



MANAGEMENT'S DISCUSSION AND ANALYSIS

Years ended March 31, 2018 and 2019

Results of Operations

During the fiscal year under review, the Japanese economy remained uncertain due to factors such as uncertainty in overseas economies and fluctuations in the financial capital market but continued to experience a gradual recovery on a whole, with personal consumption picking up in accordance with continued improvements in corporate earnings and the employment environment.

In this operating environment, the Odakyu Group carried out aggressive marketing in the Group's respective segments, posting consolidated revenue from operations of ¥526,676 million. This represented a year-on-year increase of ¥2,015 million (or 0.4%) reflecting higher sales in the Transportation and other segments. Consequently, operating income increased ¥625 million (or 1.2%) to ¥52,090 million, and ordinary income rose ¥1,796 million (or 3.7%) to ¥49,688 million. Net income attributable to owners of the parent totaled ¥32,468 million, up ¥3,140 million (or 10.7%) year on year.

Cash Flows

The Odakyu Group undertakes continuous capital expenditures in its railway business and each of its other businesses. These expenditures aim mainly to provide comfortable and speedy railway services and enhance the attractiveness of areas along the Odakyu lines. We also take an active approach to implement appropriate safety measures and prevent accidents. In the fiscal year ended March 31, 2019, capital expenditures including the investment amount in intangible assets amounted to ¥82,216 million, up 20.4% from the previous fiscal year.

Capital expenditures in the Transportation segment totaled ¥43,136 million, which was used primarily for railway operations. To maximize the effects of our augmented passenger-carrying capacity, we launched the construction of multiple double tracks between Higashi-Kitazawa and Izumi-Tamagawa stations. The project received ¥6,759 million, including ¥2,679 million for a Japan Railway Construction, Transport and Technology Agency project.

In the Merchandising segment, the Group invested ¥11,058 million, primarily to renovate existing stores.

The Real Estate segment spent ¥20,931 million, mainly for the acquisition of leasing commercial facilities and refurbishment of existing ones.

The Other Businesses segment was allocated ¥7,091 million, primarily for new construction and renovation of hotel facilities.

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.

To boost the efficiency of fundraising across the board, the Group has introduced a cash management system (CMS). When funds are needed over the short term due to cash flow fluctuations, the Group uses its internal CMS funds to the greatest possible extent 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, 2019 stood at ¥1,312,434 million, representing an increase of ¥17,936 million from a year ago. This was attributable mainly to an increase in property and equipment reflecting capital expenditures in the railway business and the renovation of the Machida and Fujisawa stores of the Odakyu Department Stores. Liabilities fell ¥4,668 million, to ¥923,253 million, primarily because of a decrease in interest-bearing debt.

Net assets, including non-controlling interests, rose ¥22,604 million from the end of the previous fiscal year, to ¥389,181 million. This reflected higher retained earnings resulting from net income attributable to owners of the parent.

In accordance with the application of the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018), the figures as of the end of the previous fiscal year have been reclassified and compared with those as of the end of the fiscal year under review.

Critical Accounting Policies and Estimates

The Odakyu Group's consolidated financial statements are prepared in conformity with accounting principles 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 the information available to the Odakyu Group at the time of submission 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 September 26, 2008). 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 multiple 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 recognizes 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 long-term 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.

Dividend Policy

Internal reserves have been invested in important and growing fields to further improve business performance, and dividends will be provided in a stable and continuous manner. A consolidated dividend payout ratio of 30% is targeted 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 close of the fiscal-year first half and at the fiscal year-end. 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 a resolution at the general meeting of shareholders.

Based on this policy, the Company paid a year-end dividend of ¥11.0 per share for the fiscal year ended March 31, 2019, and an interim dividend of ¥10.0, resulting in an annual payout of ¥21.0.

Basic Policy Regarding How a Person Controlling Decisions on Financial and Business Policies of the Company Should Act

The Company believes that since we, as a public corporation, allow the free purchase and sale of shares of the Company, if a

specific person intends to conduct a large-scale purchase aiming at acquiring such number of shares of the Company that may affect the decisions of the Company's financial and business policies, the shareholders of the Company should make the final decision regarding whether or not to accept such a large-scale purchase.

This is the case, for example, with acquisitions that would obviously negatively affect corporate value and the common interests of shareholders, such as a sale or disposal of important operating assets, actions that may effectively force shareholders to sell their shares, and actions that do not provide sufficient information for shareholders of the target company to make the best choice.

The Company believes that it is necessary to secure the Company's corporate value as well as the common interest of shareholders by taking necessary and substantial countermeasures against this kind of hostile large-scale acquisition.

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 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.

(I) Disasters

(a) Large-Scale Earthquake and Tsunami

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.

(b) Natural Disasters

The Odakyu Group has implemented a range of measures to anticipate potential natural disasters, such as torrential rains and windstorms. However, in the event of a large-scale natural disaster that causes direct damage to the Group's personnel, premises and equipment or leads to an increase in costs due to the restoration of damaged premises and equipment, as well as reduces the earnings reflecting mainly a drop in consumer confidence due to the probability of the occurrence, the Group's results of operations and financial conditions could be adversely affected.

(c) Outbreaks of Infectious Diseases

The Group has managed a large number of facilities for customers of its railway, bus and commercial institutions. If a massive infectious disease epidemic such as swine influenza should occur in the

Group's business area, it would be feared that this causes 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 and financial conditions.

(2) Accidents

(a) Occurrence of Accidents

The Odakyu Group has put in place a number of measures to ensure the safety of its transport services and food items, and to prevent fire in its buildings and other facilities. However, in the event of a large-scale accident or a fire caused by human error, malfunctioning of equipment or an act of terrorism, these could result in human damage and disruption of the Group's operations, as well as expenses incurred to compensate for damages to victims and to reconstruct damaged buildings and facilities, and these could reduce customers' trust in the Group and impair the Group's image in society. Such a situation may have an impact on the Group's results of operations and financial conditions.

(b) Defects/Flaws in the Group's Assets and Merchandise

If a defect or flaw is discovered in assets held by the Group, or if it is found that these assets have the potential to cause an adverse effect on human health or the surrounding environment, the Group may incur expenses to rectify the situation, restore conditions to their original status or compensate for damage. If a defect or flaw is discovered in a product sold by the Group, expenses incurred to rectify the situation or compensate for damage, as well as reduced trust in the Group, may adversely affect earnings and financial conditions of the Group.

(c) Disruption of Information Systems

The Group relies heavily on information systems, such as computer systems and communication networks, in its operations. As such, the Group has undertaken necessary measures to ensure the steady operation of the systems and networks that are critical for its operations. However, in the event of a major disruption of its information systems due to a computer virus or other acts of third-party sabotage, a natural disaster or a human error may have an adverse effect on the financial conditions.

(3) Corporate Social Responsibility

(a) Compliance

The Odakyu Group defines compliance as a system of thought and initiatives to comply with rules, including laws and regulations, internal rules and social conventions and to carry out business activities with integrity, and the Group promotes such compliance. However, in the event of an act in violation of compliance that undermines social trust in the Group, the resulting social sanctions may have an adverse effect on the Group's results of operations and financial conditions.

(b) 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.

(c) Disclosure

The Odakyu Group has undertaken appropriate disclosure on a timely basis by bolstering and conducting internal control in accordance with the characteristics of its respective operations. However, in the event of an inappropriate disclosure due to human errors or other reasons, the resulting decline in customers' trust and the damage to the Group's image in society could adversely affect the Group's results of operations and financial conditions.

(4) Business Environment

(a) Securing of Human Resources

Many of the Odakyu Group's operations are labor intensive, and it is vital for the Group to secure capable human resources for its workforce. As such, the Group seeks to secure and nurture qualified human resources and ensure that its working environment is a healthy and worker-friendly one. However, in the event of a failure to realize these goals, the Group's results of operations and financial conditions could be adversely affected.

(b) 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 results of operations and financial conditions.

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).

(c) 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 earnings and financial conditions of the Group.

(d) Significant Litigation

No significant lawsuit is pending against the Company. However, the Company may be subject to litigation and other legal measures from third parties as well as administrative investigation in the ordinary course of business. In addition to the burden of responding to these issues, if judgments and decisions that are unfavorable to the Company are made, business results and financial conditions of the Group may be adversely affected.