

# CORPORATE GOVERNANCE

## Basic Stance Regarding Corporate Governance

Odakyu Electric Railway Co., Ltd. recognizes it as vital to make decisive decisions on key strategies that are unshackled by precedents or customs by ensuring transparency, fairness and speed, as well as to strengthen the oversight of business execution. The aim is to maximize the interest of the various stakeholders, including our customers, business partners, creditors and local communities, and enhance sustainable growth as well as the medium- to long-term corporate value of the Company. We are implementing a range of measures to bolster and improve our corporate governance.

## Company Organization and the State of Development of Internal Control Systems

### Company Organization

We have adopted an Audit & Supervisory Board Members' system, under which we are focusing our efforts to improve our corporate governance system to achieve efficient and sound business management. Our Board of Directors, which comprises 15 Directors, including three Outside Directors, makes decisions on important business matters and other items required by law and oversees business execution. During the year ended March 31, 2017, the Board of Directors' meetings were held 13 times. There are five Audit & Supervisory Board Members in total, including three Outside Audit & Supervisory Board Members. Each member refers to the audit standards for Audit & Supervisory Board Members formulated by the Audit & Supervisory Board and follows auditing policies and auditing plans in carrying out stringent audit. During the year ended March 31, 2017, the Audit & Supervisory Board's meetings were held six times. Additionally, the Audit & Supervisory Board Members attend Board of Directors' and other important meetings, review important approved documents, investigate the business and financial conditions of the Company, monitor and evaluate the development and operational status of the internal control systems.

Moreover, aiming to strengthen supervisory functions of the Board of Directors with regard to business operations and to

optimize the decision-making process, we have adopted an Executive Officer system consisting of Directors and department heads in charge of business execution.

We have also established the Nomination and Remuneration Advisory Committee to serve as an advisory body to the Board of Directors. This committee comprises Directors, a majority of whom are Outside Directors, and aims to strengthen the independence, objectivity and accountability of the functions of the Board of Directors with regard to the nomination of Directors and Audit & Supervisory Board Members, as well as remuneration for Directors. The committee deliberates on such matters as basic policy on nominations and remuneration, and drafts proposals for the General Meeting of Shareholders, reporting the results to the Board of Directors.

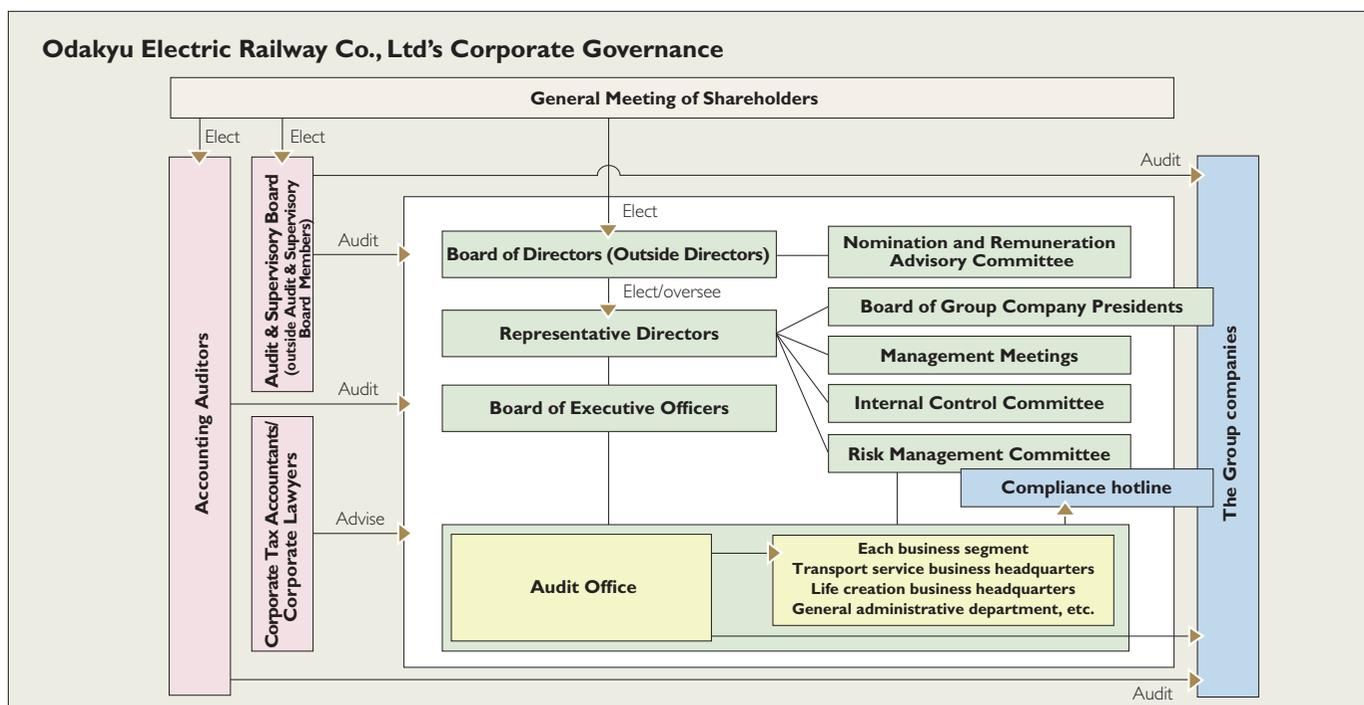
### Development of Internal Control Systems

We have resolved on basic policies regarding the development of internal control systems at our Board of Directors' meetings and are currently developing internal control systems, including the establishment of frameworks for risk management and taking the conditions of internal audit into consideration.

The overview of the basic policies is as follows.

#### ● Systems for ensuring compliance with laws and the Articles of Incorporation in the performance of duties by Directors and employees of the Company and its subsidiaries

- Regard compliance as part of risk management and establish and implement a compliance system centered on the Risk Management Committee.
- Draw up the Compliance Manual as a code of behavior to be observed by Directors and employees from the viewpoint of not only the regulations and articles of incorporation but also conventional wisdom and corporate value, and respond appropriately to antisocial forces, based on the manual.
- Set up the Compliance Hotline as an internal reporting system and identify and rectify compliance issues quickly.
- Follow up on and improve the internal control system of the entire Group, including development of an internal control



system related to financial reporting in accordance with the Financial Instruments and Exchange Act of Japan, through the Internal Control Committee.

● **Systems for retaining and managing information regarding the performance of duties by Directors of the Company**

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- Store and manage documents and other information relating to the execution of responsibilities by Directors properly, according to internal rules.
- Respond appropriately to requests for reviews of the information defined above by Directors and Audit & Supervisory Board Members.

● **Regulations and other systems regarding the management of risk of loss by the Company and its subsidiaries**

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- Implement company-wide systems, with the Risk Management Committee to play a central role and manage the risk surrounding our business precisely.
- Upon the discovery of an incident that can cause large-scale damage, assemble a General Task Force and address the issue properly.
- Ensure the safety of transportation proactively under Supervisory Safety Management Committee.
- Carry out appropriate and timely disclosure when risk is detected or identified.

● **Systems for ensuring the efficient performance of duties by Directors of the Company and its subsidiaries**

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- Adopt an executive officer system and strengthen the supervisory function of the Board of Directors and improve their decision-making properly and efficiently.
- Each business segment performs its duties within the scope of authority and responsibility defined in the Company rules and in accordance with the medium-term management plans and the department policies and budget for the respective fiscal year.
- Assess and control corporate performance properly, using unified company-wide indicators.
- As part of the internal control system, the Audit Office, under the direct control of the Executive President, audits each business segment routinely and reports the results directly to the Executive President and the Audit & Supervisory Board Members.
- Establish the Group's medium-term management plan for a period of three years and define the priority issues and cash flow allocation of the Group to embody the plan.

● **Systems for reporting to the Company on matters regarding the performance of duties by Directors of subsidiaries**

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- Based on the Group Companies Management Regulations, establish the Group's quick reporting system to communicate to the Company on priority matters including implementation of the medium-term management plan, the state of business execution and the financial situation, as well as facilitate the Group's information-sharing among the Board of Group Company Presidents.

● **Matters regarding employees designated by the Audit & Supervisory Board Members of the Company to assist with their job responsibilities, if such a designation is requested**

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- Set up the Audit Office staffed by full-time employees to assist the Audit & Supervisory Board Members.

● **Matters regarding the independence of employees in the previous paragraph from Directors and systems for ensuring the effectiveness of instructions given to these employees**

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- Employees assigned to the Audit Office carry out their duties according to instructions from Audit & Supervisory Board Members.

● **Systems for reporting to Audit & Supervisory Board Members of the Company by Directors and employees of the Company, or Directors, Audit & Supervisory Board Members and employees of its subsidiaries, or parties who receive reports from the same**

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- Develop a framework according to which Audit & Supervisory Board Members of the Company check important matters sequentially through minutes of meetings of executive officers and internal documents requesting approval.
- Directors and others report on the state of business execution and other important matters to Audit & Supervisory Board Members, as needed.
- The internal audit department of the Company reports routinely on an audit plan and the result of the audit to Audit & Supervisory Board Members and facilitates mutual information-sharing.
- Enhance the system for monitoring the soundness of management by establishing the Odakyu Group Auditors Liaison Committee, including Audit & Supervisory Board Members of the Company, to receive reports on the state of business management from Audit & Supervisory Board Members, top management and management departments of the Group companies. The Audit & Supervisory Board Members also receive reports on the state of the Compliance Hotline as part of the internal reporting system from employees of the Company.

● **Systems for ensuring that reporting parties in the previous paragraph do not receive unfair treatment as a result of such reports**

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- Prohibit any retaliation against reporting parties as a result of such reports in accordance with the Compliance Hotline Regulations adopted by the Company and its subsidiaries.

● **Matters regarding the procedures for advance payments or the reimbursement of expenses incurred in relation to the performance of the duties by the Audit & Supervisory Board Members of the Company and any other policy for processing of costs and obligations incurred in relation to the performance of their duties**

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- Directors are expected to cooperate with audits. The Company budgets the expenses incurred in relation to the audits to ensure effective audits by Audit & Supervisory Board Members.

● **Other systems for ensuring effective audit by Audit & Supervisory Board Members of the Company**

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- Develop a framework according to which Audit & Supervisory Board Members attend important meetings, and strengthen the provision of information to Audit & Supervisory Board Members and enhance its propriety.
- Construct systems for promoting cooperation between Audit & Supervisory Board Members, the internal audit department and Accounting Auditors.