

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years ended March 31, 2013 and 2012

Results of Operations

During the fiscal year under review, the outlook for the Japanese economy remained uncertain, as sluggish private consumption and capital expenditure overshadowed a gradual recovery in corporate earnings to some degree. However, signs of an economic recovery emerged in expectations of positive effects from a variety of bold economic measures announced by the new administration after Prime Minister Shinzo Abe took office in December 2012.

Against this backdrop, each of the Group companies pushed ahead with aggressive marketing activities and benefited from an upturn from the low levels of business reported in the aftermath of the Great East Japan Earthquake, especially in the first half of the previous fiscal year. Revenue from operations rose ¥6,892 million (or 1.4%) year on year to ¥515,224 million. As a result, operating income grew ¥5,488 million (or 14.2%) year on year to ¥44,119 million. Net income totaled ¥19,675 million, a year-on-year increase of ¥1,837 million (or 10.3%), despite a loss on impairment of fixed assets.

Cash Flows

The Odakyu Group makes continuous capital expenditures in its railway business and each of its other businesses. These expenditures are mainly aimed at providing comfortable and speedy railway services and realizing respective area strategies to raise the value of areas along the Odakyu lines.

We also take a proactive approach to implement appropriate safety measures to prevent accidents. In the fiscal year under review, capital expenditures for the year totaled ¥53,358 million, representing a 33.9% drop from the previous fiscal year, including the investment amount in intangible assets.

Capital expenditures in the Transportation segment totaled ¥34,905 million, which was used primarily for railway operations. To maximize the effects of the augmented passenger carrying capacity, the construction of multiple double tracks between Higashi-Kitazawa and Izumi-Tamagawa stations was launched. The project received ¥7,005 million (including ¥5,423 million for a Japan Railway Construction, Transport and Technology Agency project).

In the Merchandising segment, the Group invested ¥4,642 million, primarily to renovate existing stores and construct new locations of the Odakyu OX supermarket operated by Odakyu Shoji Co., Ltd.

The Real Estate segment spent ¥10,855 million, mainly for the construction of new buildings for lease and refurbishing of existing ones. Major projects included the acquisition of the Nittochi Shinyurigaoka Building (¥2,784 million) by Odakyu Real Estate Co., Ltd. and the construction of new hot spring facilities (¥833 million) by Hakone Facilities Development Co., Ltd.

The Other Businesses segment was allocated ¥2,956 million, primarily for the renovation of existing restaurants and the launch of new locations in the restaurant business.

Currently, one of the Group's immediate priorities is to realize competitive advantages through the early completion of multiple double-track construction, and as such, capital expenditures have exceeded depreciation in recent years.

The Group takes a comprehensive view of the market environment and interest rate changes before selectively determining fundraising methods for capital investment in its railway business. These include the use of funding schemes from the Development Bank of Japan Inc. as well as the issuance of corporate bonds and borrowing from private-sector financial institutions. For the construction of multiple double tracks currently in progress, the Company utilizes public subsidy programs, such as the Special Reserve for the Expansion of Railway Transport Facilities and the "Private Railway Method" from the Japan Railway Construction, Transport and Technology Agency.

To boost the efficiency of fundraising across the board, the Group has introduced a cash management system (CMS). When there is a need for funds over the short term due to cash flow fluctuations, the Group uses its internal CMS funds to the greatest extent possible and also issues commercial paper.

As the Group generates daily revenue, primarily in its railway and merchandising businesses, it is possible to maintain a sufficient level of liquidity. This capital is utilized effectively within the Group thanks to centralized management based on the CMS.

Financial Position

Total assets at March 31, 2013 stood at ¥1,264,502 million, representing a decrease of ¥46,683 million from a year ago. The decrease was attributable mainly to progress of depreciation in property and equipment and reduction in property and equipment with the settlement of the contract works. Liabilities also fell ¥70,625 million, to ¥1,018,956 million, due mainly to a decrease in borrowing.

Net assets including minority interests rose ¥23,942 million from the end of the previous fiscal year, to ¥245,546 million due to growth in retained earnings.

Critical Accounting Policies and Estimates

The Odakyu Group's consolidated financial statements are prepared in conformity with accounting practices generally accepted in Japan. The preparation of these financial statements requires the use of estimates by management, which affects the reported amounts of assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses for the period presented. These estimates are based on rational judgments taking the historical results and circumstances into consideration. Because such estimates involve particular uncertainties, the actual results may differ. Critical accounting policies and estimates are included in the following paragraphs. Forward-looking statements contained in this section are based on determinations made by the Group at the date of this report.

(1) Valuation of Inventories

The Odakyu Group retains a large volume of inventory and has adopted “Accounting Standard for Measurement of Inventories” (Accounting Standards Board of Japan (ASBJ) Statement No. 9 issued on July 5, 2006). Additionally, the Company records land acquired for the construction of multiple double tracks as fixed assets. If it is determined that this land can be used for subdivided housing after completion of the multiple double tracks, the land is reclassified as inventory and the valuation is determined in the same manner as explained above.

(2) Impairment of Securities

The Odakyu Group holds securities issued by various financial institutions and business partners. The Group records an impairment on marketable securities if their market value declines by 50% or more below their respective carrying value. For securities whose market value has declined by more than 30% but less than 50% below the carrying value, the Group considers the possibility of recovery and records the amount expected to be unrecoverable as an impairment. There is a risk that market prices of these securities could fluctuate and the Group could thus incur a loss on these securities.

(3) Impairment of Fixed Assets

The Odakyu Group owns numerous fixed assets. The recoverable value of these assets is calculated based on numerous assumptions such as future cash flows, the discount rate, and the residual net sale value. Therefore, changes to any of these assumptions could result in a loss on impairment of fixed assets.

(4) Deferred Tax Assets

The Odakyu Group records a valuation allowance to reduce deferred tax assets to their highly probable realizable value. Taxable income for future fiscal years is considered in determining the appropriate valuation allowance. However, in the event that the anticipated future taxable income declines or increases due to a change in future business results, it could become necessary to revise the valuation allowance accordingly.

(5) Retirement Benefit Obligations and Costs

Calculation of obligations and costs arising from retirement benefits is based on actuarial assumptions. These assumptions include the discount rate, retirement ratio, mortality rate, and rate of return on pension plan assets. However, any difference between the actual results and the assumptions or a change in those assumptions could have an impact on the stated obligations and costs arising from retirement benefits.

Takeover Defense Measure

The Company has adopted a policy regarding mass purchases of the Company's shares (a takeover defense plan), based on the belief that the party that controls the Company's financial and business policy decisions must be one that has a thorough understanding of the Company's financial and business conditions and undertakings as well as the sources

of its corporate value as well as an ability to safeguard and enhance the corporate value and common interests of shareholders on a continuing and sustainable basis.

For more details on the plan, please read the press release issued on May 22, 2012 titled “Continuation of Takeover Defense Policy Regarding Mass Purchases of Company Shares (Takeover Defense Plan),” available at <http://www.odakyu.jp/ir/index.html> (in Japanese only).

Dividend Policy

Internal reserves have been invested in important and growing fields to raise the value of areas along the Odakyu lines. At the same time, to return continuously the gains to shareholders obtained by investments, the Company has made it a dividend policy to return a maximum of 2.5% of consolidated shareholders' equity to shareholders. The policy also includes if net income decreases from the previous year, dividends per share would remain unchanged. Moreover, if the Company records a large loss caused by natural disasters or other factors, dividends would be determined after considering the financial statements.

From the year ending March 31, 2014, while continuing to invest in important and growing fields and to return continuously the gains to shareholders obtained by investments, the Company will change its dividend policy. The new policy states that internal reserves will be invested in important and growing fields to further improve business performance and dividends will be provided in a stable and continuous manner, targeting a consolidated dividend payout ratio of 30% based on the principle of distribution of returns in accordance with consolidated operating results.

The Company intends to continue its policy of making two dividend payments each year, at the end of the first half of the fiscal year and at the end of the fiscal year. The dividend from the capital surplus for shareholders during a fiscal year is stipulated in the articles of incorporation, according to which the Company can provide the interim dividend by a resolution of the Board of Directors in addition to the dividend by resolution at the general meeting of shareholders.

Based on the previous policy, the Company paid a year-end of ¥4.0 per share for the fiscal year ended March 31, 2013, resulting in an annual payout of ¥7.5, of which ¥3.5 was paid as the interim dividend.

Business and Other Risks

A risk management structure for the entire Odakyu Group has been in place based on the Odakyu Group Risk Management Policy. Risks are identified and evaluated first by each Group company using uniform techniques, and risks with potentially material impact on corporate management are referred to the Group, which in turn conducts further reviews and creates and undertakes measures to circumvent such risks. The following risks have been identified by the Group as major risk factors that could significantly impact the investment decisions of investors.

Forward-looking statements contained below are based on the information available to the Odakyu Group at the time of submission of this report. Please note that the following does not cover all the risks with potential impact on the Group.

(1) Earthquakes and Other Natural Disasters

The Odakyu Group's businesses are concentrated in Tokyo and Kanagawa prefectures primarily along the Odakyu lines. In the event of a large-scale earthquake or other natural calamities causing direct damages of its premises and equipment as well as indirect damages such as constraints to business activities due to electric power shortage and lower revenues due to a downturn in consumer confidence, the Group's business results could be adversely affected. It should be noted that a part of the geographical territory where the Group operates is located in the zone designated as an area requiring the implementation of enhanced earthquake preparatory measures with respect to the Tokai region.

(2) Accidents and System Failures

A large-scale accident and a system failure triggered by a human error, malfunctioning equipment, and illegal acts such as terrorism, among others, in any of the Group's business segments could hinder the Group's business operations, tarnish its reputation and give rise to additional expenses to be shouldered in conjunction with the restoration of facilities and equipment and damage compensations. The Group's operating results could suffer as a result.

(3) Population Decline and Accelerated Aging of the Population with Fewer Children

The Odakyu Group operates railway service and a variety of other businesses that are closely tied to daily lives of people who live along the Odakyu lines in particular. A decline in population or a change in demographics caused by an aging population with fewer children in the target market where Odakyu operates could be translated into fewer passengers to be carried by the Company's railway business and impact other businesses, with adverse consequences on the Group's operating results.

(4) Interest Rate Fluctuations

The Group undertakes continuous capital investments centered on its railway business, which are largely funded by debt financing and the issuance of corporate bonds. Interest rate fluctuations and changes in the Company's ratings could affect financial conditions of the Company.

(5) Management of Personal Information

The Group operates credit card business and holds customer-related and other personal information in conjunction with the credit card and other operations. Although stringent control over personal information is in place, any improper disclosure of personal information for whatever reason could result in compensation claims and tarnish its reputation with potential impact on the Group's operating results.

(6) Defects and Faults of Assets Owned and Merchandise Sold

If defects or faults with regard to the assets held by the Group are discovered and the Group is consequently held liable for adverse effects of such assets on the health of residents and on the surrounding environment, the Group could incur expenses for improvement and restorative works, damage compensations and others. Similarly, if the merchandise sold by the Group is found to be defective or otherwise faulty, the Group could incur expenses for improvements and damage compensations and suffer reputation damage. As a result, the Group's operating results could be impacted.

(7) Significant Litigation

A civil lawsuit has been filed against the Company in relation to noise and vibration caused by its railway operations. Outcome of the lawsuit could affect business performance and operations of the railway business.

In addition, administrative lawsuit is pending in connection with the Company's multiple double tracks project. It is the administrative lawsuit against the Kanto Regional Development Bureau Chief as defendant, in which the annulment of the approval given to the urban planning project for the segment between Yoyogi-Uehara and Umeoka stations is sought.

(8) Legal Restrictions

The Group's operations are subject to various laws and ordinances, including the Railway Business Act, the Road Transportation Act, the Act on the Measures by Large-Scale Retail Stores for Preservation of Living Environment and the Construction Standards Act, and regulations including the Emission Standards, among others. A change in these laws, ordinances and regulations in general or changes applicable to Tokyo and Kanagawa prefectures in particular could affect the Group's operating results.

The Group's railway operations are governed by fare restrictions described below.

A railway business operator is required by law to obtain approval of the Minister of Land, Infrastructure, Transport and Tourism when it wishes to set forth or change the upper limits of its passenger fares (Article 16, Section 1 of the Railway Business Act).

A railway business operator may set forth or change passenger fares within such approved upper limits or add-on charges for express trains and others, provided that advance filing is made to the said Minister (Article 16, Sections 3 and 4 of the Railway Business Act).

(9) Outbreaks of Infectious Diseases

The Group has managed a large number of facilities for customers of its railway, bus and commercial institutions centering on the area around the Odakyu lines. If a massive infectious disease epidemic such as swine influenza should occur in the Group's business area, it is feared that this would cause customers to refrain from utilizing its facilities, or even result in its operations being unable to continue, particularly its railway operations. Such a situation may have an impact on the Group's results of operations.