# ANNUAL REPORT 2000

Year ended 31st March, 2000

KEIO

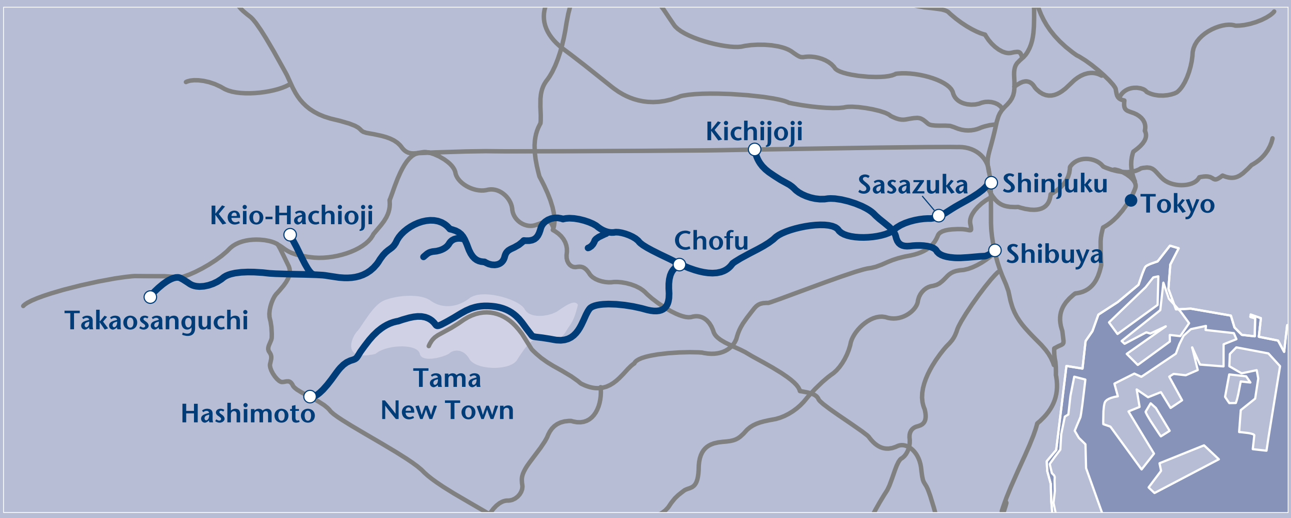
KEIO ELECTRIC RAILWAY CO., LTD.

# 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.

Centered around Keio Electric Railway, the Keio Group comprises 33 companies engaged in transportation, retailing, leisure services, and construction and real estate. 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.

As we enter the 21st century, 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.

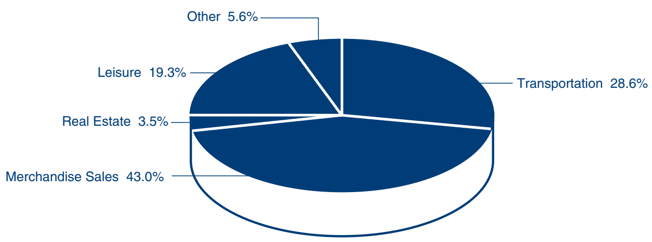



# CONTENTS

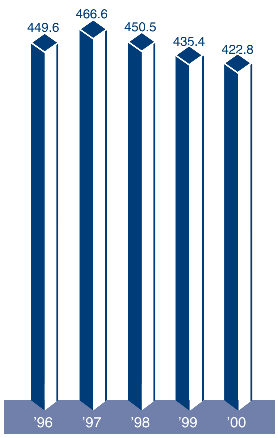
# CONSOLIDATED FINANCIAL HIGHLIGHTS

| Years ended 31st March | Millions of Yen 1998 | 1999 | 2000 | Thousands of U.S. Dollars 2000 |
|---|---|---|---|---|
| **For the year:** | | | | |
| Operating revenues | ¥450,480 | ¥435,362 | **¥422,828** | **$3,983,306** |
| Operating income | 21,094 | 21,749 | **24,676** | **232,463** |
| Net income | 6,652 | 6,777 | **6,485** | **61,093** |
| **Per share data (in yen and U.S. dollars):** | | | | |
| Net income—basic | ¥ 10.04 | ¥ 10.23 | **¥ 9.87** | **$ 0.093** |
| Net income—diluted | 10.03 | 10.22 | **9.86** | **0.093** |
| Cash dividends | 6.50 | 5.50 | **5.50** | **0.052** |
| **At year-end:** | | | | |
| Total assets | ¥583,903 | ¥585,205 | **¥562,015** | **$5,294,536** |
| Total shareholders' equity | 149,693 | 155,121 | **151,381** | **1,426,105** |

Note: 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 ¥106.15 to U.S.$1.

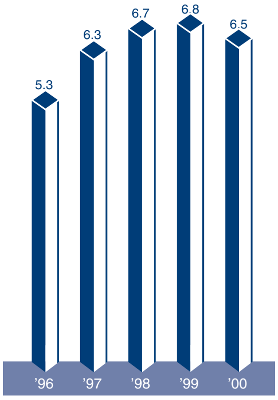



Operating Revenues by Sector



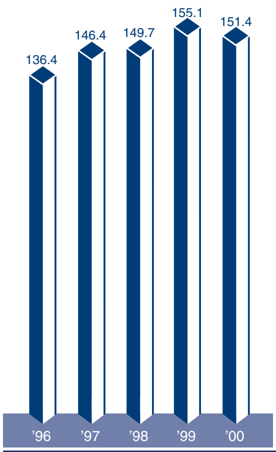

Operating Revenues

¥ Billions




Net Income

¥ Billions




Shareholders' Equity

¥ Billions

# TO OUR SHAREHOLDERS

Chairman
*Hiroichi Nishiyama*

*The Keio Group strives to use its collective strength to support the prosperous development of communities along the areas served by the Keio Line.*

### Operating Environment and Financial Performance: ¥6,485 Million in Consolidated Net Income Posted, and Financial Structure Reinforced

During fiscal 1999, ended 31st March, 2000, the Japanese economy showed signs of gradual recovery, supported by the government's economic policies. Nevertheless, restrained consumer spending and a low level of private-sector capital investment were among the negative factors behind the economy's failure to escape from the prolonged, challenging situation.

The Keio Group—and its core company, Keio Electric Railway Co., Ltd.—sought to perform steadily and efficiently while striving to improve profitability. The Company also took a number of steps during the year to enhance its financial structure. It amortized the full amount of past service liability of its pension plan, in line with the new accounting system resulting from a new retirement benefit plan that would be effective in the next fiscal year. In addition, it recorded a revaluated loss on land sales in advance, to cope with a planned introduction of the current value accounting method. Despite these adverse factors, the Company achieved record-high net income of ¥5,802 million, while consolidated net income totaled ¥6,485 million, reflecting steady management of each company in the Keio Group.

In view of the Company's healthy results, the cash dividend applicable to the year was maintained at ¥5.50 per share, comprising an interim dividend of ¥2.50 per share and a year-end dividend of ¥3.00 per share, with the year-end dividend consisting of an ordinary dividend of ¥2.50 per share and a special dividend of ¥0.5 per share. In the years ahead, the Company intends to maintain the full-year cash dividend of ¥5.50 per share or provide an even higher return to shareholders (to the extent that earnings allow), while securing a level of retained earnings necessary to develop future business and reinforce the management structure in order to cope with changes in the operating environment.

Concerning cash flow, the Company will continue to act to benefit shareholders most effectively over the long term, by means such as actively investing in its business to develop projects and reducing interest-bearing debt. To raise its net income per share, from November 1999 to April 2000 the Company repurchased and retired 19 million shares of its stock at a cost of ¥7,072 million.

### Supporting the Prosperous Development of Regional Communities

The Keio Group provides a diverse range of integrated life-related services to support the comfortable lives of customers, focusing on areas served by the Keio Line.

The basic policy of the Group's management is to supply high-quality goods and advanced services, gaining customers' confidence by providing convenience and comfort in all aspects of life along the Keio Line. In accordance with this policy, the Group, drawing on the consolidated strength of its Group companies, seeks to facilitate the prosperous development of the areas served by the Keio Line by proceeding with development plans for regional communities and their inhabitants. The Keio "brand"—loved and trusted by the local citizens—is the Group's vital asset, and it is essential to improve the brand even further and fully meet customers' expectations. To achieve this, the Group intends to actively pursue its business practices based on serving the regional communities, providing

President

*Masayuki Saigusa*

broad-based services to the areas along the Keio Line, particularly the areas around stations.

Amid the rapidly changing operating environment, we must attract customers and respond quickly to market trends in order to survive. Accordingly, the Group is working all-out to enhance its operating efficiency and maximize the effective use of Group resources. During the fiscal year under review, for example, the Group liquidated a company whose operations were unprofitable. Going forward, we will continue our thoroughgoing review of Group business and raise the effectiveness of administrative departments, while seizing opportunities to develop new business. Each company of the Group will contribute to raising the overall strength of the Keio Group and consolidated profitability, from both a medium- and long-term point of view.

## Aiming to Become a Corporate Group That Serves Society

The Keio Group has pursued a range of activities, guided by its slogan "Living together with regional communities." To take countermeasures against environmental problems—a major issue for management—Keio Electric Railway has achieved the introduction of energy-efficient railway cars, recycling of used tickets, and measures such as the "idling stop" in its bus operations. In addition, in January 2000 the Company initiated Japan's first recycling project, involving the production of station benches from used commutation tickets. Each company in the Group takes an active stance in addressing environmental problems, and twice a year—in the spring and fall—employees of the Keio Group join together in the "Keio Clean Campaign," working with regional residents to clean up recreational areas in the Tokyo area such as Mt. Takao and the Tama River. The Group will continue to build an organizational structure that can handle potential problems effectively, as a corporate entity with a strong interest in environmental management issues.

In the years ahead, as Japan copes with the aging of its population, we intend to do our part as a corporate group that serves society and protects the well-being of all people concerned. As part of its contribution, the Group has moved forward with the introduction of barrier-free stations and railway cars and buses, as well as actively performed modification of its facilities, including the Keio Department Store and the Keio Plaza Hotel. In addition to such improvements of its "hardware," the Keio Group has also intensified enhancement of its "software" by providing refined, customer-conscious services.

As a vital member of the regional communities it serves, the Group will continue to work wholeheartedly to ensure that all its services win the full satisfaction of customers.

We ask for your continued support of our endeavors.

29th June, 2000

西山廣一

Hiroichi Nishiyama
Chairman

三枝正幸

Masayuki Saigusa
President

### Basic Concept of the Keio Group

**Keio Electric Railway Co., Ltd.**

Keio Electric Railway, the parent company, builds hotels, shopping centers and office buildings, renting them to other members of the Keio Group.

The Company's business bases are conveniently located.

**The Keio Group companies aim to grow together with the local communities they serve.**

Rental income facilitates a stable earnings structure.

**TRANSPORTATION GROUP**

- Keio Electric Railway Co., Ltd.
- Keio Bus Co., Ltd.
- Nishi Tokyo Bus Co., Ltd.
- Tama Bus Co., Ltd.
- Keio Jidousha Co., Ltd.
- Keio Unyu Co., Ltd.
- Mitake Tozan Tetsudou Co., Ltd.

**MERCHANDISE SALES GROUP**

- Keio Department Store Co., Ltd.
- Keio Store Co., Ltd.
- Keio ĀTMAN Co., Ltd.
- Keio Shoseki Hanbai Co., Ltd.
- Keio Shokuhin Co., Ltd.
- Keio Green Service Co., Ltd.
- Eliet Co., Ltd.
- Keio Shouji Co., Ltd.

**LEISURE GROUP**

- Keio Plaza Hotel Co., Ltd.
- Keio Plaza Hotel Sapporo Co., Ltd.
- Keio Travel Agency Co., Ltd.
- Keio Agency, Inc.
- Keio Recreation Co., Ltd.
- Restaurant Keio Co., Ltd.
- Keio TomonoKai Co., Ltd.
- Keio Passport Club Co., Ltd.
- Keio Costume Co., Ltd.
- Shin Tokyo Elite Co., Ltd.
- Keio Banquet Service Co., Ltd.

**REAL ESTATE AND OTHER GROUP**

- Keio Kensetsu Co., Ltd.
- Keio Setsubi Service Co., Ltd.
- Keio Juuki Seibi Co., Ltd.
- Keio Realty and Development Co., Ltd.
- Keio Chika Chushajou Co., Ltd.
- Tokyo Special Coach Manufacture Co., Ltd.
- Keio Accounting Co., Ltd.

# Transportation Group

## Barrier-Free Work Such as Improvement of Station Facilities Was Pushed Forward, While Keio Electric Railway Prepared for the Common Fare Card System

In railway operations, Keio Electric Railway Co., Ltd. completed expansion work to connect passages to the Japan Railway (JR) Line and installation of new automatic ticket checkers at Bubaigawara Station. The Company also proceeded with the introduction of barrier-free facilities, including work on the No. 3 platform at Shinjuku Station, to lessen the step length between railway cars and the platform, and construction of new elevators at Meidaimae and Minami-Osawa stations.

*The energy-efficient 8000-series railway car greatly reduces electrical power consumption.*

The Company launched development work at Tobitakyu Station in line with plans to develop a vacant lot at the Chofu depot, which included a plan to construct a new Tokyo stadium. In addition, the Company prepared to introduce a common fare card system, targeted for October 2000, to enable passengers of 20 railways in the Kanto area to pass through stations freely with common cards under a stored fare system.

In its vehicle-related operations, Keio Electric Railway put into operation 48 barrier-free buses equipped with wheelchair-compatible ramps, to enable wheelchair-bound passengers to get on and off more easily—including 24 “non-step” buses featuring low boarding steps. The Company made adjustments to its bus transportation system in response to passenger demand, which included increasing express bus services for the loop line between Wakabadai Station and the Okanote-Nishi bus stop, the route between Fuchu Station and the south exit of Kokubunji Station, and the route between Keio Tama Center Station and Chuo University, as part of work leading up to the full-scale opening of the Tama Monorail Line.

In other business, the Company completed Shibuya Mark City, developed jointly by TOKYU CORPORATION and Teito Rapid Transit Authority, and launched construction of the Oiwake Building at Keio Shinjuku Station to expand its portfolio of rental assets.

*The recently opened Shibuya Mark City*

## Keio Bus Began Airport Limousine Bus Services to Haneda from Keio Tama Center Station

Keio Bus Co., Ltd. received two routes from Keio Electric Railway, including one highway route, and initiated airport limousine bus operations to Haneda Airport from Keio Tama Center Station via Seiseki-Sakuragaoka Station. The company also expanded operations by launching services along new routes, such as that between the west exit of Shinjuku Station and the loop line of the Tokyo government office quarter, the community bus line in Chofu City, that between Shibuya Station and NHK Studio Park, and that between the west exit of Shinjuku Station and Shinjuku Park Tower.

Nishi Tokyo Bus Co., Ltd. established Tama Bus Co., Ltd. in April 1999 to provide comprehensive services to regional customers as part of its convenient transportation network. In October 1999, Tama Bus began services along the routes transferred by Nishi Tokyo Bus in the Ome and Akiruno districts, and promoted passenger services by putting into operation 12 units of “non-step” buses with wheelchair-compatible ramps.

Keio Jidousha Co., Ltd. completed installation of credit-card reader devices in all vehicles and introduced a new membership system for individual members. The company also adopted use of special vehicles for senior citizens and the disabled, which have enjoyed a positive reception.


*Airport limousine bus operations were initiated to Haneda Airport from Keio Tama Center Station.*

# Merchandise Sales Group

## Keio Department Stores Were Refurbished in Shinjuku and Seiseki-Sakuragaoka

Keio Department Store Co., Ltd., emphasizing the individuality of "New-Type Popular Department Stores," performed full-scale refurbishing work at the Seiseki-Sakuragaoka Store in September 1999, in line with its strategy of keeping the store in close contact with local communities. At the Shinjuku Store, a general redecoration of the third and fourth floors was performed in February 2000 to gain new types of customers and thereby strengthen competitiveness.

Keio Store Co., Ltd. opened the Tachikawa Store in Tachikawa-Shibasakicho in July 1999, in addition to refurbishing the Mejirodai Store and the Sakuragaoka Store—a core operation—reopening the stores in November 1999 and February 2000, respectively.

Keio Shokuhin Co., Ltd. refurbished the interior of its "Bakery Shop Le Repas" and remodeled the sales floor at Keio ĀTMAN Co., Ltd., aiming to enhance its position.

*The Keio Department Store in Shinjuku underwent a redecoration in February 2000 to enhance its operations.*


*Keio Store Tachikawa was opened in July 1999.*

# Leisure Group

## Keio Hotel Asset Holding Was Merged with Keio Electric Railway

In April 2000, Keio Hotel Asset Holding Co., Ltd., the company managing the assets of Keio Plaza Hotel Co., Ltd., was merged with Keio Electric Railway to maximize the effective utilization of all hotel assets under a single organizational structure, as well as facilitate large-scale investment. The action was part of the Group's strategy to bolster its competitive strength.

*The Company's flagship Keio Plaza Hotel*

Keio Plaza Hotel is satisfying customer needs with a range of flexible measures, including the review of restaurant menus and provision of a variety of information services on the Internet.

At Keio Plaza Hotel Sapporo Co., Ltd., two floors for guestrooms were refurbished to promote services.

Restaurant Keio Co., Ltd. opened its new "Curry Shop C&C" restaurant chain of shops extending along the Keio Line, in Jimbocho in September 1999 and in Shinsen-Shinjuku in March 2000, and is working to maximize the potential of the chain.

Keio Travel Agency Co., Ltd. expanded tour operation services in fields where it enjoys particular strength, such as language training tours and sightseeing bus tours, and remodeled several shops at stations into mini-convenience stores to revitalize them.

*A newly opened outlet of the "Curry Shop C&C" restaurant chain of shops, in Tokyo's Jimbocho district*

# Real Estate and Other Group

## Keio Accounting Was Established to Enhance Efficiency in the Group's Accounting and Financing Operations

Keio Realty and Development Co., Ltd. immediately sold out 11 subdivisions marketed as part of the fourth stage of development of "Keio Four Season Town" in Hachioji-Minamino City, while initiating rentals of Keio Rafine Daitabashi, a rental apartment. The company also began publishing *Home Station,* a housing information magazine specializing in the areas serviced by the Keio Line, to attract local residents along the line.

Keio Kensetsu Co., Ltd. completed the Keio-Hatsudai 1-Chome Building and engaged in vigorous business activities, focused on the areas served by the Keio Line. In addition, the company worked to attain ISO 9001, the international standard for quality control, to improve the quality of its operations.

In June 2000, Keio Accounting Co., Ltd. was established to exercise control over all accounting departments of the Keio Group. The new company will bring heightened efficiency to the Group's accounting and financing operations.


*Subdivisions of "Keio Four Season Town," located in Hachioji-Minamino City, proved attractive to buyers and were sold out immediately.*

## OPERATIONAL RESULTS

During the fiscal year under review, the Japanese economy showed signs of gradual recovery, supported by the government's economic policies. Nevertheless, restrained consumer spending and a low level of private-sector capital investment were among the negative factors behind the economy's failure to escape from the prolonged, challenging situation.

In these severe circumstances, each segment of the Keio Group sought to perform steadily and efficiently, while striving to improve profitability. As a result, although consolidated operating revenues decreased 2.9% in comparison with the previous year, to ¥422,828 million, operating income expanded 13.5%, to ¥24,676 million, mainly because of efforts to reduce expenses.

Net income for the term fell 4.3%, to ¥6,485 million. The drop reflected measures taken to reinforce the management structure, such as lump-sum amortization of the past service liability of the pension plan by the Company and its subsidiaries, and provision for special retirement payments stemming from a system of voluntary resignation at four subsidiaries.

### Review by Business Segment

***Transportation Segment***

The railway division, the core segment of the Group, showed healthy growth, recording more passengers than the previous year, but the bus division suffered a decline in passengers. Consequently, the segment's operating revenue declined 0.5% from the previous year, to ¥123,998 million, while operating income grew 11.0%, to ¥14,955 million, due to a reduction of operating expenses.

Major capital expenditures during the fiscal year under review included renewal or repair work on station equipment, including installation of a stored fare system, in which prepaid cards can be slotted directly into automatic ticket checkers, as well as completion of improvement work on a depot at Takahatafudo for railway cars. In addition, preliminary work at Tobitakyu Station was launched in line with plans to develop a vacant lot at the Chofu depot, which included a plan to construct a new Tokyo stadium.

***Merchandise Sales Segment***

The merchandising sales segment generated operating revenue of ¥184,480 million, down 6.4%. The decrease was due partly to the liquidation of the unprofitable Keio Bussan Co., Ltd. during the term after Keio Kikaku Co., Ltd. in the previous term, and partly to continued restraint in personal spending and intensified competition, which resulted in lower sales at department stores and other retail stores. Operating income, on the other hand, jumped 98.9%, to ¥787 million, owing to reduction of operating costs, especially personnel costs, resulting from a system for voluntary resignation implemented at Keio Department Store Co., Ltd.

Major capital expenditures included interior refurbishing work at Keio Department Store to enhance profitability.

***Real Estate Segment***

This segment comprises revenues from the Keio Plaza Hotel—whose properties have been entrusted to and whose operations have been continuously managed by Keio Hotel Asset Holding Co., Ltd. since the latter half of the previous fiscal year—as well as the renewal of shopping centers. Operating revenue in the segment grew 4.5%, to ¥28,769 million, and operating income rose 13.1%, to ¥5,789 million.

Major capital expenditures included completion of Shibuya Mark City, developed jointly by TOKYU

CORPORATION and Teito Rapid Transit Authority, as well as the launch of construction of the Oiwake Building at Keio Shinjuku Station.

*Leisure Segment*

This segment was negatively affected by conditions faced by the hotel business, which saw no sign of recovery, especially in corporate demand. Sluggish business conditions also affected our ad agency service, another core division. Operating revenue declined 1.9%, to ¥85,631 million. Operating income, however, increased 120.8%, to ¥903 million, due to each division's efforts to lower operating costs, especially personnel expenses.

*Other Segment*

In the midst of continued stagnation in the operating environment, other businesses, including construction and building maintenance, faced difficult conditions, recording operating revenue of ¥38,352 million, down 10.3%. Operating income declined 11.9%, to ¥1,400 million, despite efforts to slash operating costs.

Note: Discussion of the operational results above includes intersegment revenues.

## FINANCIAL POSITION

Total assets as of 31st March, 2000 were down 4.0%, to ¥562,015 million. Reflecting primarily a decrease in cash and bank deposits, current assets dropped 11.1%, to ¥128,360 million, and fixed assets also declined 1.6%, to ¥433,655 million. Capital expenditure for the fiscal year (including intersegment expenditure of ¥55 million) totaled ¥24,390 million, of which ¥13,365 million was for the transportation segment, ¥1,324 million for merchandise sales, ¥8,739 million for real estate, ¥777 million for leisure, and ¥240 million for other businesses. Depreciation for the year amounted to ¥26,925 million.

Total liabilities declined 4.5%, to ¥409,090 million. Total current liabilities decreased 7.2%, to ¥141,856 million, due to a drop in advances received. Fixed liabilities slipped 2.3%, to ¥248,464 million, primarily reflecting repayment of a loan from Tekken Corp.

Total shareholders' equity decreased 2.4%, to ¥151,381 million, while the equity ratio rose 0.4 percentage point, to 26.9%.

## CASH FLOWS

Net cash provided by operating activities declined by ¥1,978 million, to ¥34,801 million, to control the gain in net income before income taxes and minority interest in income (loss) of consolidated subsidiaries, depreciation of non-cash items, and past service liability of the pension plan.

Net cash used in investing activities increased by ¥7,182 million, to ¥25,120 million, as a result of such investments as station equipment renewal for a stored fare system and new real estate rental assets including Shibuya Mark City on one hand and decreased proceeds from sales of short-term investments on the other.

Net cash used in financing activities amounted to ¥19,353 million, compared with net cash of ¥2,095 million provided the prior year, reflecting a repayment of interest-bearing liabilities to strengthen the financial structure and the purchase of treasury stock to improve net income per share.

Consequently, the balance of cash and cash equivalents at end of period was ¥59,789 million, down ¥9,365 million.

# Consolidated Balance Sheets

As of 31st March, 1999 and 2000

| ASSETS | Millions of Yen 1999 | Millions of Yen 2000 | Thousands of U.S. Dollars (Note 3) 2000 |
|---|---|---|---|
| **Current Assets:** | | | |
| Cash and bank deposits (Note 4) | ¥ 57,817 | ¥ 49,073 | $ 462,299 |
| Short-term investments (Note 5) | 15,582 | 15,309 | 144,220 |
| Notes and accounts receivables, trade | 25,855 | 25,151 | 236,938 |
| Allowances for doubtful accounts | (355) | (329) | (3,099) |
| Inventories | 33,866 | 32,311 | 304,390 |
| Deferred tax assets (Note 8) | 1,211 | 4,397 | 41,422 |
| Other current assets | 10,482 | 2,448 | 23,062 |
| Total current assets | 144,458 | 128,360 | 1,209,232 |
| **Investments and Advances:** | | | |
| Investments in securities (Note 5) | 32,210 | 31,886 | 300,386 |
| Investments in affiliates and unconsolidated subsidiaries | 1,529 | 1,682 | 15,846 |
| | 33,739 | 33,568 | 316,232 |
| **Property and Equipment, at Book Value** (Notes 6 and 7): | | | |
| Land | 73,346 | 74,186 | 698,879 |
| Buildings and structures | 245,515 | 249,053 | 2,346,236 |
| Machinery, rolling stock and equipment | 37,782 | 35,786 | 337,127 |
| Tools, furniture and fixtures | 7,471 | 8,950 | 84,315 |
| Construction in progress | 24,794 | 12,338 | 116,232 |
| | 388,908 | 380,313 | 3,582,789 |
| **Intangible Fixed Assets** | 1,576 | 2,634 | 24,814 |
| **Deferred Tax Assets** (Note 8) | 3,569 | 5,481 | 51,634 |
| **Other Assets** | 12,955 | 11,659 | 109,835 |
| | ¥585,205 | ¥562,015 | $5,294,536 |

The accompanying notes are an integral part of these statements.

| LIABILITIES AND SHAREHOLDERS' EQUITY | Millions of Yen 1999 | Millions of Yen 2000 | Thousands of U.S. Dollars (Note 3) 2000 |
|---|---|---|---|
| **Current Liabilities:** | | | |
| Short-term bank borrowings (Note 7) | ¥ 49,338 | **¥ 43,157** | **$ 406,566** |
| Current portion of long-term debt (Note 7) | 13,431 | **13,266** | **124,974** |
| Notes and accounts payable, trade | 22,937 | **20,608** | **194,140** |
| Accrued liabilities: | | | |
| Consumption tax payable | 2,843 | **1,784** | **16,806** |
| Income taxes payable | 5,836 | **6,463** | **60,886** |
| Reserve for employees' bonuses | 7,829 | **3,850** | **36,269** |
| Advances received | 21,721 | **11,609** | **109,364** |
| Other current liabilities | 28,994 | **41,119** | **387,368** |
| Total current liabilities | 152,929 | **141,856** | **1,336,373** |
| **Long-Term Debt** (Note 7) | 205,608 | **202,727** | **1,909,816** |
| **Reserve for Retirement Benefits** (Note 9) | 30,431 | **28,617** | **269,590** |
| **Special Reserve for Expansion of Railway Transport Capacity** (Note 10) | 21,116 | **18,770** | **176,825** |
| **Other Non-Current Liabilities** | 18,313 | **17,120** | **161,282** |
| Total liabilities | 428,397 | **409,090** | **3,853,886** |
| **Minority Shareholders' Equity in Consolidated Subsidiaries** | 1,687 | **1,544** | **14,545** |
| **Shareholders' Equity** (Note 11): | | | |
| Common stock, ¥50 par value | | | |
| Authorised 1999: 1,600,000,000 shares | | | |
| 2000: 1,581,743,000 shares | | | |
| Issued 1999: 662,524,152 shares | 59,024 | **—** | **—** |
| 2000: 644,267,152 shares | — | **59,024** | **556,043** |
| Additional paid-in capital | 48,605 | **42,125** | **396,844** |
| Retained earnings | 47,493 | **50,235** | **473,246** |
| Treasury stock, at cost | | | |
| Shares 1999: 1,364 shares | (1) | **—** | **—** |
| 2000: 7,885 shares | — | **(3)** | **(28)** |
| Total shareholders' equity | 155,121 | **151,381** | **1,426,105** |
| **Contingent Liabilities** (Note 13) | | | |
| | ¥585,205 | **¥562,015** | **$5,294,536** |

# Consolidated Statements of Income and Retained Earnings

For the years ended at 31st March, 1998, 1999 and 2000

| | Millions of Yen | | | Thousands of U.S. Dollars (Note 3) |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2000 |
| **Operating Revenues** | ¥450,480 | ¥435,362 | **¥422,828** | **$3,983,306** |
| **Operating Costs and Expenses:** | | | | |
| Operating costs | 381,936 | 367,350 | **355,123** | **3,345,483** |
| Selling, general and administrative expenses | 47,450 | 46,263 | **43,029** | **405,360** |
| | 429,386 | 413,613 | **398,152** | **3,750,843** |
| Operating income | 21,094 | 21,749 | **24,676** | **232,463** |
| **Non-Operating Income (Expenses):** | | | | |
| Interest and dividend income | 3,319 | 3,325 | **887** | **8,356** |
| Interest expense | (9,443) | (8,755) | **(7,856)** | **(74,008)** |
| Gain on sales of property and equipment | 3,545 | — | **—** | **—** |
| Loss on disposal of property and equipment | — | — | **(723)** | **(6,811)** |
| Subsidy received from Tokyo Metropolitan Government and other | 2,712 | — | **—** | **—** |
| Charges to offset against subsidy income and capital gains | (4,822) | — | **—** | **—** |
| Equity in earnings of affiliates and unconsolidated subsidiaries | 68 | 88 | **93** | **876** |
| Loss on sales of securities and other investments | (756) | (2,755) | **—** | **—** |
| Loss on sales of short-term investments | — | (1,694) | **—** | **—** |
| Provision for Special Reserve for Expansion of Railway Transport Capacity | (3,316) | — | **—** | **—** |
| Reversal of Special Reserve for Expansion of Railway Transport Capacity | — | 2,346 | **2,346** | **22,101** |
| Cumulative effect of change in accounting for retirement benefits | — | — | **(4,692)** | **(44,202)** |
| Special retirement payments | — | — | **(2,635)** | **(24,823)** |
| Provision for reserve for retirement benefits | — | (689) | **(1,036)** | **(9,760)** |
| Loss on revaluation of real estate inventories for sales | — | — | **(832)** | **(7,838)** |
| Other, net | 163 | (264) | **590** | **5,558** |
| | (8,530) | (8,398) | **(13,858)** | **(130,551)** |
| Income before income taxes and minority interest in income (loss) of consolidated subsidiaries | 12,564 | 13,351 | **10,818** | **101,912** |
| **Income Taxes** (Note 8): | | | | |
| Current | 5,837 | 8,385 | **9,573** | **90,183** |
| Deferred | — | (1,735) | **(5,098)** | **(48,026)** |
| | 5,837 | 6,650 | **4,475** | **42,157** |
| Income before minority interest in income (loss) of consolidated subsidiaries | 6,727 | 6,701 | **6,343** | **59,755** |
| **Minority Interest in Income (Loss) of Consolidated Subsidiaries** | 75 | (76) | **(142)** | **(1,338)** |
| Net income | 6,652 | 6,777 | **6,485** | **61,093** |
| **Retained Earnings:** | | | | |
| Balance at beginning of year | 38,921 | 42,068 | **47,493** | **447,414** |
| Cumulative effect of change in accounting for income taxes | — | 3,052 | **—** | **—** |
| Appropriations: | | | | |
| Cash dividends | (3,311) | (4,306) | **(3,645)** | **(34,338)** |
| Directors' bonuses | (99) | (98) | **(98)** | **(923)** |
| Exclusion of an affiliate for consolidation | (95) | — | **—** | **—** |
| Balance at end of year | ¥ 42,068 | ¥ 47,493 | **¥ 50,235** | **$ 473,246** |
| | Yen | | | U.S. Dollars (Note 3) |
| **Net Income per Share:** | | | | |
| Basic | ¥ 10.04 | ¥ 10.23 | **¥ 9.87** | **$ 0.093** |
| Diluted | 10.03 | 10.22 | **9.86** | **0.093** |
| **Weighted Average Number of Shares Outstanding** (in thousands) | 662,304 | 662,524 | **657,344** | |

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Cash Flows

For the years ended at 31st March, 1998, 1999 and 2000

| | Millions of Yen | | | Thousands of U.S. Dollars (Note 3) |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2000 |
| **Cash Flows from Operating Activities:** | | | | |
| Net income before income taxes and minority interest in income (loss) of consolidated subsidiaries | ¥12,564 | ¥13,351 | **¥10,818** | **$101,912** |
| Adjustments for: | | | | |
| Depreciation and amortization | 27,684 | 28,188 | **27,091** | **255,214** |
| (Decrease) Increase in reserve for retirement benefits | (9) | 297 | **(1,814)** | **(17,089)** |
| (Decrease) Increase in special reserve for expansion of railway transport capacity | 3,316 | (2,346) | **(2,346)** | **(22,101)** |
| Cumulative effect of change in accounting for retirement benefits | — | — | **4,692** | **44,202** |
| Loss on revaluation of real estate inventories for sales | — | — | **832** | **7,838** |
| Loss on sales of short-term investments | — | 1,694 | **—** | **—** |
| Loss on sales of securities and other investments | 756 | 2,755 | **—** | **—** |
| Loss on disposals of property and equipment | 3,045 | 1,586 | **723** | **6,811** |
| Gain on sales of property and equipment | (3,545) | — | **—** | **—** |
| Charges to offset against subsidy income and capital gains | 4,822 | — | **—** | **—** |
| Interest and dividend income | (3,319) | (3,325) | **(887)** | **(8,356)** |
| Interest expense | 9,443 | 8,755 | **7,856** | **74,008** |
| Subsidy received from Tokyo Metropolitan Government and other | (2,712) | (547) | **(549)** | **(5,172)** |
| Decrease in notes and accounts receivables | 3,626 | 528 | **704** | **6,632** |
| Decrease in inventories | 1,025 | 782 | **724** | **6,820** |
| (Decrease) Increase in notes and accounts payables | (4,893) | (2,687) | **4,713** | **44,400** |
| Other, net | (8,690) | (210) | **(1,780)** | **(16,768)** |
| Subtotal | 43,113 | 48,821 | **50,777** | **478,351** |
| Interest and dividends received | 3,319 | 3,329 | **891** | **8,394** |
| Interest paid | (9,243) | (8,747) | **(7,921)** | **(74,621)** |
| Income taxes paid | (7,935) | (6,624) | **(8,946)** | **(84,277)** |
| Net cash provided by operating activities | 29,254 | 36,779 | **34,801** | **327,847** |
| **Cash Flows from Investing Activities:** | | | | |
| Payments for purchases of property and equipment | (37,145) | (29,120) | **(26,120)** | **(246,067)** |
| Proceeds from sales of property and equipment | 3,679 | 1,318 | **499** | **4,701** |
| Payments for purchases of short-term investments | (606) | (2,376) | **(613)** | **(5,775)** |
| Proceeds from sales of short-term investments | 11,171 | 11,681 | **741** | **6,981** |
| Payments for purchases of securities and other investments | (12,108) | (2,765) | **(172)** | **(1,620)** |
| Proceeds from sales of securities and other investments | 2,249 | 2,144 | **97** | **914** |
| Subsidy received from Tokyo Metropolitan Government and other | 6,051 | 1,474 | **1,735** | **16,345** |
| Other, net | 597 | (294) | **(1,287)** | **(12,125)** |
| Net cash used in investing activities | (26,112) | (17,938) | **(25,120)** | **(236,646)** |
| **Cash Flows from Financing Activities:** | | | | |
| Decrease in short-term bank borrowings | (8,461) | (2,101) | **(4,045)** | **(38,106)** |
| Proceeds from long-term debt | 40,100 | 34,343 | **14,235** | **134,103** |
| Repayments of long-term debt | (22,715) | (25,843) | **(19,417)** | **(182,920)** |
| Purchase of treasury stock to offset additional paid-in capital | — | — | **(6,480)** | **(61,046)** |
| Cash dividends paid | (3,311) | (4,306) | **(3,645)** | **(34,338)** |
| Other, net | (1) | 2 | **(1)** | **(10)** |
| Net cash provided by (used in) financing activities | 5,612 | 2,095 | **(19,353)** | **(182,317)** |
| **Exchange Gain of Cash and Cash Equivalents** | — | — | **7** | **66** |
| **Cash and Cash Equivalents Increased Due to Consolidation of Subsidiaries** | 1,213 | — | **300** | **2,826** |
| **Net Increase in Cash and Cash Equivalents** | 9,967 | 20,936 | **(9,365)** | **(88,224)** |
| **Cash and Cash Equivalents at Beginning of Year** | 38,251 | 48,218 | **69,154** | **651,474** |
| **Cash and Cash Equivalents at End of Year** (Note 4) | ¥48,218 | ¥69,154 | **¥59,789** | **$563,250** |

The accompanying notes are an integral part of these statements.

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by KEIO ELECTRIC RAILWAY CO., LTD. and its subsidiaries (the "Companies") in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Consolidated statements of cash flows have been required to be prepared with effect for the year ended 31st March, 2000, in accordance with a new accounting standard. This new standard specifies a format which differs from that used in earlier years, under the previous accounting practice, accordingly the comparative period's consolidated statements of cash flows have been reformatted.

## 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 ELECTRIC RAILWAY CO., LTD. (the "Company") and its 25 significant subsidiaries. The Company has adopted the equity method of accounting for investments in 8 unconsolidated subsidiaries and an affiliate which have significant impact on the financial status of the Companies.

**(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 value the assets and liabilities of consolidated subsidiaries.

**(3) Cash and Cash Equivalents**

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits able to withdraw on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

**(4) Inventories**

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

**(5) Valuation of Securities**

Marketable securities included in short-term investments (current portfolio) and investments in securities (non-current portfolio), both listed on stock exchanges and those not listed are principally valued at cost, cost being determined by the moving average method.

**(6) Property and Equipment**

Property and equipment are stated at cost.

Depreciation of property and equipment is principally computed on the following depreciation methods, at rates based on the estimated useful lives of assets which are prescribed by the Japanese tax laws.

i) Buildings
Declining-balance method, with respect to buildings (excluding facilities attached to buildings) acquired after 1st April, 1998, straight-line method is applied.

ii) Structures
Declining-balance method, with respect to a portion of railway facilities and electricity supply facilities which require constant replacement and renewal, replacement cost method is applied.

iii) Other property and equipment
Declining-balance method

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

The depreciation method of buildings (excluding facilities attached to buildings) was changed from the declining-balance method to the straight line method in accordance with 1998 amendments of the Japanese tax laws. For the year ended 31st March, 1999, the effects of this change were to decrease depreciation expense by ¥367 million, and to increase both operating income and income before income taxes and minority interest in income (loss) of consolidated subsidiaries by the same amount compared with the case on which the previous method was adopted.

The Companies adopted useful lives of buildings, which were shorter than those used in previous years, pursuant to the amendments of the Japanese tax laws, effective 1st April 1998. For the year ended 31st March, 1999, the effects of this change were to increase depreciation expense by ¥723 million, and to decrease both operating income and income before income taxes and minority interest in income (loss) of consolidated subsidiaries by the same amount compared with the case on which the previous method was adopted.

**(7) Leases**

The Company and subsidiaries account for lease transactions as operations leases, if the ownership of the leased assets is not transferred to the lessees. Fees related for such lease contracts are charged to income when incurred.

**(8) Amortization**

Amortization of intangible fixed assets, other than software for internal use is computed on the straight-line method, at rates based on the estimated useful lives of assets which are prescribed by the Japanese tax laws.

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

"The Accounting Standards on Research and Development Costs" issued by the Business Accounting Deliberation Council on 13th March, 1998 has been adopted for software costs for internal use.

Effective from 1st April, 1999, pursuant to the application of transition measure of "Guidance on Research and Development Costs" issued by the Accounting Standards Committee of the Japanese Institute of Certified Public Accountants on 31st March, 1999, the disclosure of software costs for internal use changed from "Other assets" to "Intangible Fixed Assets" in the accompanying balance sheet as of 31st March, 2000.

And such costs are amortized over their estimated useful lives (principally 3 years) on a straight-line basis.

**(9) 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 the tax basis of assets and liabilities and those as reported in the financial statements.

Until the year ended 31st March, 1998, income taxes of the Companies were provided for at an amount currently payable based on the tax returns filed with the tax regulation. Cumulative effect of change in accounting for income taxes at 1st April, 1998 was charged to retained earnings.

From the year ended 31st March, 1999, enterprise taxes were included in "Income taxes," which had been included in "Operating cost" for the year ended 31st March, 1998. Enterprise taxes were ¥1,799 million for the year ended 31st March, 1999.

**(10) Accounting for Reserves**

***i. Reserve for employees' bonuses***

"Reserve for employees' bonuses" is provided for based on the service rendered from the employees for the calculation period.

In the year ended 31st March, 2000, the Company and certain subsidiaries changed to provide employees' bonuses one more time annually, in March. Account payable of such bonus amounting to ¥2,314 million ($21,799 thousand) was included in "Other current liabilities" at 31st March, 2000.

***ii. Reserve for retirement benefits***

The employees of the Companies are generally covered by a retirement pension plan and a retirement benefit plan. With respect to the retirement benefit costs covered under the retirement benefit plan, the Companies provide a reserve covering 40% of the amount which would be required if all eligible employees voluntarily retired as of the balance sheet date.

Effective 1st April, 1999, the Company changed the recognition of past service liability from periodically amortizing remained past service liability of pension plan, to providing the entire portion of unamortized past service liability at balance sheet date. Considering a change in the actuarial assumptions to be applied currently to the Company's retirement benefit pension plan, the Company changed its method of accounting for retirement benefits to reflect the current status of retirement benefit obligation based on the actuarial computations.

Cumulative effect of this change was charged to income for the year ended March 31, 2000.

The Companies also provide for the accrual lump-sum retirement benefits payable to directors and corporate auditors upon retirement in an amount equivalent to 100 per cent. of the liability.

**(11) Net Income per Share**

Basic income per share of common stock is computed based on the weighted average number of common shares outstanding during each period. Diluted net income per share is computed based on the weighted average number of shares of common stock, plus the number of shares which would have been outstanding assuming full conversion of all convertible debentures of the Company, considering related reduction in interest expenses.

**(12) Accounting for Consumption Tax**

Consumption tax is levied in Japan on the domestic purchases and sales of goods and services at a flat rate of 5 per cent., in general. The consumption tax imposed on revenues and purchases is excluded from the revenues and expenses in the accompanying consolidated statements of income and retained earnings. Such consumption tax is recorded as an asset or a liability and offset against each other, and the net balance is shown on the consolidated balance sheets.

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

## 3. United States Dollar Amounts

U.S. dollar amounts are included solely for the convenience of the readers of the financial statements. 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 ¥106.15=U.S.$1, the approximate current rate at 31st March, 2000, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

## 4. Reconciliation of Cash and Cash Equivalent of Consolidated Statements of Cash Flows and Account Balances of Consolidated Balance Sheets

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 1999 | 2000 | 2000 |
| Cash and bank deposits | ¥57,817 | ¥49,073 | $462,299 |
| Marketable securities | 15,582 | 15,309 | 144,220 |
| Time deposits with deposit term of over 3 months | (735) | (1,280) | (12,058) |
| Corporate shares, and government and corporate bonds due over 3 months | (3,510) | (3,313) | (31,211) |
| Cash and cash equivalents | ¥69,154 | ¥59,789 | $563,250 |

## 5. Marketable Securities and Investments in Securities

Marketable securities included in short-term investments and investments in securities at 31st March, 1999 and 2000 consisted of:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 1999 | 2000 | 2000 |
| Marketable securities (current portfolio): | | | |
| Listed corporate shares | ¥ 2,795 | ¥ 2,737 | $ 25,784 |
| Government and corporate bonds and unlisted corporate shares | 12,787 | 12,572 | 118,436 |
| | ¥15,582 | ¥15,309 | $144,220 |
| Investments in securities (non-current portfolio): | | | |
| Listed corporate shares | ¥19,451 | ¥19,430 | $183,043 |
| Government and corporate bonds and unlisted corporate shares | 12,759 | 12,456 | 117,343 |
| | ¥32,210 | ¥31,886 | $300,386 |

The Companies reclassified listed corporate shares at book value of ¥42 million from "non-current" portfolio into "current" portfolio, during the year ended 31st March, 1999, and reclassified listed corporate shares at book value ¥6 million ($57 thousand) from "current portfolio" into "non-current" portfolio, during the year ended 31st March, 2000, because the intention of the Company to hold such securities was changed.

Market value and unrealised gains of quoted securities included in "Marketable securities" and "Investments in securities" at 31st March, 2000 are summarised as follows:

| | 2000 | | |
|---|---|---|---|
| | Millions of Yen | | |
| | Book Value | Market Value | Unrealised Gain |
| Marketable securities: | | | |
| Listed shares | ¥ 2,737 | ¥ 4,546 | ¥ 1,809 |
| Bonds | 405 | 530 | 125 |
| Other | 185 | 186 | 1 |
| | ¥ 3,327 | ¥ 5,262 | ¥ 1,935 |
| Investments in securities: | | | |
| Listed shares | ¥19,430 | ¥67,006 | ¥47,576 |
| Bonds | 822 | 898 | 76 |
| | ¥20,252 | ¥67,904 | ¥47,652 |

| | 2000 | | |
|---|---|---|---|
| | Thousands of U.S. Dollars | | |
| | Book Value | Market Value | Unrealised Gain |
| Marketable securities: | | | |
| Listed shares | $ 25,784 | $ 42,826 | $ 17,042 |
| Bonds | 3,815 | 4,993 | 1,178 |
| Other | 1,743 | 1,752 | 9 |
| | $ 31,342 | $ 49,571 | $ 18,229 |
| Investments in securities: | | | |
| Listed shares | $183,043 | $631,239 | $448,196 |
| Bonds | 7,744 | 8,460 | 716 |
| | $190,787 | $639,699 | $448,912 |

Market value and unrealized gains of quoted securities included in "Market securities" and "Investments in securities" at 31st March, 1999 are explained in Note 5 of the Notes to the Non-Consolidated Financial Statements.

## 6. Accumulated Depreciation

Accumulated depreciation deducted from cost of property and equipment in the accompanying consolidated balance sheets amounted to ¥324,457 million and ¥324,711 million ($3,058,983 thousand) at 31st March, 1999 and 2000, respectively.

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

Short-term bank borrowings are represented by bank overdrafts. The weighted average interest rate applicable to such loans outstanding is 0.8 per cent. per annum for the year ended 31st March, 2000.

Long-term debt at 31st March, 1999 and 2000 consisted of:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 1999 | 2000 | 2000 |
| Long-term loans from banks and other financial institutions secured primarily by collateral, due from 2001 to 2019 at weighted average rate of 3.4 per cent. per annum | ¥143,423 | ¥146,211 | $1,377,400 |
| 2.0 per cent. convertible debentures due March 2003 (Series No. 15) | 1,421 | 1,421 | 13,387 |
| 3.075 per cent. Yen bonds due April 2012 (Series No. 18) | 20,000 | 20,000 | 188,413 |
| 2.7 per cent. Yen bonds due April 2007 (Series No. 19) | 10,000 | 10,000 | 94,206 |
| 2.7 per cent. Yen bonds due August 2013 (Series No. 20) | 10,000 | 10,000 | 94,206 |
| 2.175 per cent. Yen bonds due August 2008 (Series No. 21) | 10,000 | 10,000 | 94,206 |
| Long-term accounts payable | 24,195 | 18,361 | 172,972 |
| | 219,039 | 215,993 | 2,034,790 |
| Less: current portion (amount due within one year) | (13,431) | (13,266) | (124,974) |
| | ¥205,608 | ¥202,727 | $1,909,816 |

2.0 per cent. convertible debentures were issued in December 1987 at the principal amount of ¥20,000 million. At 31st March, 2000, 2,313 thousand shares of the Company's common stock would be issuable at the conversion price of ¥757.9 per share on full conversion of the convertible debentures.

The convertible debentures at the amount of ¥332 million is eliminated as the account balances among the Companies for the purposes of presenting the consolidated financial statements.

Long-term accounts payable are due March 2016, with interest bearing.

The Companies' assets pledged as collateral for long-term debt (including current portion of long-term debts) at 31st March, 2000 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| | 2000 | 2000 |
| At net book value | | |
| Property and equipment | ¥232,182 | $2,187,301 |
| Other | 1,150 | 10,834 |
| | ¥233,332 | $2,198,135 |

The aggregate annual maturities of long-term loans from banks and other financial institutions within five years after 31st March, 2000 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Year ending 31st March, | | |
| 2002 | ¥14,083 | $132,671 |
| 2003 | 13,047 | 122,911 |
| 2004 | 13,332 | 125,596 |
| 2005 | 12,800 | 120,584 |
| | ¥53,262 | $501,762 |

## 8. Income Taxes

The statutory tax rates used for calculating deferred tax assets as of 31st March, 1999 and 2000 were 42.1%, respectively.

At 31st March, 1999 and 2000, significant components of deferred tax assets were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 1999 | 2000 | 2000 |
| Deferred tax assets: | | | |
| Loss on revaluation of real estate for sale | ¥ — | ¥ 350 | $ 3,297 |
| Reserve for employees' bonuses | 428 | 485 | 4,569 |
| Enterprise tax payable | 502 | 572 | 5,388 |
| Reserve for retirement benefits | 1,999 | 5,154 | 48,554 |
| Loss carryforwards | 98 | 1,108 | 10,438 |
| Unrealized profit on sales of property and equipment | 1,288 | 1,484 | 13,980 |
| Other | 465 | 725 | 6,830 |
| Total deferred tax assets | ¥4,780 | ¥9,878 | $93,056 |

## 9. Retirement Plan

Employees (excluding directors and corporate auditors) of the Company with more than three years of service are generally entitled to lump-sum retirement payments determined by reference to the average rate of pay, length of service and conditions under which the terminations occur. The Company has adopted a funded non-contributory pension plan to cover such retirement benefits. The pension plan of the Company provides for 90 per cent. (amended on 1st January, 1997) of the retirement benefits payable to the retiring employees at the age of 57 or older with 17 years of service or more with the Company. The employees retiring at the age of 56 or younger or with service of less than 17 years are entitled to lump-sum payments to be made by the Company.

The reserve for employees' retirement benefits in the accompanying balance sheets represents 40 per cent. of the liability the Company would be required to pay (reduced by the benefits payable covered by the pension plan) if all eligible employees voluntarily terminated employment at the balance sheet dates. Such liability is not funded.

At 31st March, 2000, the accumulated balance of the fund assets aggregated ¥47,981 million ($452,011 thousand).

Certain consolidated subsidiaries (seven in 1999 and eight in 2000) have funded non-contributory pension plans in addition to unfunded retirement plan.

The Company and a certain consolidated subsidiaries also provides for accrued cost for retirement benefits to directors and corporate auditors. The retirement benefits payable upon retirement of directors and corporate auditors are determined by reference to the above Companies' internal rules.

At 31st March, 1998, 1999 and 2000, the balances of the accrued benefits to directors and corporate auditors included in "Reserve for retirement benefits" were ¥964 million, ¥1,013 million and ¥759 million ($7,150 thousand), respectively.

## 10. 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 cost of specific construction projects which are aimed at strengthening the railway transport capacity. The amount of the reserve had been provided at the rate of 3 per cent. of the passenger fares until 31st August, 1995 and was changed to 6 per cent. following the fare increase made on 1st September, 1995. As the construction projects were completed in 1998, the special reserve was started to be reversed to income over 10 years from fiscal 1999.

## 11. Shareholders' Equity

During the years ended 31st March, 1998, 1999 and 2000, the following transactions affected the "common stock" account and "additional paid-in capital" account of the Company:

| | Number of Shares of Common Stock (thousands) | Millions of Yen | |
|---|---|---|---|
| | | Common Stock | Additional Paid-in Capital |
| Balance at 31st March, 1997.. | 662,258 | ¥58,964 | ¥48,544 |
| Conversion of convertible mortgage debentures........ | 266 | 60 | 61 |
| Balance at 31st March, 1998.. | 662,524 | 59,024 | 48,605 |
| Balance at 31st March, 1999.. | 662,524 | 59,024 | 48,605 |
| Purchase of treasury stock to offset additional paid-in capital ................................ | (18,257) | — | (6,480) |
| Balance at 31st March, 2000 .. | 644,267 | ¥59,024 | ¥42,125 |

| | Thousands of U.S. Dollars | |
|---|---|---|
| | Common Stock | Additional Paid-in Capital |
| Balance at 31st March, 1999.................. | $556,043 | $457,890 |
| Purchase of treasury stock to offset additional paid-in capital........... | — | (61,046) |
| Balance at 31st March, 2000 .................... | $556,043 | $396,844 |

The Japanese Commercial Code provides that an amount equal to at least 10 per cent. of cash distribution paid out of retained earnings with respect to each fiscal year be appropriated as legal reserve, which is included retained earnings in the consolidated balance sheets, until such reserve equals 25 per cent. of stated capital. This reserve may be capitalized by resolution of the Board of Directors or used to reduce a deficit by resolution of the shareholders, but is not available for dividends.

## 12. Lease Transactions

Lease rental expenses paid by the Companies on finance lease contracts without transfer of ownership for the years ended 31st March, 1998, 1999 and 2000 were ¥723 million, ¥726 million and ¥707 million ($6,660 thousand), respectively.

The scheduled maturities of future lease rental payments under such finance lease contracts at 31st March, 2000 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Due within one year.............. | ¥ 609 | $ 5,737 |
| Due over one year ................. | 1,051 | 9,901 |
| Total ........................... | ¥1,660 | $15,638 |

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

Acquisition cost, accumulated depreciation, net book value at March 31, 1999 and 2000, and depreciation expenses for the years ended March 31 1999 and 2000, if capitalized, are summarized as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 1999 | 2000 | 2000 |
| Acquisition cost | ¥4,400 | ¥3,503 | $33,000 |
| Accumulated depreciation | 2,787 | 1,843 | 17,362 |
| Net book value | ¥1,613 | ¥1,660 | $15,638 |
| Depreciation | ¥ 726 | ¥ 707 | $ 6,660 |

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

## 13. Contingent Liabilities

At 31st March, 2000 the Companies was contingently liable under guarantees of borrowings from financial institutions as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Loans borrowed by: | | |
| Employees for housing | ¥4,823 | $45,436 |
| Other | 49 | 461 |
| | ¥4,872 | $45,897 |

Under the Company's debt assumption agreements with banks, the Company transferred its liabilities to banks and eliminated the balance of the liabilities from the balance sheet. At 31st March, 2000, the Company was contingently liable for such liabilities under the debt assumption agreement as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Long-term debt: | | |
| Due within one year | ¥ 460 | $ 4,334 |
| Due after one year | 790 | 7,442 |
| | ¥1,250 | $11,776 |

## 14. Segment Information

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

Major items of corporate assets, which are not attributable to industry segments and included in "Elimination or Corporate" column in the information provided below, are cash, short-term investments and investments in securities held by the Company and other assets held at its administration department. Such assets amounted to ¥74,382 million at 31st March, 1999 and ¥66,717 million ($628,516 thousand) at 31st March, 2000.

As a result of change in accounting for income taxes explained in Note 2 (9) of the Notes to the Consolidated Financial Statements, assets at 31st March, 1999 were increased by ¥1,070 million in "Transportation" segment, ¥1,194 million in "Merchandise Sales" segment, ¥1,272 million in "Real Estate" segment, ¥471 million in "Leisure" segment, and ¥838 million in "Other" segment.

As a result of change in depreciation method and disclosure about enterprise taxes explained in Note 2 (6) and 2 (9) of the Notes to the Consolidated Financial Statements, operating income in "Transportation" segment for the year ended 31st March, 1999 was increased by ¥1,118 million, while assets was increased by ¥81 million and depreciation cost was decreased by ¥81 million. Operating income in "Merchandise Sales" segment for the year ended 31st March, 1999 was increased by ¥113 million, while assets were decreased by ¥9 million and depreciation cost was increased by ¥9 million. Operating income in "Real Estate" segment for the year ended 31st March, 1999 was decreased by ¥79 million, while assets were decreased by ¥398 million and depreciation cost was increased by ¥398 million. Operating income in "Leisure" segment for the year ended 31st March, 1999 was increased by ¥94 million, while assets were decreased by ¥20 million and depreciation cost was increased by ¥20 million. Operating income in "Other" segment for the year ended 31st March, 1999 was increased by ¥197 million, while assets were decreased by ¥10 million and depreciation cost was increased by ¥10 million.

As a result of change in amortization method of the past service liabilities of the pension plan explained in Note 2 (10) ii of Notes to Consolidated Financial Statements, assets (deferred tax assets) in "Transportation" segment and "Real Estate" segment at 31st March, 2000 were increased by ¥1,296 million ($12,209 thousand) and ¥677 million ($6,378 thousand), respectively.

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

Information by industry segment as of 31st March, 1999 and 2000 and for the years then ended is summarized as follows:

| | Transportation | Merchandise Sales | Real Estate |
|---|---|---|---|
| **1999:** | | | |
| **Operating revenues:** | | | |
| Customers | ¥ 121,274 | ¥ 191,639 | ¥ 13,936 |
| Intersegment | 3,375 | 5,391 | 13,607 |
| Total | 124,649 | 197,030 | 27,543 |
| Operating costs and expenses | 111,172 | 196,635 | 22,422 |
| Operating income | ¥ 13,477 | ¥ 395 | ¥ 5,121 |
| Assets (at year-end) | ¥ 267,277 | ¥ 48,936 | ¥ 158,806 |
| Depreciation | 16,253 | 1,351 | 8,578 |
| Capital expenditure | 11,561 | 1,004 | 7,980 |

| | Transportation | Merchandise Sales | Real Estate |
|---|---|---|---|
| **2000:** | | | |
| **Operating revenues:** | | | |
| Customers | **¥ 120,948** | **¥ 181,819** | **¥ 14,769** |
| Intersegment | **3,050** | **2,661** | **14,000** |
| Total | **123,998** | **184,480** | **28,769** |
| Operating costs and expenses | **109,043** | **183,693** | **22,980** |
| Operating income | **¥ 14,955** | **¥ 787** | **¥ 5,789** |
| Assets (at year-end) | **¥ 254,430** | **¥ 45,905** | **¥ 158,692** |
| Depreciation | **15,650** | **1,427** | **8,642** |
| Capital expenditure | **13,365** | **1,324** | **8,739** |

| | Transportation | Merchandise Sales | Real Estate |
|---|---|---|---|
| **2000:** | | | |
| **Operating revenues:** | | | |
| Customers | **$1,139,406** | **$1,712,850** | **$ 139,133** |
| Intersegment | **28,733** | **25,068** | **131,889** |
| Total | **1,168,139** | **1,737,918** | **271,022** |
| Operating costs and expenses | **1,027,254** | **1,730,504** | **216,486** |
| Operating income | **$ 140,885** | **$ 7,414** | **$ 54,536** |
| Assets (at year-end) | **$2,396,891** | **$ 432,454** | **$1,494,979** |
| Depreciation | **147,433** | **13,443** | **81,413** |
| Capital expenditure | **125,906** | **12,473** | **82,327** |

Millions of Yen

| Leisure | Other | Subtotal | Elimination or Corporate | Consolidated |
|---|---|---|---|---|
| ¥ 82,804 | ¥ 25,709 | ¥ 435,362 | ¥ — | ¥ 435,362 |
| 4,476 | 17,055 | 43,904 | (43,904) | — |
| 87,280 | 42,764 | 479,266 | (43,904) | 435,362 |
| 86,871 | 41,175 | 458,275 | (44,662) | 413,613 |
| ¥ 409 | ¥ 1,589 | ¥ 20,991 | ¥ 758 | ¥ 21,749 |
| ¥ 29,259 | ¥ 26,902 | ¥ 531,180 | ¥ 54,025 | ¥ 585,205 |
| 1,403 | 207 | 27,792 | (100) | 27,692 |
| 1,708 | 235 | 22,488 | (424) | 22,064 |

Millions of Yen

| Leisure | Other | Subtotal | Elimination or Corporate | Consolidated |
|---|---|---|---|---|
| **¥ 81,549** | **¥ 23,743** | **¥ 422,828** | **¥ —** | **¥ 422,828** |
| **4,082** | **14,609** | **38,402** | **(38,402)** | **—** |
| **85,631** | **38,352** | **461,230** | **(38,402)** | **422,828** |
| **84,728** | **36,952** | **437,396** | **(39,244)** | **398,152** |
| **¥ 903** | **¥ 1,400** | **¥ 23,834** | **¥ 842** | **¥ 24,676** |
| **¥ 28,197** | **¥ 23,352** | **¥ 510,576** | **¥ 51,439** | **¥ 562,015** |
| **1,079** | **214** | **27,012** | **(87)** | **26,925** |
| **777** | **240** | **24,445** | **(55)** | **24,390** |

Thousands of U.S. Dollars

| Leisure | Other | Subtotal | Elimination or Corporate | Consolidated |
|---|---|---|---|---|
| **$768,243** | **$223,674** | **$3,983,306** | **$ —** | **$3,983,306** |
| **38,455** | **137,626** | **361,771** | **(361,771)** | **—** |
| **806,698** | **361,300** | **4,345,077** | **(361,771)** | **3,983,306** |
| **798,191** | **348,111** | **4,120,546** | **(369,703)** | **3,750,843** |
| **$ 8,507** | **$ 13,189** | **$ 224,531** | **$ 7,932** | **$ 232,463** |
| **$265,633** | **$219,991** | **$4,809,948** | **$484,588** | **$5,294,536** |
| **10,165** | **2,016** | **254,470** | **(820)** | **253,650** |
| **7,320** | **2,261** | **230,287** | **(518)** | **229,769** |

## 15. Subsequent Event

Appropriation of the Company's retained earnings applicable to the year ended 31st March, 2000 which was proposed by the Board of Directors and approved by the shareholders' meeting held on 29th June, 2000, is summarized as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Retained earnings at 31st March, 2000 | ¥13,059 | $123,024 |
| Appropriated: | | |
| Cash dividends (¥3.00 per share) | 1,933 | 18,210 |
| Transfer to legal reserve | 203 | 1,912 |
| Directors' bonuses | 95 | 895 |
| Retained earnings to be carried forward to the next year | ¥10,828 | $102,007 |

## 16. Reclassification

Certain reclassifications of previously reported amounts have been made to the consolidated balance sheets at 31st March, 1999 and the consolidated statements of income and retained earnings for the years ended 31st March, 1998 and 1999 to conform to the current year presentation. Such reclassifications have no effect on net asset and net income.

# Report of Independent Certified Public Accountants

**To: The Board of Directors**
**KEIO ELECTRIC RAILWAY CO., LTD.**

We have audited the accompanying consolidated balance sheets of KEIO ELECTRIC RAILWAY CO., LTD. and its subsidiaries as of 31st March, 1999 and 2000, and the related consolidated statements of income and retained earnings and cash flows for each of the three years in the period ended 31st March, 2000, all expressed in Japanese Yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of KEIO ELECTRIC RAILWAY CO., LTD. and its subsidiaries as of 31st March, 1999 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended 31st March, 2000, in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis, except for the change made as of 1st April, 1999, with which we concur, in the accounting for retirement benefits as described in Note 2 (10) to the accompanying consolidated financial statements.

As described in Note 2, effective for the year ended 31st March, 2000, KEIO ELECTRIC RAILWAY CO., LTD. and its subsidiaries have adopted new Japanese accounting standards for preparation of consolidated financial statements and research and development costs.

The amounts expressed in U.S. dollars, which provided solely for the convenience of the readers, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation

Tokyo, Japan
29th June, 2000

# Non-Consolidated Balance Sheets

As of 31st March, 1999 and 2000

| ASSETS | Millions of Yen 1999 | Millions of Yen 2000 | Thousands of U.S. Dollars (Note 3) 2000 |
|---|---|---|---|
| **Current Assets:** | | | |
| Cash | ¥ 6,949 | **¥ 10,355** | **$ 97,551** |
| Time deposits | 24,800 | **13,900** | **130,947** |
| Marketable securities (Note 5) | 12,062 | **11,458** | **107,941** |
| Accounts receivable: | | | |
| Passenger fares | 1,375 | **1,634** | **15,393** |
| Other | 1,652 | **3,286** | **30,956** |
| Allowance for doubtful accounts | (53) | **(55)** | **(518)** |
| Real estate inventories for sales (Note 4) | 19,545 | **18,576** | **174,998** |
| Supplies | 419 | **450** | **4,239** |
| Deferred tax assets (Note 7) | — | **2,898** | **27,301** |
| Other current assets | 11,966 | **1,581** | **14,894** |
| Total current assets | 78,715 | **64,083** | **603,702** |
| **Investments and Advances:** | | | |
| Investments in securities (Note 5) | 30,232 | **30,232** | **284,805** |
| Investments in subsidiaries and affiliates | 9,486 | **9,534** | **89,816** |
| Other | 6,156 | **8,955** | **84,362** |
| | 45,874 | **48,721** | **458,983** |
| **Property and Equipment** (Note 6): | | | |
| Buildings | 232,275 | **248,251** | **2,338,681** |
| Structures | 162,909 | **164,166** | **1,546,547** |
| Trains, buses and cars | 95,770 | **95,940** | **903,815** |
| Machinery and equipment | 22,510 | **23,942** | **225,549** |
| Tools, furniture and fixtures | 15,269 | **16,734** | **157,645** |
| | 528,733 | **549,033** | **5,172,237** |
| Less: Accumulated depreciation | (274,379) | **(290,556)** | **(2,737,221)** |
| | 254,354 | **258,477** | **2,435,016** |
| Land | 59,809 | **60,826** | **573,019** |
| Construction in progress | 24,934 | **12,335** | **116,204** |
| | 339,097 | **331,638** | **3,124,239** |
| **Intangible Fixed Assets** | 1,256 | **1,859** | **17,513** |
| **Deferred Tax Assets** (Note 7) | — | **1,560** | **14,696** |
| | ¥464,942 | **¥447,861** | **$4,219,133** |

The accompanying notes are an integral part of these statements.

| LIABILITIES AND SHAREHOLDERS' EQUITY | Millions of Yen 1999 | Millions of Yen 2000 | Thousands of U.S. Dollars (Note 3) 2000 |
|---|---|---|---|
| **Current Liabilities:** | | | |
| Short-term bank borrowings | ¥ 30,909 | **¥ 27,369** | **$ 257,833** |
| Current portion of long-term debt | 12,443 | **12,255** | **115,450** |
| Accounts payable | 7,645 | **16,861** | **158,841** |
| Accrued expenses | 2,057 | **1,974** | **18,596** |
| Consumption tax payable | 1,485 | **491** | **4,626** |
| Income taxes payable | 3,744 | **4,763** | **44,871** |
| Reserve for employees' bonuses | 2,923 | **629** | **5,926** |
| Deferred passenger fares | 2,981 | **2,860** | **26,943** |
| Unsettled passenger fares | 3,323 | **3,355** | **31,606** |
| Advances received | 13,540 | **4,246** | **40,000** |
| Employees' saving deposits (Note 8) | 3,898 | **3,723** | **35,073** |
| Other current liabilities | 1,561 | **2,759** | **25,991** |
| Total current liabilities | 86,509 | **81,285** | **765,756** |
| **Long-Term Debt** | 201,811 | **199,428** | **1,878,737** |
| **Guarantee Deposits Received** (Note 9) | 15,124 | **11,171** | **105,238** |
| **Reserve for Retirement Benefits** (Note 10) | 15,998 | **15,690** | **147,810** |
| **Special Reserve for Expansion of Railway Transport Capacity** | 21,116 | **18,769** | **176,816** |
| Total liabilities | 340,558 | **326,343** | **3,074,357** |
| **Shareholders' Equity:** | | | |
| Common stock, ¥50 par value | | | |
| Authorised 1999: 1,600,000,000 shares | | | |
| 2000: 1,581,743,000 shares | | | |
| Issued 1999: 662,524,152 shares | 59,024 | **—** | **—** |
| 2000: 644,267,152 shares | — | **59,024** | **556,043** |
| Additional paid-in capital | 48,605 | **42,125** | **396,844** |
| Legal reserve | 6,935 | **7,310** | **68,865** |
| Retained earnings | 9,820 | **13,059** | **123,024** |
| Total shareholders' equity | 124,384 | **121,518** | **1,144,776** |
| **Contingent Liabilities** (Note 12) | | | |
| | ¥464,942 | **¥447,861** | **$4,219,133** |

# Non-Consolidated Statements of Income and Retained Earnings

For the years ended at 31st March, 1998, 1999 and 2000

| | Millions of Yen | | | Thousands of U.S. Dollars (Note 3) |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2000 |
| **Operating Revenues:** | | | | |
| Railways | ¥ 78,370 | ¥ 74,848 | ¥ 75,457 | $ 710,853 |
| Bus services | 19,630 | 18,248 | 17,755 | 167,263 |
| Real estate activities | 22,876 | 22,314 | 22,311 | 210,184 |
| | 120,876 | 115,410 | 115,523 | 1,088,300 |
| **Operating Costs:** | | | | |
| Railways | 63,542 | 60,196 | 59,485 | 560,386 |
| Bus services | 21,190 | 19,789 | 19,683 | 185,426 |
| Real estate activities | 18,870 | 18,173 | 17,573 | 165,549 |
| | 103,602 | 98,158 | 96,741 | 911,361 |
| Operating income (loss): | | | | |
| Railways | 14,828 | 14,652 | 15,972 | 150,467 |
| Bus services | (1,560) | (1,541) | (1,928) | (18,163) |
| Real estate activities | 4,006 | 4,141 | 4,738 | 44,635 |
| | 17,274 | 17,252 | 18,782 | 176,939 |
| **Non-Operating Income (Expenses):** | | | | |
| Interest and dividend income | 3,302 | 3,333 | 933 | 8,789 |
| Interest expense | (8,934) | (8,334) | (7,542) | (71,050) |
| Gain on sales of property and equipment | 3,545 | — | — | — |
| Loss on disposal of property and equipment | — | — | (316) | (2,977) |
| Subsidy received from Tokyo Metropolitan Government and other | 2,712 | — | — | — |
| Charges to offset against subsidy income and capital gains | (6,257) | — | — | — |
| Loss on sales of investments in securities | (756) | (2,433) | — | — |
| Loss on sales of marketable securities | — | (1,694) | — | — |
| Write-down of investments in subsidiaries | — | (1,050) | — | — |
| Provision for Special Reserve for Expansion of Railway Transport Capacity | (3,316) | — | — | — |
| Reversal of Special Reserve for Expansion of Railway Transport Capacity | — | 2,346 | 2,346 | 22,101 |
| Cumulative effect of change in accounting for retirement benefits | — | — | (4,692) | (44,202) |
| Loss on revaluation of real estate inventories for sales | — | — | (832) | (7,838) |
| Other, net | 877 | 906 | 1,046 | 9,854 |
| | (8,827) | (6,926) | (9,057) | (85,323) |
| Income before income taxes | 8,447 | 10,326 | 9,725 | 91,616 |
| **Income Taxes** (Note 7): | | | | |
| Current | 3,760 | 5,500 | 6,830 | 64,343 |
| Deferred | — | — | (2,907) | (27,386) |
| | 3,760 | 5,500 | 3,923 | 36,957 |
| Net income | 4,687 | 4,826 | 5,802 | 54,659 |
| **Retained Earnings:** | | | | |
| Balance at beginning of year | 8,896 | 9,836 | 9,820 | 92,511 |
| Cumulative effect of change in accounting for income taxes | — | — | 1,551 | 14,611 |
| Appropriations: | | | | |
| Cash dividends | (3,311) | (4,306) | (3,644) | (34,329) |
| Transfer to legal reserve | (341) | (441) | (375) | (3,533) |
| Directors' bonuses | (95) | (95) | (95) | (895) |
| Balance at end of year | ¥ 9,836 | ¥ 9,820 | ¥ 13,059 | $ 123,024 |
| | Yen | | | U.S. Dollars (Note 3) |
| **Net Income per Share:** | | | | |
| Basic | ¥ 7.08 | ¥ 7.28 | ¥ 8.83 | $ 0.083 |
| Diluted | 7.07 | 7.28 | 8.83 | 0.083 |
| **Cash Dividends per Share** | 6.50 | 5.50 | 5.50 | 0.052 |
| **Weighted Average Number of Shares Outstanding** (in thousands) | 662,304 | 662,524 | 657,344 | |



The accompanying notes are an integral part of these statements.

## 1. Basis of Presenting the Non-Consolidated Financial Statements

The accompanying non-consolidated financial statements have been prepared based on the accounts and records maintained by KEIO ELECTRIC RAILWAY CO., LTD. (the " Company ") in accordance with the provisions set forth in the Commercial Code of Japan and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

Certain items presented in the non-consolidated financial statements in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

The non-consolidated financial statements are not intended to present the non-consolidated financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

## 2. Summary of Significant Accounting Policies

**(1) Inventories**

Inventories are stated at cost, cost being determined by the identified cost for real estate inventories for sales and by the moving-average method for supplies.

**(2) Valuation of Securities**

Marketable securities (current portfolio) and investments in securities (non-current portfolio), both listed on stock exchanges and those not listed are valued at cost, cost being determined by the moving average method.

**(3) Investments in Subsidiaries and Affiliates**

Investments in subsidiaries and affiliates are stated at cost. The equity method of accounting for investments in common shares of subsidiaries and affiliates has not been applied by the Company in the accompanying non-consolidated financial statements. Accordingly, only dividends, when received from subsidiaries and affiliates, are recognized as income of the Company.

Appropriate write-downs are recorded for investments in certain companies which have incurred substantial losses and are not expected to recover such losses in the near future.

**(4) Property and Equipment**

Property and equipment are stated at cost.

Depreciation of property and equipment is computed on the following depreciation methods, at rates based on the estimated useful lives of assets which are prescribed by the Japanese tax laws.

i) Buildings
Declining-balance method, with respect to buildings (excluding facilities attached to buildings) acquired after 1st April, 1998, straight-line method is applied.

ii) Structures
Declining-balance method, with respect to a portion of railway facilities and electricity supply facilities which require constant replacement and renewal, replacement cost method is applied.

iii) Other property and equipment
Declining-balance method

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

The depreciation method of buildings (excluding facilities attached to buildings) was changed from the declining-balance method to the straight line method in accordance with 1998 amendments of the Japanese tax laws. For the year ended 31st March, 1999, the effects of this change were to decrease depreciation expense by ¥362 million, and to increase both operating income and income before income taxes by the same amount compared with the case on which the previous method was adopted.

The Company adopts useful lives of buildings, which are shorter than those used in previous years, pursuant to the amendments of the Japanese tax laws, effective 1st April 1998. For the year ended 31st March, 1999, the effects of this change were to increase depreciation expense by ¥633 million, and to decrease both operating income and income before income taxes by the same amount compared with the case on which the previous method was adopted.

**(5) Income Taxes**

In the year ended 31st March, 2000, the Company adopted the deferred tax accounting method in accordance with amended regulation for preparation of non-consolidated financial statements. Income taxes are determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements. The cumulative effect of adopting deferred tax accounting at 1st April, 1999 was charged to retained earnings.

In the year ended 31st March, 1999, income taxes of the Company was provided for at an amount currently payable based on the tax returns filed with tax authorities.

**(6) Allowance for Doubtful Accounts**

"Allowance for doubtful accounts" is provided in an amount equivalent to the maximum deductible limit established by the Japanese corporate income tax law.

**(7) Appropriation of Retained Earnings**

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, the plan for appropriation of retained earnings (primarily for cash dividend payments) proposed by the Board of Directors is subject to approval at the annual shareholders' meeting which must be held within three months after the end of each financial year. The appropriation of retained earnings reflected in the accompanying non-consolidated financial statements represents the results of such appropriations applicable to the immediately preceding financial year. Dividends are paid to shareholders listed on the shareholders' register at the end of each financial year. As is customary practice in Japan, the payment of bonuses to directors is made out of retained earnings, instead of being charged to income for the year, which constitute a part of appropriations cited above.

The Japanese Commercial Code provides that interim cash dividends may be paid upon approval of the Board of Directors. The Company has paid such interim dividends to its shareholders on the shareholders' register as at 30th September of each year.

**(8) Net Income and Dividends per Share**

Basic income per share of common stock is computed based on the weighted average number of common shares outstanding during each period. Diluted net income per share is computed based on the weighted average number of shares of common stock, plus the number of shares which would have been outstanding assuming full conversion of all convertible debentures of the Company, considering related reduction in interest expenses. Cash dividends per share shown for each period in the non-consolidated statements of income and retained earnings represent dividends declared as applicable to the respective period.

**(9) Accounting for Government Subsidy**

The Company was given by the national and local governments' subsidies to be applied to the designated development and construction projects of public interests. Under the provisions of the Japanese tax laws, such subsidy is exempted from taxation when the subsidy is offset by charging to income under the required accounting treatments. In order to utilize such tax benefits, the Company, in accordance with the tax law requirements, does not record the subsidy as income, but as "advances received", which would be subsequently reclassified to a deduction from the construction cost when the projects are completed.

At 31st March, 2000, the cost of property and equipment was deducted by ¥56,028 million ($527,819 thousand).

**(10) Other Accounting Principles and Practices Employed by the Company**

Accounting principles and practices employed by the Company in preparing the accompanying non-consolidated financial statements which have significant effect, are explained in Note 2 of the Notes to the Consolidated Financial Statements. Therefore, the accompanying non-consolidated financial statements should be read in conjunction with such Note.

## 3. United States Dollar Amounts

U.S. dollar amounts are included solely for the convenience of the readers of the financial statements. 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 ¥106.15=U.S.$1, the approximate current rate at 31st March, 2000, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying non-consolidated financial statements.

## 4. Real Estate Inventories for Sales

Real estate inventories for sales at 31st March, 1999 and 2000 consisted of:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 1999 | 2000 | 2000 |
| Land lots located in: | | | |
| Tokyo | ¥17,474 | ¥17,014 | $160,283 |
| Kanagawa | 697 | 609 | 5,737 |
| Miyagi | 581 | 581 | 5,473 |
| Others | 787 | 372 | 3,505 |
| | 19,539 | 18,576 | 174,998 |
| Buildings | 6 | — | — |
| | ¥19,545 | ¥18,576 | $174,998 |

## 5. Marketable Securities and Investments in Securities

Marketable securities and investments in securities at 31st March, 1999 and 2000 consisted of:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 1999 | 2000 | 2000 |
| Marketable securities (current portfolio): | | | |
| Listed corporate shares | ¥ 2,789 | ¥ 2,737 | $ 25,784 |
| Government and corporate bonds and unlisted corporate shares | 9,273 | 8,721 | 82,157 |
| | ¥12,062 | ¥11,458 | $107,941 |
| Investments in securities (non-current portfolio): | | | |
| Listed corporate shares | ¥18,702 | ¥18,702 | $176,185 |
| Government and corporate bonds and unlisted corporate shares | 11,530 | 11,530 | 108,620 |
| | ¥30,232 | ¥30,232 | $284,805 |

During the year ended 31st March, 1999, the Company reclassified listed corporate shares at book value of ¥42 million from "non-current" portfolio into "current" portfolio, because the intention of the Company to hold such securities was changed.

Market value and unrealised gains of quoted securities included in "Marketable securities" and "Investments in securities" at 31st March, 1999 are summarised as follows:

| | 1999 | | |
|---|---|---|---|
| | Millions of Yen | | |
| | Book Value | Market Value | Unrealised Gain |
| Marketable securities: | | | |
| Listed shares | ¥ 2,789 | ¥ 4,729 | ¥ 1,940 |
| Bonds | 250 | 271 | 21 |
| | ¥ 3,039 | ¥ 5,000 | ¥ 1,961 |
| Investments in securities: | | | |
| Listed shares | ¥18,702 | ¥50,311 | ¥31,609 |

Market value and unrealized gains of quoted securities included in "Market securities" and "Investments in securities" at 31st March, 2000 are explained in Note 5 to the Consolidated Financial Statements.

## 6. Property and Equipment

Property and equipment at 31st March, 1999 and 2000 classified by division are summarized as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 1999 | 2000 | 2000 |
| Railways | ¥197,799 | ¥201,732 | $1,900,443 |
| Bus services | 6,420 | 6,146 | 57,899 |
| Real estate | 104,645 | 106,735 | 1,005,511 |
| Administration | 5,299 | 4,690 | 44,183 |
| Construction in progress | 24,934 | 12,335 | 116,203 |
| | ¥339,097 | ¥331,638 | $3,124,239 |

The Company's assets pledged as collateral for long-term debt (including current portion of long-term debts) at 31st March, 1999 and 2000 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 1999 | 2000 | 2000 |
| Net book value of property and equipment | | | |
| Railways | ¥198,934 | ¥202,868 | $1,911,145 |
| Real estate | 14,498 | 14,360 | 135,280 |
| | ¥213,432 | ¥217,228 | $2,046,425 |

## 7. Income Taxes

The statutory tax rate used for calculating deferred tax assets as of 31st March, 2000 was 42.1%.

At 31st March, 2000, significant components of deferred tax assets were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| | 2000 | 2000 |
| Deferred tax assets: | | |
| Loss on revaluation of real estate inventories for sales | ¥ 350 | $ 3,297 |
| Enterprise tax payable | 422 | 3,976 |
| Reserve for retirement benefits | 3,382 | 31,860 |
| Other | 304 | 2,864 |
| Total deferred tax assets | ¥4,458 | $41,997 |

## 8. Employees' Saving Deposits

Employees' saving deposits which may be withdrawn on demand with interest at the rate of 0.5 per cent. per annum, compounded annually. In order to secure repayment of these employees' saving deposits, the Company is required to maintain cash investment trust in an amount equivalent to at least 50 per cent. of the aggregate balance of deposits at 31st March of each year. The cash investment trust may not be pledged as collateral for any other debt of the Company.

## 9. Guarantee Deposits Received

Guarantee deposits received are represented by those received from lessees under lease agreements for office or shop spaces in the buildings owned by the Company. The guarantee deposits generally do not bear interest and are returnable to the lessees over a ten-year period in equal installments over a ten-year period after the commencement of the lease agreements.

## 10. Retirement Plan

See Note 2 (10) to the consolidated financial statements, with respect to the change in the accounting for retirement benefits.

At 31st March, 1998, 1999 and 2000, the balances of the accrued benefits to directors and corporate auditors included in "Reserve for retirement benefits" of the Company were ¥964 million, ¥992 million and ¥732 million ($6,896 thousand), respectively.

See Note 9 to the consolidated financial statements, with respect to the detail of retirement plan.

## 11. Lease Transactions

Lease rental expenses paid by the Company on finance lease contracts without transfer of ownership for the years ended 31st March, 1998, 1999 and 2000 were ¥165 million, ¥163 million and ¥156 million ($1,470 thousand), respectively.

The scheduled maturities of future lease rental payments under such finance lease contracts at 31st March, 2000 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Due within one year | ¥138 | $1,300 |
| Due over one year | 240 | 2,261 |
| Total | ¥378 | $3,561 |

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

Acquisition cost, accumulated depreciation, net book value at March 31, 1999 and 2000, and depreciation expenses for the years ended March 31 1999 and 2000, if capitalized, are summarized as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 1999 | 2000 | 2000 |
| Acquisition cost | ¥954 | ¥715 | $6,736 |
| Accumulated depreciation | 571 | 337 | 3,175 |
| Net book value | ¥383 | ¥378 | $3,561 |
| Depreciation | ¥163 | ¥156 | $1,470 |

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

## 12. Contingent Liabilities

At 31st March, 2000 the Company was contingently liable under guarantees of borrowings from financial institutions as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Loans borrowed by: | | |
| Employees for housing | ¥4,823 | $45,436 |
| Keio Home Loan Customers | 1 | 9 |
| | ¥4,824 | $45,445 |

Under the Company's debt assumption agreements with banks, the Company transferred its liabilities to banks and eliminated the balance of the liabilities from the balance sheets. At 31st March, 2000, the Company was contingently liable for such liabilities under the debt assumption agreement as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Long-term debt: | | |
| Due within one year | ¥ 460 | $ 4,334 |
| Due after one year | 790 | 7,442 |
| | ¥1,250 | $11,776 |

## 13. Reclassification

Certain reclassifications of previously reported amounts have been made to the non-consolidated balance sheet at 31st March, 1999 and the non-consolidated statements of income and retained earnings for the years ended 31st March, 1998 and 1999 to conform to the current year presentation. Such reclassifications have no effect on net asset and net income.

# Report of Independent Certified Public Accountants

**To: The Board of Directors**
**KEIO ELECTRIC RAILWAY CO., LTD.**

We have audited the accompanying non-consolidated balance sheets of KEIO ELECTRIC RAILWAY CO., LTD. as of 31st March, 1999 and 2000, and the related non-consolidated statements of income and retained earnings for each of the three years in the period ended 31st March, 2000, all expressed in Japanese Yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the non-consolidated financial statements referred to above present fairly the non-consolidated financial position of KEIO ELECTRIC RAILWAY CO., LTD. as of 31st March, 1999 and 2000, and the results of its operations for each of the three years in the period ended 31st March, 2000, in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis, except for the change made as of 1st April, 1999, with which we concur, in the accounting for retirement benefits as described in Note 10 to the accompanying non-consolidated financial statements.

As described in Note 2, effective for the year ended 31st March, 2000, KEIO ELECTRIC RAILWAY CO., LTD. has adopted new Japanese accounting standards for research and development costs and income taxes.

The amounts expressed in U.S. dollars, which provided solely for the convenience of the readers, have been translated on the basis set forth in Note 3 to the accompanying non-consolidated financial statements.

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation

Tokyo, Japan
29th June, 2000

## Board of Directors and Auditors

*(As of 29th June, 2000)*

***Chairman***
Hiroichi Nishiyama

***President***
Masayuki Saigusa

***Managing Directors***
Hirohisa Saigo
Yutaka Otagiri
Yoichi Miyata
Hiromasa Tsubochi

***Directors***
Koichi Suzuki
Ryota Shimomura
Etsuji Maeda
Toyoaki Suzuki
Nobuyuki Adachi
Hiroshi Hayasaki
Chikao Tsuchiya
Kan Kato
Shinichi Murayama
Hiroshi Ihara
Susumu Noritake
Kosaku Konno
Yoshio Murakami

***Corporate Auditors***
Konjiro Nakano
Toshiharu Hanafusa
Susumu Ensaka
Takao Nakagawa

## Corporate Data

*(As of 31st March, 2000)*

**Head Office:** 9-1, Sekido 1-chome, Tama, Tokyo 206-8502, Japan
Phone: 042-337-3106
http://www.keio.co.jp

**Date of Founding:** 21st September, 1910

**Paid-in Capital:** ¥59,024 million

**Authorized Shares:** 1,581,743,000 shares

**Issued Shares:** 644,267,152 shares

**Number of Shareholders Holding Shares of Unit Stock or More:** 35,780

**Number of Employees:** 3,891

**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: 042-351-2211

**Principal Shareholders:**

| Name | Number of Shares Held (thousand) | Percentage of Total Shares Issued (%) |
|---|---|---|
| Nippon Life Insurance Company | 46,083 | 7.15 |
| The Dai-ichi Mutual Insurance Company | 35,278 | 5.48 |
| Taiyo Mutual Life Insurance Company | 29,310 | 4.55 |
| The Sumitomo Trust and Banking Company, Limited | 24,241 | 3.76 |
| The Industrial Bank of Japan, Limited | 22,137 | 3.44 |
| The Mitsui Trust and Banking Company, Limited | 17,585 | 2.73 |
| The Sumitomo Mutual Life Insurance Company | 13,841 | 2.15 |
| The Bank of Tokyo-Mitsubishi, Limited | 12,700 | 1.97 |
| The Dai-Ichi Kangyo Bank, Limited | 11,147 | 1.73 |
| The Asahi Mutual Life Insurance Company | 9,623 | 1.49 |

KEIO ELECTRIC RAILWAY CO., LTD.
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