TRANSPORTATION

MERCHANDISE SALES

REAL ESTATE

LEISURE

OTHER

ANNUAL REPORT 2004

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.

Led by Keio Electric Railway Co., Ltd., the Keio Group, 40 companies in total, engages in transportation, merchandise sales, real estate, leisure services, and construction and other businesses. These businesses focus on areas served by the Keio Line, which extends from Shinjuku to Tokyo's southwestern suburbs of Hachioji and Tama. Shinjuku, a major business center in Japan, gained even more importance in 1991, when the Tokyo Metropolitan Government moved its offices there. Hachioji and Tama have seen an influx of universities and corporations in recent years, resulting in the growth of "New Town" developments in those areas.

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

CONTENTS

Cautionary Note on Forward-Looking Statements

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

FINANCIAL HIGHLIGHTS

Consolidated Data

Keio Electric Railway Co., Ltd. and Consolidated Subsidiaries

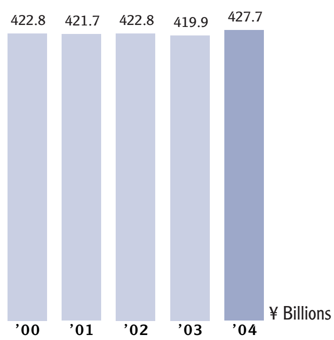
Years ended 31st March	Millions of Yen 2002	Millions of Yen 2003	Millions of Yen 2004	Thousands of U.S. Dollars 2004
For the year:				
Operating revenues	¥422,835	¥419,920	¥427,722	$4,046,949
Operating income	33,213	35,826	36,223	342,733
Net income	9,289	14,785	15,317	144,920
Per share data (in yen and U.S. dollars):				
Net income—basic	¥ 14.45	¥ 22.96	¥ 24.13	$ 0.228
Net income—diluted	14.43	22.92	—	—
Cash dividends	5.50	6.00	6.00	0.057
At year-end:				
Total assets	¥562,531	¥530,799	¥558,708	$5,286,294
Total shareholders' equity	167,064	167,724	189,749	1,795,337

Non-Consolidated Data

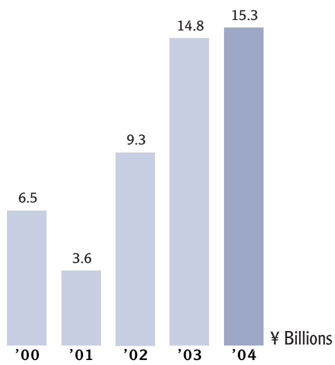
Keio Electric Railway Co., Ltd.

Years ended 31st March	Millions of Yen 2002	Millions of Yen 2003	Millions of Yen 2004	Thousands of U.S. Dollars 2004
For the year:				
Operating revenues	¥122,634	¥113,390	¥111,377	$1,053,807
Operating income	26,187	26,718	27,737	262,441
Net income	7,629	9,898	10,546	99,780
Per share data (in yen and U.S. dollars):				
Net income—basic	¥ 11.87	¥ 15.33	¥ 16.57	$ 0.157
Net income—diluted	11.86	15.31	—	—
Cash dividends	5.50	6.00	6.00	0.057
At year-end:				
Total assets	¥461,147	¥444,991	¥470,644	$4,453,057
Total shareholders' equity	138,130	134,133	150,957	1,428,303

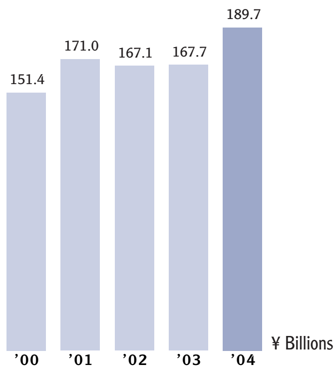
Note: The accompanying U.S. dollar amounts have been translated from Japanese yen for convenience, and as a matter of arithmetical computation only, at the rate of ¥105.69 to U.S.$1.



Consolidated Operating Revenues



Consolidated Net Income



Consolidated Shareholders' Equity

The Keio Group Aims to Enhance Corporate Value and Establish the Most Trusted Brand

Consolidated Net Income of ¥15.3 Billion, with an Annual Dividend per Share of ¥6.00

The Keio Group again achieved a record year, as a result of the continuing understanding and support of all its stakeholders.

During the fiscal year ended March 31, 2004, the Keio Group continued measures to maintain and improve its earnings capability. Faced with a challenging economic climate, the Group sought to develop stable, efficient business operations built around Keio Electric Railway Co., Ltd., the Group's core company. As a result, the Group recorded consolidated net income of ¥15.3 billion, while Keio Electric Railway Co., Ltd. posted net income of ¥10.5 billion.

The Group declared a cash dividend applicable to the year of ¥6.00 per share, consisting of an interim dividend of ¥3.00 per share and a year-end dividend of ¥3.00 per share. During the next fiscal term, and over the coming years, the Keio Group will devote its energies to achieving a stable earnings base and maintaining the annual dividend at the current level.

Seeking to Create a Group Capable of Sustainable Growth by Implementing the Keio Group's Medium-Term Business Plan

The fiscal year recently completed was the first year of the Keio Group's Medium-Term Business Plan.

Based on the Keio Group's Medium-Term Business Plan, we are aiming to create a group capable of achieving sustainable growth in the future. We will accomplish this by putting priority on business segments where we can increase consolidated operating revenues as a solid foundation for the future, continuing the Group's railway operations and promoting lifestyle-related businesses while closely monitoring the profitability of our consolidated business segments, and emphasizing indicators such as consolidated return on assets (ROA) and consolidated return on equity (ROE) that measure asset and capital efficiency. During the fiscal year under review, the Keio Group was able to achieve results that produced consolidated ROA of 6.9%, compared with a plan target of 5.8%, and a consolidated ROE of 9.2%, compared with a goal of 8.5% in its plan.

In our railway operations, we are working hard to improve safety, the absolute prerequisite for "trust," with enhancing customer service through, for instance, making station improvements such as barrier-free promotions. We are also taking steps in incidental business segments to nurture lifestyle-related businesses, with the goal of increasing asset efficiency. These include ongoing development and acquisition of superior assets held for rent or lease, and effective utilization of Company-owned locations along the Group's railway tracks, as well as new store openings under the Kitchen Court brand, our original format supermarket, and expansion of the Keio PRESSO INN brand of hotels specializing in budget accommodations to a network of 10 locations. Finally, to strengthen the Group's competitiveness, we are creating a mechanism that can demonstrate the Group's synergistic effects through the Keio Group's shared point service, which is aimed at establishing a system with one million "Keio Passport Card" members.

Kan Kato *President*

Reinforcing and Strengthening Corporate Governance to Create the Industry's "Most Trusted Brand"

To earn the trust of all its stakeholders and increase its value based on the "Keio Group Management Vision," the Keio Group considers the enhancement and strengthening of corporate governance to be a key task.

In April 2004, the Company established an Assets and Loan Management Committee and entrusted it with some decision-making functions of the Board of Directors. This has enabled the Group to execute its business flexibly based on rapid decision-making. By giving this committee the responsibility to report to the Board of Directors concerning matters to be decided by the committee and the Managing Directors Committee, the Group has strengthened the Board's supervisory functions. In addition, the Group Executive Council, composed of the Group's full-time directors and the presidents of the main companies in the Keio Group, conducts consultations and discussions on management issues for the entire Group.

Finally, to establish its compliance system the Company drafted a "Keio Group Code of Conduct" to serve as a guideline for executive and employee behavior, formed a Compliance Committee, and set up a "Keio Helpline (Business Ethics Hotline)" to provide a venue dedicated to compliance questions and issues within the Group.

In the years ahead, the Keio Group will enhance its corporate value by observing the law and conducting its business activities in a sound and fair manner, and contribute to the local communities in which it does business by providing useful products and services that will help our customers enjoy a happy, healthy life.

We look forward to continuing to receive your understanding and support.

June 2004

Kan Kato
President

Key Measures of the Keio Group's Medium-Term Business Plan

- Under the Keio Group's Medium-Term Business Plan, the members of the Keio Group will seek additional growth by emphasizing business segments where the Group can increase consolidated operating revenues as a foundation for future expansion while closely monitoring the profitability of each business segment, and by nurturing lifestyle-related businesses that build upon the Group's railway operations.
- The Group will emphasize indexes such as consolidated return on assets (ROA) and consolidated return on equity (ROE) that measure resource utilization efficiency, and work to build a Group capable of sustaining growth in future years under the severe business environment shaped by factors such as Japan's prolonged recession, the declining birthrate and the aging population.

Key measures

1. Strengthen the Group's competitive edge

- Promote large-scale improvement works, including the Chofu Tunnel and Underground Station Project, and aim at being the "top brand in trust" in the railway business by further improving safety and service levels.
- Promote other store expansions, such as Keio Store Co., Ltd. and PRESSO INN, and seek to nurture lifestyle-related businesses centered on the merchandise sales segment.
- Complete construction of the Keio Shinagawa Building and investigate acquisitions of superior lease property assets.

2. Demonstrate the Group's collective strength

- Focus on attaining one million Keio "Passport Card" members.
- Pursue ideal station formats corresponding to unique characteristics of each station, and investigate business development to utilize the railway's strong points to their best advantage.
- Provide a broadband environment along the Keio Line and expand its business area.

3. Upgrade the Group's management systems

- Strengthen support systems by segment for all Group companies, and focus on establishing Group headquarters functions.
- Focus on upgrading the Group's IT network and unifying Group management information for rapid decision-making use.
- Focus on cost reductions through increased specialization and process standardization at the accounting, personnel and information systems operations subsidiary.
- Investigate introduction of performance-based evaluation system that also considers the level of each company's contribution to the Group.

Strengthen the Financial Position

- The Keio Group is planning total investments of ¥146.0 billion within three years (fiscal 2003 to fiscal 2005). The Group also plans to limit its interest-bearing liabilities to the amount outstanding in fiscal 2002, and plans to provide for almost all of the new investments from cash flow generated in each fiscal year.
- As a result, the ratio of interest-bearing liabilities to earnings before interest, taxes, depreciation and amortization (EBITDA) decreased from 3.5 times in fiscal 2002 to 3.3 times in fiscal 2003. The Group has stated its objective to reduce the ratio to 3.2 times in fiscal 2005.

	Fiscal 2002 (Actual)	Fiscal 2003 (Actual)	Fiscal 2005 (Target)
Interest-bearing liabilities/EBITDA (Times)	3.5	3.3	3.2
Interest-bearing liabilities (¥ Billions)	219.9	209.6	220.0
Earnings before interest, taxes, depreciation and amortization (EBITDA) (¥ Billions)	63.4	63.8	68.0

Results for the Fiscal Year Ended March 31, 2004

- During fiscal 2003, the first year of the Keio Group's Medium-Term Business Plan, consolidated operating revenues were ¥427.7 billion, slightly below the plan objective of ¥429.0 billion. This reflected the influence of severe acute respiratory syndrome (SARS) on passenger levels in the Group's businesses, especially in the leisure segment, and the fact that capital investment in lifestyle-related businesses was below the initial plan level.

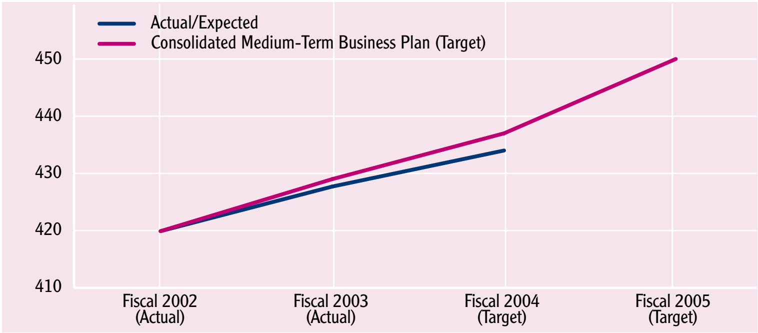
- On the other hand, consolidated net income was ¥15.3 billion, compared with the plan objective of ¥14.4 billion. Consolidated ROA and ROE both exceeded plan targets. Consolidated ROA was 6.9%, compared with a plan target of 5.8%, and consolidated ROE was 9.2%, compared with a plan target of 8.5%. Results exceeded the Group plan because the number of passengers for the railway operations and sales of real estate properties were higher than in the numbers in the initial plan.

- In fiscal 2004 as well, consolidated operating revenues are expected to fall slightly below the initial plan objective. All of the Group companies will work to achieve the plan's third-year objectives in the fiscal year ending March 31, 2005, the final fiscal year of the Medium-Term Business Plan, and demonstrate the Group's integrated strength.

*ROA=(Ordinary Income + Interest Expense) / Average Total Assets x 100
Ordinary income is operating income plus nonoperating income from interest and dividends received and other items less nonoperating expenses, such as interest.

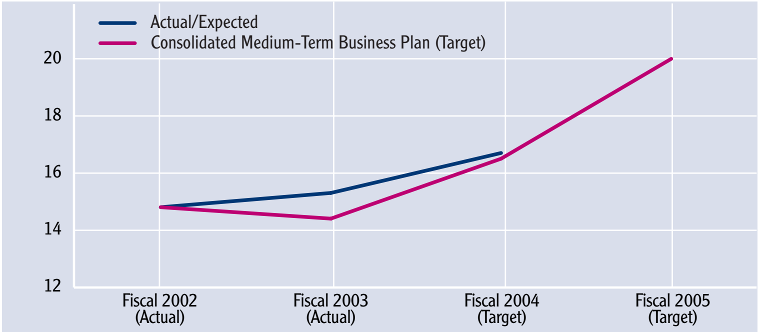
Consolidated Operating Revenues

¥ Billions



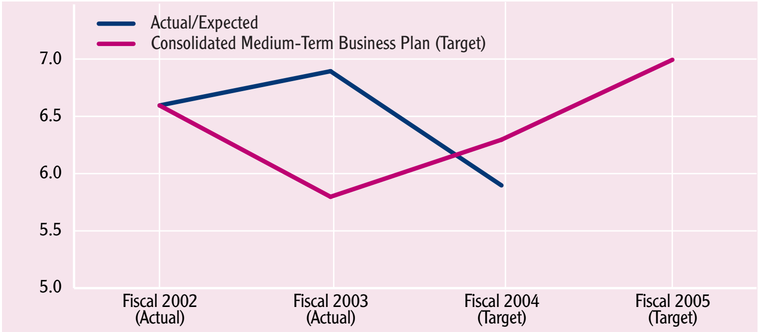
Consolidated Net Income

¥ Billions



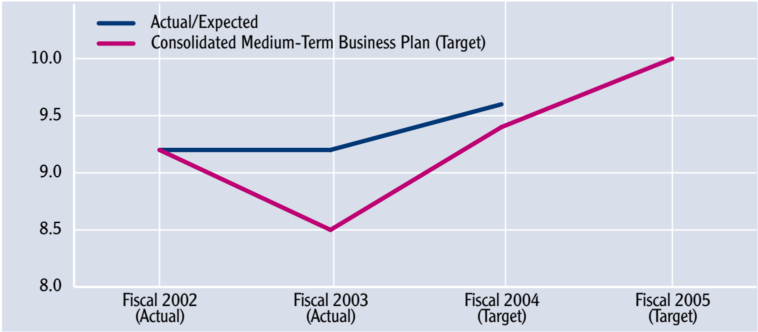
Consolidated ROA*

%



Consolidated ROE

%



THE KEIO GROUP

(As of 31st March, 2004)

TRANSPORTATION GROUP
- Keio Electric Railway Co., Ltd. (Railway)
- Keio Dentetsu Bus Co., Ltd.
- Keio Bus Higashi Co., Ltd.
- Keio Bus Chuo Co., Ltd.
- Keio Bus Minami 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 Electric Railway Co., Ltd. (Shopping Center)
- Keio Department Store Co., Ltd.
- Keio Store Co., Ltd.
- Keio Travel Agency Co., Ltd. (Sales)
- Keio ĀTMAN Co., Ltd.
- Keio Shoseki Hanbai Co., Ltd.
- Keio Shokuhin Co., Ltd.
- Keio Passport Club Co., Ltd.
- Keio Green Service Co., Ltd.
- Keio Tomonokai Co., Ltd.
- Eliet Co., Ltd.
- Keio Shouji Co., Ltd.

REAL ESTATE GROUP
- Keio Electric Railway Co., Ltd. (Development)
- Keio Realty and Development Co., Ltd.
- Keio Chika Chushajou Co., Ltd.

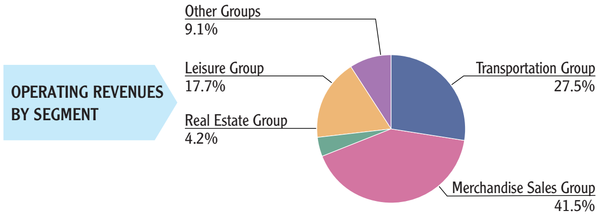
LEISURE GROUP
- Keio Plaza Hotel Co., Ltd.
- Keio Plaza Hotel Sapporo Co., Ltd.
- Keio Presso Inn Co., Ltd.
- Keio Travel Agency Co., Ltd. (Travel, Insurance)
- Keio Agency, Inc.
- Keio Recreation Co., Ltd.
- Restaurant Keio Co., Ltd.
- Keio Costume Co., Ltd.

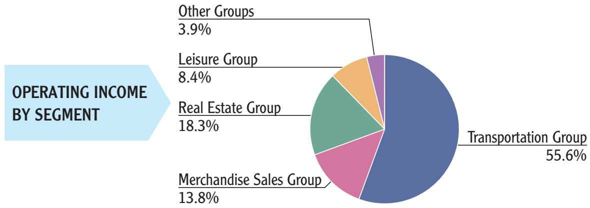
OTHER GROUPS
- Keio Electric Railway Co., Ltd. (Other)
- Keio Kensetsu Co., Ltd.
- Keio Setsubi Service Co., Ltd.
- Keio Juuki Seibi Co., Ltd.
- Tokyo Special Coach Manufacture Co., Ltd.
- Keio Network Communications Co., Ltd.
- Keio Accounting Co., Ltd.
- Keio Business Support Co., Ltd.
- Keio Information Systems Co., Ltd.
- Keio Youth-Plaza Co., Ltd.
- Shin Tokyo Elite Co., Ltd.

Note: Because of the scope of their respective operations, Keio Electric Railway Co., Ltd. and Keio Travel Agency Co., Ltd. appear in more than one business group.

Operating Revenues and Operating Income by Segment

The figures in these graphs include the elimination between segments.





The Keio Group is composed of five segments encompassing operations in transportation, merchandise sales, real estate, leisure, and other services. The Group is developing its main business centered on railway operations along 84.7 kilometers of operating routes in western Tokyo, extending from a main hub based in Shinjuku, one of the city's principal business districts. Approximately 4.66 million people live along the Group's railway lines (as of January 1, 2004), and the number of passengers carried has reached approximately 599 million passengers annually (fiscal 2003). To enrich the lives of individuals in the area along these railway lines, the Keio Group is developing a broad range of supporting business segments, including department stores and supermarkets.

The Transportation Group, which accounts for the highest percentage (55.6%) of the Keio Group's consolidated operating income, generates approximately 90% of its operating income from railway operations.

The number of passengers has increased for six consecutive fiscal years, contributing significantly to the increase in Group earnings.

Nevertheless, in light of the anticipated effects on the Transportation Group of a declining birthrate and aging population along the lines in the future, the Keio Group is working to nurture lifestyle-related business segments and promoting profitable rental assets.

Fiscal-Year Operating Results

For the fiscal year ended March 31, 2004, the Keio Group's consolidated operating revenues rose 1.9% from the previous fiscal year to ¥427,722 million. With the exception of the Leisure Group, which experienced a drop in operating revenues because of an outbreak of SARS, all of the Keio Group's business segments achieved higher operating revenues.

Operating income grew 1.1% year on year, to ¥36,223 million. Higher earnings contributed by the Transportation Group and the Real Estate Group offset the cost burden of opening new stores in the Keio Group's lifestyle-related businesses.

Although the Keio Group lowered its interest payments through a reduction of interest-bearing liabilities, the category of non-operating income (expenses) generated net expenses of ¥9,111 million, mainly reflecting an impairment loss of ¥4,957 million from application of the Accounting Standard for the Impairment of Fixed Assets beginning in the consolidated fiscal year under review.

Income before income taxes and minority interest increased 2.1% from the prior fiscal year, to ¥27,112 million, and net income rose 3.6% year on year, to ¥15,317 million.

This solid performance increased consolidated ROA to 6.9%, up 0.3 percentage point compared with the previous fiscal year. On the other hand, consolidated ROE was 9.2%, basically unchanged from the previous fiscal year, because of the increase in shareholders' equity as a result of the growth in retained earnings resulting from higher net income and an increase in unrealized gains on other securities, net of tax. The shareholders' equity ratio improved by 2.4 percentage points, to 34.0%.

TRANSPORTATION GROUP

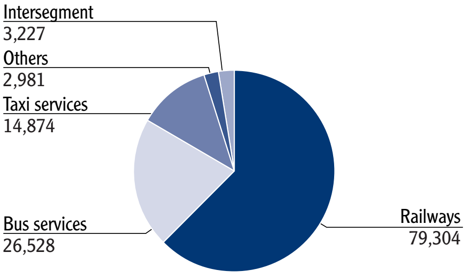
Operating revenues from railway operations grew 1.5% year on year, to ¥79,304 million. The number of passengers rose by 1.2% compared with the prior fiscal year, to 599 million passengers, boosted by factors such as ongoing residential development along the Group's railway lines including the Sagamihara Line and steady growth in the number of passengers carried from each station to central business areas such as Shinjuku Station. Passenger transportation revenue grew stably, rising 1.7% year on year, to a total of ¥76,135 million. This included commuter pass revenue of ¥32,057 million, 1.3% higher than in the previous fiscal year, and non-commuter revenue of ¥44,078 million, up 2.1% year on year.

In its bus service business, the Transportation Group increased revenues 3.2% from the prior fiscal year, to ¥26,528 million, through several measures, including reorganizing the companies in bus service business by area to create a more suitable system for passenger demand, and opening new routes.

As a whole, Transportation Group operating revenues edged upward 1.3% year on year, to ¥126,914 million. Operating income increased 2.0% from the prior fiscal year, to ¥20,160 million, despite an increase in retirement benefit expenses.

Inokashira Line

Transportation Group Operating Revenues (¥ Millions)



Promoting Improved Passenger Services, New Station Improvements and Enhanced Barrier-Free Access

In its railway operations, the Keio Electric Railway Co., Ltd. concluded construction execution agreements with the metropolis of Tokyo and the city of Chofu for the Chofu Tunnel and Underground Station Project in the vicinity of Chofu Station, one of the Company's main stations, and began site acquisition and other related activities. The Company also introduced 18 new-model cars, continued improvement works on the concourse and platform areas at each station, and as a station platform safety measure completed construction to expand the evacuation space under the station platform areas at the remaining four stations.

To enhance barrier-free access, the Company continued to install on-board electric bulletin boards and door chime devices in 92 cars on the Keio Line. The Company also added elevators at four stations, and installed a stair lift for wheelchairs at one station.

The Company also sought to improve passenger services by implementing new timetables on the Keio Line and Inokashira Line on December 1, 2003. This included shortening required commuting time during the morning rush-hour period on the Keio Line.

During the year, the Company reached an agreement with other issuers of the prepaid public transportation cards "Pass Net," "Regional Common Bus Card" ("Bus Kyotsu Card") and "Suica" to develop an integrated circuit (IC) card ticket that can be used mutually on various transportation systems beginning in fiscal 2006, and established a joint-management company for this purpose.

Improving Services That Are Closely Linked with Local Communities

The Keio Dentetsu Bus group added new routes and increased the operating frequency of buses on existing route during daytime hours. In addition, by working in conjunction with Nishi Tokyo Bus Co., Ltd. to revise timetables to match those of railways, and greatly extending the times of the last buses on many routes, the group implemented extended services during evening and late night hours to improve passenger convenience.

In its highway bus service operations, the Keio Dentetsu Bus group added three new routes and implemented existing route extensions. The group also worked to expand operating routes. This included measures to establish new routes, including airport-direct buses linking the New Tokyo International Airport with the Keio Line's main stations, and steps to develop new passenger demand through sightseeing bus tours to popular new spots made famous by video dramas featured by the Japan Broadcasting Corporation (NHK).

Finally, the bus group was awarded new contracts to provide community bus operations for the cities of Fuchu and Kokubunji, with the goal of providing services that can contribute to the local communities.

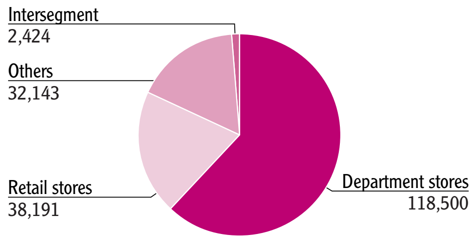
Community bus for Fuchu city

MERCHANDISE SALES GROUP

The Company greatly increased operating revenues in its department store business, owing to the contributions of activities such as a sale related to the season championship by the Hanshin Tigers professional baseball team and renovation of the food floors at both the Shinjuku and Seiseki-Sakuragaoka department stores. In its other stores business, in May 2003 the Merchandise Sales Group opened the Kitchen Court Kagurazaka Store in downtown Tokyo, the second of its new-format supermarkets, and also opened new stores and expanded floor space at existing stores in its bookselling business. As a result, operating revenues for the Merchandise Sales Group grew 3.4% from the prior fiscal-year level, to ¥191,258 million. Operating income was down 12.1% year on year, to ¥5,008 million, reflecting sales promotion expenses and the higher burden for new store opening costs.

Kitchen Court Nishi-Chofu Store

Merchandise Sales Group Operating Revenues (¥ Millions)



Renewing Existing Stores, Opening New Stores and Promoting Aggressive Business Measures

Keio Department Store Co., Ltd. substantially boosted sales, achieving 4.3% growth compared with the prior fiscal year, by holding the only sale in the Kanto region to celebrate the professional baseball league triumph by the Hanshin Tigers. The company also promoted aggressive business measures by opening a new space at the Shinjuku store on the theme of sleep, a topic of great interest recently, and by renovating the food area and cosmetics area on the first and second floors, respectively, of the Seiseki-Sakuragaoka store. In addition, the company opened a new concept women's clothing store in Ginza in cooperation with Eliet Co., Ltd., one of the subsidiary firms.

Keio Store Co., Ltd. implemented several measures aiming to increase earnings. These included development of the new-format supermarket Kitchen Court by opening a second late-night urban-style store in May 2003 and opening a third multi-format store in May 2004.

The Merchandise Sales Group pursued an aggressive business strategy that included remodeling sales floor space and opening new stores in its Keio ĀTMAN Co., Ltd.

operations, Keibundo Shoten bookselling business (an outlet of Keio Shoseki Hanbai Co., Ltd.), and Bakery Shop Le Repas outlets operated by Keio Shokuhin Co., Ltd.

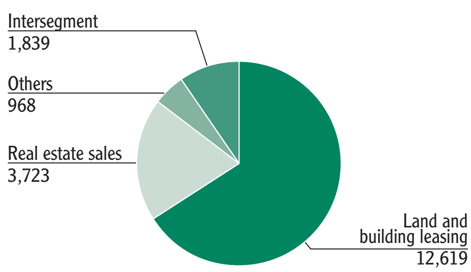
The group also greatly enhanced customer convenience by expanding the number of participating member firms for the “Keio Passport Card” (the Keio Group’s in-house card) and the “Keio Group Shared Point Service” to 28 companies. Altogether, the Group now has about 730,000 card plan members.

REAL ESTATE GROUP

In its real estate operations, the Keio Group expanded revenue by increasing the number of real estate properties sold and steadily broadening the number of rental properties under management. As a result, operating revenues climbed 12.3% year on year, to ¥19,149 million, and operating income surged 15.8% compared with the previous fiscal year, to ¥6,630 million.

Keio Shinagawa Building

Real Estate Group Operating Revenues (¥ Millions)



Developing and Acquiring High-Quality Rental Assets and Enhancing the Earning Power of Existing Properties

Approximately three years after acquiring the site, in February 2004 the Keio Electric Railway Co., Ltd. completed construction of the Keio Shinagawa Building, a large-scale rental office project. With the opening of the new Tokaido Shinkansen station and completion of several large-scale mixed-use development projects, the area surrounding Shinagawa Station has been reborn as a modern office district where additional future development as Tokyo’s “southern entranceway” is anticipated. In addition to this building, the Company completed other rental properties as new rental assets designed for effective use of locations along railway lines owned by the Company.

The Real Estate Group also undertook development of new types of businesses. These included a rental storage space business utilizing container boxes, a hot spring spa and amusement facility, as well as large-scale motorcycle rental storage garages.

As a business segment complementary to its past spec housing activity, the Company began selling residential lots in “Keio Four Seasons Town in Hachioji-Minamino City” to meet the diversification of customer demand.

LEISURE GROUP

Operating revenues fell in the travel agency business, which continued to deal with the aftereffects of the latest outbreak of SARS. In the hotel business, the Keio PRESSO INN Higashi-Ginza, the first in the Company’s chain of hotels specializing in budget accommodations, enjoyed a high occupancy rate in excess of 90%. Nevertheless, despite the Company’s efforts to strengthen its competitive edge by meeting customer needs through measures such as renovating interiors and altering the mix of guest rooms at existing hotels, this business was also negatively affected by the drop in demand because of SARS. As a result, Leisure Group operating revenues fell 3.4% year on year, to ¥81,587 million, and operating income shrank 12.9% compared with the prior fiscal year, to ¥3,052 million.

Keio PRESSO INN Ikebukuro

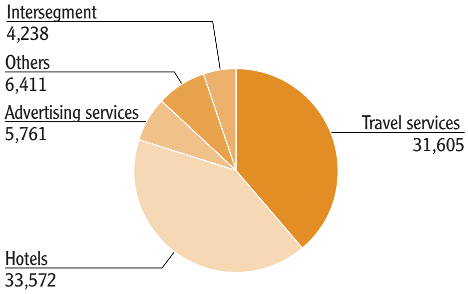
Expanding Business Opportunities to Areas Not Serviced by the Keio Line with Development of PRESSO INN, a Hotel Chain Specializing in Budget Accommodations

In June 2003, Keio Electric Railway Co., Ltd. and Keio Presso Inn Co., Ltd. opened the second of their hotels specializing in budget accommodations, which have enjoyed a strong favorable response because of reasonable prices. The Group added a third hotel in May 2004, giving the chain a strong start. The Leisure Group plans to successively open new hotels in four locations in Tokyo beginning from the fall of 2004.

The Company also renovated the restaurants and banquet halls at the Keio Plaza Hotel (Shinjuku), and reopened a number of the guestrooms, restaurants and banquet halls at the Keio Plaza Hotel Sapporo in May 2003 following renovations.

The Leisure Group additionally worked to establish new "Curry Shop C&C" outlets managed by Restaurant Keio Co., Ltd. and open new Doutor Coffee shops, which the Company manages as a franchisee. The new stores are located in areas serviced by the Keio Line, as well as elsewhere. The group also took steps to expand its business in new directions, such as managing student cafeterias at universities, in cooperation with the Bakery Shop Le Repas chain managed by Keio Shokuhin Co., Ltd.

Leisure Group Operating Revenues (¥ Millions)



OTHER GROUPS

In its building cleaning and maintenance business, railway car maintenance business, and civil engineering and construction business, the Company took a number of steps such as obtaining ISO certification to enhance its competitive edge. On the strength of new orders received in the railway car maintenance business, operating revenues grew 2.0%, to ¥41,804 million. Operating income fell 6.7% from the prior fiscal year, however, under the influence of intensive competition for new orders, to ¥1,408 million.


Takaonomori Wakuwaku Village

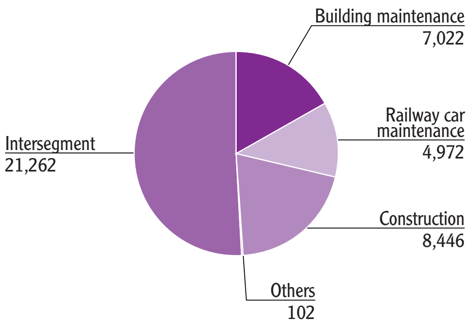
Promoting New Businesses and Expanding Each Company's Business Segment

Keio Youth Plaza Co., Ltd., a new company established in April 2003, is involved in promoting activities such as construction of the "Takaonomori Wakuwaku Village" in the western suburbs of Tokyo and is moving ahead with preparations for opening that facility in April 2005.

During the consolidated fiscal year under review, Keio Kensetsu Co., Ltd. obtained environmental management system certification ISO14001, and the Kitano office of Keio Juuki Seibi Co., Ltd. and Tokyo Special Coach Manufacture Co., Ltd. obtained the quality management system certification ISO9001, respectively. These certifications will help the companies contribute to objectives such as environmental conservation.

To provide complete professional training, Keio Setsubi Service Co., Ltd. established a Technical Training Center and sought to broaden its business segments through involvement in efforts such as the Suginami Public Hall Private Finance Initiative (PFI) project and the Keio Group's first large-scale railway construction works (Tsukuba Express) in an area not along the Company's railway lines.

Other Group Operating Revenues (¥ Millions)



Financial Position

Total assets at the end of the fiscal year under review were ¥558,708 million, ¥27,909 million higher than at the end of the prior fiscal year. Total current assets increased ¥4,197 million, to ¥89,093 million. Cash and bank deposits decreased slightly, while short-term loans which are included in other current assets, increased and inventories grew. Property and equipment decreased by ¥1,711 million compared with the end of the prior fiscal year, to ¥387,271 million, despite purchases of land and other acquisitions. Investments and advances increased by ¥26,833 million year on year to ¥58,944 million, because of gross unrealized gains on securities with fair market value. As a result of these changes, assets other than current assets increased by ¥23,712 million year on year, to ¥469,616 million.

Total liabilities at the end of the fiscal year under review were ¥368,959 million, ¥6,360 million higher than at the end of the prior fiscal year. Although the Company continued to reduce short-term bank borrowings, total current liabilities increased ¥10,130 million year on year to ¥142,046 million because of an increase in income taxes payable resulting from higher earnings. On the other hand, long-term liabilities other than legally required special reserves decreased by ¥1,424 million compared with the end of the prior consolidated fiscal year to ¥217,528 million. Although it had a deferred tax liability, the Company continued to make progress in repaying its long-term debt and reduced its reserves for retirement benefits.

Total shareholders' equity at the end of the fiscal year under review was ¥189,749 million. This was ¥22,026 million higher than at the end of the prior fiscal year, and reflected an increase in retained earnings and unrealized gains on other securities, net of tax. The shareholders' equity ratio improved by 2.4 percentage points from 31.6% at the end of the prior fiscal year, to 34.0%.

Cash Flow Analysis

During the fiscal year under review, the Keio Group invested intensively within the bounds of its cash flows provided by operating activities. In addition, cash flows used in financing activities were allocated to reduce interest-bearing debt.

Net cash provided by operating activities rose by ¥30,314 million compared with the previous fiscal year, to ¥60,091 million. This result reflected an upturn from the payment of post-employment benefits in the previous fiscal year accompanying the spin-off of the Group's bus service business and, during the year under review, lower payments for corporate taxes as well as inflows from deposits received.

Net cash used in investing activities rose by ¥7,409 million, to ¥39,395 million, reflecting primarily the Company's proactive investments in the Keio Shinagawa Building and the Keio PRESSO INN.

Net cash used in financing activities totaled ¥19,286 million, roughly the same level as in the previous fiscal year.

As a result of the above, the balance of cash and cash equivalents at the fiscal year-end increased by ¥1,414 million from the end of previous term, to ¥25,929 million. The balance of interest-bearing debt at the end of the fiscal year declined ¥10,249 million, to ¥209,615 million.

Main Business Segment Risks

The main risks that might influence the operating results and financial position of the Keio Group are described below.

Passenger fares in the railway transportation business segment are set and revised by the Minister of Land, Infrastructure and Transport, who authorizes fares and fare changes after investigating whether fares exceed a level determined by adding an appropriate profit margin to the proper costs incurred to ensure efficient management. There is a possibility the active conduct of the Group's business might be limited by this investigation.

There is a possibility the number of passengers carried by the Keio Group's railway, bus, taxi and other operations might decrease in line with the declining birthrate and aging of the population living in areas along the Group's railway lines.

Although the Keio Group has received an AA rating from the main rating agencies in Japan, there is a possibility the Group's cost of funds might increase if the Group's rating is reduced because of a rise in interest-bearing liabilities the Group cannot explain rationally or for other reasons.

There is a possibility the Group's main business, which is centered on railway operations, might be affected by damage from a natural disaster or illegal activities such as terrorism because the Group owns a substantial volume of capital equipment, including railway track facilities.

Consolidated Balance Sheets

As of 31st March, 2003 and 2004

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	**2004**	**2004**
Current Assets:			
Cash and bank deposits (Note 4)	¥ 25,904	**¥ 24,312**	**$ 230,031**
Short-term investments (Notes 4 and 5)	987	**20**	**191**
Notes and accounts receivable, trade	25,128	**25,817**	**244,275**
Allowances for doubtful accounts	(250)	**(274)**	**(2,594)**
Inventories	26,808	**29,152**	**275,823**
Deferred tax assets (Note 8)	3,660	**4,159**	**39,347**
Other current assets	2,660	**5,907**	**55,889**
Total current assets	84,897	**89,093**	**842,962**
Investments and Advances:			
Investments in securities (Note 5)	30,732	**57,497**	**544,012**
Investments in affiliates and unconsolidated subsidiaries	1,379	**1,447**	**13,693**
	32,111	**58,944**	**557,705**
Property and Equipment, at Book Value (Notes 6 and 7):			
Land	88,350	**96,848**	**916,339**
Buildings and structures	238,224	**234,197**	**2,215,887**
Machinery, rolling stock and equipment	33,359	**32,640**	**308,833**
Tools, furniture and fixtures	8,270	**8,337**	**78,880**
Construction- in- progress	20,778	**15,249**	**144,279**
	388,981	**387,271**	**3,664,218**
Intangible Fixed Assets	4,060	**3,777**	**35,739**
Deferred Tax Assets (Note 8)	10,944	**7,941**	**75,134**
Other Assets	9,806	**11,682**	**110,536**
	¥530,799	**¥ 558,708**	**$5,286,294**

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2003	Millions of Yen **2004**	Thousands of U.S. Dollars (Note 3) **2004**
Current Liabilities:			
Short-term bank borrowings (Note 7)	¥ 41,570	**¥ 39,399**	**$ 372,779**
Current portion of long-term debt (Note 7)	13,366	**12,837**	**121,459**
Notes and accounts payable, trade	20,398	**21,782**	**206,093**
Consumption tax payable	1,852	**1,609**	**15,223**
Income taxes payable	4,433	**10,959**	**103,689**
Reserve for employees' bonuses	3,102	**3,031**	**28,682**
Advances received	7,955	**8,756**	**82,847**
Other current liabilities	39,241	**43,673**	**413,219**
Total current liabilities	131,917	**142,046**	**1,343,991**
Long-Term Debt (Note 7)	165,026	**157,470**	**1,489,927**
Reserve for Retirement Benefits (Note 9)	33,660	**31,436**	**297,439**
Reserve for Retirement Benefits to Directors and Corporate Auditors (Note 9)	874	**676**	**6,396**
Special Reserve for Expansion of Railway Transport Capacity (Note 10)	11,731	**9,385**	**88,794**
Deferred Tax Liabilities (Note 8)	—	**5,323**	**50,360**
Other Non-Current Liabilities	19,391	**22,623**	**214,050**
Total liabilities	362,599	**368,959**	**3,490,957**
Minority Shareholders' Equity in Consolidated Subsidiaries	476	**—**	**—**
Shareholders' Equity (Note 11):			
Common stock:			
Authorized 1,580,230,000 shares			
Issued 642,754,152 shares	59,024	**59,024**	**558,462**
Additional paid-in capital	42,019	**42,017**	**397,550**
Retained earnings	66,579	**77,688**	**735,057**
Unrealized gains on other securities, net of tax	4,125	**19,959**	**188,845**
Treasury stock, at cost			
2003: 6,057,066 shares	(4,023)	**—**	**—**
2004: 14,947,934 shares	—	**(8,939)**	**(84,577)**
Total shareholders' equity	167,724	**189,749**	**1,795,337**
Contingent Liabilities (Note 13)			
	¥530,799	**¥ 558,708**	**$5,286,294**

Consolidated Statements of Income and Retained Earnings

For the years ended 31st March, 2002, 2003 and 2004

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2002	2003	**2004**	**2004**
Operating Revenues	¥422,835	¥419,920	**¥427,722**	**$4,046,949**
Operating Costs and Expenses:				
Operating costs	344,173	338,644	**343,009**	**3,245,430**
Selling, general and administrative expenses	45,449	45,450	**48,490**	**458,786**
	389,622	384,094	**391,499**	**3,704,216**
Operating income	33,213	35,826	**36,223**	**342,733**
Non-Operating Income (Expenses):				
Interest and dividend income	572	540	**434**	**4,103**
Interest expense	(6,714)	(6,132)	**(5,424)**	**(51,317)**
Loss on disposal of property and equipment	(1,310)	(1,200)	**(2,328)**	**(22,030)**
Subsidy received from Tokyo Metropolitan Government ,etc.	—	1,238	**785**	**7,428**
Advance depreciation of fixed assets	—	(1,465)	**(843)**	**(7,974)**
Equity in earnings of affiliates and unconsolidated subsidiaries	57	62	**75**	**710**
Gain (Loss) on sale of investments in securities	—	(426)	**1,293**	**12,240**
Loss on revaluation of investments in securities	(1,292)	(1,876)	**(368)**	**(3,485)**
Reversal of special reserve for expansion of railway transport capacity	2,346	2,346	**2,346**	**22,199**
Gain on sale of property and equipment	—	—	**203**	**1,921**
Impairment loss	—	—	**(4,957)**	**(46,905)**
Special retirement payments	(2,507)	(1,848)	**—**	**—**
Loss on revaluation of real estate inventories for sale	(514)	—	**—**	**—**
Loss on revaluation of property and equipment	(6,575)	—	**—**	**—**
Other, net	(673)	(518)	**(327)**	**(3,096)**
	(16,610)	(9,279)	**(9,111)**	**(86,206)**
Income before income taxes and minority interest in income of consolidated subsidiaries	16,603	26,547	**27,112**	**256,527**
Income Taxes (Note 8):				
Current	11,316	8,956	**14,820**	**140,225**
Deferred	(4,037)	2,770	**(3,043)**	**(28,789)**
	7,279	11,726	**11,777**	**111,436**
Income before minority interest in income of consolidated Subsidiaries	9,324	14,821	**15,335**	**145,091**
Minority interest in income of consolidated subsidiaries	35	36	**18**	**171**
Net income	9,289	14,785	**15,317**	**144,920**
Retained Earnings:				
Balance at beginning of year	49,764	55,423	**66,579**	**629,942**
Appropriations:				
Cash dividends	(3,535)	(3,534)	**(4,113)**	**(38,906)**
Directors' bonuses	(95)	(95)	**(95)**	**(899)**
Balance at end of year	¥ 55,423	¥ 66,579	**¥ 77,688**	**$ 735,057**

	Yen			U.S. Dollars(Note 3)
Net Income Per Share:				
Basic	¥ 14.45	¥ 22.96	**¥ 24.13**	**$ 0.228**
Diluted	14.43	22.92	**—**	**—**
Weighted Average Number of Shares Outstanding (in thousands)	642,719	639,702	**630,779**	

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the years ended 31st March, 2002, 2003 and 2004

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2002	2003	**2004**	**2004**
Cash Flows from Operating Activities:				
Income before income taxes and minority interest in income of consolidated subsidiaries	¥ 16,603	¥ 26,547	**¥ 27,112**	**$ 256,527**
Adjustments for:				
Depreciation and amortization	28,396	27,816	**27,517**	**260,357**
Impairment loss	—	—	**4,957**	**46,905**
(Decrease) increase in reserve for retirement benefits	(3,521)	(8,627)	**(2,224)**	**(21,044)**
Decrease in special reserve for expansion of railway transport capacity	(2,346)	(2,346)	**(2,346)**	**(22,199)**
Loss on revaluation of property and equipment	6,575	—	**—**	**—**
Loss on revaluation of real estate inventories for sale	514	411	**610**	**5,771**
Loss on revaluation of investments in securities	1,292	1,876	**368**	**3,485**
Loss on disposal of property and equipment	1,373	1,564	**2,545**	**24,082**
Advance depreciation of fixed assets	471	1,465	**843**	**7,974**
Interest and dividend income	(572)	(540)	**(434)**	**(4,103)**
Interest expense	6,714	6,132	**5,424**	**51,317**
Subsidy received from Tokyo Metropolitan Government,etc.	(452)	(1,238)	**(785)**	**(7,428)**
Loss (Gain) on sale of investments in securities	—	426	**(1,293)**	**(12,240)**
Decrease (increase) in notes and accounts receivable	2,273	(34)	**(568)**	**(5,378)**
Decrease (increase) in inventories	115	(110)	**1,337**	**12,649**
Increase (decrease) in notes and accounts payable	3,605	(5,854)	**1,633**	**15,455**
Other, net	5,095	142	**8,801**	**83,269**
Subtotal	66,135	47,630	**73,497**	**695,399**
Interest and dividends received	580	556	**317**	**2,996**
Interest paid	(6,735)	(6,171)	**(5,435)**	**(51,420)**
Income taxes paid	(8,565)	(12,239)	**(8,288)**	**(78,419)**
Net cash provided by operating activities	51,415	29,776	**60,091**	**568,556**
Cash Flows from Investing Activities:				
Payments for purchase of property and equipment	(34,548)	(35,490)	**(39,765)**	**(376,242)**
Proceeds from sale of property and equipment	509	157	**581**	**5,494**
Payments for purchase of short-term investments	(1)	0	**—**	**—**
Proceeds from sale of short-term investments	2	46	**968**	**9,157**
Payments for purchase of securities and other investments	(1,170)	(4,002)	**(403)**	**(3,816)**
Proceeds from sale of securities and other investments	177	9,612	**2,576**	**24,374**
Subsidy received from Tokyo Metropolitan Government,etc.	577	1,474	**1,237**	**11,700**
Other, net	1,803	(3,783)	**(4,588)**	**(43,405)**
Net cash used in investing activities	(32,651)	(31,986)	**(39,394)**	**(372,738)**
Cash Flows from Financing Activities:				
Decrease in short-term bank borrowings	(717)	(537)	**(2,171)**	**(20,540)**
Increase in long-term debt	4,200	6,640	**7,210**	**68,218**
Repayment of long-term debt	(17,130)	(18,175)	**(15,295)**	**(144,715)**
Purchase of treasury stock	—	(3,962)	**(4,939)**	**(46,734)**
Cash dividends paid	(3,535)	(3,534)	**(4,113)**	**(38,906)**
Other, net	(59)	—	**22**	**201**
Net cash used in financing activities	(17,241)	(19,568)	**(19,286)**	**(182,476)**
Exchange Gain (Loss) on Cash and Cash Equivalents	14	(2)	**3**	**30**
Cash and Cash Equivalents Increase Due to Consolidation of Subsidiaries	376	—	**—**	**—**
Net Increase (Decrease) in Cash and Cash Equivalents	1,913	(21,780)	**1,414**	**13,372**
Cash and Cash Equivalents at Beginning of Year	44,382	46,295	**24,515**	**231,954**
Cash and Cash Equivalents at End of Year (Note 4)	¥ 46,295	¥ 24,515	**¥ 25,929**	**$ 245,326**

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Keio Electric Railway Co., Ltd. (the "Company") and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

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

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. and its 33 significant subsidiaries as of 31st March 2004. The Company has adopted the equity method of accounting for investments in 6 unconsolidated subsidiaries which have significant impact on the financial status of the Companies as of 31st March 2004.

(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 capable of being withdrawn on demand and short-term investments with an original maturity of three months or less which represent a minor risk of fluctuations in value.

(4) Inventories

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

The Companies reclassified "land and buildings" at book value of ¥5,047 million ($47,751 thousand) from property, plant and equipment to inventories, during the year ended 31st March 2004.

(5) Financial Instruments

Securities

Securities held by the Companies are classified as follows:

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

Other securities for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate item in "Shareholders' Equity" at a net-of-tax amount.

Other securities for which market quotations are unavailable are stated at cost, except as stated in the paragraph below.

In cases where the fair value of equity securities issued by unconsolidated subsidiaries and affiliates or other securities has declined significantly and such impairment of value is not deemed temporary, those securities are written-down to fair value and the resulting losses are included in net profit or loss for the period.

(6) Accounting Standard for Impairment of Fixed Assets

On 9th August 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The standard shall be effective for fiscal years beginning 1st April 2005. However, an earlier adoption is permitted for fiscal years beginning 1st April 2004 and for fiscal years ending between 31st March 2004 and 31st March 2005.

Effective from the year ended 31st March 2004, the Companies made an earlier adoption of the standard. As a result of the adoption of the standard, "Income before income taxes and minority interest in income of consolidated subsidiaries" was decreased by ¥4,957 million ($46, 905 thousand).

The effect to each segment is referred to the Note 14.

(7) Property and Equipment

Property and equipment is 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 the assets as prescribed by Japanese tax law.

Declining-balance method, except for buildings (excluding facilities attached to buildings) acquired after 1st April 1998, to which the straight-line method is applied.

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

(8) Leases

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

(9) Amortization

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

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

(10) 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.

(11) Accounting for Reserves

i. Reserve for employees' bonuses

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

ii. Reserve for retirement benefits

Effective from the year ended 31st March 2001, the Companies adopted the new Japanese Accounting Standard for Retirement Benefits, effective for periods beginning on or after 1st April 2000. In accordance with the new standard, the "Reserve for retirement benefits" as of 31st March, 2003 and 2004 represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets except that, as permitted under the new standard, unrecognized actuarial differences which arise in the Company are amortized on a declining-balance basis and they which arise in subsidiaries are amortized on a straight-line basis over a period of principally 15 years from the year following that in which they arise, and unrecognized prior service cost is amortized on a straight-line basis over a period of principally 15years from the year in which it arises.

Effective 1st April 2002, the Company changed its accounting method for amortization of unrecognized actuarial differences from the straight-line basis to the declining-balance basis, considering a large amount of actuarial differences due to worse of pension asset managements should be recognized earlier. The effect of this change was to increase "Operating cost", decrease "Operating income" and "Income before income taxes and minority interest in income of consolidated subsidiaries" by ¥706 million respectively, as compared with the amount, which would have been reported if the previous method had been applied consistently.

iii. Reserve for retirement benefits to directors and corporate auditors

The Company and certain consolidated subsidiaries provide an accrual for 100% of the lump-sum retirement benefits payable to directors and corporate auditors upon retirement.

(12) 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, after considering the related reduction in interest expenses.

Effective from the year ended 31st March 2003, the Company adopted the new Japanese accounting standard for computation of net income per share. Prior to adopting the new standard, the computation of basic net income per share and diluted net income per share were based on the net income shown on the Consolidated Statement of Income and Retained Earnings. However the new standard requires that net income should be adjusted by deducting bonuses paid to directors and statutory auditors as well as the payment of dividends to shareholders of preferred stocks to be recognized as an appropriation of retained earnings, from net income shown in Consolidated Statement of Income and Retained Earnings. If this new method had been applied , basic net income per share and diluted net income per share for the year ended 31st March 2002 would have been ¥14.31 and ¥14.29, respectively.

Diluted net income per share was not applicable for the year ended 31st March 2004 because there was no dilution.

(13) Accounting for Consumption Tax

Consumption tax is levied in Japan on domestic purchases and sales of goods and services at a flat rate of 5 per cent, in general. Consumption tax imposed on revenues and purchases is excluded from revenues, costs and expenses in the accompanying consolidated statements of income and retained earnings. Such consumption tax is instead recorded as an asset or liability, 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 outside Japan. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into, U.S. dollars.

As the amounts shown in U.S. dollars are for convenience only, and are not intended to be computed in accordance with generally accepted translation procedures, the rate of ¥105.69=U.S.$1, the approximate current rate at 31st March 2004, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

4. A Reconciliation of "Cash and Cash Equivalents" in the Consolidated Statements of Cash Flows and the Account Balances on the Consolidated Balance Sheets is as Follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	**2004**	**2004**
Cash and bank deposits	¥ 25,904	**¥ 24,312**	**$ 230,031**
Marketable securities	987	**20**	**191**
Purchase contracts for securities with a sell-back clause included in short-term loans	—	**3,000**	**28,385**
Time deposits with deposit term of over 3 months	(1,389)	**(1,383)**	**(13,090)**
Government and corporate bonds due after 3 months	(987)	**(20)**	**(191)**
Cash and cash equivalents	¥ 24,515	**¥ 25,929**	**$ 245,326**

5. Marketable Securities and Investments in Securities

Marketable securities included in "Short-term investments" and "Investments in securities" at 31st March 2003 and 2004 consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	2003	**2004**	**2004**
Marketable securities (Current portfolio):			
Government and corporate bonds	¥ 987	**¥ 20**	**$ 191**
	¥ 987	**¥ 20**	**$ 191**
Investments in securities (Non-current portfolio):			
Listed corporate shares	¥ 25,085	**¥ 53,057**	**$ 502,004**
Government and corporate bonds and unlisted corporate shares	5,647	**4,440**	**42,008**
	¥ 30,732	**¥ 57,497**	**$ 544,012**

The acquisition cost, carrying amount, gross unrealized holding gains and gross unrealized holding losses for securities with fair value by security type at 31st March 2003 and 2004 are summarized as follows:

Other securities:

2003	Millions of Yen			
	Cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Listed shares	¥ 18,103	¥ 25,085	¥10,337	¥ 3,355
Bonds	3,850	3,870	21	1
Others	187	187	0	0
	¥ 22,140	¥ 29,142	¥ 10,358	¥ 3,356

2004	Millions of Yen			
	Cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Listed shares	**¥ 19,435**	**¥ 53,057**	**¥ 33,623**	**¥ 0**
Bonds	**3,120**	**3,203**	**85**	**2**
Others	**—**	**—**	**—**	**—**
	¥ 22,555	**¥ 56,260**	**¥ 33,708**	**¥ 2**

2004	Thousands of U.S. Dollars			
	Cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Listed shares	**$ 183,884**	**$502,004**	**$318,124**	**$ 4**
Bonds	**29,522**	**30,309**	**806**	**19**
Others	**—**	**—**	**—**	**—**
	$ 213,406	**$532,313**	**$318,930**	**$ 23**

The profit and loss on sale of other securities for the year ended 31st March 2004 is as follows:

Other securities:

	Millions of Yen	Thousands of U.S. Dollars
	2004	
Carrying amount	¥ 1,439	$ 13,611
Profit on sale	1,294	12,240
Loss on sale	0	1

The carrying amount of securities for which a fair value is not available at 31st March 2003 and 2004 is summarized as follows:

Other securities:

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Unlisted shares	¥ 2,576	¥ 1,256	$ 11,880
Others	1	1	10
	¥ 2,577	¥ 1,257	$ 11,890

6. Accumulated Depreciation

Accumulated depreciation, deducted from the cost of property and equipment in the accompanying consolidated balance sheets, amounted to ¥394,898 million and ¥417,380 million ($3,949,094 thousand) at 31st March 2003 and 2004, respectively.

Impairment loss is included in the accumulated depreciation at 31st March 2004.

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

"Short-term bank borrowings" generally represent bank overdrafts. The weighted average interest rate applicable to such borrowings was 0.6 per cent per annum for the years ended 31st March 2003 and 2004.

"Long-term debt" at 31st March 2003 and 2004 consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Long-term loans from banks and other financial institutions secured primarily by collateral, due from 2004 to 2023 at the weighted average rate of 2.9 per cent per annum	¥118,667	¥112,409	$1,063,573
3.075 per cent yen bonds due April 2012 (Series No. 18)	20,000	20,000	189,233
2.7 per cent yen bonds due April 2007 (Series No. 19)	10,000	10,000	94,616
2.7 per cent yen bonds due August 2013 (Series No. 20)	10,000	10,000	94,616
2.175 per cent yen bonds due August 2008 (Series No. 21)	10,000	10,000	94,616
Long-term accounts payable	9,725	7,898	74,732
	178,392	170,307	1,611,386
Less: current portion (amount due within one year)	(13,366)	(12,837)	(121,459)
	¥165,026	¥157,470	$1,489,927

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

The Companies' assets pledged as collateral for long-term debt (including the current portion of long-term debt) at 31st March 2003 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
At net book value			
Property and equipment	¥200,457	¥196,545	$1,859,633
Other	1,138	1,143	10,816
	¥201,595	¥197,688	$1,870,449

The aggregate annual maturities of long-term loans from banks and other financial institutions in the 5 years following 31st March 2004 are as follows:

Year ending 31st March,	Millions of Yen	Thousands of U.S. Dollars
2005	¥ 13,544	$ 128,153
2006	12,882	121,885
2007	18,719	177,109
2008	12,272	116,119
2009	11,987	113,414
	¥ 69,404	$ 656,680

8. Income Taxes

The statutory tax rate used for calculating deferred tax assets as of 31st March, 2003 and 2004 were 42.05% and 40.69%, respectively.

At 31st March, 2003 and 2004, significant components of deferred tax assets were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	**2004**	**2004**
Deferred tax assets:			
Reserve for employees' bonuses	¥ 1,124	**¥ 1,277**	**$ 12,086**
Enterprise tax payable	395	**994**	**9,406**
Special retirement payments	134	**69**	**653**
Reserve for retirement benefits	8,629	**9,638**	**91,196**
Reserve for directors' retirement benefits	356	**275**	**2,603**
Loss carryforwards	731	**41**	**386**
Loss on revaluation of property and equipment	2,261	**1,927**	**18,230**
Unrealized profit on sale of property and equipment	1,631	**1,631**	**15,429**
Loss on revaluation of golf club membership	254	**232**	**2,193**
Impairment loss	—	**1,930**	**18,260**
Accruals for reward card	252	**405**	**3,833**
Other	1,699	**2,074**	**19,624**
Total deferred tax assets	¥ 17,466	**¥ 20,493**	**$ 193,899**
Deferred tax liabilities:			
Unrealized gains on other securities	(2,862)	**(13,716)**	**(129,778)**
Total deferred tax liabilities	(2,862)	**(13,716)**	**(129,778)**
Net deferred tax assets	¥ 14,604	**¥ 6,777**	**$ 64,121**

The valuation allowance which were deducted from deferred tax asset as of 31st March, 2004 amounted to ¥201 million ($1,906 thousand).

The reconciliation of the difference between the statutory tax rate and the effective income tax rate for the year ended 31st March 2003 was as follows:

	2003
Statutory tax rate	42.05
(Adjustment)	
Non-deductible expense for tax purpose	0.92
Non-deductible income	(0.03)
Equalization local tax	0.44
Effect of tax rate change	1.03
Other	(0.24)
Effective income tax rate	44.17(%)

The reconciliation of the difference between the statutory tax rate and the effective income tax rate for the year ended 31st March 2004 was not disclosed because such difference was less than 5 % of statutory tax rate.

In accordance with the revised municipal tax law published on 31st March 2003, assessment by estimation on the basis of the size of business is to be introduced and income tax is to be changed. Accordingly statutory tax rate for calculation of deferred tax assets and deferred tax liabilities for the year ended 31st March 2002 is 42.05%, those of 31st March 2003 are 42.05% (current) and 40.69% (non-current). The effect of this change was to decrease "Deferred tax assets" by ¥178 million, increase "Income tax deferred" by ¥273 million, as compared with the amount, which would have been reported if the same tax rate had been applied consistently.

9. Retirement Plan

Employees (excluding directors and corporate auditors) of the Company with more than three years service are generally entitled to lump-sum retirement payments determined by reference to their average rate of pay, length of service and conditions under which termination occurs. 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 of the retirement benefits payable to retiring employees at the age of 55 or older with 15 years of service or more (amended on 1st October 2001) with the Company. Employees retiring at the age of 54 or younger or with service of less than 15 years are entitled to lump sum payments to be made by the Company.

Certain consolidated subsidiaries have funded non-contributory pension plans in addition to an unfunded retirement plan.

The "Reserve for retirement benefits" as of 31st March 2003 and 2004 can be analyzed as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	**2004**	**2004**
Projected benefit obligations	¥(95,555)	**¥(98,587)**	**$ (932,794)**
Plan assets	51,481	**63,226**	**598,220**
	(44,074)	**(35,361)**	**(334,574)**
Unrecognized actuarial differences	21,509	**14,282**	**135,124**
Unrecognized prior service cost	(9,240)	**(8,503)**	**(80,449)**
	(31,805)	**(29,582)**	**(279,899)**
Prepaid pension cost	1,855	**1,854**	**17,540**
	¥(33,660)	**¥(31,436)**	**$ (297,439)**

The "Prior service cost" arose as the Company and certain consolidated subsidiaries partly changed their funded non-contributory pension plans.

The net pension expense for the year ended 31st March 2002, 2003 and 2004 was as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2002	2003	**2004**	**2004**
Service cost	¥ 4,352	¥ 3,370	**¥ 3,221**	**$ 30,478**
Interest cost	3,114	2,794	**2,256**	**21,346**
Expected return on plan assets	(1,535)	(361)	**(334)**	**(3,166)**
Amortization of unrecognized actuarial difference	547	1,600	**3,111**	**29,436**
Amortization of prior service cost	(286)	(679)	**(737)**	**(6,973)**
Net pension expense	¥ 6,192	¥ 6,724	**¥ 7,517**	**$ 71,121**

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

	As of March 31, 2003	As of March 31, 2004
Discount rate	Principally 2.5%	Principally 2.0%
Expected rate of return on plan assets	Principally 0.5%	Principally 0.5%
Method of attributing the projected benefits to periods of service	Straight-line basis	Straight-line basis
Amortization of unrecognized actuarial Differences	Principally 15 years	Principally 15 years
Amortization of prior service cost	Principally 15 years	Principally 15 years

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

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 the cost of specific construction projects, aimed at strengthening the railway transport capacity. Until 31st August 1995 the reserve was provided at a rate of 3 per cent of passenger fares, but this was changed to 6 per cent following the fare increase on 1st September 1995. As the specific construction projects to which the special reserve relates were completed in 1998, it started to be reversed to income, over a period of 10 years, from fiscal 1999.

11. Shareholders' Equity

During the years ended 31st March 2002, 2003 and 2004, 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 2001	642,754	¥ 59,024	¥ 42,019
Balance at 31st March 2002	642,754	59,024	42,019
Balance at 31st March 2003	642,754	59,024	42,019
Loss from disposal of treasury stock			(2)
Balance at 31st March 2004	642,754	¥ 59,024	¥ 42,017

	Thousands of U.S. Dollars	
	Common stock	Additional paid-in capital
Balance at 31st March 2003	$558,462	$397,570
Balance at 31st March 2004	$558,462	$397,550

The "Capital reserve" of the Company (included in "Additional paid-in capital") consists primarily of proceeds on the issuance of shares of common stock of the Company that were not recorded as "Common stock" (Under the Japanese Commercial Code, the Company is allowed to record an amount not exceeding one-half of the issue price of new shares as "Capital Reserve".) This "Capital Reserve" may be transferred to "Other additional paid-in capital" to the extent that the sum of the "Capital reserve" and the "Earned reserve" (collectively, the "Legal reserve") does not fall below 25% of the stated capital. However, the "Capital reserve" may not be transferred to retained earnings.

The Japanese Commercial Code requires all the Companies to appropriate as an "Earned reserve" (included in "Retained earnings" on the consolidated balance sheets) an amount equivalent to at least 10% of cash appropriations of retained earnings until the "Legal reserve" equals 25% of the stated capital. The "Earned reserve" may be transferred to inappropriate retained earnings to the extent that the "Legal reserve" does not fall below 25% of the stated capital.

Legal reserves may be transferred to stated capital through suitable directors' actions or offset against a deficit through suitable shareholders' actions.

12. Lease Transactions

Lease rental expenses paid by the Companies under finance lease contracts without transfer of ownership for the years ended 31st March 2002, 2003 and 2004 were ¥686 million, ¥764 million and ¥801 million ($7,579 thousand), respectively.

The scheduled maturities of future lease rental payments under such finance lease contracts at 31st March 2004 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 704	$ 6,663
Due after one year	1,072	10,144
Total	¥ 1,776	$ 16,807

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

The acquisition cost, accumulated depreciation, net book value at March 31 2003 and 2004, and depreciation expense for the years ended 31st March 2003 and 2004, that would have been applicable if such leased assets had been capitalized, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	**2004**	**2004**
Acquisition cost	¥ 4,017	**¥ 3,875**	**$ 36,669**
Accumulated depreciation	(1,918)	**(2,099)**	**(19,862)**
Net book value	¥ 2,099	**¥ 1,776**	**$ 16,807**
Depreciation	¥ 764	**¥ 801**	**$ 7,579**

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

13. Contingent Liabilities

At 31st March 2004 the Companies were contingently liable under guarantees for borrowings from financial institutions as follows:

	Millions of Yen	Thousands of U.S. Dollars
Loans borrowed by:		
Employees for housing	¥ 2,600	$ 24,599
Other	2,054	19,437
	¥ 4,654	$ 44,036

14. Segment Information

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

Major corporate assets not attributable to industry segments, which are included in the “Elimination or Corporate” column in the information provided below, are “Cash and bank deposits”, “Short-term investments” and “Investments in securities” held by the Company, plus other assets held in its Administration Department. Such assets amounted to ¥44,972 million at 31st March 2003 and ¥71,121 million ($672,919 thousand) at 31st March 2004.

Effective 1st April 2002, the Company changed its accounting method for amortization of unrecognized actuarial differences from the straight-line basis to the declining-balance basis. The effect of this change as compared with the amount, which would have been reported if the previous method had been applied consistently is as follows:

	Millions of Yen					
	Trans-portation	Merchandise Sales	Real Estate	Leisure	Other	Total
Increase in “Operating expense”	¥ 616	¥ 35	¥ 25	¥ 19	¥ 11	¥ 706
“Operating income” under the previous method	¥20,375	¥5,732	¥5,748	¥3,523	¥1,522	¥36,900

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

Information by industry segments as of 31st March 2002, 2003 and 2004 and for the years then ended is summarized as follows:

	Millions of Yen							
	Transportation	Merchandise Sales	Real Estate	Leisure	Other	Sub Total	Elimination or Corporate	Consolidated
2002:								
Operating revenues:								
Customers	¥ 122,436	¥ 182,037	¥ 18,645	¥ 80,078	¥ 19,639	¥ 422,835	¥ —	¥ 422,835
Intersegment	3,178	2,761	14,117	4,443	19,750	44,249	(44,249)	—
Total	125,614	184,798	32,762	84,521	39,389	467,084	(44,249)	422,835
Operating costs and expenses	107,084	182,784	23,144	83,071	37,448	433,531	(43,909)	389,622
Operating income	¥ 18,530	¥ 2,014	¥ 9,618	¥ 1,450	¥ 1,941	¥ 33,553	¥ (340)	¥ 33,213
Assets (at year-end)	¥ 249,298	¥ 52,921	¥ 164,866	¥ 31,668	¥ 40,301	¥ 539,054	¥ 23,477	¥ 562,531
Depreciation	17,033	1,384	8,600	790	236	28,043	(61)	27,982
Capital expenditure	14,457	1,702	13,997	1,041	332	31,529	(194)	31,335

	Millions of Yen							
	Transportation	Merchandise Sales	Real Estate	Leisure	Other	Sub Total	Elimination or Corporate	Consolidated
2003:								
Operating revenues:								
Customers	¥ 122,058	¥ 182,680	¥ 15,315	¥ 80,271	¥ 19,596	¥ 419,920	¥ —	¥ 419,920
Intersegment	3,240	2,332	1,736	4,187	21,370	32,865	(32,865)	—
Total	125,298	185,012	17,051	84,458	40,966	452,785	(32,865)	419,920
Operating costs and expenses	105,539	179,314	11,329	80,953	39,456	416,591	(32,497)	384,094
Operating income	¥ 19,759	¥ 5,698	¥ 5,722	¥ 3,505	¥ 1,510	¥ 36,194	¥ (368)	¥ 35,826
Assets (at year-end)	¥ 246,353	¥ 77,341	¥ 93,663	¥ 83,706	¥ 54,979	¥ 556,042	¥ (25,243)	¥ 530,799
Depreciation	16,608	3,441	3,266	3,857	424	27,596	(55)	27,541
Capital expenditure	14,872	5,858	8,522	4,629	788	34,669	(56)	34,613

	Millions of Yen							
	Transportation	Merchandise Sales	Real Estate	Leisure	Other	Sub Total	Elimination or Corporate	Consolidated
2004:								
Operating revenues:								
Customers	**¥123,687**	**¥188,834**	**¥ 17,310**	**¥ 77,349**	**¥ 20,542**	**¥427,722**	**¥ —**	**¥427,722**
Intersegment	**3,227**	**2,424**	**1,839**	**4,238**	**21,262**	**32,990**	**(32,990)**	**—**
Total	**126,914**	**191,258**	**19,149**	**81,587**	**41,804**	**460,712**	**(32,990)**	**427,722**
Operating costs and expenses	**106,754**	**186,250**	**12,519**	**78,535**	**40,396**	**424,454**	**(32,955)**	**391,499**
Operating income	**¥ 20,160**	**¥ 5,008**	**¥ 6,630**	**¥ 3,052**	**¥ 1,408**	**¥ 36,258**	**¥ (35)**	**¥ 36,223**
Assets (at year-end)	**¥240,744**	**¥ 77,628**	**¥ 99,630**	**¥ 86,135**	**¥ 64,578**	**¥568,715**	**¥ (10,007)**	**¥558,708**
Depreciation	**16,528**	**3,456**	**3,294**	**3,887**	**470**	**27,635**	**(58)**	**27,577**
Impairment loss	**—**	**1,938**	**262**	**2,757**	**—**	**4,957**	**—**	**4,957**
Capital expenditure	**15,326**	**4,690**	**10,409**	**6,375**	**627**	**37,427**	**(87)**	**37,340**

	Thousands of U.S. Dollars							
	Transportation	Merchandise Sales	Real Estate	Leisure	Other	Sub Total	Elimination or Corporate	Consolidated
2004:								
Operating revenues:								
Customers	**$ 1,170,278**	**$ 1,786,676**	**$ 163,780**	**$ 731,845**	**$ 194,370**	**$ 4,046,949**	**$ —**	**$ 4,046,949**
Intersegment	**30,536**	**22,938**	**17,399**	**40,095**	**201,171**	**312,139**	**(312,139)**	**—**
Total	**1,200,814**	**1,809,614**	**181,179**	**771,940**	**395,541**	**4,359,088**	**(312,139)**	**4,046,949**
Operating costs and expenses	**1,010,066**	**1,762,229**	**118,453**	**743,064**	**382,212**	**4,016,024**	**(311,808)**	**3,704,216**
Operating income	**$ 190,748**	**$ 47,385**	**$ 62,726**	**$ 28,876**	**$ 13,329**	**$ 343,064**	**$ (331)**	**$ 342,733**
Assets (at year-end)	**$ 2,277,835**	**$ 734,488**	**$ 942,661**	**$ 814,976**	**$ 611,014**	**$ 5,380,974**	**$ (94,680)**	**$ 5,286,294**
Depreciation	**156,377**	**32,701**	**31,167**	**36,774**	**4,455**	**261,474**	**(550)**	**260,924**
Impairment loss	**—**	**18,341**	**2,481**	**26,083**	**—**	**46,905**	**—**	**46,905**
Capital expenditure	**145,013**	**44,378**	**98,482**	**60,315**	**5,936**	**354,124**	**(824)**	**353,300**

(Change of industry segment)

Prior to the year ended 31st March 2003, all properties owned by development division of the Company were classified into the "Real Estate" segment.

For the year ended 31st March 2003, the property rented to the consolidated subsidiary has been moved from the "Real Estate" segment to the other segments which actually use those property.

The objective of this change is to assist the Companies to promote operation focused on efficient asset management by providing an analysis of the segment's performance in asset management.

The following table is based on the former business classification.

	Millions of Yen							
	Transportation	Merchandise Sales	Real Estate	Leisure	Other	Sub Total	Elimination or Corporate	Consolidated
2003:								
Operating revenues:								
Customers	¥ 122,058	¥ 178,826	¥ 19,265	¥ 80,175	¥ 19,596	¥ 419,920	¥ —	¥ 419,920
Intersegment	3,235	2,195	14,387	4,305	21,370	45,492	(45,492)	—
Total	125,293	181,021	33,652	84,480	40,966	465,412	(45,492)	419,920
Operating costs and expenses	105,625	178,265	23,417	82,519	39,456	429,282	(45,188)	384,094
Operating income	¥ 19,668	¥ 2,756	¥ 10,235	¥ 1,961	¥ 1,510	¥ 36,130	¥ (304)	¥ 35,826
Assets (at year-end)	¥ 245,665	¥ 49,724	¥ 173,254	¥ 32,257	¥ 54,979	¥ 555,879	¥ (25,080)	¥ 530,799
Depreciation	16,550	1,405	8,413	809	424	27,601	(60)	27,541
Capital expenditure	14,700	1,870	16,501	810	788	34,669	(56)	34,613

The impact of this change is as follows:

	Millions of Yen							
	Transportation	Merchandise Sales	Real Estate	Leisure	Other	Sub Total	Elimination or Corporate	Consolidated
2003:								
Operating revenues:								
Customers	¥ 0	¥ 3,854	¥ (3,950)	¥ 96	¥ —	¥ —	¥ —	¥ —
Intersegment	5	137	(12,651)	(118)	—	(12,627)	12,627	—
Total	5	3,991	(16,601)	(22)	—	(12,627)	12,627	—
Operating costs and expenses	(86)	1,049	(12,088)	(1,566)	—	(12,691)	12,691	—
Operating income	¥ 91	¥ 2,942	¥ (4,513)	¥ 1,544	¥ —	¥ 64	¥ (64)	¥ —

15. Subsequent Events

Appropriation of the Company's retained earnings applicable to the year ended 31st March 2004 proposed by the Board of Directors and approved at the shareholders' meeting held on 29th June, 2004 is summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Retained earnings at 31st March 2004	¥ 31,596	$298,949
Appropriated:		
Cash dividends (¥3.00per share)	1,884	17,820
Directors' bonuses	95	900
Retained earnings to be carried forward to next year	¥ 29,617	$280,229

Report of Independent Auditors

To the Board of Directors and Shareholders of 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 2003 and 2004, 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 2004, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Keio Electric Railway Co., Ltd. and its subsidiaries as of 31st March 2003 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended 31st March 2004, in conformity with accounting principles generally accepted in Japan.

As described in Note 14, effective for the year ended 31st March 2003, Keio Electric Railway Co., Ltd. and its subsidiaries changed their accounting policy of segment for the allocation of properties which the real estate development division of the Company owns.

As described in Note 2, effective for the year ended 31st March 2004, Keio Electric Railway Co., Ltd. and its subsidiaries have adopted the new Japanese accounting standards for impairment of fixed assets.

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

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan
29th June 2004

BOARD OF DIRECTORS AND AUDITORS

(As of 29th June, 2004)

Chairman
Masayuki Saigusa

President
Kan Kato

Managing Directors
Ryota Shimomura
Koichi Suzuki
Toyoaki Suzuki
Kenkichi Matsuki

Directors
Shuichi Shimakura
Shigeo Tanaka
Tadashi Nagata
Hiroshi Hayasaki
Mitsuhiro Ishibashi
Shinichi Murayama
Yoichi Miyata
Hiromasa Tsubochi
Akira Horii
Shigeki Tamura
Hiroyuki Okushima
Masahiro Naitou

Corporate Auditors
Konjiro Nakano
Kenichi Saichi
Kunihiro Kawashima
Chikao Tsuchiya

CORPORATE DATA

(As of 31st March, 2004)

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:	1,580,230,000 shares
Issued Shares:	642,754,152 shares
Number of Shareholders Holding Shares of Unit Stock or More:	37,622
Number of Employees:	2,178 (Consolidated basis: 12,750)
Stock Exchange Listing:	Tokyo Stock Exchange
Transfer Agent:	The Sumitomo Trust and Banking Company, Limited Stock Transfer Agency Division 1-10, Nikko-cho, Fuchu, Tokyo 183-8701, Japan Phone: 0120-176-417

Principal Shareholders:

Name	Number of Shares Held (thousands)	Percentage of Total Shares Issued (%)
Nippon Life Insurance Company	45,339	7.05
The Dai-ichi Mutual Life Insurance Company	35,278	5.49
Trustee of general trust: Japan Trustee Services Bank, Ltd.	29,775	4.63
Taiyo Mutual Life Insurance Company	29,310	4.56
Trustee of general trust: The Master Trust Bank of Japan, Ltd.	26,903	4.19
The Sumitomo Trust and Banking Company, Limited	18,240	2.84
Trustee of general trust: Japan Trustee Services Bank, Ltd. (Truster: The Chuo Mitsui Trust and Banking Company, Limited)	13,792	2.15
Mizuho Corporate Bank, Ltd.	10,580	1.65
The Bank of Tokyo-Mitsubishi, Limited	10,089	1.57
Fukoku Mutual Life Insurance Company	9,590	1.49

KEIO ELECTRIC RAILWAY CO., LTD.
9-1, Sekido 1-chome, Tama, Tokyo 206-8502, Japan Phone: 042-337-3106 http://www.keio.co.jp

PRINTED WITH SOY INK
Trademark of American Soybean Association

Printed in Japan with soy ink on recycled paper