Annual Report

Year ended 31st March, 2007

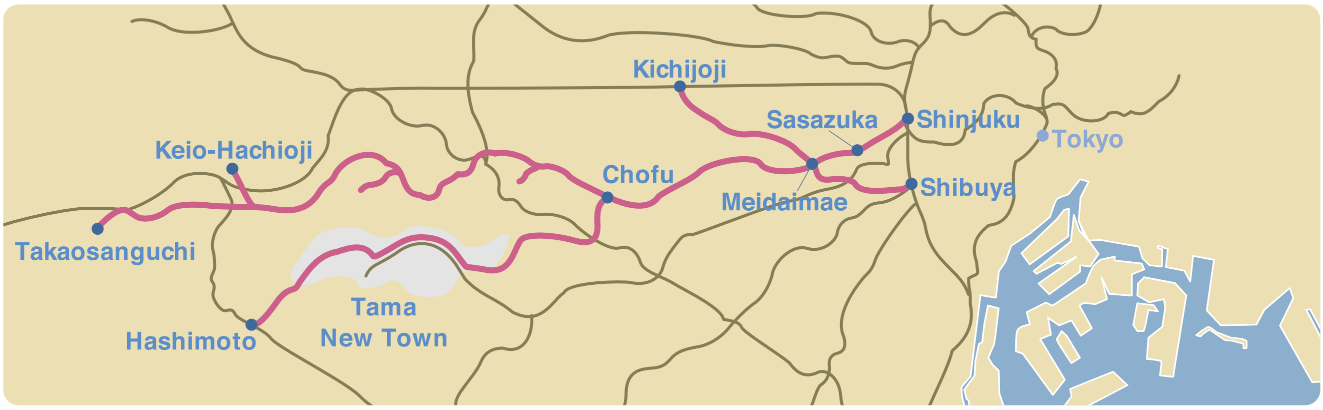
KEIO

Profile

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

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

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



Contents

Cautionary Note on Forward-Looking Statements

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

Financial Highlights

Consolidated Data

Keio Corporation and its consolidated subsidiaries

Years ended 31st March	Millions of Yen 2005	Millions of Yen 2006	Millions of Yen 2007	Thousands of U.S. Dollars 2007
For the year:				
Operating revenues	¥ 433,071	¥ 438,254	¥ 430,198	$ 3,644,198
Operating income	37,096	39,937	42,298	358,310
Net income	18,764	19,868	21,539	182,460
Per share data				
Net income – basic	¥ 29.91	¥ 31.89	¥ 34.87	$ 0.295
Net income – diluted*	–	–	–	–
Cash dividends	6.00	6.00	6.00	0.051
At year-end:				
Total assets	¥ 571,311	¥ 630,701	¥ 648,161	$ 5,490,566
Total net assets	199,997	237,644	246,630	2,089,197

* There are no outstanding potentially dilutive shares.

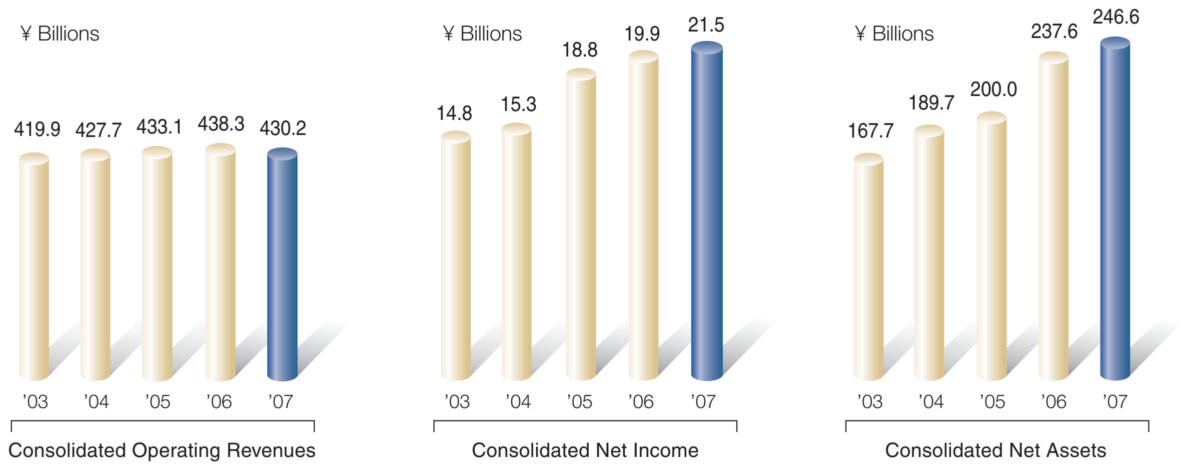
Non-Consolidated Data

Keio Corporation

Years ended 31st March	Millions of Yen 2005	Millions of Yen 2006	Millions of Yen 2007	Thousands of U.S. Dollars 2007
For the year:				
Operating revenues	¥ 116,359	¥ 116,797	¥ 120,932	$ 1,024,413
Operating income	28,094	29,392	30,271	256,423
Net income	13,849	13,303	14,671	124,280
Per share data				
Net income – basic	¥ 22.04	¥ 21.30	¥ 23.75	$ 0.201
Net income – diluted*	–	–	–	–
Cash dividends	6.00	6.00	6.00	0.051
At year-end:				
Total assets	¥ 483,322	¥ 526,611	¥ 542,679	$ 4,597,029
Total net assets	156,350	186,697	189,141	1,602,208

* 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 ¥118.05 to U.S.$1.



To Our Shareholders

Making Steady Progress in Ensuring Safety and Enriching the Life of Residents with Sincerity along Our Railway Lines

Consolidated Net Income Reaches ¥21.5 Billion

During the fiscal year ended 31st March, 2007, the Keio Group made steady advances in each business segment. As a result, consolidated net income rose to ¥21.5 billion, and Keio Corporation registered net income of ¥14.7 billion.

Based on this performance, the Group declared a year-end cash dividend of ¥3 per share, bringing annual dividends to ¥6 per share, including a ¥3 interim dividend. Over the long term, we intend to maintain our payout ratio at the current level, while securing a stable earnings base.

Becoming the " Top Brand in Trust " in the Industry

The Keio Group is committed to ensuring safety, which underpins our corporate philosophy of being the " Top Brand in Trust " in the industry. As a rail operator, we are convinced that safety is the Group's most important mission and a reputation for safety its most valuable asset. Consequently, we promote safety-centric transportation management and strive to operate the industry's most thoroughly safety-conscious railway.

The Group invests in capital from a medium- to long-term viewpoint. Current safety-focused investments include automatic train control equipment and a construction of the Chofu Tunnel and Underground Station Project.

The Group develops attractive residential areas along the Keio railway routes to sustain the virtuous cycle of its business. As part of these efforts, near Takahatafudo Station we have begun offering, on a trial basis, lifestyle, child-rearing and other support services. In these ways, the Keio Group will continue working to enrich the life of residents with sincerity along our railway lines.

The Keio Group is also making barrier-free improvements, introducing environmental management and reinforcing corporate governance by improving internal controls. Through such advances, we intend to establish Keio as the " Top Brand in Trust " in the industry.

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

June 2007

Kan Kato

President

Management Strategies for the Future

Under the Group Management Vision for realizing the Keio Group Philosophy, the Group strives to hone its competitive edge, while reducing interest-bearing debt and improving other elements of financial health, observing legal and ethical standards and contributing to communities. Such efforts are intended to enhance the Group's corporate value, the common interests of its shareholders and the value of real estate along its routes. The Keio Group will maintain and utilize the tangible and intangible management assets it has cultivated over many years, undertaking the specific measures described below to make the Keio Group Philosophy a reality.

First, the Keio Group maintains the trust of its customers, suppliers and other stakeholders by fulfilling its social responsibilities as a public transportation operator that provide essential social infrastructure. The Group places top priority on safety in its daily operations. Recent railway safety improvements include installing automatic train control equipment to dramatically improve signal systems, implementing fire prevention measures in the underground floors of train stations and improving the earthquake resistance of buildings. We are also cooperating with the Tokyo Metropolitan Government and the city of Chofu to complete a construction of the Chofu Tunnel and Underground Station Project. The Group holds ongoing discussions with public authorities and companies to eliminate traffic bottlenecks by elevating train tracks above the ground at Keio Sasazuka Station and points west.

The Group is also proactively improving its services, including making stations, train cars and buses more barrier-free. These investments in railway safety and convenience may collectively impact profits over the short term. However, fulfilling our social responsibilities as a public transportation operator from a medium- to long-term standpoint will ensure safe transportation, stable management and consistent operations. We believe these moves will further enhance corporate value and establish the Keio Group as the " Top Brand in Trust " in the industry.

Second, to ensure the life of residents with sincerity along our railway lines remains vibrant over the medium to long term, we are increasing its value by providing detailed services specific to customer needs. The Group is proposing development projects around Shinjuku, Kichijoji and other hub stations along our routes, and considering plans to redevelop the Seiseki-Sakuragaoka area. In addition, we are making station facilities more convenient by effectively utilizing land developed from railway facilities and installing free passageways. The Keio Group is expanding its leased luxury housing offerings, such as Hi-ROOMS, and participating in the Japan Trans-housing Institute, to ensure a stock of quality housing along its routes and creating a framework to meet the relocation needs of senior citizens and families with children. Moreover, following the launch of our Keio Hot Network community network service to enhance convenience for those living along Keio train lines, we are also building a condominium designed to support families raising children in the Takahatafudo area as an experiment in leveraging our brand to develop attractive residential areas along our routes.

To make the Keio Group Common Points more convenient, the Group is also launching Internet railway portal site " Machihapi " and tying in the Keio Passport Card with PASMO, an IC-card transportation pass enabling the seamless use of transit services across many transportation providers in the Kanto region. Additionally, we are strengthening cooperation and coordination with local government agencies, area residents and universities to increase real estate values along our routes, while vitalizing local communities through a diversified approach. We believe these efforts will make our railway areas more attractive, thereby increasing the number of Keio rail passengers and other Group customers.

Third, we are enhancing our lifestyle-related businesses, such as grocery stores, to raise the competitiveness of the Group. We will continue aggressively to pursue new business—both along our routes and in other areas—based upon our accumulated expertise. Moreover, we will boost the Keio Group's growth by expanding existing businesses in areas of anticipated customer demand.

Fourth, the Keio Group continues to cultivate human resources from a medium- to long-term viewpoint, toward implementing the concrete measures described previously. It is our employees who directly ensure safe transportation, stable management and consistent operations. We therefore consider sharing the knowledge, experience and expertise our staff members have accumulated as the key to the Group's future growth.

Fifth, the Group is committed to fulfilling its obligations to society by observing legal regulations and social norms, caring for the global environment and strengthening corporate governance. We maintain an internal control system and are advancing the Keio Group Compliance Program. We also observe environmental regulations, actively implementing energy-saving, waste-reduction and recycling measures tailored to each business. These efforts, which are based on the Basic Environmental Policy we established in the year 2000, are currently being expanded across the entire Keio Group.

Our corporate governance efforts include expediting decision making, improving management transparency and ensuring timely and appropriate information disclosure. To realize these enhancements, we have elected Special Directors under the Company Law, set up Appointment and Remuneration committees as advisory arms to the Board of Directors and established a Disclosure Committee. Moreover, at the 86th Ordinary General Shareholders Meeting held on June 28, 2007, the Articles of Incorporation were amended to shorten the term of office for Directors to one year. This change clarifies the responsibilities of the management team to shareholders, who entrust them with the Company's management. The Keio Group continues to examine its obligations to society, while enhancing its corporate governance system in an ongoing effort to establish Keio as the " Top Brand in Trust " in the industry.

Fiscal 2007 Management Plan Targets and Results

Although the Group reported higher depreciation costs than anticipated, railway passenger counts increased and each segment performed better than in the fiscal year ended 31st March, 2006. As a result, consolidated operating revenue, net income and EBITDA all surpassed our targets.

Millions of Yen

	Fiscal 2006 target	Fiscal 2006 actual	Fiscal 2007 target
Consolidated operating revenue	423,400	430,198	429,500
Consolidated net income	19,800	21,539	21,800
Consolidated EBITDA	68,100	71,390	70,200

Note: Consolidated EBITDA = Consolidated operating income + Depreciation and amortization

Business Performance

Business Results

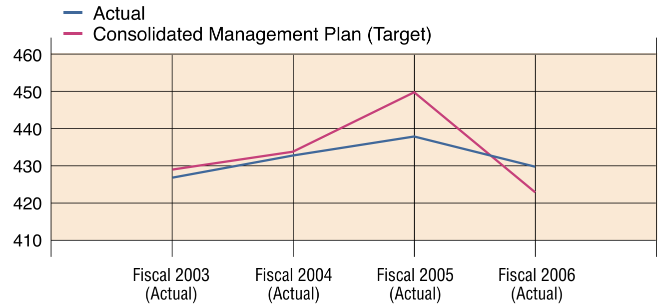
Consolidated Operating Revenues

In the Leisure Group, the accounting for certain types of travel was changed from a transaction to a fee based. The effect of this change on revenues was ¥14,216 million, and as a result consolidated operating revenues for the year were down 1.8%, to ¥430,198 million. This change had no effect, however, on line items below consolidated operating income.

Ignoring the impact of the accounting change, operating revenues would have increased. This expansion is attributable to growth in the number of railway passengers (Transportation Group), large-scale real estate sales and an increase in building cleaning and management contracts (Other Groups).

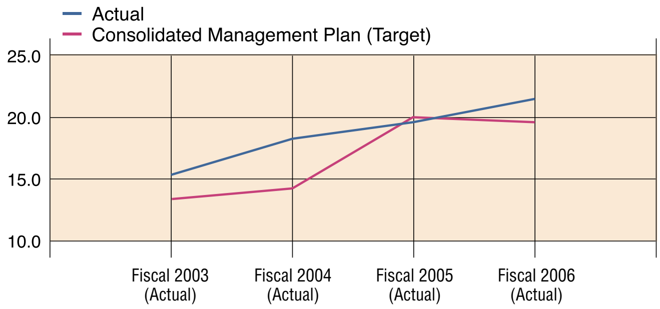
Consolidated Operating Revenues

Billions of Yen



Consolidated Net Income

Billions of Yen



Consolidated Net Income

In the Transportation Group, operating income declined, as expanded capital investment pushed up depreciation and amortization. However, higher levels of income from the Real Estate Group, the Leisure Group and other segments boosted consolidated operating income 5.9%, to ¥42,298 million. Despite a loss on the redemption of debentures, consolidated net income grew 8.4%, to ¥21,539 million, owing to reduced impairment costs.

Consolidated EBITDA

Consolidated operating income increased ¥2,361 million, and depreciation and amortization grew ¥1,621 million. Consequently, consolidated EBITDA—a quick indicator of cash flows from business activities—rose 5.9%, to ¥71,390 million.

Note: Consolidated EBITDA = Consolidated operating income + Depreciation and amortization

Financial Position

Total Assets, Liabilities and Net Assets

Total assets as of 31st March, 2007, were grew ¥648,161 million, up ¥17,460 million from one year earlier, owing to increased investment in property and equipment, including buildings under construction. Total liabilities at year-end were ¥401,531 million, up ¥8,474 million, due to an increase in interest-bearing debt. Net assets totaled ¥246,630 million, rising ¥8,986 million as net income pushed up retained earnings.

Consolidated Cash Flows

Net cash provided by operating activities declined ¥5,859 million, to ¥49,086 million. Although net income before income taxes and minority interest in income of consolidated subsidiaries rose, income taxes paid increased.

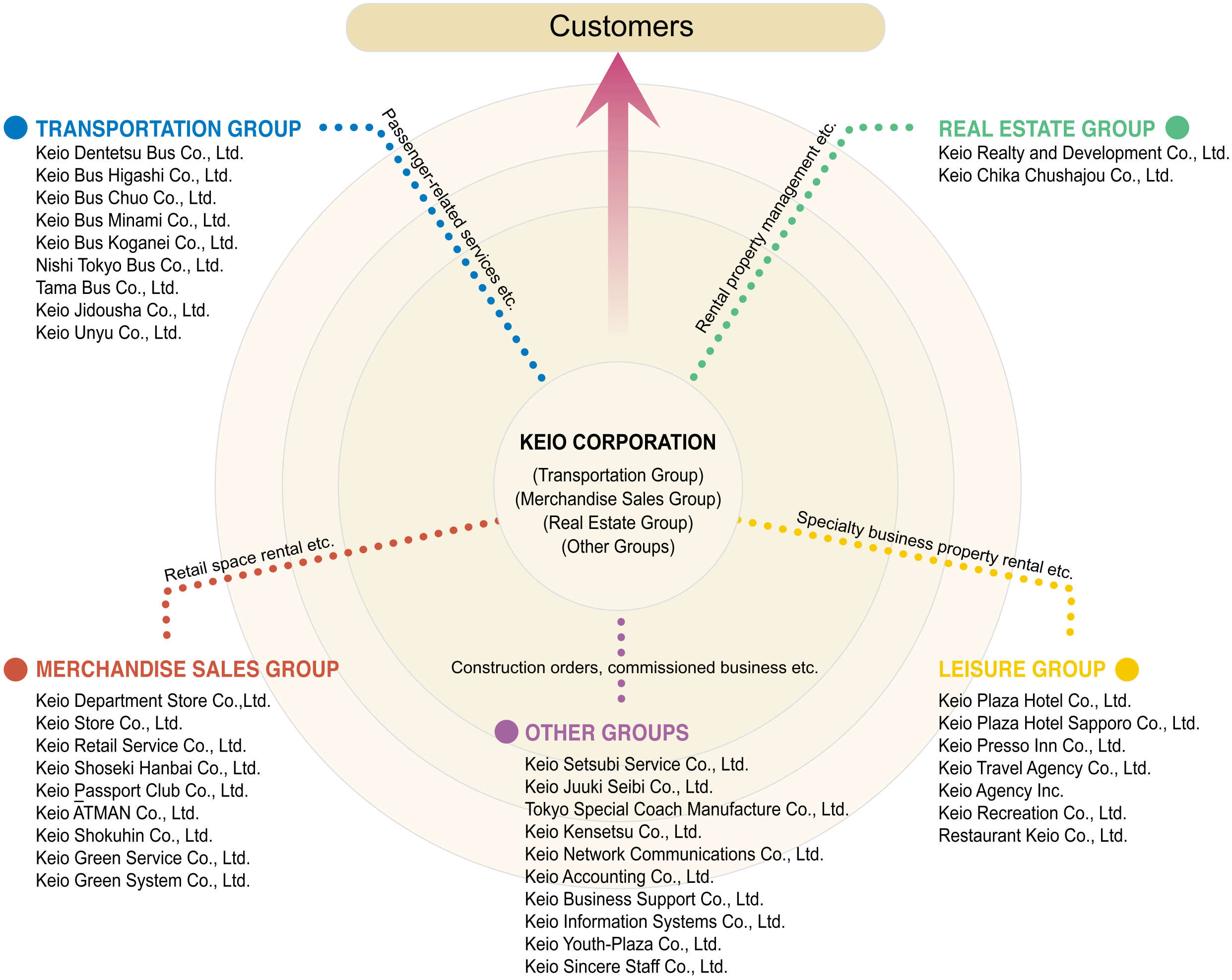
Net cash used in investing activities expanded ¥13,069 million, to ¥46,110 million, due to increased payments for purchase of property and equipment.

Net cash provided by financing activities was ¥1,733 million, a ¥6,032 million difference from the cash used in these activities in the preceding term. The issuance of unsecured discount bonds provided cash, but the underwriting of contracts to fulfill bond obligations used cash.

As a result, cash and cash equivalents at end of year amounted to ¥43,516 million, up ¥4,713 million from one year earlier. Interest-bearing debt at the end of the year totaled ¥222,531 million, a ¥7,753 million increase over the preceding fiscal year.

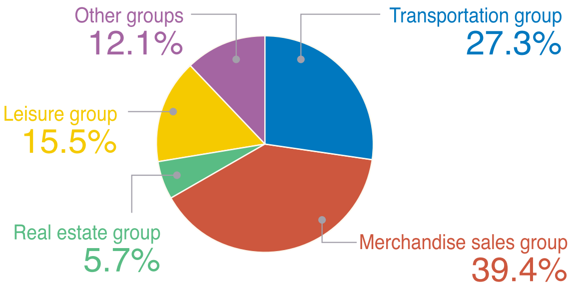
Business Segments

The Keio Group

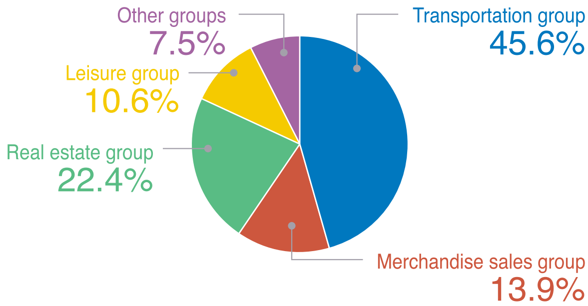


Operating Revenues and Operating Income by Segment

OPERATING REVENUES BY SEGMENT



OPERATING INCOME BY SEGMENT



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

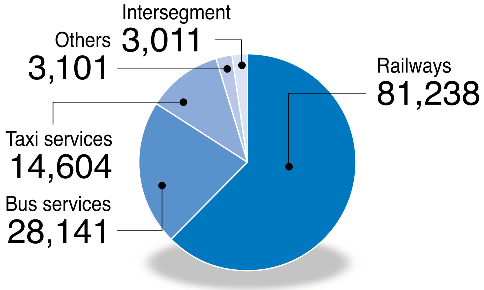
Review of Operations by Business Segment

Transportation Group

The number of railway passengers increased 1.1% during the year, helped by the ongoing construction of large apartment buildings along the Company's railway routes. The number of passengers who use commuter passes increased 1.2%, and non-commuter pass passengers rose 1.0%, pushing up passenger transportation revenues 1.1%. In the bus service business, revenues also expanded, bolstered by successful convenience enhancements. Consequently, Transportation Group operating revenues edged up 1.2%, to ¥130,097 million. At the same time, operating income fell 5.4%, to ¥19,760 million, due to increased depreciation and amortization expenses in the railway business.

The Inokashira Line

Transportation Group Operating Revenues (¥Millions)

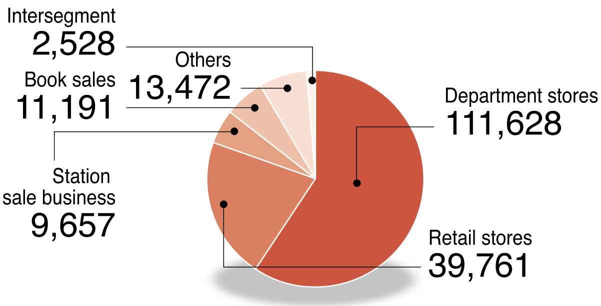


CNG Non-step Bus

Merchandise Sales Group

Discounts offered during the Hanshin Tigers victory celebration sale resulted in a 0.2% dip in department store operating revenues, to ¥188,241 million. Boosted by increased profits at retail and department stores, however, operating income advanced 7.0%, to ¥6,008 million.

Merchandise Sales Group Operating Revenues (¥Millions)

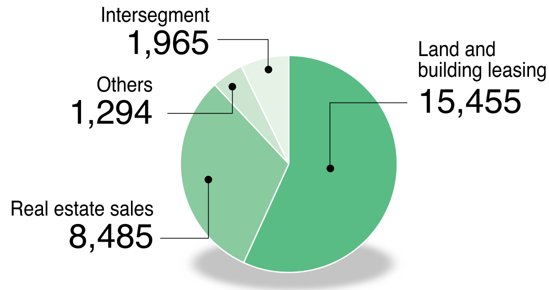


Keio Department Store (Shinjuku)

Real Estate Group

The land and building leasing segment performed well, with operating revenues increasing substantially. Consequently, group operating revenues expanded 11.8%, to ¥27,201 million, and operating income jumped 14.4%, to ¥9,691 million.

Real Estate Group Operating Revenues (¥Millions)

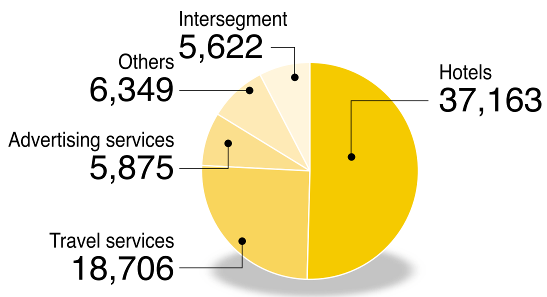


Keio Retnade Inagi

Leisure Group

The accounting for certain types of travel was changed from a transaction to a fee basis, which prompted a 13.0% decrease in operating revenues, to ¥73,719 million. In the hotel business, banquet services at the Keio Plaza Hotel in Shinjuku, Tokyo, delivered strong performance. The suspension of service at the Keio Presso Inn created a spike in expenses, but the four hotels in operation-in Higashi-Ginza, Kanda, Shinjuku and Otemachi-performed well. Consequently, operating income surged 32.0%, to ¥4,596 million.

Leisure Group Operating Revenues (¥Millions)

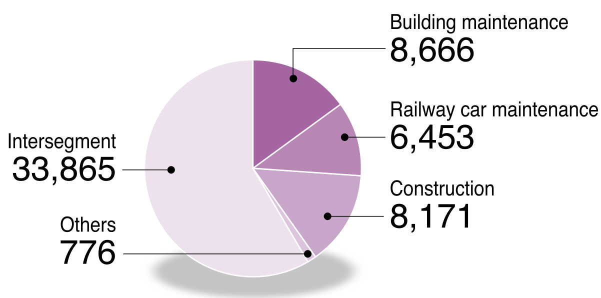


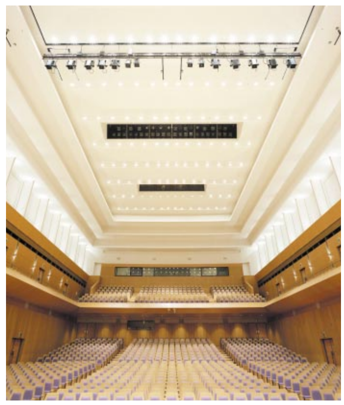
TRAVEL SHOP SHIBUYA

Other Groups

Primarily owing to increased orders for building maintenance, group operating revenues grew 11.9%, to ¥57,934 million. Operating income soared 59.2%, to ¥3,258 million.

Other Groups Operating Revenues (¥Millions)





Suginami Koukaidou

Corporate Governance

Basic Stance

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

The Company has adopted a board of auditors system. The Board of Directors includes outside directors and presidents of important subsidiaries of the Group, making decisions on legal matters and important business matters and overseeing business execution. The corporate auditors carry out audits of the Group based on basic policies decided by the Board of Auditors in accordance with legal and other standards. In addition, they attend Board of Directors and other important meetings and provide their opinions as necessary.

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

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

Business Execution, Audit, Supervisory, Nomination and Compensation Functions

Execution and Supervision

Keio Corporation's Board of Directors is comprised of 17 members, including 2 outside directors and 6 presidents of major companies of the Group. In principle, the Board of Directors meets once a month to decide items defined by law, make important business decisions, and oversee business operations. The special directors elected by the Board of Directors make decisions on the disposal and acquisition of important assets and major borrowings as provided for under the Company Law.

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

Audits by Corporate Auditors

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

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

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

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. These committees, which include outside directors, suggest candidates for directors and levels of compensation for directors to the Board of Directors.

Audit Organization, Staffing and Procedures

The internal audit function of Keio Corporation and each Group company is carried out by the Audit Department, which consists of 18 staff members and reports directly to the President. The Audit Department performs audits to inspect compliance with laws and Company regulations, as well as the appropriateness and effectiveness of business administration. Based on such inspections, the department makes suggestions on rationalization of management, improvement of business administration and efficiency, and sound development of the Company's businesses.

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

Basic Stance on Internal Controls and Their Enhancement

At its Board of Directors meeting held on 25th May, 2006, Keio Corporation resolved to establish the Keio Group Basic Policy on Internal Control Systems in accordance with the Company Law.

The Keio Group Basic Policy on Internal Control Systems was partially amended on 26th March, 2007.

Keio Group Basic Policy on Internal Control Systems

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

1. Keio Group Management Vision

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

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

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

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

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

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

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

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

(i) Directors shall properly organize, maintain and manage minutes of general meetings of shareholders, minutes of meetings of the Board of Directors, reports of Board discussions and other important documents relating to the performance of their duties, according to the methods provided in the Document Handling Rules and Document Filing Rules.
(ii) Directors and corporate auditors shall be allowed to inspect these documents and records as necessary.

4. Regulations and other systems for risk management

(i) As a corporate group engaged in a broad range of business activities focused on its highly public railway operations, Keio Corporation shall give top priority to customer safety in measures to avoid risk.
(ii) The Company shall institute a Risk Management Program, based on a resolution of the Board of Directors, to ascertain and manage risks relating to business execution. The Company shall also assemble a Risk Management Committee consisting of a Risk Management Committee Chairman, heads of related sections and outside experts.
(iii) In accordance with the Risk Management Program, the Risk Management Committee shall work to reduce and prevent risks, as well as enhancing systems to prepare for crisis outbreak.
(iv) In the event of a major crisis, the Company shall promptly organize a crisis management task force headed up by the President, taking action to respond and quickly resolve the crisis situation.

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

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

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

(i) To construct overall internal control systems for the Group, the Company shall establish a Keio Group Basic Policy on Internal Control Systems and Keio Group Internal Control Regulations, seeking the resolution of every company belonging to the Keio Group at Board of Directors meetings. Moreover, the Company shall set Deliberation Standards to clarify powers and authorities among the Company and the Group companies.

(ii) Keio Corporation shall set up a department for administering policies on internal controls at each Group company to enhance the framework for ensuring that deliberations, information exchange and transmission of instructions and requests are efficiently carried out among the Company and each Group company.

(iii) The Company shall establish a Groupwide compliance framework based on the Group Compliance Program. Moreover, all officers and employees of the Company and each Group company shall, upon discovery of an occurrence with the potential for significant impact on the overall value of the Group, report the matter to the Compliance Committee Chairman of the Company—in addition to standard reporting avenues—and deliberate on countermeasures.

(iv) The Company shall work to ascertain and manage risks surrounding the entire Keio Group, primarily through the Company's Risk Management Committee. In the event of a major crisis, each Group company shall immediately report the matter to the Risk Management Committee Chairman, and the Company shall provide the necessary aid. In addition, each Group company shall maintain internal crisis management systems in collaboration with the Company.

(v) A Group Executive Council, consisting of full-time directors of the Company and presidents of the major companies of the Keio Group, shall discuss management of the whole Group and hold regular Keio Group Presidents Meetings to share management policies and information within the corporate Group.

(vi) The full-time auditors of Keio Corporation and the corporate auditors of each company of the Keio Group shall hold regular Group Board of Auditors meetings to expand and strengthen the audit functions of the entire Group. Full-time auditors of the Group companies shall, in principle, be attached to the Audit Department—the Group's internal auditing section. The Group auditors and the Audit Department shall collaborate to ensure appropriate business conduct by the entire Group.

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

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

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

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

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

Directors shall report the following to the Board of Auditors.

(i) Important matters regarding corporate decision making
(ii) Matters with potential to cause significant harm to Keio Corporation or the Keio Group
(iii) Audit planning and results for internal audits
(iv) Misconduct or significant violations of laws or the Articles of Incorporation in the performance of duties by directors or employees
(v) Important matters regarding compliance and risk management
(vi) Any matters deemed necessary for the completion of audit tasks by the corporate auditors

In the event of discovery by employee(s) of important matters falling under (ii) or (iv), such employee(s) shall be allowed to report the matter directly to the corporate auditors.

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

The Board of Auditors shall carry out the following.

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

11. Internal Control Committee

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

Takeover Defense Measures

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

The Basic Policy and the Plan shall remain in effect until the date of conclusion of the Ordinary General Meeting of Shareholders for the last business year ending within a period of three years from the conclusion of the 86th Ordinary General Meeting of Shareholders.

Risk Factors

Risks that could possibly exert a strong influence on the investment decisions of investors are described below. Aware of these risks, the Keio Group takes steps to prevent these events from occurring, and should they occur, to minimize their impact. Forward-Looking Statements have been determined by the management of the Keio Group based on the information available at the time of the submission of Keio Corporation's Securities Report (28th June , 2007).

Natural Disasters and Other Accidents

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

Progressive Decline in Family Size and Aging of Communities

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

Setting and Revision of Passenger Fares

Under Article 16 of the Railway Operation Law, passenger fares in the railway transportation business segment are regulated by the Ministry of Land, Infrastructure and Transport. The Ministry 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, such changes 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 the 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 cleanup operation be required, the facilities or structures involved may temporarily be unusable or incur significant expenses in the cleanup process. Such 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 publicly announced the Keio Group Personal Information Protection Policy and established the Keio Group Personal Information Management System. Based on this policy and system, the Group strives to properly manage personal information.

Nevertheless, should personal information be leaked by the Group due to human factors, such as theft or improper control of data, or technological factors, such as inadequate system design, expenses may arise due the Group's liability for damages, and the Group's reputation may be damaged. Either of these situations could have a negative impact on the performance and financial position of the Group.

Disclosure

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

Market Interest Rate Fluctuation and the Company's Ratings

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

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

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

Consolidated Balance Sheets

Keio Corporation and its consolidated subsidiaries
As of 31st March 2006 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
ASSETS	2006	**2007**	**2007**
Current Assets:			
Cash and bank deposits (Note 4)	¥ 28,833	**¥ 29,547**	**$ 250,289**
Short-term investments (Notes 4 and 5)	—	**1**	**8**
Notes and accounts receivable, trade	27,630	**34,252**	**290,145**
Allowances for doubtful accounts	(331)	**(281)**	**(2,381)**
Inventories	25,771	**22,130**	**187,467**
Deferred tax assets (Note 9)	4,147	**3,693**	**31,286**
Other current assets	13,610	**17,346**	**146,935**
Total current assets	99,660	**106,688**	**903,749**
Investments and Advances:			
Investments in securities (Note 5)	97,728	**83,739**	**709,351**
Investments in affiliates and unconsolidated subsidiaries	1,613	**1,710**	**14,490**
	99,341	**85,449**	**723,841**
Property and Equipment, at net book value (Notes 6, 7 and 8):			
Land	111,329	**116,845**	**989,789**
Buildings and structures	237,870	**238,936**	**2,024,020**
Machinery, rolling stock and equipment	33,503	**35,513**	**300,834**
Tools, furniture and fixtures	8,624	**10,365**	**87,809**
Construction-in-progress	20,402	**28,823**	**244,158**
	411,728	**430,482**	**3,646,610**
Intangible assets	3,011	**4,603**	**38,992**
Deferred tax assets (Note 9)	7,861	**7,445**	**63,064**
Other assets	9,100	**13,494**	**114,310**
Total assets	¥ 630,701	**¥ 648,161**	**$ 5,490,566**

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

LIABILITIES AND NET ASSETS (SHAREHOLDERS' EQUITY)	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2006	2007	2007
Current Liabilities:			
Short-term bank borrowings (Note 7)	¥ 39,739	**¥ 40,599**	**$ 343,914**
Current portion of long-term debt (Note 7)	18,249	**22,121**	**187,388**
Notes and accounts payable, trade	22,614	**23,560**	**199,572**
Consumption taxes payable	1,702	**1,045**	**8,854**
Income taxes payable	10,165	**8,090**	**68,533**
Reserve for employees' bonuses	2,627	**2,573**	**21,796**
Advances received	9,969	**16,165**	**136,935**
Other current liabilities	53,060	**58,003**	**491,342**
Total current liabilities	158,125	**172,156**	**1,458,334**
Long-term debt (Note 7)	156,848	**159,864**	**1,354,208**
Reserve for retirement benefits (Note 10)	25,270	**24,789**	**209,985**
Reserve for retirement benefits to directors and corporate auditors (Note 2-12)	728	**—**	**—**
Special reserve for expansion of railway transport capacity (Note 11)	4,692	**2,346**	**19,874**
Deferred tax liabilities (Note 9)	20,363	**15,031**	**127,328**
Other non-current liabilities	27,031	**27,345**	**231,640**
Total liabilities	393,057	**401,531**	**3,401,369**
Contingent Liabilities (Note 14)			
Shareholders' Equity (Note 12):			
Common stock:			
Authorized 1,580,230,000 shares			
Issued 642,754,152 shares	59,024	**—**	**—**
Additional paid-in capital	42,018	**—**	**—**
Retained earnings	108,652	**—**	**—**
Unrealized gains on available-for-sale securities, net of tax	43,155	**—**	**—**
Treasury stock, at cost			
2006: 24,990,990 shares	(15,205)	**—**	**—**
Total shareholders' equity	237,644	**—**	**—**
Total liabilities and shareholders' equity	¥ 630,701	**—**	**—**
Net Assets:			
Shareholders' Equity :			
Common stock:			
Authorized 1,580,230,000 shares			
Issued 642,754,152 shares	—	**59,024**	**499,990**
Additional paid-in capital	—	**42,022**	**355,972**
Retained earnings	—	**126,390**	**1,070,645**
Treasury stock, at cost			
2007: 25,118,036 shares	—	**(15,311)**	**(129,698)**
Valuation and translation adjustments			
Unrealized gains on available-for-sale securities, net of tax	—	**34,505**	**292,288**
Total net assets	—	**246,630**	**2,089,197**
Total liabilities and net assets	—	**¥ 648,161**	**$ 5,490,566**

Consolidated Statements of Income and Retained Earnings

Keio Corporation and its consolidated subsidiaries
For the years ended 31st March 2005, 2006 and 2007

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2005	2006	**2007**	**2007**
Operating Revenues	¥ 433,071	¥ 438,254	**¥ 430,198**	**$3,644,198**
Operating Costs and Expenses:				
Operating costs	346,242	349,670	**340,240**	**2,882,165**
Selling, general and administrative expenses	49,733	48,647	**47,660**	**403,723**
	395,975	398,317	**387,900**	**3,285,888**
Operating income	37,096	39,937	**42,298**	**358,310**
Non-Operating Income (Expenses):				
Interest and dividend income	505	746	**1,019**	**8,633**
Interest expense	(4,985)	(4,918)	**(5,398)**	**(45,726)**
Loss on redemption of bonds	—	—	**(1,624)**	**(13,754)**
Loss on disposal of property and equipment	(1,563)	(1,650)	**(1,229)**	**(10,409)**
Loss on sales of property and equipment	(31)	(32)	**(134)**	**(1,137)**
Subsidy received from Tokyo Metropolitan Government, etc.	677	1,936	**2,223**	**18,833**
Advance depreciation of fixed assets	(1,137)	(1,932)	**(2,199)**	**(18,626)**
Equity in earnings of affiliates and unconsolidated subsidiaries	62	114	**95**	**805**
Reversal of special reserve for expansion of railway transport capacity	2,346	2,346	**2,346**	**19,874**
Gain on sale of property and equipment	473	141	**136**	**1,147**
Impairment loss (Note 8):	(733)	(2,698)	**(1,037)**	**(8,787)**
Special retirement payments	—	(882)	**(123)**	**(1,044)**
Loss on the amendment of the retirement benefits plan	(689)	—	**—**	**—**
Non-recurring depreciation (Note 2-6):	—	(713)	**—**	**—**
Other, net	(33)	1,138	**330**	**2,790**
	(5,108)	(6,404)	**(5,595)**	**(47,401)**
Income before income taxes	31,988	33,533	**36,703**	**310,909**
Income Taxes (Note 9):				
Current	12,581	15,095	**13,669**	**115,787**
Deferred	643	(1,430)	**1,495**	**12,662**
	13,224	13,665	**15,164**	**128,449**
Net income	18,764	19,868	**21,539**	**182,460**
Retained Earnings:				
Balance at beginning of year	77,688	92,602	**—**	**—**
Appropriations:				
Cash dividends	(3,755)	(3,723)	**—**	**—**
Directors' bonuses	(95)	(95)	**—**	**—**
Balance at end of year	¥ 92,602	¥ 108,652	**¥ —**	**$ —**

	Yen			U.S. Dollars (Note 3)
Net Income Per Share:				
Basic (Note 2-14)	¥ 29.91	¥ 31.89	**¥ 34.87**	**$ 0.295**
Cash dividends applicable to the year	6	6	**6**	**0.051**

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

Consolidated Statements of Changes in Net Assets

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

	Millions of Yen	Thousands of U.S. Dollars (Note 3)
	2007	2007
Common stock:		
Beginning balance	¥ 59,024	$ 499,990
Ending balance	59,024	499,990
Additional paid-in capital:		
Beginning balance	42,018	355,931
Disposal of treasury stock	4	41
Ending balance	42,022	355,972
Retained earnings:		
Beginning balance	108,652	920,387
Cash dividends	(3,706)	(31,397)
Bonuses to directors	(95)	(805)
Net income	21,539	182,460
Ending balance	126,390	1,070,645
Treasury stock, at cost:		
Beginning balance	(15,205)	(128,797)
Purchase of treasury stock	(117)	(992)
Disposal of treasury stock	11	91
Ending balance	(15,311)	(129,698)
Unrealized gain on available-for-sale securities:		
Beginning balance	43,155	365,572
Net change during the year	(8,650)	(73,284)
Ending balance	34,505	292,288
Total net assets	¥ 246,630	$ 2,089,197

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

Consolidated Statements of Cash Flows

Keio Corporation and its consolidated subsidiaries
For the years ended 31st March 2005, 2006 and 2007

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2005	2006	**2007**	**2007**
Cash flows from operating activities:				
Income before income taxes	¥ 31,988	¥ 33,533	**¥ 36,703**	**$ 310,909**
Adjustments for:				
Depreciation and amortization	27,509	28,184	**29,092**	**246,435**
Impairment loss	733	2,698	**1,037**	**8,787**
(Decrease) Increase in reserve for retirement benefits	(3,041)	(1,438)	**(482)**	**(4,079)**
(Decrease) Increase in prepaid pension cost	—	—	**(3,428)**	**(29,042)**
Decrease in special reserve for expansion of railway transport capacity	(2,346)	(2,346)	**(2,346)**	**(19,874)**
Loss on disposal of property and equipment	1,623	2,619	**2,115**	**17,914**
Advance depreciation of fixed assets	1,137	1,586	**2,199**	**18,626**
Interest and dividend income	(505)	(746)	**(1,019)**	**(8,633)**
Interest expense	4,985	4,918	**5,398**	**45,726**
Loss on redemption of bonds	—	—	**1,624**	**13,754**
Subsidy received from Tokyo Metropolitan Government, etc.	(677)	(1,936)	**(2,223)**	**(18,833)**
Decrease (Increase) in notes and accounts receivable	(422)	(1,391)	**(6,620)**	**(56,077)**
Decrease (Increase) in inventories	1,110	2,260	**3,622**	**30,687**
Increase (Decrease) in notes and accounts payable	605	2,239	**1,905**	**16,137**
Other, net	4,191	995	**1,467**	**12,438**
Subtotal	66,890	71,175	**69,044**	**584,875**
Interest and dividends received	510	750	**1,022**	**8,661**
Interest paid	(4,996)	(4,904)	**(5,098)**	**(43,188)**
Income taxes paid	(16,880)	(12,076)	**(15,882)**	**(134,539)**
Net cash provided by operating activities	45,524	54,945	**49,086**	**415,809**
Cash flows from investing activities:				
Payments for purchase of property and equipment	(48,320)	(34,975)	**(49,815)**	**(421,985)**
Proceeds from sale of property and equipment	780	778	**693**	**5,870**
Proceeds from sale of short-term investments	20	32	**—**	**—**
Payments for purchase of securities and other investments	(56)	(1,782)	**(712)**	**(6,029)**
Proceeds from sale of securities and other investments	1,458	303	**88**	**744**
Subsidy received from Tokyo Metropolitan Government, etc.	1,090	2,898	**6,400**	**54,211**
Other, net	(923)	(295)	**(2,764)**	**(23,409)**
Net cash used in investing activities	(45,951)	(33,041)	**(46,110)**	**(390,598)**
Cash flows from financing activities:				
Increase (Decrease) in short-term bank borrowings, net	(1,080)	1,420	**860**	**7,285**
Increase in long-term debt	19,050	13,070	**45,303**	**383,759**
Repayment of long-term debt	(14,197)	(13,133)	**(40,619)**	**(344,076)**
Purchase of treasury stock	(4,420)	(1,963)	**(117)**	**(992)**
Cash dividends paid	(3,756)	(3,723)	**(3,706)**	**(31,397)**
Other, net	89	30	**12**	**102**
Net cash provided by (used in) financing activities	(4,314)	(4,299)	**1,733**	**14,681**
Effect of exchange rate changes on cash and cash equivalents	5	5	**4**	**35**
Net increase (decrease) in cash and cash equivalents	(4,736)	17,610	**4,713**	**39,927**
Cash and cash equivalents at beginning of year	25,929	21,193	**38,803**	**328,698**
Cash and cash equivalents at end of year (Note 4)	¥ 21,193	¥ 38,803	**¥ 43,516**	**$ 368,625**

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

Notes to the Consolidated Financial Statements

Keio Corporation and its consolidated subsidiaries

1. Basis of Presenting Consolidated Financial Statements

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

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

The consolidated balance sheet as of 31st March 2007, which has been prepared in accordance with the new accounting standard as discussed in Note 2 (17), is presented with the consolidated balance sheet as of 31st March 2006 prepared in accordance with the previous presentation rules.

Also, as discussed in Note 2 (18), the consolidated statement of changes in net assets for the year ended 31st March 2007 has been prepared in accordance with the new accounting standard.

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 37 significant subsidiaries as of 31st March 2007. 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 2007. Investment in other affiliates is carried at cost due to its immateriality.

(2) Elimination and Consolidation

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

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

(3) Cash and Cash Equivalents

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

(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.

Available-for-sale 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 "Net Assets" at a net-of-tax amount.

Available-for-sale 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 available-for-sale securities has declined significantly and such impairment of value is not deemed temporary, those securities are written-down to the fair value and the resulting losses charged to income.

(6) Property and Equipment

Property and equipment is stated at cost.

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

Estimated useful lives of the assets are as follows:

Buildings and Structures 3-60 years

Machinery and Equipment 3-20 years

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

Notes to the Consolidated Financial Statements

Keio Corporation and its consolidated subsidiaries

(An Additional Note)

i. Additional depreciation for buildings and structures

Depreciation for buildings and structures was computed with their estimated salvage values of 5% of acquisition costs for the year ended 31st March 2005. The Company re-estimated those salvage values, according to the net expected recoverable values at the time of disposition since the year ended 31st March 2006. As a result, the additional depreciation cost due to that re-estimation was included in the operating cost of ¥317 million and the non-operating expense of ¥713 million shown as non-recurring depreciation for the year ended 31st March 2006.

ii. Additional depreciation for rolling stocks

Depreciation for rolling stocks was computed with their estimated salvage values of 5% of acquisition costs for the year ended 31st March 2005 and 2006. The Company re-estimated those salvage values, according to the net expected recoverable values at the time of disposition since the year ended 31st March 2007. As a result, the additional depreciation cost of ¥1,362 million ($11,538 thousand) due to that re-estimation was included in the operating costs and charged to income in the accompanying consolidated statements of income for the year ended 31st March 2007.

(7) Leases

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

(8) Amortization of intangible assets

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

(9) Deferred Charges

Bond issuance cost is charged to income as incurred.

(10) Railway business construction fund

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

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

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

(11) 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.

(12) Accounting for Reserves

i. Reserve for employees' bonuses

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

ii. Reserve for retirement benefits

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

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 until the year ended 31st March 2006.

(An Additional Note)

The Company abolished the system of retirement benefits to directors and corporate auditors at the annual shareholder' meeting of the Company held on 29th June 2006. Reserve until 29th June 2006 included in "Other non-current liabilities."

(13) Revenue recognition for Real Estate Businesses

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

(14) Net Income per Share

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

Diluted net income per share was not applicable for the years ended 31st March 2005, 2006 and 2007 because there was no dilution on each year.

(15) 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.

(16) Reclassification

Certain prior period amounts in the consolidated financial statements have been reclassified to conform to the 31st March 2007 presentation. These reclassifications had no effect on the Company's consolidated net income or net assets.

(17) Accounting Standards for Presentation of Net Assets in the Balance Sheet

Effective from the year ended 31st March 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan on 9th December 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on 9th December 2005), (collectively, "the New Accounting Standards").

The consolidated balance sheet as of 31st March 2007 prepared in accordance with the New Accounting Standards comprises three sections, which are the assets, liabilities and net assets sections. The consolidated balance sheet as of 31st March 2006 prepared pursuant to the previous presentation rules comprises the assets, liabilities and shareholders' equity sections.

The adoption of the New Accounting Standards had no impacts on the consolidated statement of income for the year ended 31st March 2007. Also, if the New Accounting Standards had not been adopted at 31st March 2007, the shareholders' equity amounting to ¥246,630 million ($2,089,197 thousand) would have been presented.

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

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

The Company prepared the accompanying consolidated statement of changes in net assets for the year ended 31st March 2007 in accordance with the Additional New Accounting Standards.

(19) Net Assets

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

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

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

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

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

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

At the annual shareholders' meeting held on 28th June 2007, the shareholders approved cash dividends amounting to ¥1,853 million ($15,696 thousand). Such appropriations have not been accrued in the consolidated financial statements as of 31st March 2007. Such appropriations are recognized in the period in which they are approved by the shareholders.

(20) Changes in accounting practices

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

(21) Changes in accounting presentation

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

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

This change in accounting does not affect operating income or net 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 ¥118.05=U.S.$1, the approximate current rate at 31st March 2007, 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	**2007**	**2007**
Cash and bank deposits	¥ 22,240	¥ 28,833	**¥ 29,547**	**$ 250,289**
Marketable securities	35	—	**1**	**8**
Securities with repurchase agreement included in short-term loans	—	10,000	**13,999**	**118,591**
Time deposits due over 3 months	(1,047)	(30)	**(30)**	**(255)**
Government and corporate bonds Due after 3 months	(35)	—	**(1)**	**(8)**
Cash and cash equivalents	¥ 21,193	¥ 38,803	**¥ 43,516**	**$ 368,625**

5. Marketable Securities and Investments in Securities

Marketable securities included in "Short-term investments" and "Investments in securities" at 31st March 2006 and 2007 consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Marketable securities (Current portfolio):			
Government and corporate bonds	¥ —	**¥ 1**	**$ 8**
	¥ —	**¥ 1**	**$ 8**
Investments in securities (Non-current portfolio):			
Listed corporate shares	¥ 93,224	**¥ 79,325**	**$ 671,964**
Government and corporate bonds and unlisted corporate shares	4,504	**4,414**	**37,387**
	¥ 97,728	**¥ 83,739**	**$ 709,351**

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 2006 and 2007 are summarized as follows:

Available-for-sale securities:

2006	Millions of Yen			
	Acquisition 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

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

2007	Thousands of U.S. Dollars			
	Acquisition cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Listed shares	**$ 179,248**	**$ 671,964**	**$ 496,387**	**$ 3,671**
Bonds	**26,392**	**26,523**	**142**	**11**
Others	**589**	**865**	**276**	**—**
	$ 206,229	**$ 699,352**	**$ 496,805**	**$ 3,682**

The profit and loss on sale of other securities for the year ended 31st March 2006 and 2007 are as follows:

Available-for-sale securities:

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Carrying amount	¥ 76	**¥ 6**	**$ 54**
Profit on sale	184	**0**	**3**
Loss on sale	3	**—**	**—**

The carrying amount of securities for which a fair value is not available at 31st March 2006 and 2007 are summarized as follows:

Available-for-sale securities:

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Unlisted shares	¥ 1,178	**¥ 1,180**	**$ 9,999**
Others	1	**1**	**8**
	¥ 1,179	**¥ 1,181**	**$ 10,007**

6. Accumulated Depreciation

Accumulated depreciation and impairment, deducted from the cost of property and equipment in the accompanying consolidated balance sheets, amounted to ¥443,372 million and ¥458,306 million ($3,882,304 thousand) at 31st March 2006 and 2007, respectively.

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

The weighted average interest rate applicable to such borrowings was 1.1 per cent per annum for the years ended 31st March 2006 and 2007.

"Long-term debt" at 31st March 2006 and 2007 consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Long-term loans from banks and other financial institutions secured primarily by collateral, due from 2007 to 2026 at the weighted average rate of 2.5 per cent per annum	¥ 109,322	**¥ 110,957**	**$ 939,922**
3.075 per cent yen bonds due April 2012 (Series No. 18)	20,000	**—**	**—**
2.7 per cent yen bonds due April 2007 (Series No. 19)	10,000	**10,000**	**84,710**
2.7 per cent yen bonds due August 2013 (Series No. 20)	10,000	**10,000**	**84,710**
2.175 per cent yen bonds due August 2008 (Series No. 21)	10,000	**10,000**	**84,710**
1.640 per cent yen bonds due March 2015 (Series No. 22)	10,000	**10,000**	**84,710**
Discount bonds due April 2013 (Series No. 23)	—	**17,698**	**149,917**
Discount bonds due April 2016 (Series No. 24)	—	**8,235**	**69,758**
Long-term accounts payable	5,775	**5,095**	**43,158**
	175,097	**181,985**	**1,541,595**
Less: current portion (amount due within one year)	(18,929)	**(25,347)**	**(214,716)**
	¥ 156,168	**¥ 156,638**	**$1,326,879**

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 2006 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
At net book value			
Property and equipment	¥ 196,050	**¥ 202,354**	**$ 1,714,142**
Other	1,210	**1,334**	**11,298**
	¥ 197,260	**¥ 203,688**	**$ 1,725,440**

The aggregate annual maturities of long-term loans from banks and other financial institutions in the 5 years following 31st March 2007 are as follows:

Year ending 31st March	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 15,334	$ 129,896
2009	12,584	106,600
2010	11,171	94,631
2011	7,454	63,139
2012	6,790	57,515
	¥ 53,333	$ 451,781

8. Impairment Loss on Fixed Assets

The Companies sorted out their fixed assets into several groups individually in managerial accounting based on divisions or objects/stores. Impairment losses on fixed assets for the years ended 31st March 2005, 2006 and 2007 consisted of the following:

<table>
<tr><th colspan="6">For the years ended 31st March</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 etc.</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>

For the years ended 31st March		
2007		
Use	Type of assets	Location
Fiber-optic facilities	Buildings and structures, etc	Wayside of Keio line
Mainly commercial facilities (12 items)	Buildings and structures, etc	Setagaya-ku, Tokyo etc.
Leasehold properties (1 item)	Land, buildings and structures, etc	Fuchu City, Tokyo
Idle land (1 item)	Land	Minamitsuru-gun, Yamanashi Prefecture
Public works contributions	Other assets	—

The Companies recognized impairment losses because (a) for commercial facilities and the Fiber-optic facilities, the actual revenue is less than the expected due to the long term depression of the market, (b) for idle land, leisure facilities and leasehold properties, their market values have significantly declined, (c) for the hotel facilities, the dismantling of hotel buildings were decided because the forgery of the public structure checks became clear, and (d) for the public work contributions, in view of recoverability.

The detail of impairment loss for the years ended 31st March 2005, 2006 and 2007 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	**2007**	**2007**
Property and equipment	¥ 712	¥ 2,690	¥ **532**	$ **4,512**
-Land	258	—	**196**	**1,664**
-Building and structures	409	2,465	**217**	**1,840**
-Machinery, rolling stock and equipment	39	69	**4**	**34**
-Other	6	156	**115**	**974**
Intangible assets	0	3	**4**	**34**
Other assets	21	5	**501**	**4,241**
Total	¥ 733	¥ 2,698	¥ **1,037**	$ **8,787**

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

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

9. Income Taxes

The statutory tax rate used for calculating deferred tax assets as of 31st March 2006 and 2007 was 40.69%.

At 31st March 2006 and 2007, significant components of deferred tax assets were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Deferred tax assets:			
Reserve for employees' bonuses	¥ 1,094	¥ **1,072**	$ **9,082**
Enterprise tax payable	896	**715**	**6,052**
Reserve for retirement benefits	9,699	**8,046**	**68,159**
Reserve for directors' retirement benefits	296	**—**	**—**
Loss on revaluation of property and equipment	1,787	**1,502**	**12,727**
Unrealized gain on property and equipment	1,622	**1,813**	**15,357**
Excess depreciation of fixed assets	1,397	**2,155**	**18,255**
Impairment loss	1,690	**1,683**	**14,257**
Accruals for reward card	346	**397**	**3,364**
Loss carry forwards	219	**200**	**1,693**
Other	2,235	**2,337**	**19,792**
Total deferred tax assets	¥ 21,281	¥ **19,920**	$ **168,738**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(29,636)	**(23,680)**	**(200,593)**
Other	—	**(133)**	**(1,123)**
Total deferred tax liabilities	(29,636)	**(23,813)**	**(201,716)**
Net of deferred tax assets	¥ (8,355)	¥ **(3,893)**	$ **(32,978)**

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

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
The valuation allowances	¥ 585	¥ **612**	$ **5,187**

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

10. Retirement Plan

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

The "Reserve for retirement benefits" as of 31st March 2006 and 2007 can be analyzed as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Projected benefit obligations	¥ (87,154)	**¥ (86,345)**	**$ (731,427)**
Plan assets	79,328	**82,598**	**699,689**
Unfunded status	(7,826)	**(3,747)**	**(31,738)**
Unrecognized actuarial differences	(4,276)	**(5,348)**	**(45,301)**
Unrecognized prior service cost	(10,738)	**(9,835)**	**(83,313)**
Reserve for retirement benefits-net	(22,840)	**(18,930)**	**(160,352)**
Prepaid pension cost	2,430	**5,859**	**49,633**
Reserve for retirement benefits	¥ (25,270)	**¥ (24,789)**	**$ (209,985)**

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 2005, 2006 and 2007 was as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2006	**2007**	**2007**
Service cost	¥ 2,977	¥ 3,000	**¥ 2,760**	**$ 23,383**
Interest cost	1,912	1,790	**1,654**	**14,014**
Expected return on plan assets	(429)	(478)	**(575)**	**(4,874)**
Amortization of unrecognized actuarial difference	4,497	2,251	**(1,706)**	**(14,455)**
Amortization of prior service cost	(793)	(816)	**(1,055)**	**(8,938)**
Payments for defined contribution annuity	—	112	**104**	**879**
Net pension expense	¥ 8,164	¥ 5,859	**¥ 1,182**	**$ 10,009**

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

	As of 31st March 2006	As of 31st March 2007
Discount rate	Principally 2.0%	Principally 2.0%
Expected rate of return on plan assets	Principally 0.5%	Principally 0.5%
Method of attributing the projected benefits to periods of service	Straight-line basis	Straight-line basis
Amortization period of unrecognized actuarial differences	Principally 5 years	Principally 5 years
Amortization period of prior service cost	Principally 14 years	Principally 14 years

11. Special Reserve for Expansion of Railway Transport Capacity

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

12. Shareholders' Equity

During the years ended 31st March 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 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**

13. Lease Transactions

[For Lessee]

(1) Finance Leases

Lease rental expenses paid by the Companies under finance lease contracts without transfer of ownership for the years ended 31st March 2006 and 2007 were ¥790 million and ¥641 million ($5,431 thousand), respectively.

The scheduled maturities of future lease rental payments under such finance lease contracts at 31st March 2006 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Due within one year	¥ 603	**¥ 634**	**$ 5,372**
Due after one year	1,292	**1,366**	**11,575**
Subtotal	1,895	**2,000**	**16,947**
Impairment loss on leased assets	(4)	**(11)**	**(96)**
Total	¥ 1,891	**¥ 1,989**	**$ 16,851**

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

The acquisition cost, accumulated depreciation, net book value at 31st March 2006 and 2007, and depreciation expense and impairment loss for the years ended 31st March 2006 and 2007, that would have been applicable if such leased assets had been capitalized, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Acquisition cost	¥ 3,937	**¥ 3,583**	**$ 30,355**
Accumulated depreciation	(2,042)	**(1,583)**	**(13,408)**
Accumulated Impairment loss	(4)	**(11)**	**(96)**
Net book value	¥ 1,891	**¥ 1,989**	**$ 16,851**
Depreciation	¥ 790	**¥ 641**	**$ 5,431**

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

(2) Operating Leases (Non-cancelable)

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

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	**¥ 529**	**$ 4,485**
Due after one year	**5,202**	**44,059**
Total	**¥ 5,731**	**$ 48,544**

[For Lessor]

(1) Operating Leases (Non-cancelable)

The scheduled maturities of future lease rental payments under such operating lease contracts at 31st March 2006 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	**2007**	**2007**
Due within one year	¥ 9	**¥ 3,547**	**$ 30,049**
Due after one year	18	**37,426**	**317,033**
Total	¥ 27	**¥ 40,973**	**$ 347,082**

14. Contingent Liabilities

Contingent Liabilities were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2007	**2007**
Loans borrowed by:		
Employees for housing	**¥ 1,696**	**$ 14,363**
Others	**2**	**17**
	¥ 1,698	**$ 14,380**
Debt Assumption		
Bonds due April 2012 (Series No.18)	**¥ 20,000**	**$ 169,420**

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 ¥110,635 million at 31st March 2006 and ¥101,570 million ($860,398 thousand) at 31st March 2007.

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 2005, 2006 and 2007 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
2005:								
Operating revenues:								
Customers	¥ 123,856	¥ 183,775	¥ 22,322	¥ 79,769	¥ 23,349	¥ 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	49,331	470,765	(37,694)	433,071
Operating costs and expenses	107,030	181,696	16,759	80,490	47,353	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	258	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

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

	Thousands of U.S. Dollars							
	Transportation	Merchandise Sales	Real Estate	Leisure	Other	Sub Total	Elimination or Corporate	Consolidated
2007:								
Operating revenues:								
Customers	$ 1,076,544	$ 1,573,165	$ 213,768	$ 576,840	$ 203,881	$ 3,644,198	$ —	$ 3,644,198
Intersegment	25,510	21,417	16,652	47,632	286,877	398,088	(398,088)	—
Total	1,102,054	1,594,582	230,420	624,472	490,758	4,042,286	(398,088)	3,644,198
Operating costs and expenses	934,663	1,543,691	148,329	585,543	463,161	3,675,387	(389,499)	3,285,888
Operating income	$ 167,391	$ 50,891	$ 82,091	$ 38,929	$ 27,597	$ 366,899	$ (8,589)	$ 358,310
Assets (at year-end)	$ 2,399,767	$ 710,038	$ 890,893	$ 766,802	$ 719,096	$ 5,486,596	$ 3,970	$ 5,490,566
Depreciation	145,316	31,767	34,755	31,504	3,233	246,575	(140)	246,435
Impairment loss	1,907	3,216	2,078	75	1,511	8,787	—	8,787
Capital expenditure	285,155	48,790	52,637	16,086	11,373	414,041	(7,188)	406,853

Prior to the year ended 31st March 2007, the Company had separately reported some operating income and expenses related to Leisure segment (travel agency business).
From the year ended 31st March 2007, the Company has changed to a net reporting method by posting an amount arrived at by netting the income and expenses.
As a result, operating revenues and operating costs of Leisure segment decrease ¥14,216 million ($120,424 thousand) in comparison with conventional method.

Report of Independent Auditors

Keio Corporation and its consolidated subsidiaries

Independent Auditors' Report

To the Board of Directors of
Keio Corporation

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

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

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

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA & Co,

Tokyo, Japan
June 28, 2007

Board of Directors and Auditors

As of 28th June, 2007

President

Kan Kato

Managing Directors

Kenkichi Matsuki
Shigeo Tanaka
Tadashi Nagata
Mitsuhiro Ishibashi
Yoichi Miyata
Shuichi Shimakura
Hiroyuki Okushima
Masahiro Naito
Yasuo Gomi
Yasuhiro Shimura

Senior Managing Director

Ryota Shimomura

Directors

Shizuo Hayashi
Norifumi Miyachi
Toshiaki Kano
Noriaki Kawasugi
Hiroshi Hayasaki

Corporate Auditors

Toyoaki Suzuki
Norio Kuroiwa
Kunihiro Kawashima
Mitsuharu Suzuki

Corporate Data

As of 31st March, 2007

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:	30,302
Number of Employees:	2,211(Consolidated basis:12,755)
Stock Exchange Listing:	Tokyo Stock Exchange
Transfer Agent:	The Sumitomo Trust and Banking Company, Limited Stock Transfer Agency Division 1-10, Nikko-cho, Fuchu, Tokyo 183-8701, Japan Phone: 0120-176-417

Principal Shareholders

As of 31st March, 2007

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)	23,144	3.60
Japan Trustee Services Bank, Ltd. (Trust account)	21,598	3.36
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. (The Chuo Mitsui Trust and Banking Company, Limited (Trust account))	10,000	1.56
Fukoku Mutual Life Insurance Company	9,590	1.49
Mizuho Corporate Bank, Ltd.	8,000	1.24

KEIO

CORPORATION

9-1,Sekido 1-chome,Tama,Tokyo 206-8502,Japan

Phone:042-337-3106

http://www.keio.co.jp