Year ended 31st March, 2006

Annual Report

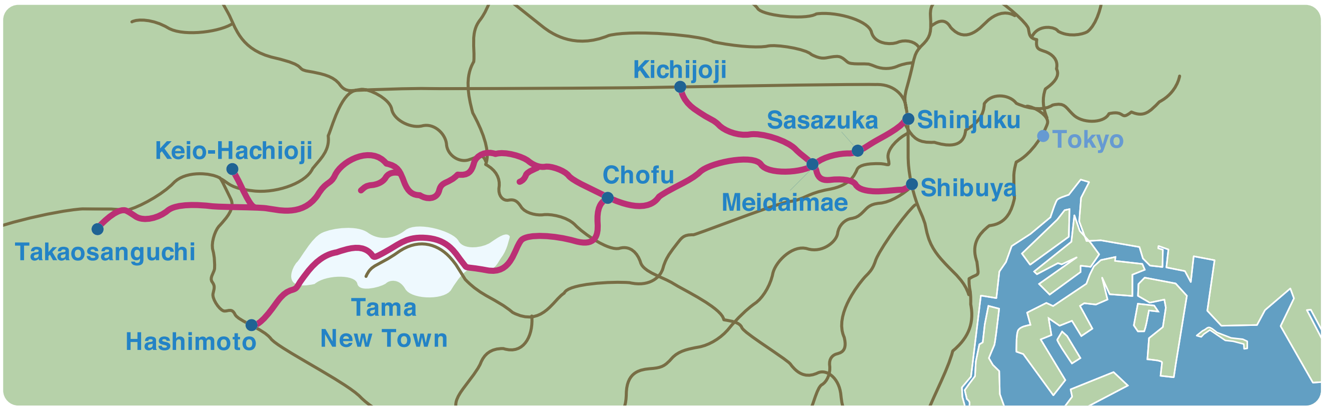
2006

Profile

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

Led by Keio Corporation, the Keio Group, 42 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 Corporation at the time such information was prepared. Accordingly, readers are cautioned against relying solely on these forward-looking prospects because actual results and strategies may differ substantially depending on changes in the Company's business environment.

Financial Highlights

Consolidated Data

Keio Corporation and its consolidated subsidiaries

Years ended 31st March	Millions of Yen 2004	Millions of Yen 2005	Millions of Yen 2006	Thousands of U.S. Dollars 2006
For the year:				
Operating revenues	¥ 427,722	¥ 433,071	¥ 438,254	$ 3,730,770
Operating income	36,223	37,096	39,937	339,977
Net income	15,317	18,764	19,868	169,129
Per share data				
Net income – basic	¥ 24.13	¥ 29.91	¥ 31.89	$ 0.271
Net income – diluted*	–	–	–	–
Cash dividends	6.00	6.00	6.00	0.051
At year-end:				
Total assets	¥ 558,708	¥ 571,311	¥ 630,701	$ 5,369,037
Total shareholders' equity	189,749	199,997	237,644	2,023,021

* There are no outstanding potentially dilutive shares.

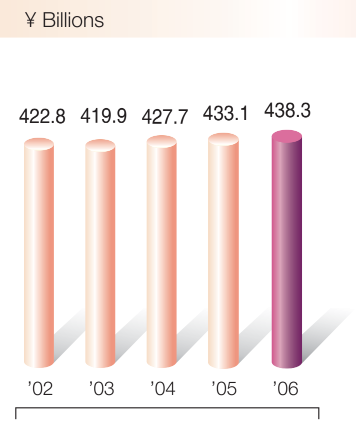
Non-Consolidated Data

Keio Corporation

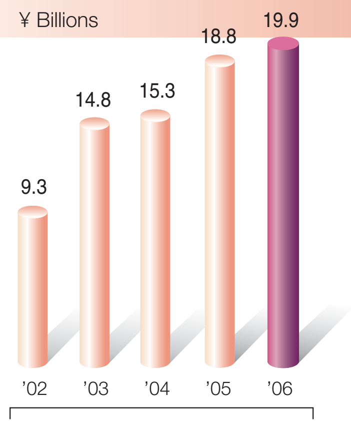
Years ended 31st March	Millions of Yen 2004	Millions of Yen 2005	Millions of Yen 2006	Thousands of U.S. Dollars 2006
For the year:				
Operating revenues	¥ 111,377	¥ 116,359	¥ 116,797	$ 994,267
Operating income	27,737	28,094	29,392	250,212
Net income	10,546	13,849	13,303	113,246
Per share data				
Net income – basic	¥ 16.57	¥ 22.04	¥ 21.30	$ 0.181
Net income – diluted*	–	–	–	–
Cash dividends	6.00	6.00	6.00	0.051
At year-end:				
Total assets	¥ 470,644	¥ 483,322	¥ 526,611	$ 4,482,943
Total shareholders' equity	150,957	156,350	186,697	1,589,314

* There are no outstanding potentially dilutive shares.

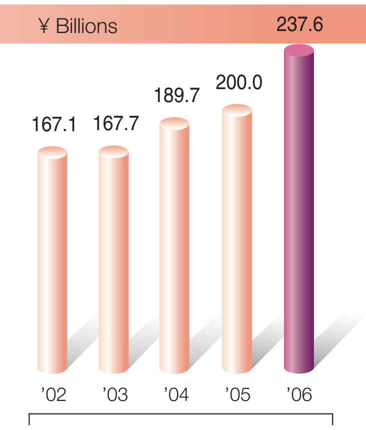
Note: The accompanying U.S. dollar amounts have been translated from Japanese yen for convenience, and as a matter of arithmetical computation only, at the rate of ¥117.47 to U.S.$1.



Consolidated Operating Revenues



Consolidated Net Income



Consolidated Shareholders' Equity

To Our Shareholders

The Keio Group records consolidated net income of ¥19.9 billion, declares annual cash dividend of ¥6.00 per share

In the fiscal year ended March, 2006, the Keio Group implemented steady and efficient business operations centered on Keio Corporation, endeavoring to maintain or improve its earning power. As a result of these efforts, the Group's consolidated net income rose to ¥19.9 billion, while Keio Corporation registered net income of ¥13.3 billion.

Based on this performance, the Group declared a fiscal year-end cash dividend of ¥3.00 per share. Including an interim cash dividend of ¥3.00 per share, annual cash dividend totaled ¥6.00 per share. Management intends to continue its efforts to achieve a stable earnings base while maintaining its dividend payout ratio at current levels over the long term.

Building a Foundation for the Business Environment of the Future

The Keio Group positioned the three years of the Medium-Term Business Plan that commenced in fiscal 2003 as a period in which we would take the first steps toward a foundation for the future growth of the entire Group. Aiming to develop the lifestyle-related business that will eventually enlarge our business fields except the railway business in the future, we took steps to develop new business. These measures included development of Kitchen Court, a new type of supermarket, and Keio PRESSO INN, a new type of no-frills service hotel.

In fiscal 2005, our Transportation Group proceeded with construction of the Chofu Tunnel and Underground Station Project and various other safety measures. The group completed renovation at Kugayama Station and made progress with "barrier-free" improvements at stations and on trains. The group also implemented a variety of new measures, such as a public relations campaign called Considerate Zone to make passengers aware of "no mobile phone use" areas of its rail cars.
The Merchandise Sales Group actively worked to improve the customer-attracting power of its stores through such measures as renovating sales floor space at Keio Department Store (Shinjuku).
On the other hand, the Real Estate Group worked to expand their operations, expanding and improving their lease assets, such as rental "designer" apartments and commercial facilities.

During the fiscal year, it was discovered that a third-party involved in the construction of the

The Keio Group Targets Safety in its Railway Business, Enhanced Value of Real Estate Around Railway Routes, and a Reputation as the “Top Brand in Trust” in the Industry.

Leisure Services Group’s three Keio PRESSO INN hotels in Kayabacho, Gotanda, and Ikebukuro had submitted false structural designs resulting in safety concerns. The group is now proceeding with the reconstruction of those buildings. Though the group gets over a big obstacle, the group will continue its efforts to strengthen and improve the Keio PRESSO INN business.

The Keio Group’s business plan for the current fiscal year is to continue with its efforts to build a foundation for the business environment of the future. In particular, the Group will give top priority to increasing the level of confidence in its services and to enhancing the value of the real estate around its railway routes. Safety is the greatest mission of the core railway business. Placing emphasis on safety in our operations and working to improve services, the Keio Group will aim to make the areas along its railway routes places that people choose to reside along.

Strengthening corporate governance and implementing environmental management, the Keio Group will strive to fulfill its corporate social responsibility.

The Keio Group aims to maintain the trust of all its stakeholders and to enhance the overall corporate value. For that purpose, we established an internal control system, initiated a compliance program, and took other steps during the fiscal year to strengthen our corporate governance. We implemented corporate social responsibility measures, such as Keio Clean Campaigns at Mt. Takao and the Tama River and provided support for the Mt. Takao reforestation project. We also published an environmental report on our social contribution and environmental activities.

As a good corporate citizen of the region that we serve, we are committed to compliance with laws and regulations and to fulfilling our social responsibility. Through this process, we plan to enhance the corporate value of the Keio Group. Through sound and fair business activities, we also intend to establish ourselves as the “Top Brand in Trust” in our industry.

In pursuing these goals, we look forward to your continued understanding and support.

June 2006

Kan Kato
President

Issues Addressed in the Medium-Term Business Plan

The fiscal year under review was the final year of the Keio Group's Medium-term Business Plan (2003-2005). Although the Group did not reach its target of consolidated operating revenues, it almost attained its consolidated net income goal and was successful in achieving the targets for consolidated ROA and ROE.

(Millions of yen)

	Fiscal 2005	
	Actual	Target
Consolidated operating revenue	438,254	450,000
Consolidated net income	19,868	20,000
Consolidated ROA	7.4 %	7.0 %
Consolidated ROE	10.6 %	10.0 %

Note: Consolidated ROA and ROE are internal indicators, for the calculation method please see Page 6 of this report.

Considering the business environment that the Keio Group will face in the future, we expect that the birthrate to decline further in Japan and personal consumption will continue to diversify. Our core railway business in particular will face fierce competition for the shrinking population, as Japan enters an era where consumers choose which railway route they want to live nearby. With these conditions in mind, the Keio Group is emphasizing the following points in the establishment of a foundation for the business environment of the future in order to achieve further growth and development.

1 Building even greater trust in our railway business

As part of the public transportation infrastructure, our core railway business is striving to make the Keio Group the "Top Brand in Trust" in our industry. To do so, the business is targeting stable operations and actively making capital investments to improve safety measures, build "barrier-free" facilities, and enhance services. To raise the trust in our services , we are further strengthening our safety management organization. We are also taking steps to improve safety, such as increasing the safety of our signal system by installing automatic train control (ATC) equipment, developing measures for dealing with fire outbreaks in the underground floors of train stations, and improving the earthquake resistance of buildings.

Cooperating with the Tokyo Metropolitan Government and Chofu City, we are proceeding with the Chofu Tunnel and Underground Station Project. On the west side of Keio Sasazuka Station, we are making preparations to eliminate the traffic bottleneck by raising the train track above ground. Discussions with related public authorities and companies regarding this project are ongoing. Among other measures, we are making facilities "barrier-free," increasing the level of convenience at our stations, and redesigning and remodeling our rail cars. We also introduced the PASMO pass, an IC-card enabling consumers to seamlessly use the transit services of many of the transportation companies in the Kanto region.

2 Development of the footholds along our railway routes

Taking into consideration the trends in surrounding areas, we are creating visions for development projects around Shinjuku, the major base of the Keio Group, and other bases along our railway routes, such as Kichijoji. We are also making plans for the redevelopment of the entire area around Seiseki-sakuragaoka and considering the possibility of new business development at Tama New Town.

3 Strengthen competitiveness of the Group

We are strengthening and expanding our lifestyle-related businesses around our stations, such as food supermarkets. Our strategies are to continue with expansion of current businesses and to proceed with commercialization of business fields for which there are recognized needs among customers. Based on market surveys and analysis, we are planning the expansion of our businesses in the areas along our railway routes.

4 Increasing the value of real estate along our railway routes

To increase the value of real estate along our railway routes, we are taking steps to make these areas highly convenient for consumers. We are further strengthening the collaboration of our railway and bus routes. Along with making stations “barrier-free,” we are providing raised entrances to stations and straight-through passageways. To ensure that our real estate along our railways remains a vibrant place to live, we are providing detailed services specific to customer needs. We are also reinforcing our collaboration with public bodies and universities in these areas.

To achieve the above measures, we are establishing an appropriate management structure, revising our organization, and training and educating our employees.

Issues Addressed in the Medium-Term Business Plan

Performance in the Fiscal Year Ended March 31, 2006

Business Results

Consolidated Operating Revenues

Revenues of all business segments were up, including the Transportation and Merchandise Sales groups, supporting a 1.2% increase in operating revenues, to ¥438,254 million. The expanded revenues could be attributed to growth in the number of passengers, a full year of revenues contribution by new stores in the department store business or book sales business, and the opening of Takaonomori Wakuwaku Village.

Consolidated Net Income

Looking at a breakdown of consolidated net income by segment, the profits of the Leisure Group declined, but profits rose for the Transportation Group and other segments. In addition to overall segment profits rising, the amortization of a difference that arose due to the shortening of the period used to calculate retirement benefit obligations of the railway business progressed, resulting in a decline in retirement benefit expenses. These factors supported a 7.7% rise in consolidated operating income, to ¥39,937 million. Consolidated net income climbed 5.9%, to ¥19,868 million despite impairment losses on Keio Presso Inn's three hotels in Kayabacho, Gotanda, and Ikebukuro being booked as extraordinary losses.

Consolidated Return on Assets (ROA)

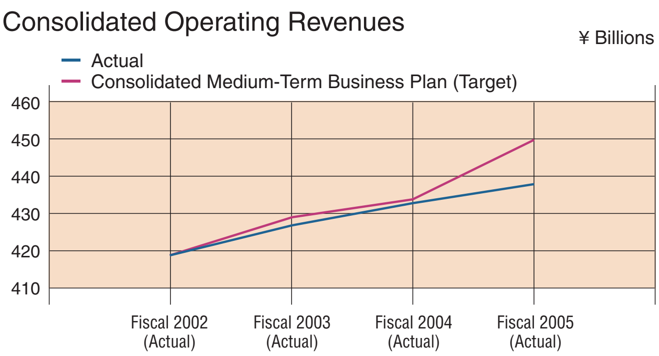
In fiscal 2005, consolidated ROA rose 0.6 percentage points, to 7.4% because of the growth in ordinary income during the fiscal year.

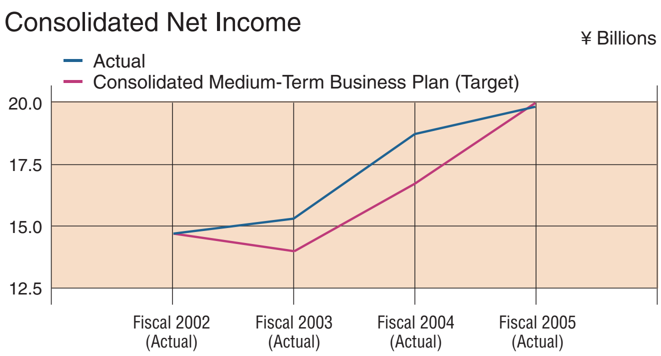
Consolidated ROA=(Ordinary Income +Interest Expense)÷Average Total Assets
The figure for average total assets is calculated after removing the adjustment amount resulting from the mark -to-market valuation of securities.

Consolidated Return on Equity (ROE)

In fiscal 2005, consolidated ROE edged down 0.1 percentage points, to 10.6% because of the growth in shareholders' equity during the fiscal year.

Consolidated ROE=Net Income÷Average Shareholders' Equity
The figure for shareholders' equity is calculated after removing the adjustment amount resulting from the mark-to-market valuation of securities.





Financial Position

Total Assets, Liabilities, and Shareholders' Equity

Total assets expanded ¥59,390 million, to ¥630,701 million due to gains on evaluation of investments in securities and other factors.

Total liabilities rose ¥21,743 million, to ¥393,057 million as a result of deferred tax liabilities arising from the gains on evaluation of investment in securities.

Shareholders' equity increased ¥37,647 million, to ¥237,644 million on the strength of growth in retained earnings and in unrealized gains on other securities, net of tax.

Consolidated Cash Flow

In the fiscal year under review, the Company recorded a net inflow of cash because of an increase in net cash provided by operating activities and a decrease in the net cash used in investing activities.

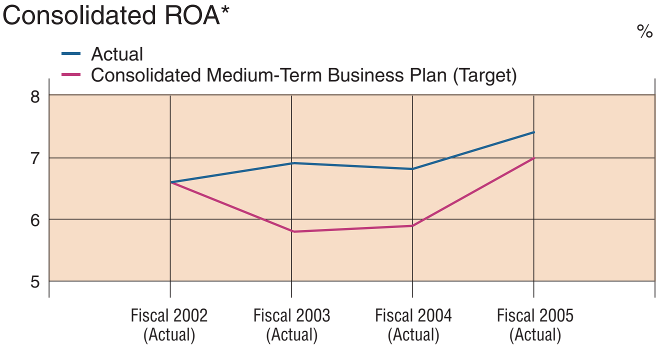
Net cash provided by operations rose ¥9,421 million, to ¥54,945 million. Declines in income taxes paid and impairment loss were among the factors contributing to this growth in cash flow.

Net cash used in investing activities contracted ¥12,910 million, to ¥33,041 million in reaction to the large payment for purchase of the Keio Kichijoji Station Building made in the previous fiscal year.

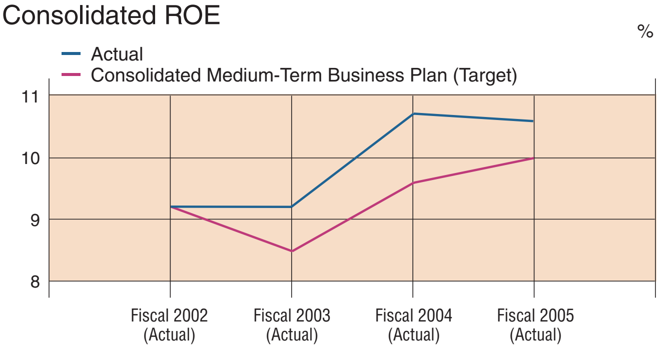
At ¥4,299 million, net cash used in financing activities was almost the same as in the previous fiscal year.

As a result, cash and cash equivalents at end of year amounted to ¥38,803 million, up ¥17,610 million from the previous fiscal year.

Consolidated ROA*

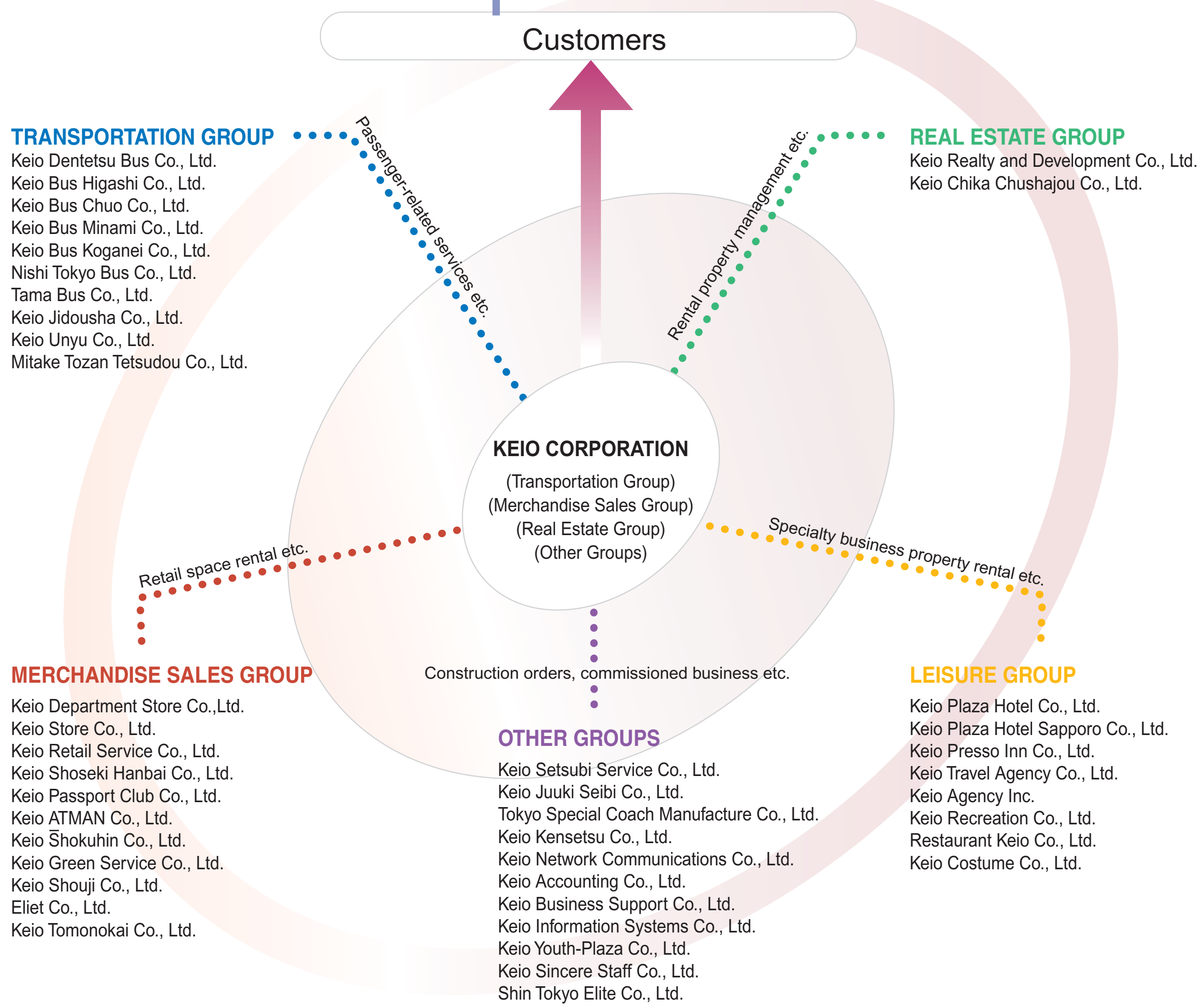


Consolidated ROE



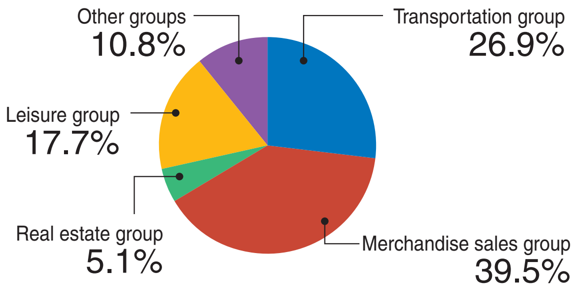
Review of Operations by Business Segment

The Keio Group

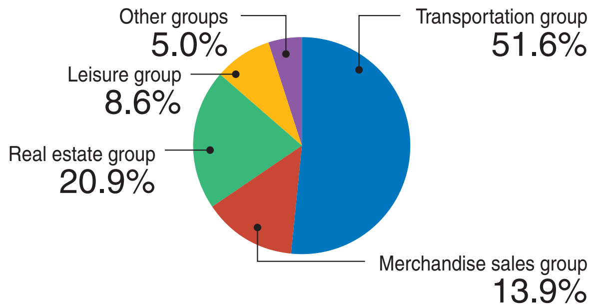


Operating Revenues and Operating Income by Segment

OPERATING REVENUES BY SEGMENT



OPERATING INCOME BY SEGMENT



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

Performance

For the fiscal year ended March 31, 2006, consolidated operating revenues totaled ¥438,254 million, rising 1.2% from the previous fiscal year. Operating income expanded 7.7% year on year, to ¥39,937 million, while net income increased 5.9 %, to ¥19,868 million.

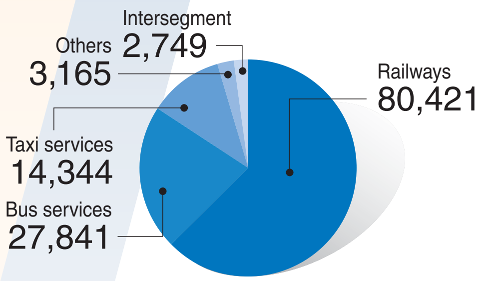
Performance by business segment was as follows.

Transportation Group

The number of passengers increased because of growth in the population along the railway lines of the Company, rising 1.3%. Within this amount, passengers who use commuter passes increased 1.3%, non-commuter pass passengers rose 1.2%, and passenger transportation revenues climbed 1.3%. In the bus service business, revenues also expanded from regularly scheduled routes and highway routes. Consequently, Transportation Group operating revenues edged up 1.4%, to ¥128,520 million, while operating income advanced 6.2%, to ¥20,897 million.

The Inokashira Line

Transportation Group Operating Revenues (¥Millions)



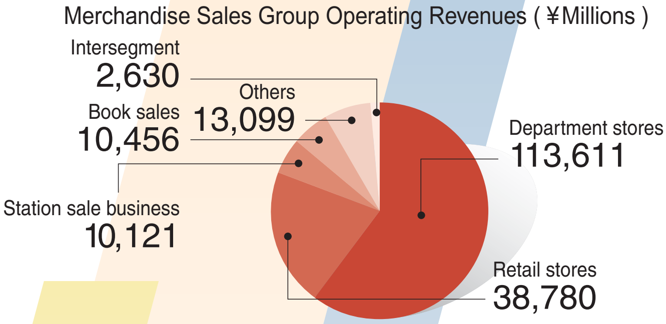
The Night Travel Highway Bus

Review of Operations by Business Segment

The Keio Group

Merchandise Sales Group

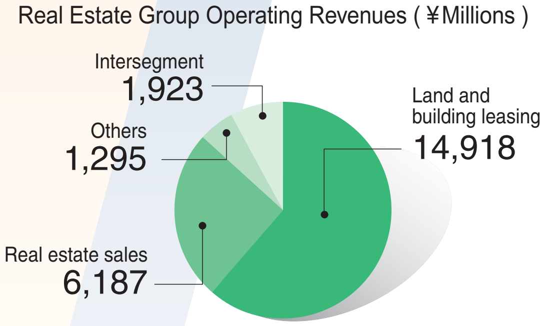
Revenues of department stores rose during the fiscal year. Sales of the Keio Takahata store, which was renovated in the previous fiscal year, a full year of sales from the Kichijoji store of our BOOKS KEIBUNDO stores, which was opened in fiscal 2004, also contributed to revenue growth. Overall, operating revenues climbed 1.3%, to ¥188,697 million. Boosted by increased profits at department stores, operating income advanced 22.0%, to ¥5,614 million.



Keio Department Store (Shinjuku)

Real Estate Group

Although real estate sales declined, leasing revenues increased during the fiscal year, resulting in operating revenues edging up 0.5%, to ¥24,323 million. Operating income grew 14.0%, to ¥8,473 million, bolstered by the full-scale start of operations of the Keio Shinagawa Building and a full year of operation of the Keio Kichijoji Station Building.

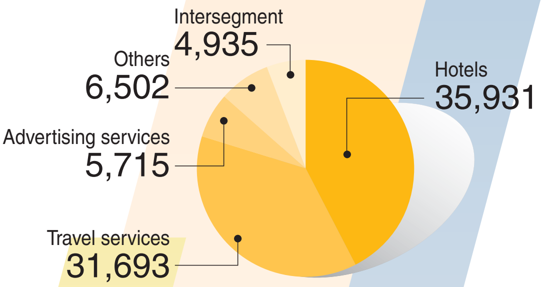


The Frente Shinjuku
(The Underground Shopping Mall)

Leisure Group

Despite a decline in the transaction volume of travel services, a strong performance by the Keio Plaza Hotel Tokyo supported a 0.6% rise in operating revenues, to ¥84,776 million. Operating income decreased 7.2%, to ¥3,482 million, affected by the start up costs for Keio Presso Inn's three new hotels in Shinjuku, Kayabacho, and Otemachi and the impact of the later suspension of business.

Leisure Group Operating Revenues (¥Millions)

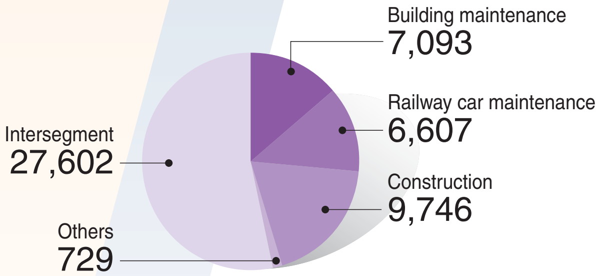


The Keio Plaza Hotel Tokyo

Other Groups

As a result of increased commissioned work, such as building cleaning and management and rail stock maintenance, and the start of business at Takaonomori Wakuwaku Village, the operating revenues of this group climbed 5.0%, to ¥51,777 million. Operating income rose 3.4%, to ¥2,046 million.

Other Groups Operating Revenues (¥Millions)



Takaonomori Wakuwaku Village

Basic Stance on Corporate Governance and Enhancement

Basic Stance

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

The Company has adopted a board of auditors system. The board of directors includes outside directors and presidents of important subsidiaries of the Group, and makes decisions on legal matters, important business matters, and oversees business execution. The corporate auditors carry out audits of the Group based on basic policies decided by the Board of Auditors in accordance with legal and other standards. In addition, they attend board of director and other important meetings and provide their opinions as necessary. The Company also has elected special directors in accordance with the provisions of the Corporation Law to enable quick decision-making. Moreover, it has established Nomination and Compensation committees as advisory arms to the Board of Directors to increase the transparency of its management activities. Keio also established a Disclosure Committee to ensure the timely and appropriate disclosure of business information.

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

Business Execution, Audit, Supervisory, Nomination, and Compensation Functions

Execution and Supervision

Keio Corporation's Board of Directors is comprised of 18 members, including 2 outside directors and 6 presidents of the major companies of the Group. In principle, the Board of Directors meets once a month to decide items defined by law, make important business decisions, and oversee business operations. The special directors elected by the Board of Directors make decisions on the disposal or sale of important assets and major borrowings as provided for under the Corporation Law.

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

Audits by Corporate Auditors

Keio Corporation has four corporate auditors, three of whom are outside auditors. They conduct audits of the job performance of the Board of Directors, inspecting important decision-making material and conducting surveys of business and financial assets in accordance with basic principles decided by the Board of Auditors based on laws, the Articles of Incorporation, Board of Auditors Rules, and auditing standards. In addition, the corporate auditors attend Board of Directors and other important meetings and provide their opinions as necessary.

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

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

Nomination and Compensation Functions

In February 2006, aiming to make its management activities more transparent, the Company established the Nomination and Compensation committees to act as advisory arms to the Board of Directors. Comprised of members including outside directors, these committees suggest candidates for directors and levels of compensation for directors to the Board of Directors.

Audit Organization, Staffing, and Procedures

The internal audit function of Keio Corporation is carried out by the Audit Department, which is comprised of 19 staff members and reports directly to the President. The Audit Department performs audits to inspect compliance with laws and company regulations and the appropriateness and effectiveness of business administration. Based on those inspections, the department makes suggestions on rationalization of management, improvement of business administration and efficiency, and sound development of the Company

The Audit Department reports the results of these audits to the President, corporate auditors, and other related sections as well as the Board of Directors to promotes the improvement of the internal audit system. The members of the Group Auditors Meeting are, in principle, attached to the Audit Department, and the Group Auditors and the Audit Department mutually collaborate to ensure appropriate business conduct by the entire Keio Group.

Risk Factors

Risks that could possibly exert a strong influence on the investment decision of investors are described below. Aware of these risks, the Keio Group takes steps to avoid these events occurring, and should they occur, to minimize their impact. Forward-Looking Statements have been determined by the management of the Keio Group based on the information available at the time of the submission of Keio Corporation's Securities Report (June 29, 2006).

Natural Disasters and Other Accidents

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

Progressive Decline in Family Size and Aging of Communities

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

Setting and Revision of Passenger Fares

Under the law for the railway business, passenger fares in the railway transportation business segment are set and revised by the Ministry 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 (total costing) to ensure efficient management. Since the Group's operations are restricted by this system, it could seriously affect the performance and financial position of the Group.

Deterioration and Faults with Real Estate Assets

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

Asbestos

The Keio Group owns many facilities and structures, and is currently conducting investigations to determine whether or not asbestos has been used in the construction of those facilities and structures. In future, the Group is committed to dealing with any issues that may arise in accordance with measures regarding asbestos announced by the government of Japan. However, should clean up operation be required, the facilities or structures involved may temporarily be unusable or incur significant expenses in the clean up process. These situations could seriously affect the performance and financial position of the Group.

Safety of Food Products

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

Management of Personal Information

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

Disclosure

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

Market Interest Rate Fluctuation and the Company's Ratings

The major portion of the Group's interest-bearing debt is comprised of long-term borrowings and corporate bonds with fixed interest rates. Consequently, the Group considers itself to have limited exposure to interest rate fluctuations in the market.

Although the Keio Group has received an AA rating from the main rating agencies in Japan, the Group must be careful because there is a constant possibility that the rating could be downgraded should an increase in interest-bearing debt occur without a rational explanation. If the rating was downgraded, the Group's cost of funds would increase, which could have a negative impact on the performance and financial position of the Group.

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

Keio Corporation and its consolidated subsidiaries

Consolidated Balance Sheets

As of 31st March 2005 and 2006

ASSETS	Millions of Yen 2005	Millions of Yen 2006	Thousands of U.S. Dollars (Note 3) 2006
Current Assets:			
Cash and bank deposits (Note 4)	¥ 22,240	¥ 28,833	$ 245,452
Short-term investments (Notes 4 and 5)	35	–	–
Notes and accounts receivable, trade	26,239	27,630	235,213
Allowances for doubtful accounts	(245)	(331)	(2,821)
Inventories	28,158	25,771	219,385
Deferred tax assets (Note 9)	3,682	4,147	35,300
Other current assets	2,886	13,610	115,856
Total current assets	82,995	99,660	848,385
Investments and Advances:			
Investments in securities (Note 5)	56,400	97,728	831,940
Investments in affiliates and unconsolidated subsidiaries	1,505	1,613	13,734
	57,905	99,341	845,674
Property and Equipment, at book value (Notes 6 and 7):			
Land	105,386	111,329	947,724
Buildings and structures	240,156	237,870	2,024,941
Machinery, rolling stock and equipment	32,780	33,503	285,204
Tools, furniture and fixtures	8,456	8,624	73,418
Construction- in- progress	19,860	20,402	173,674
	406,638	411,728	3,504,961
Intangible fixed assets	3,318	3,011	25,629
Deferred tax assets (Note 9)	8,366	7,861	66,918
Other assets	12,089	9,100	77,470
Total assets	¥ 571,311	¥ 630,701	$5,369,037

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2005	Millions of Yen 2006	Thousands of U.S. Dollars (Note 3) 2006
Current Liabilities:			
Short-term bank borrowings (Note 7)	¥ 38,319	¥ **39,739**	$ **338,291**
Current portion of long-term debt (Note 7)	12,092	**18,249**	**155,350**
Notes and accounts payable, trade	23,096	**22,614**	**192,506**
Consumption taxes payable	1,017	**1,702**	**14,485**
Income taxes payable	7,501	**10,165**	**86,530**
Reserve for employees' bonuses	2,646	**2,627**	**22,367**
Advances received	9,438	**9,969**	**84,864**
Other current liabilities	46,753	**53,060**	**451,692**
Total current liabilities	140,862	**158,125**	**1,346,085**
Long-term debt (Note 7)	163,068	**156,848**	**1,335,219**
Reserve for retirement benefits (Note 10)	28,395	**25,270**	**215,121**
Reserve for retirement benefits to directors and corporate auditors (Note 10)	666	**728**	**6,195**
Special reserve for expansion of railway transport capacity (Note 11)	7,039	**4,692**	**39,945**
Deferred tax liabilities (Note 9)	5,684	**20,363**	**173,344**
Other non-current liabilities	25,600	**27,031**	**230,107**
Total liabilities	371,314	**393,057**	**3,346,016**
Shareholders' Equity (Note 12):			
Common stock :			
Authorized 1,580,230,000 shares			
Issued 642,754,152 shares	59,024	**59,024**	**502,459**
Additional paid-in capital	42,016	**42,018**	**357,688**
Retained earnings	92,602	**108,652**	**924,931**
Unrealized gains on other securities, net of tax	19,624	**43,155**	**367,376**
Treasury stock, at cost			
2005 : 22,297,492 shares	(13,269)	**–**	**–**
2006 : 24,990,990 shares	–	**(15,205)**	**(129,433)**
Total shareholders' equity	199,997	**237,644**	**2,023,021**
Contingent Liabilities (Note 14)			
Total liabilities and shareholders' equity	¥ 571,311	¥ **630,701**	$ **5,369,037**

Keio Corporation and its consolidated subsidiaries

Consolidated Statements of Income and Retained Earnings

For the years ended 31st March 2004, 2005 and 2006

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2004	2005	**2006**	**2006**
Operating Revenues	¥ 427,722	¥ 433,071	**¥ 438,254**	**$ 3,730,770**
Operating Costs and Expenses:				
Operating costs	343,009	346,242	**349,670**	**2,976,669**
Selling, general and administrative expenses	48,490	49,733	**48,647**	**414,124**
	391,499	395,975	**398,317**	**3,390,793**
Operating income	36,223	37,096	**39,937**	**339,977**
Non-Operating Income (Expenses):				
Interest and dividend income	434	505	**746**	**6,352**
Interest expense	(5,424)	(4,985)	**(4,918)**	**(41,867)**
Loss on disposal of property and equipment	(2,328)	(1,563)	**(1,650)**	**(14,042)**
Subsidy received from Tokyo Metropolitan Government, etc.	785	677	**1,936**	**16,480**
Advance depreciation of fixed assets	(843)	(1,137)	**(1,932)**	**(16,449)**
Equity in earnings of affiliates and unconsolidated subsidiaries	75	62	**114**	**974**
Gain (Loss) on sale of investments in securities	1,293	858	**184**	**1,567**
Loss on revaluation of investments in securities	(368)	(118)	**–**	**–**
Loss on revaluation of real estate inventories for sale	–	(841)	**–**	**–**
Reversal of special reserve for expansion of railway transport capacity	2,346	2,346	**2,346**	**19,973**
Gain on sale of property and equipment	203	473	**141**	**1,200**
Impairment loss (Note 8):	(4,957)	(733)	**(2,698)**	**(22,972)**
Special retirement payments	–	–	**(882)**	**(7,508)**
Loss on the amendment of the retirement benefits plan	–	(689)	**–**	**–**
Non-recurring depreciation (Note 2):	–	–	**(713)**	**(6,072)**
Other, net	(327)	36	**922**	**7,847**
	(9,111)	(5,108)	**(6,404)**	**(54,517)**
Income before income taxes and minority interest in income of consolidated subsidiaries	27,112	31,988	**33,533**	**285,460**
Income Taxes (Note 9):				
Current	14,820	12,581	**15,095**	**128,503**
Deferred	(3,043)	643	**(1,430)**	**(12,172)**
	11,777	13,224	**13,665**	**116,331**
Income before minority interest in income of consolidated subsidiaries	15,335	18,764	**19,868**	**169,129**
Minority interest in income of consolidated subsidiaries	18	–	**–**	**–**
Net income	15,317	18,764	**19,868**	**169,129**
Retained Earnings:				
Balance at beginning of year	66,579	77,688	**92,602**	**788,301**
Appropriations:				
Cash dividends	(4,113)	(3,755)	**(3,723)**	**(31,690)**
Directors' bonuses	(95)	(95)	**(95)**	**(809)**
Balance at end of year	¥ 77,688	¥ 92,602	**¥ 108,652**	**$ 924,931**

	Yen			U.S. Dollars (Note 3)
Net Income Per Share:				
Basic	¥ 24.13	¥ 29.91	**¥ 31.89**	**$ 0.271**
Weighted average number of shares outstanding (in thousands)	630,779	624,116	**619,978**	

Because there is no diluted share, net incomes per diluted share on each year are not mentioned.

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

Keio Corporation and its consolidated subsidiaries

Consolidated Statements of Cash Flows

For the years ended 31st March 2004, 2005 and 2006

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2004	2005	**2006**	**2006**
Cash flows from operating activities:				
Income before income taxes and minority interest in income of consolidated subsidiaries	¥ 27,112	¥ 31,988	**¥ 33,533**	**$ 285,460**
Adjustments for:				
Depreciation and amortization	27,517	27,509	**28,184**	**239,923**
Impairment loss	4,957	733	**2,698**	**22,972**
(Decrease) Increase in reserve for retirement benefits	(2,224)	(3,041)	**(1,438)**	**(12,245)**
Decrease in special reserve for expansion of railway transport capacity	(2,346)	(2,346)	**(2,346)**	**(19,973)**
Loss on revaluation of real estate inventories for sale	610	841	**178**	**1,516**
Loss on revaluation of investments in securities	368	118	**17**	**143**
Loss on disposal of property and equipment	2,545	1,623	**2,619**	**22,293**
Advance depreciation of fixed assets	843	1,137	**1,586**	**13,505**
Interest and dividend income	(434)	(505)	**(746)**	**(6,352)**
Interest expense	5,424	4,985	**4,918**	**41,868**
Subsidy received from Tokyo Metropolitan Government, etc.	(785)	(677)	**(1,936)**	**(16,480)**
Loss (Gain) on sale of investments in securities	(1,293)	(858)	**(184)**	**(1,567)**
Decrease (Increase) in notes and accounts receivable	(568)	(422)	**(1,391)**	**(11,843)**
Decrease (Increase) in inventories	1,337	1,110	**2,260**	**19,236**
Increase (Decrease) in notes and accounts payable	1,633	605	**2,239**	**19,063**
Other, net	8,801	4,090	**984**	**8,380**
Subtotal	73,497	66,890	**71,175**	**605,899**
Interest and dividends received	317	510	**750**	**6,384**
Interest paid	(5,435)	(4,996)	**(4,904)**	**(41,752)**
Income taxes paid	(8,288)	(16,880)	**(12,076)**	**(102,797)**
Net cash provided by operating activities	60,091	45,524	**54,945**	**467,734**
Cash flows from investing activities:				
Payments for purchase of property and equipment	(39,765)	(48,320)	**(34,975)**	**(297,737)**
Proceeds from sale of property and equipment	581	780	**778**	**6,626**
Proceeds from sale of short-term investments	968	20	**32**	**273**
Payments for purchase of securities and other investments	(403)	(56)	**(1,782)**	**(15,168)**
Proceeds from sale of securities and other investments	2,576	1,458	**303**	**2,581**
Subsidy received from Tokyo Metropolitan Government, etc.	1,237	1,090	**2,898**	**24,667**
Other, net	(4,588)	(923)	**(295)**	**(2,512)**
Net cash used in investing activities	(39,394)	(45,951)	**(33,041)**	**(281,270)**
Cash flows from financing activities:				
Increase (Decrease) in short-term bank borrowings, net	(2,171)	(1,080)	**1,420**	**12,088**
Increase in long-term debt	7,210	9,050	**13,070**	**111,263**
Repayment of long-term debt	(15,295)	(14,197)	**(13,133)**	**(111,795)**
Proceeds from issuance of bonds	–	10,000	**–**	**–**
Purchase of treasury stock	(4,939)	(4,420)	**(1,963)**	**(16,715)**
Cash dividends paid	(4,113)	(3,756)	**(3,723)**	**(31,690)**
Other, net	22	89	**30**	**251**
Net cash used in financing activities	(19,286)	(4,314)	**(4,299)**	**(36,598)**
Exchange gain (loss) on cash and cash equivalents	3	5	**5**	**43**
Net increase (decrease) in cash and cash equivalents	1,414	(4,736)	**17,610**	**149,909**
Cash and cash equivalents at beginning of year	24,515	25,929	**21,193**	**180,412**
Cash and cash equivalents at end of year (Note 4)	¥ 25,929	¥ 21,193	**¥ 38,803**	**$ 330,321**

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

Keio Corporation and its consolidated subsidiaries

Notes to the Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Keio Corporation (the "Company") and its consolidated subsidiaries (collectively, the "Companies") 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 Corporation and its 36 significant subsidiaries as of 31st March 2006. 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 2006.

(2) Elimination and Consolidation

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

The full fair value method has been adopted to evaluate the assets and liabilities of consolidated subsidiaries.

(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.

(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 the fair value and the resulting losses changed to income.

(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.

(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.

(An Additional Note)
Effective from the year ended 31st March 2006, the Company decided to make additional depreciation change on the assets, as the residual value prescribed by Japanese Corporate tax law, 5% of

acquisition cost, are not recoverable. The depreciation cost were changed as “The operating cost” of 317 million yen and non-operational expense of 713 million yen shown as “Non-recurring depreciation”.

(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 as 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 lives of the software (principally 3 years).

(10) Deferred Charges

Bond issuance cost is charged to income as incurred.

(11) Railway business construction fund

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

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

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

(12) Income Taxes

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

(13) Accounting for Reserves

i. Reserve for employees’ bonuses
A “Reserve for employees’ bonuses” is provided for based on the service rendered by employees for the calculation period.

ii. Reserve for retirement benefits

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

Effective from the year ended 31st March 2006, the Companies adopted the amended Japanese Accounting Standard for Retirement Benefits. The effect of this change was to increase “Operating income”, and “Income before income taxes and minority interest in income of consolidated subsidiaries” and “Net income” by 512 million yen respectively.

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.

(14) Accounting Standard for the Real Estate Businesses

A certain part of revenue of the real estate businesses is recognized by installment method, that is, when the install payment comes to due, the corresponding revenue and cost are recognized.

(15) Net Income per Share

Basic income per share of common stock is computed based on the weighted average number of ordinary shares in issue 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.

Diluted net income per share was not applicable for the years ended 31st March 2004, 2005 and 2006 because there was no dilution on each year.

(16) Accounting for Consumption Taxes

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

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

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 ¥117.47=U.S.$1, the approximate current rate at 31st March 2006, 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
	2005	**2006**	**2006**
Cash and bank deposits	¥ 22,240	¥ **28,833**	$ **245,452**
Marketable securities	35	**–**	**–**
Securities with repurchase agreement included in short-term loans	–	**10,000**	**85,125**
Time deposits due over 3 months	(1,047)	**(30)**	**(256)**
Government and corporate bonds due after 3 months	(35)	**–**	**–**
Cash and cash equivalents	¥ 21,193	¥ **38,803**	$ **330,321**

5. Marketable Securities and Investments in Securities

Marketable securities included in "Short-term investments" and "Investments in securities" at 31st March 2005 and 2006 consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	2005	**2006**	**2006**
Marketable securities (Current portfolio):			
Government and corporate bonds	¥ 35	¥ **–**	$ **–**
	35	**–**	**–**
Investments in securities (Non-current portfolio):			
Listed corporate shares	51,844	**93,224**	**793,597**
Government and corporate bonds and unlisted corporate shares	4,556	**4,504**	**38,343**
	¥ 56,400	¥ **97,728**	$ **831,940**

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 2005 and 2006 are summarized as follows:

Other securities:

2005 — Millions of Yen	Cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Listed shares	¥ 18,780	¥ 51,844	¥ 33,066	¥ 1
Bonds	3,101	3,182	82	1
Others	163	159	–	5
	¥ 22,044	¥ 55,185	¥ 33,148	¥ 7

2006 — Millions of Yen	Cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Listed shares	¥ **20,476**	¥ **93,224**	¥ **72,749**	¥ **1**
Bonds	**3,116**	**3,166**	**54**	**4**
Others	**136**	**159**	**23**	**–**
	¥ **23,728**	¥ **96,549**	¥ **72,826**	¥ **5**

2006 — Thousands of U.S. Dollars	Cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Listed shares	$ **174,310**	$ **793,597**	$ **619,297**	$ **11**
Bonds	**26,522**	**26,951**	**458**	**29**
Others	**1,161**	**1,357**	**197**	**–**
	$ **201,993**	$ **821,905**	$ **619,952**	$ **40**

The profit and loss on sale of other securities for the year ended 31st March 2006 is as follows:

Other securities:

	2006	
	Millions of Yen	Thousands of U.S. Dollars
Carrying amount	¥ 76	$ 645
Profit on sale	184	1,567
Loss on sale	3	25

The carrying amount of securities for which a fair value is not available at 31st March 2005 and 2006 is summarized as follows:

Other securities:

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2005	2006	2006
Unlisted shares	¥ 1,185	¥ 1,178	$ 10,026
Others	65	1	9
	¥ 1,250	¥ 1,179	$ 10,035

6. Accumulated Depreciation

Accumulated depreciation and impairment, deducted from the cost of property and equipment in the accompanying consolidated balance sheets, amounted to ¥ 429,676 million and ¥ 443,372 million ($3,774,344 thousand) at 31st March 2005 and 2006, respectively.

Impairment losses are included in the accumulated depreciation at 31st March 2005 and 2006.

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 2005 and 2006.

"Long-term debt" at 31st March 2005 and 2006 consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2006	2006
Long-term loans from banks and other financial institutions secured primarily by collateral, due from 2006 to 2025 at the weighted average rate of 2.7 per cent per annum	¥ 108,545	¥ 109,322	$ 930,636
3.075 per cent yen bonds due April 2012 (Series No. 18)	20,000	20,000	170,256
2.7 per cent yen bonds due April 2007 (Series No. 19)	10,000	10,000	85,128
2.7 per cent yen bonds due August 2013 (Series No. 20)	10,000	10,000	85,128
2.175 per cent yen bonds due August 2008 (Series No. 21)	10,000	10,000	85,128
1.640 per cent yen bonds due March 2015 (Series No. 22)	10,000	10,000	85,128
Long-term accounts payable	6,615	5,775	49,166
	175,160	175,097	1,490,570
Less: current portion (amount due within one year)	(12,764)	(18,929)	(161,145)
	¥ 162,396	¥ 156,168	$ 1,329,425

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 2005 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2006	2006
At net book value			
Property and equipment	¥ 194,154	¥ 196,050	$ 1,668,935
Other	1,165	1,210	10,305
	¥ 195,319	¥ 197,260	$ 1,679,240

The aggregate annual maturities of long-term loans from banks and other financial institutions in the 5 years following 31st March 2006 are as follows:

Year ending 31st March		Millions of Yen		Thousands of U.S. Dollars
2007	¥	18,928	$	161,127
2008		12,887		109,703
2009		12,757		108,594
2010		11,082		94,343
2011		7,380		62,826
	¥	63,034	$	536,593

8. Impairment Loss on Fixed Assets

The Companies sorted out their fixed assets into several groups individually in managerial accounting based on divisions or objects/stores. Impairment losses on fixed assets for the years ended March 31, 2005 and 2006 consisted of the following:

<table>
<tr><th colspan="6">For the years ended March 31</th></tr>
<tr><th colspan="3">2005</th><th colspan="3">2006</th></tr>
<tr><th>Use</th><th>Type of assets</th><th>Location</th><th>Use</th><th>Type of assets</th><th>Location</th></tr>
<tr><td>Mainly commercial facilities (1 item)</td><td>Buildings and structures, etc</td><td>Suginami-ku, Tokyo</td><td>Mainly hotel facilities (3 items)</td><td>Buildings and structures, etc</td><td>Chuo-ku, Tokyo</td></tr>
<tr><td>Idle land (1 item)</td><td>Land</td><td>Tama City, Tokyo</td><td rowspan="2">Mainly commercial facilities (11 items)</td><td rowspan="2">Buildings and structures, etc</td><td rowspan="2">Tachikawa City, Tokyo etc.</td></tr>
<tr><td>Mainly leisure facilities (1 item)</td><td>Buildings and structures, etc</td><td>Nakakubiki-gun, Niigata Prefecture</td></tr>
</table>

The Companies recognized impairment losses because (a) for the hotel facilities, the dismantling of hotel buildings were decided because the forgery of the public structure checks became clear, (b) for the commercial facilities, the actual revenue is less than the expected due to the long term depression of the market, (c) for leasehold properties, they are scheduled to be demolished or their market values have significantly declined, (d) for idle land, its market values have significantly declined, and (e) for leisure facilities, their market values have significantly declined.

The detail of impairment loss for the years ended March 31, 2005 and 2006 is as follows;

		Millions of Yen				Thousands of U.S. Dollars
		2005		**2006**		**2006**
Property and equipment	¥	712	**¥**	**2,690**	**$**	**22,903**
- Land		258		**–**		**–**
- Building and structures		409		**2,465**		**20,988**
- Machinery , rolling stock and equipment		39		**69**		**584**
- Other		6		**156**		**1,331**
Intangible assets		0		**3**		**23**
Other assets		21		**5**		**46**
Total	¥	733	**¥**	**2,698**	**$**	**22,972**

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

In the case of measuring at the value in use, the impairment amount of certain facilities is based on the net present values of future cash in flows with the discount rate of 5%. The leasehold properties to be disposed are substantially written off.

9. Income Taxes

The statutory tax rate used for calculating deferred tax assets as of 31st March 2005 and 2006 was 40.69%.

At 31st March 2005 and 2006, significant components of deferred tax assets were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	**2006**	**2006**
Deferred tax assets:			
Reserve for employees' bonuses	¥ 1,097	¥ **1,094**	$ **9,312**
Enterprise tax payable	699	**896**	**7,631**
Reserve for retirement benefits	9,592	**9,699**	**82,565**
Reserve for directors' retirement benefits	271	**296**	**2,521**
Loss on revaluation of property and equipment	1,764	**1,787**	**15,212**
Unrealized gain on property and equipment	1,608	**1,622**	**13,804**
Loss on non-recurring depreciation	510	**1,397**	**11,892**
Impairment loss	1,926	**1,690**	**14,383**
Accruals for reward card	400	**346**	**2,947**
Loss carry forwards	39	**219**	**1,863**
Other	1,945	**2,235**	**19,028**
Total deferred tax assets	¥ 19,851	¥ **21,281**	$ **181,158**
Deferred tax liabilities:			
Unrealized gains on other securities	(13,487)	**(29,636)**	**(252,284)**
Total deferred tax liabilities	(13,487)	**(29,636)**	**(252,284)**
Net of deferred tax assets	¥ 6,364	**(8,355)**	$ **(71,126)**

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

	Millions of Yen		Thousands of U.S. Dollars
	2005	**2006**	**2006**
The valuation allowances	¥ 313	¥ **585**	$ **4,977**

The reconciliation of the difference between the statutory tax rate and the effective income tax rate for the years ended 31st March 2005 and 2006 were not disclosed because such difference was less than 5 % of statutory tax rate.

10. Retirement Plan

The Company has the following retirement benefit plans: a defined benefit plan (similar to a cash balance plan), a tax-qualified pension plan, and a lump sum payment system. In March 2006, the Company shifted a large part of its tax-qualified pension plan to a defined benefit plan.

In addition, certain consolidated subsidiaries have the following retirement benefit plans: a tax-qualified pension plan (a defined benefit-type plan), a defined contribution plan and a lump sum payment system. Certain consolidated subsidiaries shifted their tax-qualified pension plans to defined contribution pension plans and prepaid retirement plans in April 2005.

The "Reserve for retirement benefits" as of 31st March 2005 and 2006 can be analyzed as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	**2006**	**2006**
Projected benefit obligations	¥ (96,730)	¥ **(87,154)**	$ **(741,929)**
Plan assets	70,308	**79,328**	**675,304**
Unfunded status	(26,422)	**(7,826)**	**(66,625)**
Unrecognized actuarial differences	8,744	**(4,276)**	**(36,397)**
Unrecognized prior service cost	(7,671)	**(10,738)**	**(91,406)**
Unrecognized plan assets	(1,438)	**–**	**–**
Reserve for retirement benefits-net	(26,787)	**(22,840)**	**(194,428)**
Prepaid pension cost	1,608	**2,430**	**20,693**
Reserve for retirement benefits	¥ (28,395)	**(25,270)**	$ **(215,121)**

The "Prior service cost" incurred as the Company and certain consolidated subsidiaries partly changed provisions of retirement plan, and their funded pension plans.

The net pension expense for the years ended 31st March 2004, 2005 and 2006 was as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2004	2005	**2006**	**2006**
Service cost	¥ 3,221	¥ 2,977	¥ **3,000**	$ **25,536**
Interest cost	2,256	1,912	**1,790**	**15,238**
Expected return on plan assets	(334)	(429)	**(478)**	**(4,074)**
Amortization of unrecognized actuarial difference	3,111	4,497	**2,251**	**19,165**
Amortization of prior service cost	(737)	(793)	**(816)**	**(6,945)**
Purchase payments for defined contribution annuity	–	–	**112**	**956**
Net pension expense	¥ 7,517	¥ 8,164	¥ **5,859**	$ **49,876**

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

	As of 31st March 2005	As of 31st March 2006
Discount rate	Principally 2.0%	Principally 2.0%
Expected rate of return on plan assets	Principally 0.5%	Principally 0.5%
Method of attributing the projected benefits to periods of service	Straight-line basis	Straight-line basis
Amortization of unrecognized actuarial differences	Principally 5 years	Principally 5 years
Amortization of prior service cost	Principally 14 years	Principally 14 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.

11. Special Reserve for Expansion of Railway Transport Capacity

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

12. Shareholders' Equity

During the years ended 31st March 2004, 2005 and 2006, 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 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**
Loss from disposal of treasury stock			**(1)**
Balance at 31st March 2005	642,754	¥ **59,024**	¥ **42,016**
Gain from disposal of treasury stock			**2**
Balance at 31st March 2006	642,754	¥ **59,024**	¥ **42,018**

	Thousands of U.S. Dollars	
	Common stock	Additional paid-in capital
Balance at 31st March 2005	$ **502,459**	$ **357,677**
Balance at 31st March 2006	$ **502,459**	$ **357,688**

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.

13. Lease Transactions

Lease rental expenses paid by the Companies under finance lease contracts without transfer of ownership for the years ended 31st March 2005 and 2006 were ¥786 million and ¥790 million ($6,727 thousand), respectively.

The scheduled maturities of future lease rental payments under such finance lease contracts at 31st March 2006 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 603	$ 5,136
Due after one year	1,292	10,996
Subtotal	1,895	16,132
Impairment loss on leased assets	(4)	(33)
Total	¥ 1,891	$ 16,099

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

The acquisition cost, accumulated depreciation, net book value at 31st March 2005 and 2006, and depreciation expense and impairment loss for the years ended 31st March 2005 and 2006, that would have been applicable if such leased assets had been capitalized, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2006	2006
Acquisition cost	¥ 3,852	¥ 3,937	$ 33,511
Accumulated depreciation	(2,145)	(2,042)	(17,379)
Accumulated Impairment loss	–	(4)	(33)
Net book value	1,707	1,891	16,099
Depreciation	¥ 786	¥ 790	$ 6,727

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

14. Contingent Liabilities

At 31st March 2006 the Companies were contingently liable under guarantees for borrowings of employees and others from financial institutions as follows:

	Millions of Yen	Thousands of U.S. Dollars
Loans borrowed by:		
Employees for housing	¥ 1,959	$ 16,677
Others	1,173	9,985
	¥ 3,132	$ 26,662

15. 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 ¥67,898 million at 31st March 2005 and ¥110,635 million ($941,818 thousand) at 31st March 2006.

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 2004, 2005 and 2006 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
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

	Millions of Yen							
	Transportation	Merchandise Sales	Real Estate	Leisure	Other	Sub Total	Elimination or Corporate	Consolidated
2005:								
Operating revenues:								
Customers	¥ 123,856	¥ 183,775	¥ 22,322	¥ 79,769	¥ 23,348	¥ 433,071	¥ –	¥ 433,071
Intersegment	2,845	2,524	1,870	4,473	25,982	37,694	(37,694)	–
Total	126,701	186,299	24,192	84,242	49,330	470,765	(37,694)	433,071
Operating costs and expenses	107,030	181,696	16,759	80,490	47,352	433,328	(37,353)	395,975
Operating income	¥ 19,671	¥ 4,603	¥ 7,433	¥ 3,752	¥ 1,978	¥ 37,437	¥ (341)	¥ 37,096
Assets (at year-end)	¥ 250,574	¥ 81,372	¥ 103,826	¥ 90,329	¥ 69,554	¥ 595,655	¥ (24,344)	¥ 571,311
Depreciation	15,667	3,488	4,090	3,793	533	27,571	(62)	27,509
Impairment loss	–	12	–	463	259	733	–	733
Capital expenditure	26,521	5,417	10,176	7,112	549	49,775	(28)	49,747

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

	Thousands of U.S. Dollars							
	Transportation	Merchandise Sales	Real Estate	Leisure	Other	Sub Total	Elimination or Corporate	Consolidated
2006:								
Operating revenues:								
Customers	$ 1,070,664	$ 1,583,954	$ 190,689	$ 679,666	$ 205,797	$ 3,730,770	$ –	$ 3,730,770
Intersegment	23,402	22,390	16,366	42,010	234,974	339,142	(339,142)	–
Total	1,094,066	1,606,344	207,055	721,676	440,771	4,069,912	(339,142)	3,730,770
Operating costs and expenses	916,176	1,558,552	134,923	692,035	423,355	3,725,041	(334,248)	3,390,793
Operating income	$ 177,890	$ 47,792	$ 72,132	$ 29,641	$ 17,416	$ 344,871	$ (4,894)	$ 339,977
Assets (at year-end)	$ 2,196,172	$ 694,182	$ 867,413	$ 767,100	$ 673,623	$ 5,198,490	$ 170,547	$ 5,369,037
Depreciation	130,731	32,077	36,903	36,802	3,930	240,443	(520)	239,923
Impairment loss	–	1,073	10	21,889	–	22,972	–	22,972
Capital expenditure	177,966	31,520	36,188	74,230	3,223	323,127	(877)	322,250

16. Subsequent Events

Appropriation of the Company's retained earnings applicable to the year ended 31st March 2006 proposed by the Board of Directors and approved at the shareholders' meeting held on 29th June 2006 is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars	
Retained earnings at 31st March 2006	¥	51,079	¥	434,826
Appropriated:				
Cash dividends (¥3.00per share)		1,853		15,777
Directors' bonuses		95		809
Retained earnings to be carried forward to next year	¥	49,131	¥	418,240

The Company issued two unsecured private placement discount bonds on April 28, 2006.
Details of the issuance are as follows:

Unsecured private placement discount bond	No.23		No.24	
1) Issuance volume (¥ in billions)	¥	20	¥	10
($ in thousands)	$	170,256	$	85,128
2) Offer price per 100 yen (in yen)	¥	86.57	¥	80.388
3) Redemption date	April 26, 2013		April 28, 2016	
4) Purpose	Capital expenditure and redemption of bonds			

Keio Corporation and its consolidated subsidiaries

Report of Independent Auditors

Report of Independent Auditors

To the Board of Directors and Shareholders of Keio Corporation

We have audited the accompanying consolidated balance sheets of Keio Corporation and its subsidiaries as of March 31st, 2005 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31st 2006, 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 Corporation and its subsidiaries as of March 31st, 2005 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31st 2006, in conformity with accounting principles generally accepted in Japan.

As described in Note 2, Keio Corporation and its subsidiaries have adopted the new Japanese accounting standards for Impairment of Fixed Assets, effective for the year ended 31st March 2004.

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
Tokyo, Japan
June 29th, 2006

Board of Directors and Auditors

As of 29th June, 2006

Chairman

Masayuki Saigusa

President

Kan Kato

Managing Directors

Ryota Shimomura
Toyoaki Suzuki
Kenkichi Matsuki
Shuichi Shimakura

Directors

Tadashi Nagata
Shizuo Hayashi
Norifumi Miyachi
Yasuo Gomi
Hiroshi Hayasaki
Mitsuhiro Ishibashi
Yoichi Miyata
Koichi Suzuki
Shigeo Tanaka
Hiroyuki Okushima
Masahiro Naito
Yasuhiro Shimura

Corporate Auditors

Kenichi Saichi
Norio Kuroiwa
Kunihiro Kawashima
Mitsuharu Suzuki

Corporate Data

As of 31st March, 2006

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:	30,798
Number of Employees:	2,142(Consolidated basis:12,586)
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	44,948	6.99
The Dai-ichi Mutual Life Insurance Company	31,750	4.94
Taiyo Life Insurance Company	29,310	4.56
The Master Trust Bank of Japan, Ltd.(Trust account)	24,662	3.84
Japan Trustee Services Bank, Ltd.(Trust account)	18,413	2.86
The Sumitomo Trust and Banking Company, Limited	18,240	2.84
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	10,589	1.65
Japan Trustee Services Bank, Ltd.	10,000	1.56
(The Chuo Mitsui Trust and Banking Company, Limited(Trust account))		
Fukoku Mutual Life Insurance Company	9,590	1.49
Mizuho Corporate Bank, Ltd.	8,000	1.24

9-1, Sekido 1-chome, Tama, Tokyo 206-8502, Japan
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http://www.keio.co.jp

KEIO
CORPORATION