Annual Report

Year ended 31st March, 2008

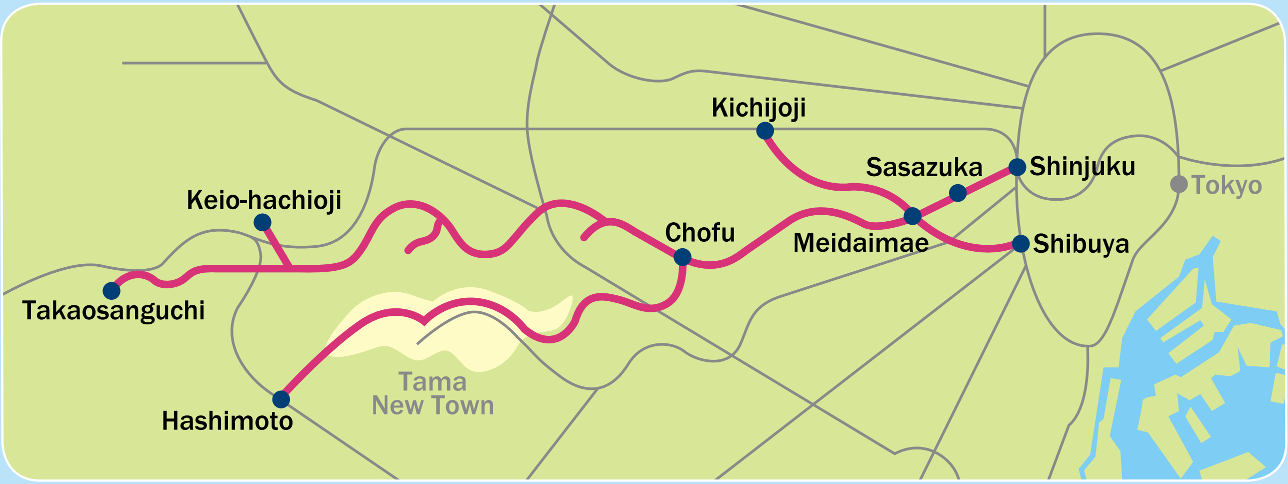
KEIO

Profile

The Company was founded in 1910 as the Keio Denki Kido Co., Ltd. and began operations in 1913. Since then, for nearly a century, our railway and bus services have been major arteries for the greater Tokyo area, providing transportation for significant numbers of passengers. Since the latter half of the 1950s, the Company has been engaged in developing land along the routes it services, and has enjoyed steady growth by creating prosperous communities in these areas.

Led by Keio Corporation, the Keio Group, 43 companies in total, engages merchandise sales, real estate, leisure services, and construction and other businesses. These businesses focus on areas served by the Keio Line, which extends from Shinjuku to Tokyo's southwestern suburbs of Hachioji and Tama. Shinjuku, a major business center in Japan, gained even more importance in 1991, when the Tokyo Metropolitan Government moved its offices there. Hachioji and Tama have seen an influx of universities and corporations in recent years, resulting in the growth of "New Town" developments in those areas.

The Keio Group is striving to provide superior services by deploying the consolidated strength of its group companies, to meet the needs of the people it serves and aim for continued growth.



Contents

Cautionary Note on Forward-Looking Statements

The future prospects described in this annual report concerning business planning, earnings and management strategies were based on management views derived from supporting information available to Keio Corporation at the time such information was prepared. Accordingly, readers are cautioned against relying solely on these forward-looking prospects because actual results and strategies may differ substantially depending on changes in the Company's business environment.

To Our Shareholders

President
Kan Kato

We aim to be "the railway line along which people want to live, that people want to choose," and are injecting efforts into improving railway safety and enhancing the value of areas lying along our railway line.

Despite a 15% year-on-year fall in consolidated net income for the period under review, annual dividend remained at ¥6 per share, as in the previous fiscal year.

During the fiscal year ended March 2008, Keio Group made steady advances in each business segment. However, the reconstruction of leased assets brought an increase in loss on impairment. Consequently, consolidated net income for Keio Group was ¥18,100 million, while consolidated net income for Keio Corporation was ¥11,500 million for the current fiscal year.

The Group declared a year-end dividend of ¥3 per share, bringing the annual dividend to ¥6 per share (including an interim dividend of ¥3 per share). In the future, we will work toward maintaining our dividend at the current level.

We will continue to ensure safety and enhance the value of the areas along our railway routes.

In order to fulfill its aim of becoming "the railway line along which people want to live, that people want to choose," Keio Group is setting as its pillars of action, the improvement of railway safety and convenience, as well as the enhancement of value of areas lying along railway routes.

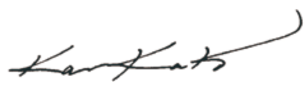
With regard to the railway business, we have strived to adhere to railway technical standards and to complete maintenance works within the timeframe stipulated by the law. Besides installing Automatic Train Control (ATC) systems and putting in place fire prevention measures for the underground floors of stations, we are also working on making our stations and trains barrier-free, and investing heavily in projects such as the construction of grade crossings and elevation of railway lines near Chofu Station. We have positioned the ensuring of safety as one of our key tasks. On top of promoting safety-centric transportation management, we will increase our investment in safety enhancement by 14% year-on-year to ¥43,300 million.

Furthermore, we are continually taking steps to enhance the value of areas lying along our railway routes in order to sustain the vitality of these areas in the long term. Developing core areas along the routes and providing lifestyle support services and child-rearing support services are just some of the ways in which we are attempting to revitalize these areas and enhance their appeal.

By taking further steps to strengthen corporate governance and care for the global environment, we are committed to fulfilling our role as a socially responsible corporation, and will work toward boosting public confidence in the Group.

In actively pursuing these goals, we aim to establish Keio Group as the "Top Brand in Trust," and look forward to your continued understanding and support.

June 2008



Financial Highlights

Consolidated Data

Keio Corporation and its consolidated subsidiaries

Years ended 31st March	Millions of Yen 2006	Millions of Yen 2007	Millions of Yen 2008	Thousands of U.S. Dollars 2008
For the year:				
Operating revenues	¥ 438,254	¥ 430,198	¥ 429,190	$ 4,283,762
Operating income	39,937	42,298	41,941	418,616
Net income	19,868	21,539	18,129	180,946
Per share data (yen and U.S. dollars) :				
Net income – basic	¥ 31.89	¥ 34.87	¥ 29.36	$ 0.29
Net income – diluted	—	—	—	—
Cash dividends	6.00	6.00	6.00	0.06
At year-end:				
Total assets	¥ 630,701	¥ 648,161	¥ 660,162	$ 6,589,099
Total net assets	237,644	246,630	244,186	2,437,228

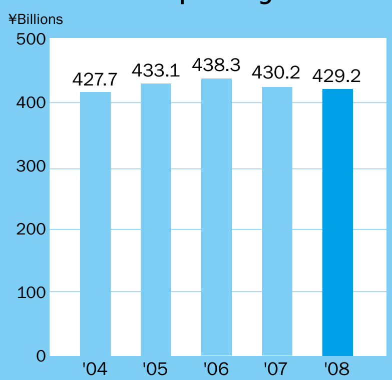
Non-Consolidated Data

Keio Corporation

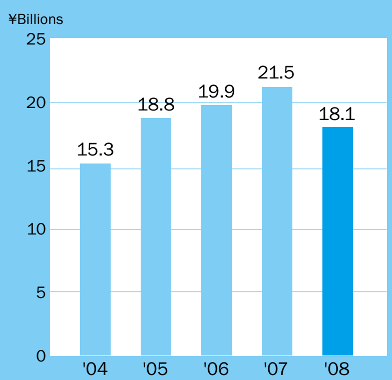
Years ended 31st March	Millions of Yen 2006	Millions of Yen 2007	Millions of Yen 2008	Thousands of U.S. Dollars 2008
For the year:				
Operating revenues	¥ 116,797	¥ 120,932	¥ 119,463	$ 1,192,368
Operating income	29,392	30,271	30,472	304,145
Net income	13,303	14,671	11,532	115,098
Per share data (yen and U.S. dollars) :				
Net income – basic	¥ 21.30	¥ 23.75	¥ 18.67	$ 0.19
Net income – diluted	—	—	—	—
Cash dividends	6.00	6.00	6.00	0.06
At year-end:				
Total assets	¥ 526,611	¥ 542,679	¥ 563,270	$ 5,622,016
Total net assets	186,697	189,141	180,624	1,802,812

Notes: 1) There are no outstanding potentially dilutive shares.
2) The accompanying U.S. dollar amounts have been translated from Japanese yen for convenience, and as a matter of arithmetical computation only, at the rate of ¥100.19 to U.S.$1.

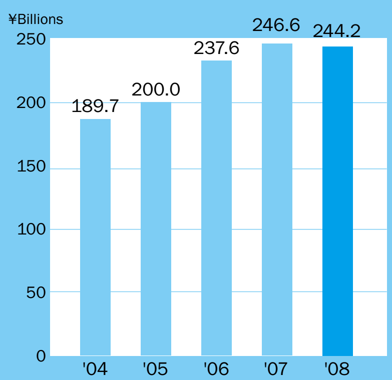
Consolidated Operating Revenues



Consolidated Net Income



Consolidated Net Assets



Business Performance

Business Results

Consolidated Profit

Despite revenue increases in the Transportation Group and Merchandise Sales Group, there was a fall in revenue from the Real Estate Group. As a result, consolidated operating revenues fell 0.2% year-on-year to ¥429,190 million, and consolidated operating income fell 0.8% year-on-year to ¥41,941 million. On the other hand, consolidated net income fell 15.8% year-on-year to ¥18,129 million due to an increase in loss on impairment. Consolidated EBITDA went up 1.4% year-on-year to ¥72,381 million, led by an increase in depreciation of ¥1,348 million.

Financial Position

Total Assets, Liabilities and Net Assets

Total assets rose ¥12,001 million year-on-year to ¥660,162 million as the fall in the market value of investments in securities was offset by capital expenditures in the railways business segment, resulting in an increase in property and equipment.

Liabilities were ¥415,976 million, up ¥14,445 million from the previous fiscal year due to the 25th and 26th unsecured bond issue.

Net assets fell ¥2,444 million to ¥244,186 million. Although retained earnings had increased as the company posted net income, the fall in unrealized gains on available-for-sale securities offset these gains and contributed to the decrease in net assets.

Consolidated Cash Flows

Net cash provided by operating activities was ¥56,881 million, up ¥7,795 million from the previous fiscal year, due to factors such as reduction in income taxes paid and increase in impairment loss.

Net cash used in investing activities increased by ¥13,318 million to ¥59,428 million due mainly to an increase in payments for the purchase of property and equipment.

Net cash provided by financing activities was ¥17,195 million, up ¥15,462 million from the previous fiscal year due to the issuance of bonds.

As a result, cash and cash equivalents at year-end totaled ¥58,167 million.

Interest-bearing debt at the end of the year was ¥244,254 million, up ¥21,722 million from the previous fiscal year.

Feature

Management Strategies for the Fiscal Year Ending March 31, 2009

With the specific goals of raising safety levels in our rail operations and enhancing the value of areas lying along our railway routes, we will focus on the following key measures for the fiscal year ending March 2009.

1. Continuing to enhance railway safety and convenience

1) Actively ensuring safety

i. Advancement of safety-centric transportation management

In order to bring about higher levels of safety in our rail operations, we will continue to advance safety-centric transportation management, such as by putting the PDCA cycle into operation and taking proactive measures to prevent accidents.

In order to maintain and improve on our employees' ability to ensure safe operations, training is provided in a rail operations training center that is equipped with the same facilities as on the actual job site.

Training on a driving simulator

ii. Progress in the construction of grade crossings and elevating railway lines

The construction of grade crossings and elevation of railway lines around the Chofu Station area is targeted to be completed in 2012. Alongside excavation work in the station, we will commence tunnel excavation works using a shield machine (specialized equipment used to excavate tunnels).

With regard to the elevation of railway lines west of Sasazuka, we are moving toward obtaining approval to commence work on constructing grade crossings and elevating railway lines near the areas from Daitabashi Station to Hachimanyama Station. As such, we are conducting research design together with the Tokyo Metropolitan Government, the primary contractor of the project, for procedures to implement changes in city planning, as well as for environmental impact assessment.

Fully assembled shield machine

iii. Promoting compliance to railway technical standards

We aim to complete the conversion of our signaling systems to automatic train control (ATC) systems by 2010. We will finish installing ground equipment along the Sagamihara Line, and will continue to make improvements to our trains.

*Computers installed in automatic train control (ATC) trains provide automatic speed controls based on the condition of the railway line, such as when the train negotiates a bend.

iv. Disaster contingency plans for station facilities and elevated bridges, etc.

We will complete the installation of smoke control systems at Shinjuku Station along the Keio Line, as well as the construction of an emergency evacuation passage in Hatagaya Station. We will also put in place fire prevention measures for the underground floors of stations.

As part of our efforts to raise the quake resistance levels of our building structures, we will suspend rail operations at Kichijoji Station in order to remove existing structures for the reconstruction of the elevation bridge.

v. Provision of new trains

We will provide 25 new "1000 series" carriages on the Inokashira Line and 60 new "9000 series" carriages on the Keio Line to replace aging trains.

2) Providing better service and greater convenience (such as providing barrier-free facilities)

We are planning the following measures to provide better service and greater convenience.

- Completed refurbishing work at Sakurajosui Station, equipping it with barrier-free facilities, free passageways, and commercial spaces
- Commenced refurbishing work at Mogusaen Station, Eifukucho Station, etc.
- Installed elevators in Keio-katakura Station, Yamada Station, and Takao Station
- Progressively installed voice and sound guidance facilities to help visually-impaired commuters move around stations with greater ease
- Added 137 new carriages equipped with full-color liquid crystal display screens to display train information, warning chimes for the opening and closing of train doors, etc.
- Completed installation of air-conditioning facilities at Hatagaya Station
- We aim to eliminate unevenness in floors due to elevator installation and other construction works in 69 stations by 2010, and achieve a completion rate of 80% by the end of fiscal year 2008, with 78% completion rate in the 65 stations that have an average of more than 5,000 commuters per day.
- Our target is to complete fitting all trains with barrier-free facilities by 2010 and achieve a completion rate of 80% for existing trains by the end of fiscal year 2008.

Inokashira Line 1000 Series (Image)

3) Environmental policies (promoting energy conservation)

We have added 117 carriages equipped with energy-efficient VVVF* inverter control systems.

*VVVF inverter control systems are devices that alternate the direct currents flowing through overhead wires and activate AC motors while changing electric voltage and frequency in response to the speed and acceleration of the train. These systems are expected to result in energy reduction of about 30% as compared to existing control systems.

- The target for equipping all trains with VVVF inverter control systems has been set at 2010, with a completion rate of 78% for existing trains by the end of fiscal year 2008.


Construction work on the new elevated station building at Sakurajosui Station

Feature

2. Enhancing the value of areas lying along our railway routes

1) Revitalization of areas lying along our railway routes

i. Developing core areas

Reconstruction of Kichijoji Station is scheduled to commence in fiscal year 2010, and the basic design and scheme of work for the new building will be drawn up.

Along with the development of commercial facilities in the Seiseki-Sakuragaoka district, we will work towards our aim of revitalizing the entire district by drawing up plans for the utilization of the areas under the elevation, and formulating plans to turn unused land into a shopping area.

In addition, we are reviewing plans for the future development of the core areas of Shinjuku and Sasazuka, which lie along our railway routes.

ii. Developing/expanding the development menu

Besides commencing work on student apartments in the Tama area, we are reviewing a singles dormitory project for corporate clients slated for an area east of Fuchu, as well as a food theme park project.

We will continue to utilize and work with the Japan Trans-housing Institute (JTI).

*JTI is a non-profit organization that helps senior citizens (age 50 and above) who are considering migration or moving to a new home. It does so by renting out the homes of these senior citizens to the younger generation, and by ensuring that the senior citizens receive rent payments regularly.

We are also expanding our leased housing offerings such as Keio Otakibashi apartments and Hi-ROOMS at Meidaimae and Shinsen.

iii. Implementation of new business plans

With regard to home-meal replacement and senior residences businesses, operations are under review, and we aim to expand these businesses into the areas lying along our railway routes.

iv. Development of lifestyle support services

We seek to bring greater convenience to areas lying along our railway routes by developing our new homemaker service operations “Home Hotto Service,” and expanding the service area of our home maintenance service.

In the future, we hope to build up a framework to provide one-stop solutions to potential customer needs and help to further business opportunities for the Group.

Real estate development near Seiseki Sakuragaoka station (Image)

v. Development of child-rearing support businesses

“Keio Kids Plats,” which opened its doors this spring in Tamagawa and Takahata, provides a safe and happy child-rearing environment.

In addition, we have been commissioned by Setagaya Ward to operate “Kosodate Station Karasuyama,” and will set up a “Keio Kids Plats Karasuyama” center starting September 2008. We are in discussion with local town governments to set up day-care centers and other child-rearing facilities along our railway routes.

Keio Kid's PLATS Takahata

vi. Improving the railway route community site "Machihapi"

We will send out route information of interest and appeal by improving on the website contents.

2) Improving the competitiveness of Group businesses

i. Strengthening lifestyle businesses

While we plan to focus on the expansion of food retail and supermarket businesses, we will also study various possibilities of utilizing station space in order to increase the profitability of businesses around the areas of our railway stations.

ii. Expanding businesses within and outside areas lying along our railway routes

The following measures will be implemented.

- Keio Dentetsu Bus Group
  Besides raising the safety levels of bus travel and relegating control of bus routes to streamline operations, efforts are being made to increase passenger numbers through the development of new routes.
- Keio Department Store Co., Ltd.
  The Company has set up a CRM* framework by utilizing a new product and customer information system. We seek to raise customer satisfaction levels through effective sales promotions and provision of services.
  *CRM, or Customer Relationship Management, refers to the management of customer relationship and information. It is a marketing approach whereby the Company builds up a long-lasting relationship with customers to raise customer satisfaction levels.
- Keio Plaza Hotel Co., Ltd.
  The Concord Ballroom in Keio Plaza Hotel (Shinjuku) has been refurbished to enhance its functionality and product strength.
- Keio Presso Inn Co., Ltd.
  The Gotanda branch has started operations in May 2008, while preparations are underway for the opening of the Ikebukuro branch next spring, and the Kudanshita branch (the eighth branch) next summer. Other new branches are being developed as we progress toward chain expansion.
  *Keio Presso Inn Gotanda officially opened on 18th May 2008.
- Keio Shoseki Hanbai Co., Ltd. (Keibundo bookstores), Keio Shokuhin Co., Ltd. (Bakery Le Repas), and other Group businesses are opening new stores within and outside areas lying along our railway routes.

iii. Group card strategy

"PASMO electronic money" services are being actively promoted within and outside the Group, including station stores such as "A_LoT" and "Curry Shop C&C," and in shopping districts along our railway routes.

In addition, we are reviewing the point system and conducting a systems overhaul for the "Keio Group Point Service."

Keio Presso Inn, Kudanshita (artist's impression)

3. Infrastructural development to support the management structure

We are working on the development of infrastructure to support our management structure in order to bring about the above.

1) Assessment of the effectiveness of internal controls with respect to financial reporting

While assessing the suitability of establishing an internal control system and the implementation status of such a system, we will continue to work on setting up a sustainable system.

2) Securing and developing human resources

Efforts to secure human resources include holding Group job fairs, building singles dormitories for Group companies, and restructuring company housing.

Human resources armed with outstanding practical business abilities will be developed through the enrichment and implementation of a training curriculum.

3) Setting up Group IT environment and systems

Besides strengthening countermeasures against IT-related risks, such as reinforcing information security and disaster contingency plans, we are reviewing the setting up of a Group IT environment.

4) Corporate social responsibility

We have drawn up business continuity plans (BCP) in preparation of crises such as the occurrence of a major earthquake in the Tokyo area or a pandemic infulenza.

We will also implement safety-centric transportation management in all companies under the Transportation Group.

Consolidated earning Result Target

¥Billions

	2007 Result	2008 Target
Consolidated Operating revenues	429.1	428.0
Consolidated Net income	18.1	16.2
Consolidated EBITDA	72.3	67.1

Capital Expenditures by Business Segment

¥Millions

	2007 Result	2008 Target
Transportation group	50,000	60,500
Merchandise sales group	3,400	5,300
Real estate group	7,100	13,100
Leisure group	4,900	6,600
Other groups	1,000	600
(Inter-segment)	-800	-700
Total	65,700	85,700

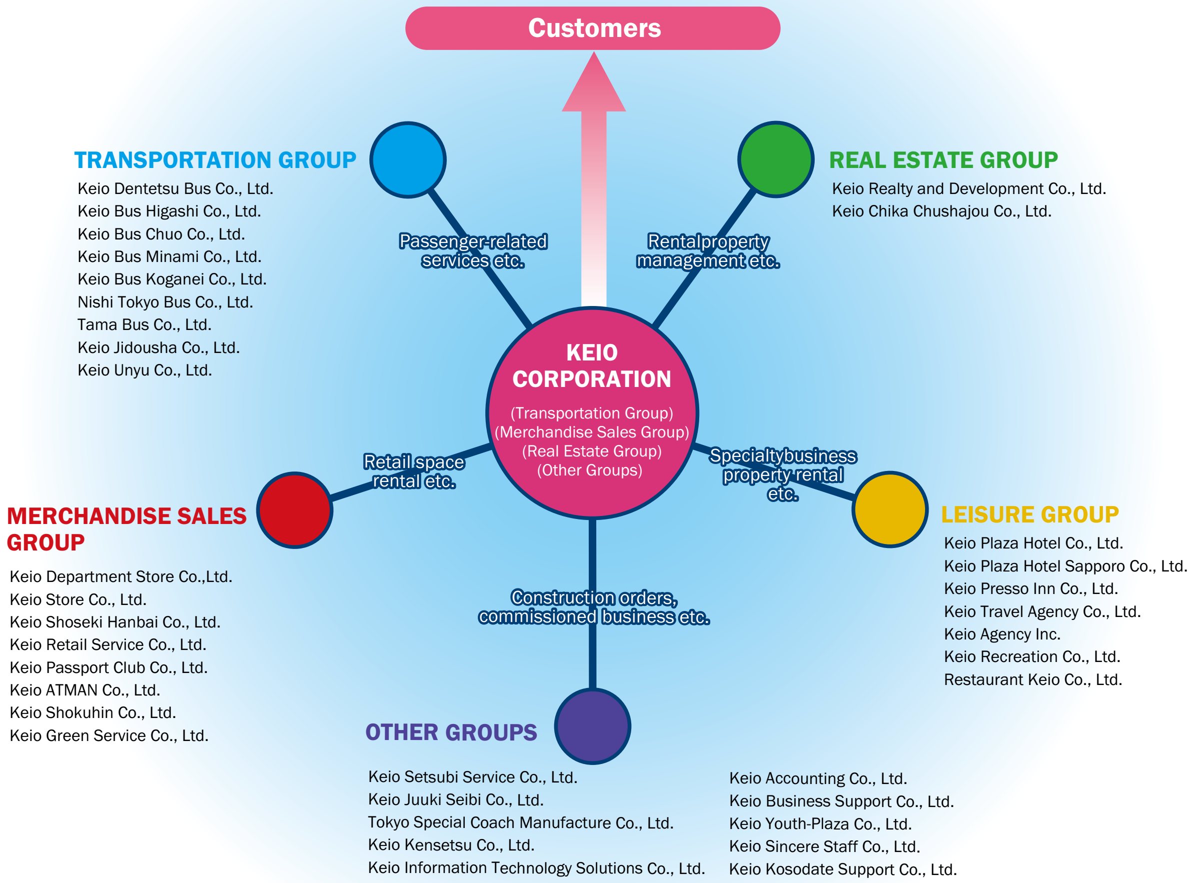
Detail of Transportation Group's Capital Expenditures

¥Millions

	2007 Result	2008 Target
Improvement of safety	38,000	43,300
Improvement of services	6,600	10,000
Countermeasures for environment and others	1,100	1,500
Total	45,800	54,900

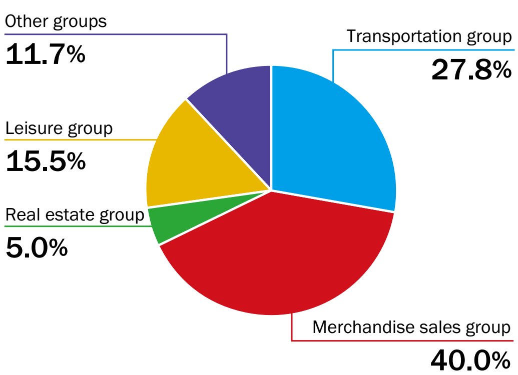
Business Segments

The Keio Group

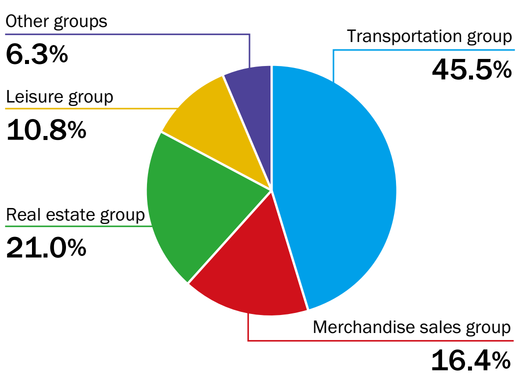


Operating Revenues and Operating Income by Segment

Operating Revenues by Segment



Operating Income by Segment



Note: The composition percentages are for proportion of operating revenue or income and include elimination transactions between segments.

Business Segments

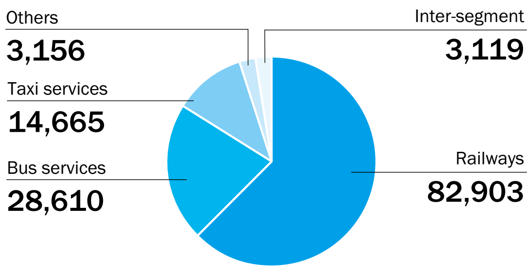
Review of Operations by Business Segment

Transportation Group


The introduction of PASMO

The number of railway passengers increased 3.1% and passenger transportation revenues increased 2.3% year-on-year. The number of passengers using commuter passes went up by 2.0%, while the number of non-commuter pass passengers rose by 4.6%. The positive growth was aided by the large-scale construction of apartment buildings along the Company's railway routes, the introduction of IC transportation passes, and the impact of changes in methods of accounting. Increase in revenues from bus services also contributed to the rise in operating revenues to ¥132,453 million, up 1.8% year-on-year. However, operating income fell 1.3% year-on-year to ¥19,513 million due to an increase in depreciation and other expenditures.

Composition of Operating Revenues (¥Millions)

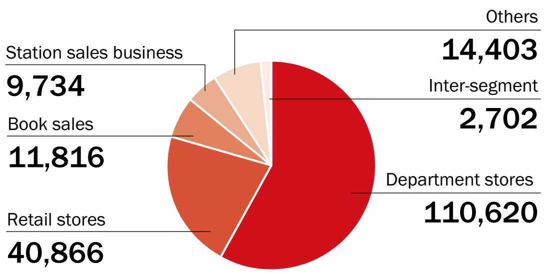


Merchandise Sales Group


Keibundo Bookstore Odakyu Sagamihara Shop

Despite the strong showing in department store takings, total department store sales were lower as revenue from the external sales segment fell below that of the previous fiscal year. Notwithstanding, operating revenues were ¥190,141 million (1.0% increase compared to the previous fiscal year) and operating income was ¥7,045 million (up 17.3% from the previous fiscal year), aided by the opening of new stores in the retail stores and book sales segments, as well as the full-year operation of shops that had just commenced operations in the previous fiscal year.

Composition of Operating Revenues (¥Millions)

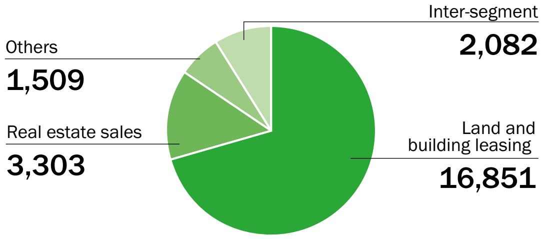


Real Estate Group

In the Real Estate Group, revenue in the building leasing segment increased due to the completion of new properties and other factors. These gains were, however, more than offset by a decline in the real estate sales segment. This was mainly because segment revenue spiked in the previous fiscal year as we recorded sales of some large-scale properties. Consequently, operating revenues were ¥23,745 million, down 12.7% year-on-year, while operating income fell 7.0% from the previous fiscal year to ¥9,014 million.

The unison mall

Composition of Operating Revenues (¥Millions)

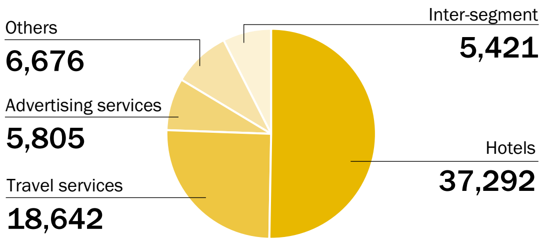


Leisure Group

Operating revenues increased 0.2% year-on-year to ¥73,836 million and operating income rose 1.2% year-on-year to ¥4,651 million. Reduction in revenue brought about by large-scale orders in the advertising services segment in the previous fiscal year was countered by an increase in takings from hotel businesses.

Keio Presso Inn Kayabacho

Composition of Operating Revenues (¥Millions)

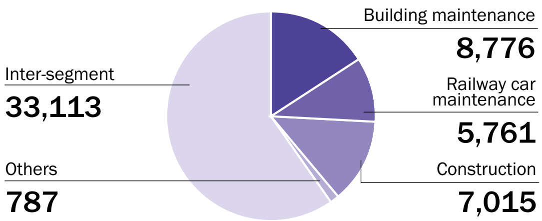


Other Groups

In addition to a decline in the number of completed contracts in the construction segment, a major contract in the railway car maintenance segment ran out. As a result, operating revenues fell 4.3% year-on-year to ¥55,452 million, while operating income was ¥2,691 million, down 17.4% from the previous fiscal year.

Keio Kid's PLATS Tamagawa

Composition of Operating Revenues (¥Millions)



Corporate Governance and Risk Factors

Corporate Governance

Basic Stance

The Keio Group considers the expansion and strengthening of its corporate governance system based on the Keio Group Management Vision to be a key task for gaining the trust of shareholders and all other stakeholders and increasing the corporate value of the Group.

The Company has adopted a board of auditors system. The Board of Directors includes outside directors and presidents of important subsidiaries of the Group, making decisions on legal matters and important business matters and overseeing business execution.

The corporate auditors carry out audits of the Group based on basic policies decided by the Board of Auditors in accordance with legal and other standards. In addition, they attend Board of Directors and other important meetings and provide their opinions as necessary.

The Company also has elected special directors in accordance with the provisions of the Company Law to enable quick decision-making. Moreover, it has established the Nomination and Compensation committee as advisory arms to the Board of Directors to increase the transparency of its management activities. The Company has also established a Disclosure Committee to ensure the timely and appropriate disclosure of business information.

To strengthen Group governance, the presidents of Group companies also serve on the Board of Directors of Keio Corporation. In addition, a Group Executive Council, a Keio Group Presidents Meeting, and other meetings are held regularly.

Basic Execution, Audit, Supervisory, Nomination and Compensation Functions

Execution and Supervision

Keio Corporation's Board of Directors is comprised of 18 members, including 2 outside directors and 8 presidents of major companies of the Group. In principle, the Board of Directors meets once a month to decide items defined by law, make important business decisions, and oversee business operations. The special directors elected by the Board of Directors make decisions on the disposal and acquisition of important assets and major borrowings as provided for under the Company Law.

To strengthen and promote Group management, the Managing Directors Committee, consisting of managing directors, discusses and decides on major business proposals based on policies determined by the Board of Directors. There also is a Group Executive Council, which is composed of the Company's full-time directors and the presidents of the main companies in the Keio Group, and discusses management issues related to the entire Group.

Audits by Corporate Auditors

The Company's corporate auditors conduct audits of the job performance of the Board of Directors, inspecting important decision-making material and conducting surveys of business and financial assets in accordance with basic principles determined by the Board of Auditors based on laws, the Articles of Incorporation, Board of Auditors Rules and auditing standards. In addition, the corporate auditors attend Board of Directors and other important meetings, providing their opinions as necessary.

In principle, the Board of Auditors convenes every month to discuss important audit-related matters and exchange information on audit results. An Auditors Conference is held once a year with all corporate auditors and the President of Keio Corporation attending. In addition, the corporate auditors regularly have meetings with the Chairman of the Board of Directors and the President of the Company to exchange opinions regarding the audits.

The corporate auditors of the Keio Group also regularly hold a Group Auditors Meeting — also attended by the full-time auditors of the Company— to address issues related to enhancing and strengthening the overall audit function of the Keio Group. Furthermore, Group corporate auditors meet with the President of Keio Corporation once a year to discuss the same issues.

Nominating and Compensation Functions

In February 2006, aiming to make its management activities more transparent, the Company established the Nomination and Compensation committee to act as advisory arms to the Board of Directors. This committee, which include outside directors, suggest candidates for directors and levels of compensation for directors to the Board of Directors.

Audit Organization, Staffing and Procedures

The internal audit function of Keio Corporation and each Group company is carried out by the Audit Department, which consists of 27 staff members and reports directly to the President. The Audit Department performs audits to inspect compliance with laws and Company regulations, as well as the appropriateness and effectiveness of business administration. Based on such inspections, the department makes suggestions on rationalization of management, improvement of business administration and efficiency, and sound development of the Company's businesses.

The Audit Department reports the results of these audits to the President, corporate auditors and other related sections, in addition to an overview to the Board of Directors, to promote the improvement of the internal audit system. Full-time auditors of the Group companies are, in principle, attached to the Audit Department, and the Group auditors and the Audit Department collaborate to ensure appropriate business conduct by the entire Keio Group.

Basic Stance on Internal Controls and Their Enhancement

The Board of Directors has resolved to establish the "Keio Group Basic Policy on Internal Control Systems" in accordance with the Company Law. Details are as follows.

Keio Group Basic Policy on Internal Control Systems

To gain the trust of all stakeholders and increase corporate value, Keio Corporation and each company of the Keio Group strives to ensure compliance, reliable financial reporting and effective and efficient business administration, while safeguarding assets. Additionally, the Group works to identify risks in carrying out its business activities and to build, maintain and operate internal control systems to handle those risks appropriately. This Basic Policy stipulates the Company's fundamental policy concerning efforts for maintaining internal control systems in accordance with Paragraph 5, Article 362, of the Companies Act.

1. Keio Group Management Vision

The Keio Group aims to unify the values and direction of the entire Group by establishing the Keio Group Management Vision, which clearly expresses the Group's reason for being, and conveying this vision inside and outside the Group.

2. Systems for ensuring compliance with laws and the Articles of Incorporation in the performance of duties by directors and employees

(i) Keio Corporation shall ensure that officers and employees of the Group perform their duties in a sound manner in accordance with laws and the Articles of Incorporation, by establishing a Keio Group Code of Conduct based on the Keio Group Management Vision. In addition, directors shall make appropriate decisions in line with the Company's Business Judgment Rules.

(ii) The Board of Directors shall formulate a Group Compliance Program to build a Group wide compliance framework. The Company shall establish a Compliance Committee, composed of outside experts and the Compliance Committee Chairman, who shall report important matters to the Board of Directors on a regular basis.

(iii) The Company shall maintain a "Keio Helpline" as a dedicated, Groupwide consultation service for compliance issues, in accordance with the Whistleblower Protection Act.

(iv) To enhance compliance systems across the Group, the Company shall raise awareness of compliance through ongoing compliance training and other enlightenment programs.

(v) The Company shall maintain an Audit Department that reports directly to the President. The department shall perform audits on the Company and each Group company to inspect compliance with laws, Company regulations and other standards, as well as the appropriateness and effectiveness of business administration.

(vi) In order to ensure the reliability of financial reports, the Company shall put in place and implement internal control systems based on the Financial Instruments and Exchange Law and other relevant laws.

(vii) The entire organization shall take firm and harsh measures toward antisocial forces that threaten social order and security, in order to live up to the confidence that stakeholders have put in the Company.

3. Systems for retaining and managing information relating to the performance of duties by directors

(i) Directors shall properly organize, maintain and manage minutes of general meetings of shareholders, minutes of meetings of the Board of Directors, reports of Board discussions and other important documents relating to the performance of their duties, according to the methods provided in the Document Handling Rules and Document Filing Rules.

(ii) Directors and corporate auditors shall be allowed to inspect these documents and records as necessary.

4. Regulations and other systems for risk management

(i) As a corporate group engaged in a broad range of business activities focused on its highly public railway operations, Keio Corporation shall give top priority to customer safety in measures to avoid risk.

(ii) The Company shall institute a Risk Management Program, based on a resolution of the Board of Directors, to ascertain and manage risks relating to business execution. The Company shall also assemble a Risk Management Committee consisting of a Risk Management Committee Chairman, heads of related sections and outside experts.

(iii) In accordance with the Risk Management Program, the Risk Management Committee shall work to reduce and prevent risks, as well as enhancing systems to prepare for crisis outbreak.

(iv) In the event of a major crisis, the Company shall promptly organize a crisis management task force headed up by the President, taking action to respond and quickly resolve the crisis situation.

5. Systems for ensuring the efficient performance of duties by directors

(i) The Board of Directors shall meet once a month, in principle, holding extraordinary sessions

as necessary. Important business matters shall be deliberated by the Managing Directors Committee— composed of managing directors—prior to resolution by the Board of Directors. The Board of Directors also shall elect a special director to ensure speedy decision making.
(ii) The Board of Directors shall establish overall goals for the Company, and managing directors shall plan and implement goal setting, budget management and specific measures for each business section toward the achievement of such goals.
(iii) Concerning organization and the division of duties, the Company shall establish Office Organization Rules to clarify the basic function of each staff position and the relations among such positions. The Company shall establish Regulations for Administrative Authority and Criteria for Decision Making by Position to clarify the responsibilities, authorities and decision-making criteria for each staff position in the performance of duties.

6. Systems for ensuring the proper operation of the corporate group consisting of the Company and its parent company and subsidiaries

(i) To construct overall internal control systems for the Group, the Company shall establish a Keio Group Basic Policy on Internal Control Systems and Keio Group Internal Control Regulations, seeking the resolution of every company belonging to the Keio Group at Board of Directors meetings. Moreover, the Company shall set Deliberation Standards to clarify powers and authorities among the Company and the Group companies.
(ii) Keio Corporation shall set up a department for administering policies on internal controls at each Group company to enhance the framework for ensuring that deliberations, information exchange and transmission of instructions and requests are efficiently carried out among the Company and each Group company.
(iii) The Company shall establish a groupwide compliance framework based on the Group Compliance Program. Moreover, all officers and employees of the Company and each Group company shall, upon discovery of an occurrence with the potential for significant impact on the overall value of the Group, report the matter to the Compliance Committee Chairman of the Company — in addition to standard reporting avenues — and deliberate on counter measures.
(iv) The Company shall work to ascertain and manage risks surrounding the entire Keio Group, primarily through the Company's Risk Management Committee. In the event of a major crisis, each Group company shall immediately report the matter to the Risk Management Committee Chairman, and the Company shall provide the necessary aid. In addition, each Group company shall maintain internal crisis management systems in collaboration with the Company.
(v) A Group Executive Council, consisting of full-time directors of the Company and presidents of the major companies of the Keio Group, shall discuss management of the whole Group and hold regular Keio Group Presidents Meetings to share management policies and information within the corporate Group.
(vi) The full-time auditors of Keio Corporation and the corporate auditors of each company of the Keio Group shall hold regular Group Board of Auditors meetings to expand and strengthen the audit functions of the entire Group. Full-time auditors of the Group companies shall, in principle, be attached to the Audit Department— the Group's internal auditing section. The Group auditors and the Audit Department shall collaborate to ensure appropriate business conduct by the entire Group.

7. Matters regarding employees designated by the Board of Auditors to assist with auditing duties, if such a designation is requested

The Company shall establish a Corporate Auditors Office and assign employees to assist with the duties of corporate auditors on a full-time basis. Employees assigned to the Corporate Auditors Office shall possess the expertise required to assist with the oversight and inspection of Company business conduct.

8. Matters regarding the independence of employees in the previous item from directors

The Corporate Auditors Office shall be organizationally independent from the Company's directors. Furthermore, decisions governing personnel change, performance review and disciplinary action of employees assigned to the Corporate Auditors Office shall require the prior approval of full-time auditors authorized by the Board of Auditors.

9. Systems for reporting to the Board of Auditors by directors and employees and other systems regarding reporting to the Board of Auditors

Directors shall report the following to the Board of Auditors.
(i) Important matters regarding corporate decision making
(ii) Matters with potential to cause significant harm to Keio Corporation or the Keio Group
(iii) Audit planning and results for internal audits
(iv) Misconduct or significant violations of laws or the Articles of Incorporation in the performance of duties by directors or employees
(v) Important matters regarding compliance and risk management
(vi) Any matters deemed necessary for the completion of audit tasks by the corporate auditors.
In the event of discovery by employee(s) of important matters falling under (ii) or (iv), such employee(s) shall be allowed to report the matter directly to the corporate auditors.

10. Other systems for ensuring effective auditing by the Board of Auditors

The Board of Auditors shall carry out the following.
(i) Hearings with each managing director and high-ranking employee as necessary
(ii) Regular meetings with the Chairman of the Board of Directors, the President and accounting auditors
(iii) Collaboration with the internal auditing section
(iv) Surveys of the Group companies
(v) Appointment of attorneys, certified public accountants and other outside experts as independently elected advisors

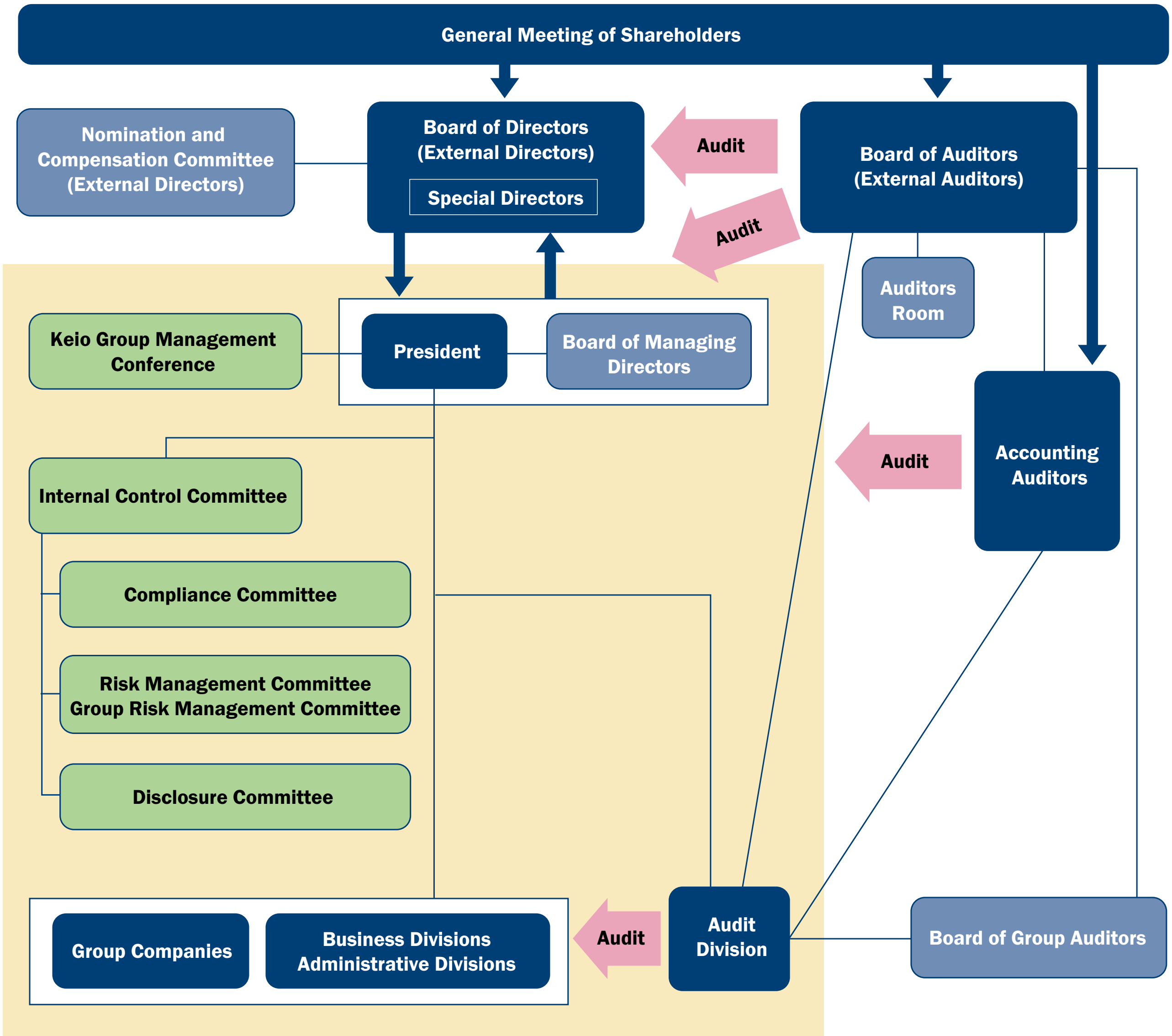
11. Internal Control Committee

Keio Corporation shall establish an Internal Control Committee to oversee the systems provided in items 1. through 10. above. The Internal Control Committee shall effectively supervise internal control organization and function to promote concerted enhancement of internal controls across the Company.

Takeover Defense Measures

The Basic Policy on Measures to Prevent Large-scale Acquisitions of Keio Shares (hereinafter, "the Basic Policy") was approved and passed at the 86th Ordinary General Meeting of Shareholders held on 28th June, 2007, with the aim of ensuring and enhancing the corporate value of Keio Corporation and the common interests of its shareholders. Following the resolution, the Company determined the specific details (hereinafter, "the Plan") of the Basic Policy at the Board of Directors meeting held on the same day, resolving to implement the Basic Policy and Plan as of the date of the meetings (28th June, 2007), and to file a shelf registration statement for issue of stock acquisition rights as part of the Plan. The Basic Policy and the Plan shall remain in effect until the date of conclusion of the Ordinary General Meeting of Shareholders for the last business year ending within a period of three years from the conclusion of the 86th Ordinary General Meeting of Shareholders.

Internal Control System Organization



Risk Factors

Risks that could possibly exert a strong influence on the investment decisions of investors are described below. Aware of these risks, the Keio Group takes steps to prevent these events from occurring, and should they occur, to minimize their impact. Forward-Looking Statements have been determined by the management of the Keio Group based on the information available at the time of the submission of Keio Corporation's Securities Report (27th June, 2008).

Natural Disasters and Other Accidents

The Keio Group operates many facilities, computer systems and other equipment in its Transportation Group and other businesses. The occurrence of a natural disaster, such as an earthquake or typhoon; a disaster, such as a terrorist attack or other illegal incidents; an accident, including one caused by human error, incorrect operation of equipment or some other form of trouble; or an accident at a railway crossing or other area caused by a third party, could hinder the Group's operations or result in significant repair expenses for facilities and equipment. Any of these events could have a negative impact on the performance and financial position of the Group.

Progressive Decline in Family Size and Aging of Communities

The Keio Group develops businesses around its Transportation Group, for which the major market is the area along its railway lines. Because of the progressive decline in the size of families in Japan and the continued aging of communities along its railway lines, especially in the Tama region, the Group anticipates the need for capital investment to introduce greater safety measures, barrier-free facilities and other provisions. In addition, due to the future decline in the local population, demand will decrease for the Group's railway, bus, taxi and other transportation services. These factors could impact negatively on the performance and financial position of the Group.

Legal Restrictions

Based on Article 16 of the Railway Business Act, the Minister of Land, Infrastructure, Transport and Tourism is the reviewing and approving authority for ensuring that passenger fares, etc. for transportation businesses do not exceed an amount needed for the effective operation of the business, after adding an appropriate amount for profits (full cost). The business activities of the Group are restricted by this regulation, which may have an impact on the performance and financial position of the Group.

Besides the railway business, other Group businesses are also subject to various laws and regulations. In the event that significant changes are made to these regulations, Group business activities may be restricted to a greater extent, and additional expenses may be incurred in order to adhere to these laws and regulations. This could then impact the performance and financial position of the Group.

Deterioration and Faults with Real Estate Assets

The Keio Group possesses a great deal of real estate, including facilities and structures. While the Group complies with all legal requirements and gives adequate consideration to environmental issues regarding the impact of its real estate assets on the surrounding areas, it is possible that, in the event that deterioration or a default in one of its properties is discovered or if stricter environmental regulations are introduced, the Group will incur substantial expenses involved with repair. Such a case could have negative repercussions on the Group's performance and financial position.

Asbestos

The Keio Group posseses numerous facilities and equipment. The use of asbestos in these facilities is under investigation following directives on asbestos countermeasures from the government, and the Group is taking appropriate action on this issue. In order to remove dangerous asbestos, the relevant facility/equipment may be required to suspend operations temporarily and large amounts of expenses may be incurred, which may in turn impact the performance and financial position of the Group.

Safety of Food Products

The Keio Group sells food products through its Merchandise Sales Group and other businesses. Although the Group takes great care to ensure that the food products are safe, should problems occur with the quality of certain food products sold by the Group or with certain food products in general, expenses may arise due to the Group's liability for damages, and sales may decline due to the spread of rumors. These conditions could impact negatively on the performance and financial position of the Group.

Management of Personal Information

In connection with its credit card and other businesses, the Keio Group possesses personal information about its customers. The Group has publicly announced the Keio Group Personal Information Protection Policy and established the Keio Group Personal Information Management System. Based on this policy and system, the Group strives to properly manage personal information. Nevertheless, should personal information be leaked by the Group due to human factors, such as theft or improper control of data, or technological factors, such as inadequate system design, expenses may arise due the Group's liability for damages, and the Group's reputation may be damaged. Either of these situations could have a negative impact on the performance and financial position of the Group.

Disclosure

When an accident or some other incident occurs in operations, the Group strives to restore normal operations as rapidly as possible and to quickly disclose accurate information. Nevertheless, should inappropriate information be disclosed due to the tardiness of the initial response, public confidence in the Group might decline, which could have negative repercussions on the performance and financial position of the Group.

Market Interest Rate Fluctuation and the Company's Ratings

The major portion of the Group's interest-bearing debt comprises long-term borrowings and corporate bonds with fixed interest rates. Consequently, the Group considers itself to have limited exposure to market interest rate fluctuations. Although the Keio Group has received an AA rating from the main rating agencies in Japan, the Group must act with caution because there is a constant possibility that the rating could be downgraded should an increase in interest-bearing debt occur without a rational explanation. If the rating was downgraded, the Group's cost of funds would increase, which could have a negative impact on the performance and financial position of the Group.

The above discussion is a detailed indication of the major risk factors foreseen in the Group's businesses and other areas. The risks listed above, however, in no way represent all the risks faced by the Keio Group.

Consolidated Balance Sheets

Keio Corporation and its consolidated subsidiaries
As of 31st March 2007 and 2008

ASSETS	Millions of Yen 2007	Millions of Yen 2008	Thousands of U.S. Dollars (Note 3) 2008
Current Assets:			
Cash and bank deposits (Note 4)	¥ 29,547	¥ 49,199	$ 491,057
Short-term investments (Notes 4 and 5)	1	15	150
Notes and accounts receivable, trade	34,252	31,991	319,300
Allowances for doubtful accounts	(281)	(182)	(1,813)
Inventories	22,130	20,886	208,460
Deferred tax assets (Note 9)	3,693	3,752	37,455
Other current assets	17,346	12,697	126,729
Total current assets	106,688	118,358	1,181,338
Investments and Advances:			
Investments in securities (Note 5)	83,739	51,969	518,707
Investments in affiliates and unconsolidated subsidiaries	1,710	1,803	17,989
	85,449	53,772	536,696
Property and Equipment, at net book value (Notes 6,7 and 8):			
Land	116,845	133,370	1,331,170
Buildings and structures	238,936	236,901	2,364,519
Machinery, rolling stock and equipment	35,513	38,188	381,150
Tools, furniture and fixtures	10,365	10,943	109,224
Construction-in-progress	28,823	44,623	445,387
	430,482	464,025	4,631,450
Intangible assets	4,603	5,458	54,474
Deferred tax assets (Note 9)	7,445	7,973	79,578
Other assets	13,494	10,576	105,563
Total assets	¥ 648,161	¥ 660,162	$ 6,589,099

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS	Millions of Yen 2007	Millions of Yen 2008	Thousands of U.S. Dollars (Note 3) 2008
Current Liabilities:			
Short-term bank borrowings (Note 7)	¥ 40,599	¥ 39,789	$ 397,135
Current portion of long-term debt (Note 7)	22,121	22,309	222,665
Notes and accounts payable, trade	23,560	20,517	204,784
Consumption taxes payable	1,045	903	9,013
Income taxes payable	8,090	11,111	110,898
Reserve for employees' bonuses	2,573	2,423	24,185
Advances received	16,165	21,818	217,767
Other current liabilities	58,003	60,573	604,584
Total current liabilities	172,156	179,443	1,791,031
Long-term debt (Note 7)	159,864	182,188	1,818,423
Reserve for retirement benefits (Note 10)	24,789	24,844	247,968
Special reserve for expansion of railway transport capacity (Note 11)	2,346	—	—
Deferred tax liabilities (Note 9)	15,031	384	3,836
Other non-current liabilities	27,345	29,117	290,613
Total liabilities	401,531	415,976	4,151,871
Contingent Liabilities (Note 13)			
Net Assets			
Shareholders' Equity :			
Common stock:			
Authorized 1,580,230,000 shares			
Issued 642,754,152 shares	59,024	59,024	589,119
Additional paid-in capital	42,022	42,026	419,463
Retained earnings	126,390	140,813	1,405,459
Treasury stock, at cost			
2007: 25,118,036 shares			
2008: 25,203,160 shares	(15,311)	(15,380)	(153,510)
Valuation and translation adjustments			
Unrealized gains on available-for-sale securities, net of tax	34,505	17,703	176,697
Total net assets	246,630	244,186	2,437,228
Total liabilities and net assets	¥ 648,161	¥ 660,162	$ 6,589,099

Consolidated Statements of Income and Retained Earnings

Keio Corporation and its consolidated subsidiaries
For the years ended 31st March 2006, 2007 and 2008

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2006	2007	2008	2008
Operating Revenues	¥ 438,254	¥ 430,198	¥ 429,190	$ 4,283,762
Operating Costs and Expenses:				
Operating costs	349,670	340,240	339,426	3,387,827
Selling, general and administrative expenses	48,647	47,660	47,823	477,319
	398,317	387,900	387,249	3,865,146
Operating income	39,937	42,298	41,941	418,616
Non-Operating Income (Expenses):				
Interest and dividend income	746	1,019	1,128	11,261
Interest expense	(4,918)	(5,398)	(4,897)	(48,875)
Loss on redemption of bonds	—	(1,624)	—	—
Loss on disposal of property and equipment	(1,650)	(1,229)	(1,245)	(12,429)
Loss on sales of property and equipment	(32)	(134)	(58)	(581)
Subsidy received from Tokyo Metropolitan Government, etc.	1,936	2,223	1,209	12,064
Advance depreciation of fixed assets	(1,932)	(2,199)	(1,630)	(16,265)
Equity in earnings of affiliates and unconsolidated subsidiaries	114	95	96	958
Gain on sales of investments in securities	184	0	371	3,708
Loss on revaluation of investments in securities	(17)	(19)	(1,068)	(10,664)
Reversal of special reserve for expansion of railway transport capacity	2,346	2,346	2,346	23,417
Gain on sale of property and equipment	141	136	453	4,523
Impairment loss (Note 8):	(2,698)	(1,037)	(4,226)	(42,181)
Special retirement payments	(882)	(123)	(3)	(31)
Non-recurring depreciation (Note 2-7)	(713)	—	—	—
Gain on actuarial assumptions in retirement benefits (Note 2-13)	—	—	368	3,668
Compensation for tenants closing	—	—	(3,113)	(31,071)
Provision of reserve for loss from redemption of gift vouchers for prior periods (Note 2-21)	—	—	(356)	(3,548)
Other, net	971	349	(77)	(767)
	(6,404)	(5,595)	(10,702)	(106,813)
Income before income taxes	33,533	36,703	31,239	311,803
Income Taxes (Note 9):				
Current	15,095	13,669	16,814	167,829
Deferred	(1,430)	1,495	(3,704)	(36,972)
	13,665	15,164	13,110	130,857
Net income	19,868	21,539	18,129	180,946
Retained Earnings:				
Balance at beginning of year	92,602	—	—	—
Appropriations:				
Cash dividends	(3,723)	—	—	—
Directors' bonuses	(95)	—	—	—
Balance at end of year	¥ 108,652	¥ —	¥ —	$ —

	Yen			U.S. Dollars (Note 3)
Net Income Per Share:				
Basic (Note 2-15)	¥ 31.89	¥ 34.87	¥ 29.36	$ 0.29
Cash dividends applicable to the year	6	6	6	0.06

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Net Assets

Keio Corporation and its consolidated subsidiaries
For the years ended 31st March 2007 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2007	2008	2008
Common stock:			
Beginning balance	¥ 59,024	¥ 59,024	$ 589,119
Ending balance	59,024	59,024	589,119
Additional paid-in capital:			
Beginning balance	42,018	42,022	419,428
Disposal of treasury stock	4	4	35
Ending balance	42,022	42,026	419,463
Retained earnings:			
Beginning balance	108,652	126,390	1,261,499
Cash dividends	(3,706)	(3,706)	(36,986)
Bonuses to directors	(95)	—	—
Net income	21,539	18,129	180,946
Ending balance	126,390	140,813	1,405,459
Treasury stock, at cost:			
Beginning balance	(15,205)	(15,311)	(152,818)
Purchase of treasury stock	(117)	(92)	(916)
Disposal of treasury stock	11	23	224
Ending balance	(15,311)	(15,380)	(153,510)
Unrealized gains on available-for-sale securities:			
Beginning balance	43,155	34,505	344,392
Net change during the year	(8,650)	(16,802)	(167,695)
Ending balance	34,505	17,703	176,697
Total net assets	¥ 246,630	¥ 244,186	$ 2,437,228

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

Keio Corporation and its consolidated subsidiaries
For the years ended 31st March 2006, 2007 and 2008

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2006	2007	2008	2008
Cash flows from operating activities:				
Income before income taxes	¥ 33,533	¥ 36,703	¥ 31,239	$ 311,803
Adjustments for:				
Depreciation and amortization	28,184	29,092	31,084	310,251
Impairment loss	2,698	1,037	4,226	42,181
(Decrease) Increase in reserve for retirement benefits	(1,438)	(482)	55	550
(Decrease) Increase in prepaid pension cost	—	(3,428)	2,146	21,420
Decrease in special reserve for expansion of railway transport capacity	(2,346)	(2,346)	(2,346)	(23,417)
Loss on revaluation of investments in securities	17	19	1,068	10,664
Loss on disposal of property and equipment	2,619	2,115	2,482	24,777
Advance depreciation of fixed assets	1,586	2,199	1,630	16,265
Interest and dividend income	(746)	(1,019)	(1,128)	(11,261)
Interest expense	4,918	5,398	4,897	48,875
Loss on redemption of bonds	—	1,624	—	—
Gain on sales of investments in securities	(184)	(0)	(371)	(3,708)
Subsidy received from Tokyo Metropolitan Government, etc.	(1,936)	(2,223)	(1,209)	(12,064)
Compensation for tenants closing	—	—	3,113	31,071
Decrease (Increase) in notes and accounts receivable	(1,391)	(6,620)	2,238	22,340
Decrease in inventories	2,260	3,622	889	8,868
Increase (Decrease) in notes and accounts payable	2,239	1,905	(4,423)	(44,144)
Other, net	1,162	1,448	64	631
Subtotal	71,175	69,044	75,654	755,102
Interest and dividends received	750	1,022	1,133	11,311
Interest paid	(4,904)	(5,098)	(4,226)	(42,182)
Compensation paid for tenants closing	—	—	(2,000)	(19,962)
Income taxes paid	(12,076)	(15,882)	(13,680)	(136,537)
Net cash provided by operating activities	54,945	49,086	56,881	567,732
Cash flows from investing activities:				
Payments for purchase of property and equipment	(34,975)	(49,815)	(67,274)	(671,472)
Proceeds from sale of property and equipment	778	693	595	5,943
Proceeds from sale of short-term investments	32	—	1	10
Payments for purchase of securities and other investments	(1,782)	(712)	(703)	(7,024)
Proceeds from sale of securities and other investments	303	88	3,434	34,280
Subsidy received from Tokyo Metropolitan Government, etc.	2,898	6,400	7,119	71,058
Other, net	(295)	(2,764)	(2,600)	(25,951)
Net cash used in investing activities	(33,041)	(46,110)	(59,428)	(593,156)
Cash flows from financing activities:				
Increase (Decrease) in short-term bank borrowings, net	1,420	860	(810)	(8,085)
Increase in long-term debt	13,070	45,303	47,345	472,551
Repayment of long-term debt	(13,133)	(40,619)	(25,569)	(255,201)
Purchase of treasury stock	(1,963)	(117)	(92)	(916)
Cash dividends paid	(3,723)	(3,706)	(3,706)	(36,986)
Other, net	30	12	27	260
Net cash provided by (used in) financing activities	(4,299)	1,733	17,195	171,623
Effect of exchange rate changes on cash and cash equivalents	5	4	3	31
Net increase in cash and cash equivalents	17,610	4,713	14,651	146,230
Cash and cash equivalents at beginning of year	21,193	38,803	43,516	434,337
Cash and cash equivalents at end of year (Note 4)	¥ 38,803	¥ 43,516	¥ 58,167	$ 580,567

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Keio Corporation ("the Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English with certain expanded disclosure from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

2. Summary of Significant Accounting Policies

(1) Basis of Consolidation and Accounting for Investments in Affiliates

The consolidated financial statements include the accounts of Keio Corporation and its 36 significant subsidiaries as of 31st March 2008. The Company has adopted the equity method of accounting for investments in 6 unconsolidated subsidiaries which have significant impact on the financial status of the Companies as of 31st March 2008. Investment in other affiliates is carried at cost due to its immateriality.

(2) Elimination and Consolidation

For the purposes of preparing the consolidated financial statements, all significant inter-company transactions and account balances among the companies have been eliminated.

The full fair value method has been adopted to evaluate the assets and liabilities of consolidated subsidiaries at the time the Company acquired the control of respective subsidiaries.

(3) Reclassification

Certain prior period amounts in the consolidated financial statements have been reclassified to conform to the 31st March 2008 presentation. These reclassifications had no effect on the Company's consolidated net income or net assets.

(4) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits capable of being withdrawn on demand and short-term investments with a maturity not exceeding three months at the time of purchase which represent a minor risk of fluctuations in value.

(5) Inventories

Real estate inventories for sale are stated at the lower of cost or market value, cost being determined by the identified cost method. Merchandise inventories are principally stated at the lower of cost or market value, cost being determined using the retail cost method.

(6) Financial Instruments

Securities

Securities held by the Companies are classified as follows:

Investments of the Company in equity securities issued by unconsolidated subsidiaries and affiliates are accounted for by the equity method. Exceptionally, investments in certain unconsolidated subsidiaries and affiliates are stated at cost because the effect of application of the equity method would be immaterial.

Available-for-sale securities with available fair market value are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate item in "Net Assets" at a net-of-tax amount.

Available-for-sale securities with no available fair market value are stated at cost, except as stated in the paragraph below.

In cases where the fair value of equity securities issued by unconsolidated subsidiaries and affiliates or available-for-sale securities has declined significantly and such impairment of value is not deemed temporary, those securities are written-down to the fair value and the resulting losses charged to income.

(7) Property and Equipment

Property and equipment is stated at cost.

Depreciation of property and equipment is principally computed on the Declining-balance method, except for buildings (excluding facilities attached to buildings) acquired on or after 1st April 1998, to which the straight-line method is applied.

Estimated useful lives of the assets are as follows:

Buildings and structures	3-60 years
Machinery, rolling stock and equipment	3-20 years

Maintenance and repairs, including minor renewals and betterments, are charged to income as incurred.

(An Additional Note)

i. **Additional depreciation for buildings and structures**
   Depreciation for buildings and structures was computed with their estimated salvage values of 5% of acquisition costs for the year ended 31st March 2005. The Company re-estimated those salvage values, according to the net expected recoverable

values at the time of disposition since the year ended 31st March 2006. As a result, the additional depreciation cost due to that re-estimation was included in the operating cost of ¥317 million and the non-operating expense of ¥713 million shown as non-recurring depreciation for the year ended 31st March 2006.

ii. Additional depreciation for rolling stocks

Depreciation for rolling stocks was computed with their estimated salvage values of 5% of acquisition costs for the year ended 31st March 2006. The Company re-estimated those salvage values, according to the net expected recoverable values at the time of disposition since the year ended 31st March 2007. As a result, the additional depreciation cost of ¥1,362 million ($11,538 thousand) due to that re-estimation was included in the operating costs and charged to income in the accompanying consolidated statements of income for the year ended 31st March 2007.

(8) Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases, except leases that do not transfer ownership of the assets at the end of the lease term are accounted for as well as operating leases, in accordance with accounting principles and practices generally accepted in Japan. Fees related to such lease contracts are charged to income as incurred.

(9) Amortization of intangible assets

Amortization of intangible assets is computed using the straight-line method. Amortization of software for internal use is computed using the straight-line method, at rates based on the estimated useful lives of the software (principally 3 years).

(10) Deferred Charges

Bond issuance cost is charged to income as incurred.

(11) Railway business construction fund

The Companies receive a portion of the construction costs applicable to work undertaken to elevate railway lines and crossings and for the improvement of grade crossings in the form of a construction fund provided by local and other public authorities.

Upon completion of construction, an amount equivalent to the construction fund is recorded as a deduction from the acquisition costs of the property and equipment purchased.

In addition, the construction fund portion received and the corresponding amount recorded as a deduction from the acquisition costs of property and equipment purchased has been recorded as non-operating income and expense, respectively in the accompanying consolidated statements of income and retained earnings.

(12) Income Taxes

Income taxes of the Company and its subsidiaries consist of corporate income taxes, local inhabitants taxes and enterprise taxes. Deferred income taxes are provided for in respect of temporary differences between carrying amounts and the tax basis of assets and liabilities.

(13) Accounting for Reserves

i. Reserve for employees' bonuses

A "Reserve for employees' bonuses" is provided for based on the service rendered by employees for the calculation period and estimated amounts to be paid.

ii. Reserve for retirement benefits

The Company and some of its consolidated subsidiaries recognize reserve for employee's severance and retirement benefits based on the actuarial valuation of projected benefit obligations in excess of the fair value of the plan assets at the balance sheet date. The unrecognized actuarial differences which arise in the Company are amortized on a declining-balance basis, and which arise in subsidiaries are amortized on a straight-line basis over a period of principally 5 years from the following year that in which each of the differences arises. The unrecognized prior service cost is amortized on a straight-line basis over a period of principally 14 years from the year in which it arises.

(An Additional Note)

The Company received ¥6,441million ($64,296 thousand) as refund due to excess of demanded amount of tax-qualified pension plan. Because of this refund, income before income taxes increased by ¥368 million ($3,668 thousand), the unrecognized actuarial difference of tax-qualified pension plan in proportion to this refund.

(14) Revenue recognition for Real Estate Businesses

A certain part of revenue of the real estate businesses is recognized by installment method, that is, when the install payment comes to due, the corresponding revenue and cost are recognized for the years ended 31st March 2006 and 2007.

(15) Net Income per Share

Basic income per share of common stock is computed based on the income available to common shareholders and the weighted average number of common stock outstanding during the year.

Diluted net income per share was not applicable for the years ended 31st March 2006, 2007 and 2008 because there was no dilution on each year.

(16) Accounting for Consumption Taxes

Consumption taxes are levied in Japan on domestic purchases and sales of goods and services at a flat rate of 5 per cent, in general. Consumption taxes imposed on revenues and purchases is excluded from revenues, costs and expenses in the accompanying consolidated statements of income and retained earnings. Such consumption taxes are instead recorded as an asset or liability, and the net balance is presented the consolidated balance sheets.

Consumption taxes paid, which is not deducted from consumption taxes imposed, are charged to income.

(17) Accounting Standard for Statement of Changes in Net Assets

Effective from the year ended 31st March 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No.6 issued by the Accounting Standards Board of Japan on 27th December 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on 27th December 2005), (collectively, "the Additional New Accounting Standards").

(18) Net assets

The Japanese Corporate Law ("the Law") became effective on 1st May 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after 30th April 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as legal capital reserve, which is included in additional paid-in capital.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of legal capital reserve and legal earnings reserve must be set aside as legal capital reserve or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, legal earnings reserve and legal capital reserve could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Legal capital reserve and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and legal capital reserve remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all legal capital reserve and all legal earnings reserve may be transferred to other additional paid-in capital and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held on 27th June 2008, the shareholders approved cash dividends amounting to ¥1,853 million ($18,491 thousand). Such appropriations have not been accrued in the consolidated financial statements as of 31st March 2008. Such appropriations are recognized in the period in which they are approved by the shareholders.

(19) Changes in accounting practices

i. **Reserve for retirement benefits**

Effective from the year ended 31st March 2006, the Group has adopted the "Partial Revision to the Accounting Standards for Retirement Benefits" (Corporate Accounting Standards No.3,16th March 2005) and the "Guidelines for Applying the Partial Revision to the Accounting Standards for Retirement Benefits" (Guidelines for Applying Corporate Accounting Standards No.7,16th March 2005). As a result, operating income and income before income taxes increased by ¥512 million.

ii. **Depreciation of property, plant and equipment**

Effective from the year ended 31st March 2008, the Company and its consolidated subsidiaries have changed their method of accounting for depreciation of property, plant and equipment acquired on or after 31st April 2007.This change was made based on an amendment to the Corporate Tax Law. As a result of this change, compared with the previous method, operating income and income before income taxes decreased by ¥663 million ($6,618 thousand).

(20) Changes in accounting presentation

Prior to the year ended 31st March 2006, the Company had separately reported some operating income and expenses related to travel agency business (gross reporting method). Effective from the year ended 31st March 2007, the Company has changed to a net reporting method by posting an amount arrived at by netting the income and expenses.

As a result, operating revenues and operating costs of the year ended 31st March 2007 decreased by ¥14,216 million ($120,424 thousand) in comparison with conventional method.

This change in accounting does not affect operating income or net income.

(21) Provision of reserve for loss from redemption of gift vouchers for prior periods

With the release of Treatment of Auditing Concerning Reserves under the Special Taxation Measures Law, Reserves and Allowances under Special Laws, and Retirement Allowances for Directors and Auditors (the Japanese Institute of Certified Public Accountants Auditing and Assurance Working Group Report No. 42, issued on 13th April 2007) and the adjustment of the treatment of allowance for items in which the statement of liabilities has been suspended, as of the period under review, certain consolidated subsidiaries have provided for losses by future collections with regard to the uncollected balance of gift vouchers at beginning of period.

3. United States Dollar Amounts

U.S. dollar amounts are included solely for the convenience of the readers outside Japan. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into, U.S. dollars.

As the amounts shown in U.S. dollars are for convenience only, and are not intended to be computed in accordance with generally accepted translation procedures, the rate of ¥100.19=U.S.$1, the approximate current rate at 31st March 2008, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

4. A reconciliation of "Cash and cash equivalents" in the consolidated statements of cash flows and the account balances on the consolidated balance sheets is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2006	2007	2008	2008
Cash and bank deposits	¥ 28,833	¥ 29,547	¥ 49,199	$ 491,057
Marketable securities	—	1	15	150
Securities with repurchase agreement included in short-term loans	10,000	13,999	8,999	89,821
Time deposits due over 3 months	(30)	(30)	(31)	(311)
Government and corporate bonds due after 3 months	—	(1)	(15)	(150)
Cash and cash equivalents	¥ 38,803	¥ 43,516	¥ 58,167	$ 580,567

5. Marketable Securities and Investments in Securities

Marketable securities included in "Short-term investments" and "Investments in securities" at 31st March 2007 and 2008 consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Marketable securities			
(Current portfolio):			
Government and corporate bonds	¥ 1	¥ 15	$ 150
	¥ 1	¥ 15	$ 150
Investments in securities			
(Non-current portfolio):			
Listed corporate shares	¥ 79,325	¥ 50,584	$ 504,879
Government and corporate bonds and unlisted corporate shares	4,414	1,385	13,828
	¥ 83,739	¥ 51,969	$ 518,707

The acquisition cost, carrying amount, gross unrealized holding gains and gross unrealized holding losses for securities with fair value by security type at 31st March 2007 and 2008 are summarized as follows:

Available-for-sale securities:

	2007 Millions of Yen			
	Acquisition cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Listed shares	¥ 21,160	¥ 79,325	¥ 58,598	¥ 433
Bonds	3,116	3,132	17	1
Others	69	102	33	—
	¥ 24,345	¥ 82,559	¥ 58,648	¥ 434

	2008 Millions of Yen			
	Acquisition cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Listed shares	¥ 20,712	¥ 50,584	¥ 30,098	¥ 226
Bonds	196	201	5	0
Others	30	35	5	—
	¥ 20,938	¥ 50,820	¥ 30,108	¥ 226

	2008 Thousands of U.S. Dollars			
	Acquisition cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Listed shares	$ 206,728	$ 504,879	$ 300,402	$ 2,251
Bonds	1,958	2,008	53	3
Others	299	350	51	—
	$ 208,985	$ 507,237	$ 300,506	$ 2,254

The profit and loss on sale of securities for the years ended 31st March 2007 and 2008 are as follows:

Available-for-sale securities:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Carrying amount	¥ 6	¥ 400	$ 3,997
Profit on sale	0	371	3,708
Loss on sale	—	0	5

The carrying amount of securities for which a fair value is not available at 31st March 2007 and 2008 are summarized as follows:

Available-for-sale securities:

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Unlisted shares	¥ 1,180	¥ 1,164	$ 11,620
Others	1	—	—
	¥ 1,181	¥ 1,164	$ 11,620

6. Accumulated Depreciation

Accumulated depreciation and impairment, deducted from the cost of property and equipment in the accompanying consolidated balance sheets, amounted to ¥458,306 million and ¥480,781 million ($ 4,798,692 thousand) at 31st March 2007 and 2008, respectively.

7. Short-term Bank Borrowings and Long-term Debt

The weighted average interest rate applicable to such borrowings was 1.3 per cent per annum for the years ended 31st March 2007 and 2008.

"Long-term debt" at 31st March 2007 and 2008 consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Long-term loans from banks and other financial institutions secured primarily by collateral, due from 2008 to 2027 at the weighted average rate of 2.4 per cent per annum	¥ 110,957	¥ 116,337	$ 1,161,161
2.7 per cent yen bonds due April 2007 (Series No. 19)	10,000	—	—
2.7 per cent yen bonds due August 2013 (Series No. 20)	10,000	10,000	99,810
2.175 per cent yen bonds due August 2008 (Series No. 21)	10,000	10,000	99,810
1.640 per cent yen bonds due March 2015 (Series No. 22)	10,000	10,000	99,810
Discount bonds due April 2013 (Series No. 23)	17,698	18,081	180,467
Discount bonds due April 2016 (Series No. 24)	8,235	8,431	84,150
1.695 per cent yen bonds due November 2017 (Series No. 25)	—	20,000	199,621
2.360 per cent yen bonds due November 2027 (Series No. 26)	—	10,000	99,810
Long-term accounts payable	5,095	1,647	16,444
	181,985	204,496	2,041,083
Less: current portion (amount due within one year)	(25,347)	(22,959)	(229,151)
	¥ 156,638	¥ 181,537	$ 1,811,932

The "Long-term accounts payable" is due March 2016, and are interests bearing.

The Companies' assets pledged as collateral for long-term debt (including the current portion of long-term debt) at 31st March 2007 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
At net book value			
Property and equipment	¥ 202,354	¥ 209,595	$ 2,091,973
Other	1,334	1,426	14,238
	¥ 203,688	¥ 211,021	$ 2,106,211

The aggregate annual maturities of long-term loans from banks and other financial institutions in the 5 years following 31st March 2008 are as follows:

Year ending 31st March	Millions of Yen	Thousands of U.S. Dollars
2009	¥ 12,947	$ 129,222
2010	11,548	115,259
2011	8,175	81,593
2012	7,513	74,992
2013	7,137	71,235
	¥ 47,320	$ 472,301

8. Impairment Loss on Fixed Assets

The Companies sorted out their fixed assets into several groups individually in managerial accounting based on divisions or objects/stores. Impairment losses on fixed assets for the years ended 31st March 2006, 2007 and 2008 consisted of the following:

<table>
<tr><th colspan="6">For the year ended 31st March</th></tr>
<tr><th colspan="3">2006</th><th colspan="3">2007</th></tr>
<tr><th>Use</th><th>Type of assets</th><th>Location</th><th>Use</th><th>Type of assets</th><th>Location</th></tr>
<tr><td>Mainly hotel facilities (3 items)</td><td>Buildings and structures, etc</td><td>Chuo-ku, Tokyo etc.</td><td>Fiber-optic facilities</td><td>Buildings and structures, etc</td><td>Wayside of Keio line</td></tr>
<tr><td rowspan="4">Mainly commercial facilities (11 items)</td><td rowspan="4">Buildings and structures, etc</td><td rowspan="4">Tachikawa City, Tokyo etc.</td><td>Mainly commercial facilities (12 items)</td><td>Buildings and structures, etc</td><td>Setagaya-ku, Tokyo etc.</td></tr>
<tr><td>Leasehold properties (1 item)</td><td>Land, buildings and structures, etc</td><td>Fuchu City, Tokyo</td></tr>
<tr><td>Idle land (1 item)</td><td>Land</td><td>Minamitsuru-gun, Yamanashi Prefecture</td></tr>
<tr><td>Public works contributions</td><td>Other assets</td><td>—</td></tr>
</table>

<table>
<tr><th colspan="3">For the year ended 31st March</th></tr>
<tr><th colspan="3">2008</th></tr>
<tr><th>Use</th><th>Type of assets</th><th>Location</th></tr>
<tr><td>Leasehold properties (2items)</td><td>Buildings and structures, etc</td><td>Musashino City, Tokyo etc.</td></tr>
<tr><td>Mainly commercial facilities (35 items)</td><td>Buildings and structures, etc</td><td>Shinjuku-ku, Tokyo etc.</td></tr>
<tr><td>Idle land (1 item)</td><td>Land</td><td>Minamitsuru-gun, Yamanashi Prefecture</td></tr>
</table>

The Companies recognized impairment losses because,

(a) for the hotel facilities, the dismantling of hotel buildings was decided because the forgery of the public structure checks became clear.

(b) for commercial facilities and the Fiber-optic facilities, the actual revenue is less than the expected due to the long term depression of the market.

(c) for Leasehold properties for the year ended 31st March 2007 and idle land, their market values have significantly declined.

(d) for the public work contributions, in view of recoverability.

(e) for Leasehold properties for the year ended 31st March 2008, the dismantling of buildings was decided.

The detail of impairment loss for the years ended 31st March 2006, 2007 and 2008 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2006	2007	2008	2008
Property and equipment	¥ 2,690	¥ 532	¥ 4,206	$ 41,983
- Land	—	196	0	4
- Buildings and structures	2,465	217	4,103	40,952
- Machinery , rolling stock and equipment	69	4	34	343
- Other	156	115	69	684
Intangible assets	3	4	2	18
Other assets	5	501	18	180
Total	¥ 2,698	¥ 1,037	¥ 4,226	$ 42,181

In the case of measuring the recoverable amount of certain facilities at the net selling price, it is based on the real estate appraisal.

In the case of measuring at the value in use, the impairment amount of certain facilities is based on the net present values of future cash in flows with the discount rate of 5%.

9. Income Taxes

The statutory tax rate used for calculating deferred tax assets as of 31st March 2007 and 2008 was 40.69%.

At 31st March 2007 and 2008, significant components of deferred tax assets were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Deferred tax assets:			
Reserve for employees' bonuses	¥ 1,072	¥ 1,020	$ 10,181
Enterprise tax payable	715	930	9,284
Reserve for retirement benefits	8,046	9,086	90,684
Loss on revaluation of property and equipment	1,502	—	—
Unrealized gain on property and equipment	1,813	2,109	21,053
Excess depreciation of fixed assets	2,155	2,446	24,410
Impairment loss	1,683	4,645	46,359
Accruals for reward card	397	391	3,900
Loss carry forwards	200	27	284
Compensation for tenants closing	—	1,267	12,644
Other	2,337	1,701	16,976
Total deferred tax assets	¥ 19,920	¥ 23,622	$ 235,775

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	¥ (23,680)	¥ (12,148)	$ (121,255)
Other	(133)	(133)	(1,323)
Total deferred tax liabilities	(23,813)	(12,281)	(122,578)
Net of deferred tax assets	¥ (3,893)	¥ 11,341	$ 113,197

Effective from the year ended 31st March 2008, "Loss on revaluation of property and equipment" is included in "Impairment loss."

The valuation allowances which were deducted from deferred tax asset were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
The valuation allowances	¥ 612	¥ 851	$ 8,490

The reconciliation of the difference between the statutory tax rate and the effective income tax rate for the years ended 31st March 2006, 2007 and 2008 were not disclosed because such difference was less than 5% of statutory tax rate.

10. Retirement Plan

The Company has the following retirement benefit plans: a defined-benefit plan (similar to a cash balance plan), a tax-qualified pension plan, and a lump sum payment system. With certain exclusions, in March 2006 the Company shifted from a tax-qualified pension plan to a defined-benefit plan. Following revisions to certain bylaws, in December 2006 the Company received approval of this plan from the Ministry of Health, Labour and Welfare.

In addition, certain consolidated subsidiaries have the following retirement benefit plans: a defined-benefit plan, a tax-qualified pension plan, a defined contribution plan and a lump sum payment system. At April 2007, certain consolidated subsidiaries shifted from a tax-qualified pension plan to a defined-benefit plan.

The "Reserve for retirement benefits" as of 31st March 2007 and 2008 can be analyzed as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Projected benefit obligations	¥ (86,345)	¥ (83,244)	$ (830,867)
Plan assets	82,598	69,537	694,052
Unfunded status	(3,747)	(13,707)	(136,815)
Unrecognized actuarial differences	(5,348)	1,370	13,677
Unrecognized prior service cost	(9,835)	(8,794)	(87,769)
Reserve for retirement benefits-net	(18,930)	(21,131)	(210,907)
Prepaid pension cost	5,859	3,713	37,061
Reserve for retirement benefits	¥ (24,789)	¥ (24,844)	$ (247,968)

The net pension expense for the years ended 31st March 2006, 2007 and 2008 was as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2006	2007	2008	2008
Service cost	¥ 3,000	¥ 2,760	¥ 2,870	$ 28,651
Interest cost	1,790	1,654	1,641	16,380
Expected return on plan assets	(478)	(575)	(612)	(6,111)
Amortization of unrecognized actuarial difference	2,251	(1,706)	(2,266)	(22,618)
Amortization of prior service cost	(816)	(1,055)	(1,005)	(10,033)
Payments for defined contribution annuity	112	104	88	875
Net pension expense	¥ 5,859	¥ 1,182	¥ 716	$ 7,144
Gain on actuarial assumptions in retirement benefits	—	—	368	3,668
Total	¥ —	¥ —	¥ 348	$ 3,476

The assumptions used in calculation of the above information were as follows:

	As of 31st March 2007	As of 31st March 2008
Discount rate	Principally 2.0%	Principally 2.0%
Expected rate of return on plan assets	Principally 0.5%	Principally 0.5%
Method of attributing the projected benefits to periods of service	Straight-line basis	Straight-line basis
Amortization period of unrecognized actuarial differences	Principally 5 years	Principally 5 years
Amortization period of prior service cost	Principally 14 years	Principally 14 years

11. Special Reserve for Expansion of Railway Transport Capacity

Under the Law for Special Measures for Expansion of Railway Transport Capacity in Designated Cities enacted in April 1986, the Company is required to provide a reserve for the cost of specific construction projects, aimed at strengthening the railway transport capacity. Until 31st August 1995 the reserve was provided at a rate of 3 per cent of passenger fares, but this was changed to 6 per cent following the fare increase on 1st September 1995. As the specific construction projects to which the special reserve relates were completed in 1998, it started to be reversed to income, over a period of 10 years, from the year ended 31st March 1999.

12. Lease Transactions

[For Lessee]

(1) Finance Leases

Lease rental expenses paid by the Companies under finance lease contracts without transfer of ownership for the years ended 31st March 2007 and 2008 were ¥641 million and ¥673 million ($6,720 thousand), respectively.

The scheduled maturities of future lease rental payments under such finance lease contracts at 31st March 2007 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Due within one year	¥ 634	¥ 585	$ 5,843
Due after one year	1,366	1,344	13,406
Subtotal	2,000	1,929	19,249
Impairment loss on leased assets	(11)	(11)	(107)
Total	¥ 1,989	¥ 1,918	$ 19,142

The above lease rental payments include the imputed interest expense portion.

The acquisition cost, accumulated depreciation, net book value at 31st March 2007 and 2008, and depreciation expense and impairment loss for the years ended 31st March 2007 and 2008, that would have been applicable if such leased assets had been capitalized, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Acquisition cost	¥ 3,583	¥ 3,293	$ 32,866
Accumulated depreciation	(1,583)	(1,364)	(13,617)
Accumulated Impairment loss	(11)	(11)	(107)
Net book value	¥ 1,989	¥ 1,918	$ 19,142
Depreciation	¥ 641	¥ 673	$ 6,720

Depreciation is calculated based on the straight-line method over the lease term of the leased assets.

(2) Operating Leases (Non-cancelable)

The scheduled maturities of future lease rental payments under such operating lease contracts at 31st March 2007 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Due within one year	¥ 529	¥ 500	$ 4,990
Due after one year	5,202	4,918	49,089
Total	¥ 5,731	¥ 5,418	$ 54,079

[For Lessor]

(1) Operating Leases (Non-cancelable)

The scheduled maturities of future lease rental payments under such operating lease contracts at 31st March 2007 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Due within one year	¥ 3,547	¥ 4,357	$ 43,488
Due after one year	37,426	42,574	424,933
Total	¥ 40,973	¥ 46,931	$ 468,421

13. Contingent Liabilities

Contingent Liabilities were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2008	2008
Loans borrowed by:		
Employees for housing	¥ 1,498	$ 14,954
Others	11	112
	¥ 1,509	$ 15,066
Debt Assumption		
Bonds due April 2012 (Series No. 18)	¥ 20,000	$ 199,621

14. Segment Information

The Companies primarily engage in transportation, merchandise sales, real estate, leisure and other services.

Major corporate assets not attributable to industry segments, which are included in the "Elimination or Corporate" column in the information provided below, are "Cash and bank deposits", "Short-term investments" and "Investments in securities" held by the Company, plus other assets held in its administration department. Such assets amounted to ¥110,635 million at 31st March 2006, ¥101,570 million at 31st March 2007 and ¥102,012 million ($1,018,188 thousand) at 31st March 2008.

Geographic segment information by location is not shown since the Company has no overseas consolidated subsidiaries. Information for overseas sales is not shown as it is immaterial.

Information by industry segments as of 31st March 2006, 2007 and 2008 and for the years then ended is summarized as follows:

	Millions of Yen							
	Transportation	Merchandise Sales	Real Estate	Leisure	Other	Sub Total	Elimination or Corporate	Consolidated
2006:								
Operating revenues:								
Customers	¥ 125,771	¥ 186,067	¥ 22,400	¥ 79,841	¥ 24,175	¥ 438,254	¥ —	¥ 438,254
Intersegment	2,749	2,630	1,923	4,935	27,602	39,839	(39,839)	—
Total	128,520	188,697	24,323	84,776	51,777	478,093	(39,839)	438,254
Operating costs and expenses	107,623	183,083	15,850	81,294	49,731	437,581	(39,264)	398,317
Operating income	¥ 20,897	¥ 5,614	¥ 8,473	¥ 3,482	¥ 2,046	¥ 40,512	¥ (575)	¥ 39,937
Assets (at year-end)	¥ 257,984	¥ 81,546	¥ 101,895	¥ 90,111	¥ 79,131	¥ 610,667	¥ 20,034	¥ 630,701
Depreciation	15,357	3,768	4,335	4,323	462	28,245	(61)	28,184
Impairment loss	—	126	1	2,571	—	2,698	—	2,698
Capital expenditure	20,906	3,703	4,251	8,720	378	37,958	(103)	37,855

	Millions of Yen							
	Transportation	Merchandise Sales	Real Estate	Leisure	Other	Sub Total	Elimination or Corporate	Consolidated
2007:								
Operating revenues:								
Customers	¥ 127,086	¥ 185,713	¥ 25,235	¥ 68,096	¥ 24,068	¥ 430,198	¥ —	¥ 430,198
Intersegment	3,011	2,528	1,966	5,623	33,866	46,994	(46,994)	—
Total	130,097	188,241	27,201	73,719	57,934	477,192	(46,994)	430,198
Operating costs and expenses	110,337	182,233	17,510	69,123	54,676	433,879	(45,979)	387,900
Operating income	¥ 19,760	¥ 6,008	¥ 9,691	¥ 4,596	¥ 3,258	¥ 43,313	¥ (1,015)	¥ 42,298
Assets (at year-end)	¥ 283,293	¥ 83,820	¥ 105,170	¥ 90,521	¥ 84,889	¥ 647,693	¥ 468	¥ 648,161
Depreciation	17,154	3,750	4,103	3,719	382	29,108	(16)	29,092
Impairment loss	225	380	245	9	178	1,037	—	1,037
Capital expenditure	33,662	5,760	6,214	1,899	1,343	48,878	(849)	48,029

Prior to the year ended 31st March 2007, the Company had separately reported some operating income and expenses related to Leisure segment (travel agency business).

From the year ended 31st March 2007, the Company has changed to a net reporting method by posting an amount arrived at by netting the income and expenses.

As a result, operating revenues and operating costs of Leisure segment decreased by ¥14,216 million ($120,424 thousand) in comparison with conventional method.

	Transportation	Merchandise Sales	Real Estate	Leisure	Other	Sub Total	Elimination or Corporate	Consolidated
	Millions of Yen							
2008:								
Operating revenues:								
Customers	¥ 129,334	¥ 187,439	¥ 21,663	¥ 68,415	¥ 22,339	¥ 429,190	¥ —	¥ 429,190
Intersegment	3,119	2,702	2,082	5,421	33,113	46,437	(46,437)	—
Total	132,453	190,141	23,745	73,836	55,452	475,627	(46,437)	429,190
Operating costs and expenses	112,940	183,096	14,731	69,185	52,761	432,713	(45,464)	387,249
Operating income	¥ 19,513	¥ 7,045	¥ 9,014	¥ 4,651	¥ 2,691	¥ 42,914	¥ (973)	¥ 41,941
Assets (at year-end)	¥ 320,682	¥ 83,593	¥ 102,242	¥ 92,698	¥ 77,298	¥ 676,513	¥ (16,351)	¥ 660,162
Depreciation	18,272	3,798	4,293	3,683	1,115	31,161	(77)	31,084
Impairment loss	19	101	3,959	147	0	4,226	—	4,226
Capital expenditure	50,021	3,402	7,134	4,969	1,031	66,557	(822)	65,735

	Transportation	Merchandise Sales	Real Estate	Leisure	Other	Sub Total	Elimination or Corporate	Consolidated
	Thousands of U.S. Dollars							
2008:								
Operating revenues:								
Customers	$ 1,290,892	$ 1,870,827	$ 216,218	$ 682,857	$ 222,968	$ 4,283,762	$ —	$ 4,283,762
Intersegment	31,128	26,981	20,783	54,100	330,499	463,491	(463,491)	—
Total	1,322,020	1,897,808	237,001	736,957	553,467	4,747,253	(463,491)	4,283,762
Operating costs and expenses	1,127,261	1,827,492	147,037	690,535	526,604	4,318,929	(453,783)	3,865,146
Operating income	$ 194,759	$ 70,316	$ 89,964	$ 46,422	$ 26,863	$ 428,324	$ (9,708)	$ 418,616
Assets (at year-end)	$ 3,200,745	$ 834,342	$ 1,020,483	$ 925,224	$ 771,510	$ 6,752,304	$ (163,205)	$ 6,589,099
Depreciation	182,376	37,910	42,849	36,757	11,129	311,021	(770)	310,251
Impairment loss	189	1,009	39,507	1,472	4	42,181	—	42,181
Capital expenditure	499,252	33,959	71,202	49,599	10,295	664,307	(8,204)	656,103

As described in Note 2-19, the Company and its consolidated subsidiaries have changed their method of accounting for depreciation of property, plant and equipment acquired on or after 1st April 2007. As a result, operating costs in the Transportation segment increased by ¥465 million ($4,640 thousand), the Merchandise Sales segment increased by ¥48 million ($480 thousand), the Real Estate segment increased by ¥89 million ($887 thousand), the Leisure segment increased by ¥47 million ($475 thousand), the Other segment increased by ¥14 million ($136 thousand), and operating income decreased by the same amounts for the year ended 31st March 2008 from the corresponding amounts which would have been recorded under the method applied in the previous year.

15. Subsequent Events Information

On 13th May 2008, the company acquired 6 million shares of its own common stock at a cost of ¥3,480 million ($34,734 thousand) in accordance with a resolution approved at a meeting of the Board of Directors held on 25th April 2008.

Independent Auditors' Report

Keio Corporation and its consolidated subsidiaries

KPMG

Independent Auditors' Report

To the Board of Directors of
Keio Corporation

We have audited the accompanying consolidated balance sheet of Keio Corporation and consolidated subsidiaries as of March 31, 2007 and 2008 , and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits. The consolidated satements of income and retained earnings and cash flows of Keio Corporation and consolidated subsidiaries for the year ended March 31 2006, were audited by other auditors whose report dated June 29, 2006, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Keio Corporation and consolidated subsidiaries as of March 31, 2007 and 2008, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 27, 2008

Board of Directors and Auditors

(As of 27th June, 2008)

President
Kan Kato

Senior Managing Director
Ryota Shimomura

Managing Directors

Kenkichi Matsuki
Shigeo Tanaka
Tadashi Nagata

Directors

Norifumi Miyachi
Toshiaki Kanou
Noriaki Kawasugi
Hiroshi Hayasaki
Mitsuhiro Ishibashi
Shuichi Shimakura
Masahiro Naito
Shizuo Hayashi
Yasuo Gomi
Yasuhiro Shimura
Toshio Yamamoto
Yasushi Suzuki
Satoru Haruyama

Corporate Auditors

Toyoaki Suzuki
Norio Kuroiwa
Shinsuke Kume
Mitsuharu Suzuki

Investor Information

Corporate Data (As of 31st March, 2008)

Head office : 9-1, Sekido 1-chome, Tama, Tokyo 206-8502, Japan
Phone : 042-337-3106
http://www.keio.co.jp/
Established : 1st June, 1948 (Formerly Keio Denki Kido Co., Ltd., established 21st September, 1910)
Paid-in Capital : ¥59,024 million
Authorized Shares : 1,580,230,000 shares
Issued Shares : 642,754,152 shares
Number of Shareholders : 40,019
Number of Employees : 2,301
Stock Exchange Listing : Tokyo Stock Exchange
Transfer Agent : The Sumitomo Trust and Banking Company, Limited.
Stock Transfer Agency Division
1-10, Nikko-cho, Fuchu, Tokyo 183-8701, Japan
Phone : 0120-176-417

Principal Shareholders (As of 31st March, 2008)

Name	Number of Shares Held (Thousand)	% of Total Shares Issued
Nippon Life Insurance Company	44,948	6.99
The Dai-ichi Mutual Life Insurance Company	31,750	4.94
Taiyo Life Insurance Company	29,310	4.56
Japan Trustee Services Bank, Ltd. (Trust Account)	22,467	3.50
The Master Trust Bank of Japan, Ltd. (Trust Account)	21,984	3.42

KEIO CORPORATION

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