November 2017

Hankyu Hanshin Holdings, Inc.

The Main Questions and Answers during the Briefing on Earning Results for the second quarter of Fiscal 2018 (year ending 31st March 2018)

*Please be aware that this document is not a verbatim account of everything that was said during at the question and answer session held during the briefing. The Company has made additions and modifications, and summarised the content as it judged appropriate.

[Questions about the Company in general]

Q: Since taking up the post of President and Representative Director in June this year, what areas have you been focusing on?

A: I take an interest in all areas of the Group, but if I was to mention one area that I have focused on in particular, it would be the efforts to develop the Real Estate Business segment. This business segment is a key driver of the Group's growth, and so leadership in this area is crucial. Accordingly, I am working to clarify afresh the business development tasks and timeframes for the *Umeda* and line-side areas, the Tokyo metropolitan area, and our overseas locations, and ensure that the basic approaches are shared throughout the business segment.

I should also mention the Travel Business and International Transportation Business, which have struggled over the past two or three years. A programme for structurally reforming these business segments has been underway since the second half of last year. In connection with this programme, I am working with the business segments to analyse our strengths, weaknesses, and the future business outlook, and thus identify the direction we should be heading in and the challenges we should be taking on. It will take some time for this process to bear fruit, but to achieve future growth for the Group, we must bolster the operational foundations of the two business segments and increase their profitability. To this end, we are pressing on with structural reform.

[Questions about individual business segments]

<Urban Transportation Business>

Q: There have been media reports about a possible '*Itami* Airport line'. Please tell us as much as you can about your current plans in this regard.

A: The *Itami* Airport line is still in the conceptual phase so I cannot give you any specific details at this point in time. However, I can at least tell you the intention behind the plan.

The present indications suggest a bright future for the Kansai economy, and the biggest factor is the growing numbers of foreign visitors. To maintain this positive trend and attract even higher numbers of visitors, we need to develop a more convenient and accessible transport network—this involves airports and motorways as well as railways—and thereby make the Kansai area an even more attractive tourist destination, especially for foreign visitors. We have already released plans (together with other rail companies and local government authorities) for three similar projects—the *Naniwa Suji* line, *Naniwa Suji* rail link, and *Shin-Osaka* rail link. If we can make the *Itami* Airport line a reality alongside these projects, it will increase accessibility for tourists arriving at the three Kansai airports and also for those arriving at *Shin-Osaka* Station on the *Shinkansen* or, in the future, the Linear-Express (SCMaglev).

Improving transport networks in this way will raise the potential of the Kansai area as a whole, and this will lead to a positive outcome for us, since the *Umeda* and line-side areas represent an important revenue base for the Group. Therefore, though it will probably take years for this process to come to fruition, we intend to start carefully laying down the essential groundwork.

<Real Estate Business>

Q: Office vacancy rates in the *Umeda* area are on the decline. What about the rent levels among your properties?

A: Vacancy rates are low for our office real-estate in the *Umeda* area. As for rents, we have been carrying out separate negotiations with individual tenants, and some of them have agreed on a rent increase.

Q: How is your condominium sales business going, and what is its future outlook?

A: Until the end of fiscal 2016, almost all of our condominium properties sold relatively well. In the previous year, however, there were some properties that sold a little less well because of their location or other factors. Also, the procurement environment has grown tougher with increases in land and material prices, and this has made it hard to achieve the same gross margin levels as previous years. To deal with such circumstances, we have for many years followed a flexible procurement policy in which we avoid overemphasising numerical targets and instead adjust the supply level flexibly in accordance with market condition. Because we are focusing on each property's profitability and being much more selective in acquiring new properties, you should expect to see some fluctuation in the annual number of condominium units sold and profit margins.

As for the future direction, our experience in condominium sales has given us a considerable degree of know-how. We will draw on this know-how to size up the market conditions and risks and work towards achieving a commensurate revenue/profit level.

<Travel Business>

Q: You intend to structurally reform the Travel Business segment. Could you tell us about the basic direction and timeframe for this structural reform programme? Also, according to full-year forecasts, the figure for operating income, excluding first half results, is expected to be much lower than the same period last year. Does this decline reflect the expenses associated with the structural reform programme? If so, does this indicate the income levels you expect to see while the programme is underway?

A: The programme to structurally reform the Travel Business segment has two main objectives. The first is to make our core brand travel packages more competitive, and the second is to establish a second pillar alongside core brand packages. Regarding the first objective, our core brand travel packages have been a key revenue pillar for many years. Packages to European destinations has been a particular forte, but in view of recent trends in the business environment, we are working to strengthen our packages to other destinations. At the same time, we are looking to win new customers by strengthening our specialised products (such as cruises and hiking tours in Japan and overseas) and individual-oriented products. In conjunction with these efforts, we are reviewing the cost structure for advertising and other expenses. As for the second objective—to establish a second pillar—to achieve this, there are two key actions to take: first, in light of the growing numbers of foreign visitors to Japan, we must strengthen our efforts to capture the international travel market; second, we must expand group travel and business travel services, from which we can expect a steady revenue.

While I said we are going to take business in a new direction, as to the specific directions and approaches, each of the businesses within the segment will try out various strategies and review the results so that we can gradually pinpoint the potential growth areas. This trial-and-improvement process will require forward investments, and as such, it may impact the financial results in the short-term. However, I believe it will ultimately lead to a new business structure, one that is better able to achieve future growth. As regards the expenses associated with the structural reform, we have started accruing these expenses in the current fiscal year. While we want to press on with the programme as quickly as possible, this is not a single-year undertaking, and so these expenses will be incorporated into the forecasts for a few more years yet.

<Hotels Business >

Q: You revised the forecast for the Hotels Business downward in light of lower-than-expected average daily rates (ADR). What do you think is the factor behind this result? Also, how do you plan to achieve a recovery in ADR?

A: This result reflects the impact of sluggish ADR among hotels in the Kansai area. This is partly down to the harsher business environment we now face. For example, the entrance of new hotels into the market has intensified competition, and more tourists use private residences instead of hotels. There is also an internal factor: the low ADR for fiscal 2017/2018 reflects a reactionary downturn from fiscal 2016, when a sharp rise in overseas visitors led to ADR far above that of our competitors.

As for our strategies for turning ADR around, we will modify room types so they can accommodate more guests and increase rate per room, primarily targeting overseas visitors. We will also implement a more rigorous revenue management.