We will allocate funds for forward-looking investments without regard to past levels (equivalent to depreciation and amortisation expenses), focusing on efforts based on the aforementioned strategies 1 and 2.

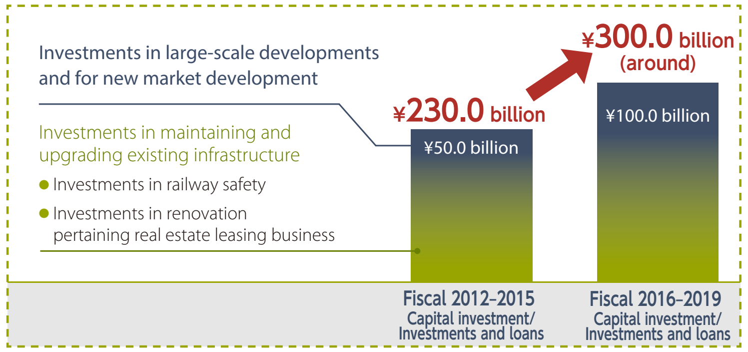
(2) Continuous strengthening of our financial standing

To deal with risk associated with interest rate increases and ensure a medium- to long-term surplus, we will continue to strengthen our financial standing, even after achieving our previous management target (interest-bearing debt/EBITDA ratio of seven times). Specifically, we will steadily aim for an outstanding balance of interest-bearing debt of under ¥900.0 billion by the end of fiscal 2019.

(3) Returns to shareholders

From fiscal 2014, we changed our dividend policy so as to implement a stable dividend set at a minimum of ¥6 per share annually. Thereafter, we will work to pay a stable dividend while balancing forward-looking investments with the strengthening of our financial standing.

■ Investment Funds



Management Indicators based on Business Strategies and Financial Policies

Targeted Management Indicators (through fiscal 2019)

Operating income:
Maintain ¥80.0 billion level

Interest-bearing debt:
Steadily reduce to under ¥900.0 billion by end of fiscal 2019

Target levels at a longer term perspective

Interest-bearing debt/EBITDA ratio:
over 5.0 times

D/E ratio: **around 1 time**