# ANNUAL REPORT 2001

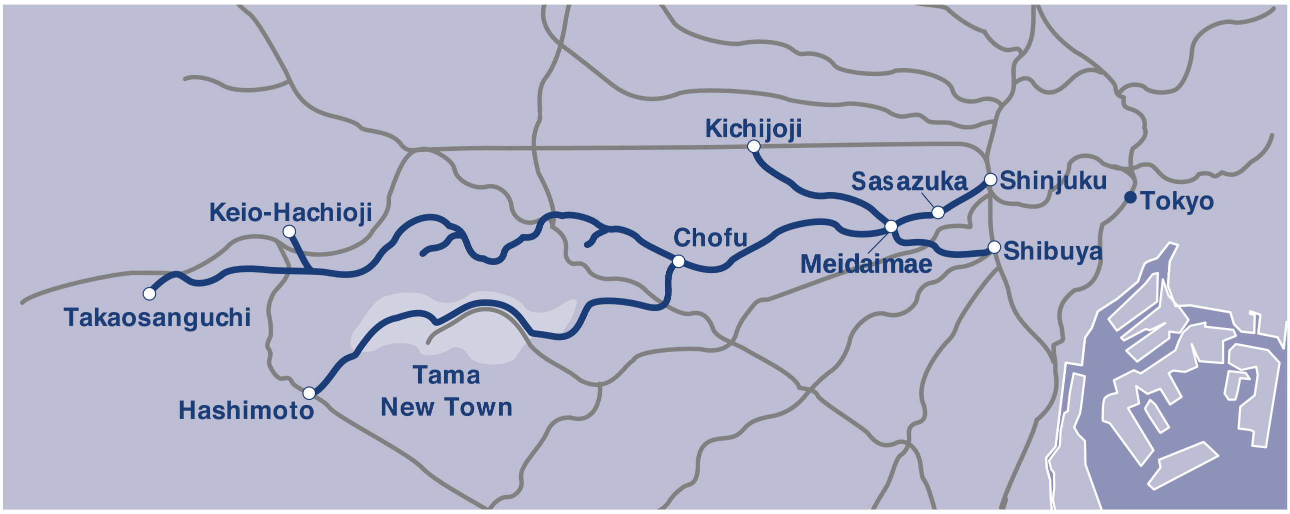
**KEIO ELECTRIC RAILWAY CO., LTD.**

# PROFILE

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

Centered around Keio Electric Railway, the Keio Group comprises 36 companies engaged in transportation, merchandise sales, real estate, leisure services, and construction and other businesses. These businesses focus on areas served by the Keio Line, which extends from Shinjuku to Tokyo's southwestern suburbs of Hachioji and Tama. Shinjuku, a major business center in Japan, gained even more importance in 1991, when the Tokyo Metropolitan Government moved its offices there. Hachioji and Tama have seen an influx of universities and corporations in recent years, resulting in the growth of "New Town" developments in those areas.

As we enter the 21st century, the Keio Group is striving to provide superior services by deploying the consolidated strength of its group companies, to meet the needs of the people it serves and aim for continued growth.

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# FINANCIAL HIGHLIGHTS

## Consolidated Data

Keio Electric Railway Co., Ltd. and Consolidated Subsidiaries

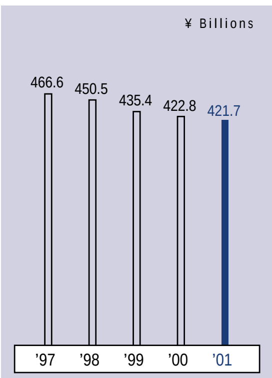
| Years ended 31st March | Millions of Yen 1999 | 2000 | 2001 | Thousands of U.S. Dollars 2001 |
|---|---|---|---|---|
| **For the year:** | | | | |
| Operating revenues | ¥435,362 | ¥422,828 | ¥421,653 | $3,403,172 |
| Operating income | 21,749 | 24,676 | 29,445 | 237,651 |
| Net income | 6,777 | 6,485 | 3,649 | 29,451 |
| **Per share data (in yen and U.S. dollars):** | | | | |
| Net income—basic | ¥ 10.23 | ¥ 9.87 | ¥ 5.68 | $ 0.046 |
| Net income—diluted | 10.22 | 9.86 | — | — |
| Cash dividends | 5.50 | 5.50 | 5.50 | 0.044 |
| **At year-end:** | | | | |
| Total assets | ¥585,205 | ¥562,015 | ¥587,765 | $4,743,866 |
| Total shareholders' equity | 155,121 | 151,381 | 170,966 | 1,379,871 |

## Non-Consolidated Data

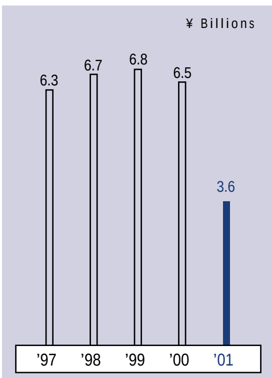
Keio Electric Railway Co., Ltd.

| Years ended 31st March | Millions of Yen 1999 | 2000 | 2001 | Thousands of U.S. Dollars 2001 |
|---|---|---|---|---|
| **For the year:** | | | | |
| Operating revenues | ¥115,410 | ¥115,523 | ¥119,841 | $ 967,240 |
| Operating income | 17,252 | 18,782 | 22,329 | 180,218 |
| Net income | 4,826 | 5,802 | 6,130 | 49,475 |
| **Per share data (in yen and U.S. dollars):** | | | | |
| Net income—basic | ¥ 7.28 | ¥ 8.83 | ¥ 9.54 | $ 0.077 |
| Net income—diluted | 7.28 | 8.83 | 9.53 | 0.077 |
| Cash dividends | 5.50 | 5.50 | 5.50 | 0.044 |
| **At year-end:** | | | | |
| Total assets | ¥464,942 | ¥447,861 | ¥480,240 | $3,876,029 |
| Total shareholders' equity | 124,384 | 121,518 | 143,479 | 1,158,023 |

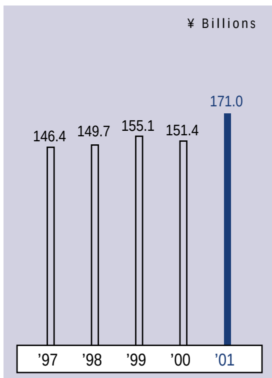
Note: The accompanying U.S. dollar amounts have been translated from Japanese yen for convenience, and as a matter of arithmetical computation only, at the rate of ¥123.90 to U.S.$1.



Consolidated Operating Revenues



Consolidated Net Income



Consolidated Shareholders' Equity

Hiroichi Nishiyama
*Chairman*

Masayuki Saigusa
*President*

## A Corporate Group Wholeheartedly Pursuing Higher Added Value in the Areas It Serves

**Healthy growth in consolidated operating income enabled the Group to carry out lump-sum amortization of a difference due to a change in accounting standards for retirement benefits**

During fiscal 2000, ended 31st March 2001, the Keio Group, and its core company, Keio Electric Railway Co., Ltd., engaged in steady and efficient business operations, as part of the drive to maintain and improve profitability. The Group also strove to further strengthen its financial structure, which entailed a lump-sum amortization of a difference due to a change in accounting standards for retirement benefits. As a result, the Keio Group recorded consolidated net income of ¥3,649 million, while the Company posted net income of ¥6,130 million for the term.

In view of its business results, the Company maintained the cash dividend applicable to the year at ¥5.50 per share, comprising an interim dividend of ¥2.50 per share and a year-end dividend of ¥3.00 per share, with the year-end dividend consisting of an ordinary dividend of ¥2.50 per share and a special dividend of ¥0.50 per share, as in the prior term. In the future, the Company is committed to maintaining an annual dividend of ¥5.50 per share, to the extent that its balance-sheet performance allows. At the same time, it will strive to secure a level of retained earnings needed to bolster its management structure, so that it can further develop its businesses and respond to changes in the management environment.

**Raising each group company value by boosting consolidated income**

To ensure the Group’s continuous growth, we will efficiently reinvest the cash flow we generate, so that we can aggressively expand our portfolio of real estate rental assets and nurture new business—in areas not only along the Keio Line, but also outside it.

In particular, in the field of new business the Group will seek to effectively maximize its assets, for example, by launching a hotel chain specializing in lodging and entering the storage space rental business. Moreover, by establishing Keio Network Communications Co., Ltd. in April, 2001, the Keio Group entered the field of information technology (IT), encompassing the optical cable-based information and telecommunications business.

In its business development activities, the Keio Group focuses continually on consolidated management. Measures to upgrade the Group's structure include pursuing optimal centralization of administrative functions within the Group, to build a system that frees all Group companies to concentrate on operating activities. In this way, we will expand the value of the Keio "brand" as well as our consolidated operating revenues, transforming ourselves into a corporate group with a clear, competitive edge.

**Becoming a corporate group that serves people and the earth**

As the problem of environmental degradation increases in importance, the Keio Group recognizes clearly the need to carry out its operations while giving due consideration to the global environment. Having already implemented a range of programs to promote energy-saving, recycling and other forms of environmental conservation, the Group is determined to maintain corporate management that makes safeguarding the environment a foremost priority.

Another important challenge is posed by the aging of society. As people-friendly companies, all Keio Group members—commencing with the railway and bus businesses—will work concertedly in collaboration with local communities to push ahead with the implementation of barrier-free transportation. This will help ensure that residents along the Keio Line are truly satisfied with the place of residence they have chosen.

In the 21st century, the Keio Group aims to become a corporate entity that continues not only to raise the value of the areas served by the Keio Line, but also to contribute to the prosperity of local communities and enrich people's lives. As a trustworthy partner for all its customers, the Keio Group commits itself to working all-out to provide more satisfactory services. We ask for your continued support of our endeavors in the years ahead.

29th June, 2001

西山廣一

Hiroichi Nishiyama
*Chairman*

三枝正幸

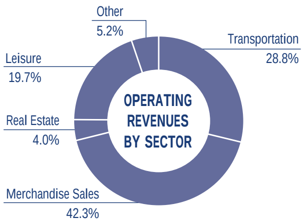
Masayuki Saigusa
*President*

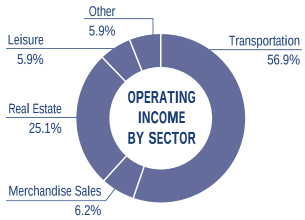
## The Keio Group

| TRANSPORTATION GROUP | MERCHANDISE SALES GROUP | REAL ESTATE GROUP | LEISURE GROUP | OTHER GROUP |
|---|---|---|---|---|
| Keio Electric Railway Co., Ltd. (Railway, Bus) | Keio Department Store Co., Ltd. | Keio Electric Railway Co., Ltd. (Development) | Keio Plaza Hotel Co., Ltd. | Keio Kensetsu Co., Ltd. |
| Keio Bus Co., Ltd. | Keio Passport Club Co., Ltd. | Keio Realty and Development Co., Ltd. | Keio Plaza Hotel Sapporo Co., Ltd. | Keio Setsubi Service Co., Ltd. |
| Nishi Tokyo Bus Co., Ltd. | Keio Store Co., Ltd. | Keio Chika Chushajou Co., Ltd. | Keio Presso Inn Co., Ltd. | Keio Juuki Seibi Co., Ltd. |
| Tama Bus Co., Ltd. | Keio Travel Agency Co., Ltd. (Sales) | | Keio Travel Agency Co., Ltd. (Travel, Insurance) | Tokyo Special Coach Manufacture Co., Ltd. |
| Keio Jidousha Co., Ltd. | Keio ĀTMAN Co., Ltd. | | Keio Agency, Inc. | Keio Network Communications Co., Ltd. |
| Keio Unyu Co., Ltd. | Keio Shoseki Hanbai Co., Ltd. | | Keio Recreation Co., Ltd. | Keio Accounting Co., Ltd. |
| Mitake Tozan Tetsudou Co., Ltd. | Keio Shokuhin Co., Ltd. | | Restaurant Keio Co., Ltd. | Keio Business Support Co., Ltd. |
| | Keio Green Service Co., Ltd. | | Keio Costume Co., Ltd. | Shin Tokyo Elite Co., Ltd. |
| | Keio Tomonokai Co., Ltd. | | | Keio Banquet Service Co., Ltd. |
| | Eliet Co., Ltd. | | | |
| | Keio Shouji Co., Ltd. | | | |

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

## Operating Revenues and Operating Income by Sector




# TRANSPORTATION GROUP

*New-model car (9000 Series) introduced on the Keio Line*

### Keio Electric Railway Implements Measures to Boost Safety and Barrier-Free Access

In railway operations, Keio Electric Railway Co., Ltd. put into service 16 new-model cars (9000 Series) on the Keio Line and completed improvement work at Tobitakyu Station, in line with a development project for a vacant lot at the Chofu depot, including a plan to construct a Tokyo stadium. The Company also focused on safety improvement. This entailed the installation of additional "under-platform" steps as well as detectors that spot a fallen passenger, thus ensuring the safety of passengers on the platform, and wheel load measuring devices, enabling all cars to adjust the wheels' load balance. In addition, work to enhance barrier-free access culminated in the installation of escalators at five stations, including Shinjuku Station, and elevators at Meidaimae and three other stations.

To improve passenger service, the Company revised its timetable for the Keio and Inokashira Lines in March 2001, increasing late-night train services, while introducing "women only"


Elevator at Meidaimae Station

cars on the Keio Line. It also introduced "Pass Net," a convenient common fare card system, which enables passengers to insert a prepaid card into an automatic ticket-checking machine, in October 2000. On the Dobutsuen Line, driver-only operation was initiated as a labor-saving measure.

In its vehicle-related operations, Keio Electric Railway introduced 33 "non-step" buses featuring low boarding steps, which are designed to make getting on and off easier for passengers. The buses are also equipped with wheelchair-compatible ramps and a "no idling" device that stops the engine when the bus is not moving. These enhancements demonstrate the Company's efforts to achieve barrier-free transportation, as well as its energy conservation and other environmental protection measures. To improve its transportation system and thereby make it more responsive to passengers' needs, the Company launched three new routes, including one between Hachioji-Minamino Station and Green Hill Terada, and increased services on a part of its bus routes. It also implemented measures to boost revenues, such as putting advertisements on bus exteriors.

In its highway bus service operations, Keio Electric Railway's efforts to upgrade passenger services and expand convenience led to the addition of six bus routes, increased bus services on the Matsumoto route, and the launch of "Highway Bus.com," a home page that allows travelers to make reservations by using the Internet.

The Company commissioned operation of four routes to Keio Bus Co., Ltd., while switching one route to joint operation. In highway bus services, service on the Kofu route was transferred to Keio Bus.


Airport bus connecting the north exit of Chofu Station and Haneda Airport

## Targeting Services Closely Matched to Community Needs

Keio Bus Co., Ltd. launched new route services, including non-stop bus service between the north exit of Chofu Station and Haneda Airport and Sugimaru—a community bus operated by the local government along a railway line—on the north-south route in Suginami Ward. In connection with these efforts to upgrade its operational infrastructure, the Company worked to provide services closely suited to the needs of local communities.

To bolster profitability, Nishi Tokyo Bus Co., Ltd. transferred all routes operated by its Ome office to Tama Bus Co., Ltd. The company held face-to-face meetings with local communities, to promote the mutual understanding with local residents that leads to the provision of better services.

Keio Jidousha Co., Ltd. commenced a "nursing-care taxi" service, utilizing easy-access vehicles, in which the vehicle driver, who holds Home Helper Class 2 qualification, assists elderly or disabled passengers. All group companies accelerated their efforts to achieve barrier-free transportation.

## MERCHANDISE SALES GROUP

*The second floor of Keio Department Store's Shinjuku Store, which was refurbished in February 2001*

### All Companies Move Forward with Programs to Bolster Marketing and Meet Customer Needs

Keio Department Store Co., Ltd. sought to solidify its position as a "New-Type Popular Department Store" and improve profitability, by implementing aggressive marketing measures. These included extending store hours, opening a store on an online shopping site, and refurbishing the first floor of the Shinjuku Store in September 2000 and the second floor in February 2001.

To make stores and sales floors even more appealing to customers, Keio Store Co., Ltd., Keio ĀTMAN Co., Ltd. and "Keibundo Shoten" (an outlet under Keio Shoseki Hanbai Co., Ltd.) remodeled their sales floors, while Keio Shokuhin Co., Ltd. opened new outlets of its "Bakery Shop Le Repas."

## REAL ESTATE GROUP

*The Keio Shinjuku Oiwake Building, completed in April 2001*

### Expanding the Company's Portfolio of Highly Profitable Rental Assets

In the real estate and rental business, Keio Electric Railway saw a new rental asset, Shibuya Mark City, begin full-scale operation and started renting out the completed Keio Tama Sakai Building. The Company acquired communal space in Ebisu Neonate, a large-scale office building adjacent to Japan Railway (JR) Ebisu Station, while initiating activities aimed at procuring highly profitable rental assets. Completion of the Keio Shinjuku Oiwake Building in April 2001 was followed by commencement of construction of the Keio Hachioji C Building, the Yoyogi 3-Chome Kyodo Building and shops under the elevated railway track of Hashimoto Station. These efforts to expand the Company's portfolio of rental assets were accompanied by large-scale renovation work at Keio Plaza Hotel.

In addition to inaugurating a new firm—Keio Closet Hachimanyama—engaged in the storage space rental business, the Company launched construction in Higashi Ginza of the first PRESSO INN hotel, a new chain that specializes in lodging.

Keio Realty and Development Co., Ltd. marketed subdivisions of the fifth stage of development of "Keio Four Seasons Town" in Hachioji-Minamino City as well as Keio Harajuku Minami Housing, both of which were immediately sold out.

## LEISURE GROUP

*Glass Shell, Keio Plaza Hotel's attractive new chapel*

### Implementing Programs Designed to Attract New Customers by Utilizing Information Technology

Keio Plaza Hotel opened a new chapel, Glass Shell, in October 2000, to further enhance its appeal as an urban hotel. In line with a marketing strategy positioning it as an urban hotel that enjoys a high level of customer satisfaction, the hotel actively adopted information technology (IT)—equipping all guest rooms with a free high-speed Internet connection—and aggressively implemented measures to ensure barrier-free access.

Restaurant Keio Co., Ltd. sought to expand a stabilized earnings base by increasing the number of its stores. The company's efforts included opening "Curry Shop C&C" restaurants as well as "Doutor," a coffee shop chain for which the company is the franchisee, in areas not serviced by the Keio Line.

## OTHER GROUPS

### Striving to Boost Quality and Customer Satisfaction

To establish a quality control system highly regarded by its customers, Keio Kensetsu Co., Ltd. obtained certification for ISO 9001, the international standard for quality control, in November 2000. Keio Setsubi Service Co., Ltd. also worked to improve quality and customer satisfaction, with the goal of acquiring ISO 9001 certification during fiscal 2001, ending March 31, 2002.

In line with the Group's full-fledged shift to consolidated operations, a new firm, Keio Accounting Co., Ltd., was established in June 2000 to ensure highly efficient, enhanced accounting and financing operations among group companies.

## Operational Results

During the fiscal year under review, despite an increase in private-sector capital investment driven by IT-related businesses, the Japanese economy continued to face a harsh climate, reflecting a slump in consumer spending due to uncertainty over job prospects and stagnating stock prices.

In these circumstances, each segment of the Keio Group strove to improve management efficiency and boost profitability. As a result, although operating revenues for the term declined 0.3% from the previous year, to ¥421,653 million, operating income rose an impressive 19.3%, to 29,445 million.

To strengthen its corporate balance sheet, the Group amortized in a lump-sum, amounting to ¥17,067 million, a difference due to a change in accounting standards for retirement benefits, recording it as an extraordinary loss. As a result, net income for the term fell 43.7% from the preceding term, to ¥3,649 million.

## Review by Business Segment

### Transportation Segment

Supported by 0.4% growth in the number of passengers, this segment posted operating revenue of ¥124,631 million, up 0.5% from the previous year. Depreciation costs rose, due to capital expenditures in connection with the introduction of the “Pass Net” common fare card system in the railway business. The increase was offset chiefly by a decrease in personnel expenses, however, and operating income advanced 9.9%, to ¥16,433 million.

The major focus of capital expenditures during the fiscal year under review comprised new-type ticket checking machines with a fare-adjustment capability, which were installed at all stations on the Keio and Inokashira Lines.

### Merchandise Sales Segment

This segment was challenged by the severe operating environment produced by the negative effects of prolonged stagnation in consumer spending and intensifying competition. Department store business suffered from lackluster sales on shop floors and to corporate customers, while retail store operations shut unprofitable outlets. Both businesses saw revenues decline.

The segment's operating revenue fell 1.9%, to ¥181,033 million. Nevertheless, as a result of all-out efforts to reduce staffing and other operating costs by increasing staff assignment efficiency and restructuring of the personnel system, operating income surged 129.0%, to ¥1,802 million.

### Real Estate Segment

Supported by the launch of operation of new properties—Shibuya Mark City, a jointly owned property that opened in April 2001, and Ebisu Neonate—as well as the strong performance of existing rental properties, this segment posted operating revenue of ¥30,730 million, up 6.8% from the preceding term, and operating income of ¥7,244 million, up 25.1%.

Major capital expenditures during the term included acquisition of a 24.5% stake in Ebisu Neonate, a large-scale office building adjacent to JR Ebisu Station, for which rental income has been recorded since September 2000. The Group also acquired land near Higashi Ginza Station on a subway line and launched construction of the first PRESSO INN hotel, a new chain specializing in lodging that the Company plans to operate in the metropolitan Tokyo area. The PRESSO INN Higashi Ginza will have 250 rooms and is scheduled to open by the end of fiscal 2001 ending March 31, 2002.

### Leisure Segment

While customers’ preferences grew more diversified, the Company’s hotel business faced a severe operating environment resulting from consolidation or closing of chain hotels as well as the opening of new hotels, and accordingly suffered a slight decrease in revenues. The drop was, however, counterbalanced by increased revenue from advertising agency business, which enjoyed an expanding volume of work orders, and restaurant business, which aggressively opened new outlets.

The segment recorded operating revenue of ¥87,150 million, up 1.8% from the previous term. Additional measures aimed at achieving lower-cost operations—such as reducing cost ratios and reviewing manpower staffing—contributed to a 88.4% surge in operating income, to ¥1,701 million.

**Other Segment**

In other businesses, orders continued to stagnate. In this challenging operating environment, the building cleaning and maintenance business succeeded in boosting revenues, while the construction and civil engineering and vehicle servicing businesses saw revenues decline.

Consequently, the segment's operating revenue fell 3.0%, to ¥37,202 million. Operating income, however, advanced 22.5%, to ¥1,714 million, reflecting the Company's success in slashing operating expenses, which entailed a thoroughgoing review of the personnel system.

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

## Cash Flows

Net cash provided by operating activities rose 18.4% from the preceding term, to ¥41,213 million. Although income before income taxes and minority interest in income (loss) of consolidated subsidiaries was down 46.5%, to ¥5,786 million, accrued employees' retirement benefits as well as depreciation and amortization increased.

Net cash used in investing activities rose 55.4%, to ¥39,032 million. The expansion was due primarily to the installation of new-model ticket checking machines with fare-adjustment capability in connection with the introduction of the "Pass Net" common fare card system as well as the acquisition of a stake in the Ebisu Neonate office building in the real estate segment.

Net cash used in financing activities declined 9.1%, to ¥17,600 million, reflecting a reduction in interest-bearing liabilities.

As a result of the above, the balance of cash and cash equivalents at the fiscal year-end decreased 25.8%, to ¥44,382 million.

# Consolidated Balance Sheets

As of 31st March, 2000 and 2001

| | Millions of Yen | | Thousands of U.S. Dollars (Note 3) |
|---|---|---|---|
| ASSETS | 2000 | 2001 | 2001 |
| **Current Assets:** | | | |
| Cash and bank deposits (Note 4) | ¥ 49,073 | ¥ 26,380 | $ 212,914 |
| Short-term investments (Note 5) | 15,309 | 16,618 | 134,124 |
| Notes and accounts receivable, trade | 25,151 | 27,204 | 219,565 |
| Allowances for doubtful accounts | (329) | (305) | (2,462) |
| Inventories | 32,311 | 29,386 | 237,175 |
| Deferred tax assets (Note 8) | 4,397 | 2,481 | 20,024 |
| Other current assets | 2,448 | 6,211 | 50,129 |
| Total current assets | 128,360 | 107,975 | 871,469 |
| **Investments and Advances:** | | | |
| Investments in securities (Note 5) | 31,886 | 68,882 | 555,948 |
| Investments in affiliates and unconsolidated subsidiaries | 1,682 | 1,719 | 13,874 |
| | 33,568 | 70,601 | 569,822 |
| **Property and Equipment, at Book Value (Notes 6 and 7):** | | | |
| Land | 74,186 | 86,620 | 699,112 |
| Buildings and structures | 249,053 | 244,984 | 1,977,272 |
| Machinery, rolling stock and equipment | 35,786 | 34,675 | 279,863 |
| Tools, furniture and fixtures | 8,950 | 9,406 | 75,916 |
| Construction in progress | 12,338 | 12,085 | 97,538 |
| | 380,313 | 387,770 | 3,129,701 |
| **Intangible Fixed Assets** | 2,634 | 3,180 | 25,666 |
| **Deferred Tax Assets (Note 8)** | 5,481 | 7,507 | 60,589 |
| **Other Assets** | 11,659 | 10,732 | 86,619 |
| | ¥562,015 | ¥587,765 | $4,743,866 |

The accompanying notes are an integral part of these statements.

| LIABILITIES AND SHAREHOLDERS' EQUITY | Millions of Yen 2000 | 2001 | Thousands of U.S. Dollars (Note 3) 2001 |
|---|---|---|---|
| **Current Liabilities:** | | | |
| Short-term bank borrowings (Note 7) | ¥ 43,157 | ¥ 42,823 | $ 345,626 |
| Current portion of long-term debt (Note 7) | 13,266 | 14,089 | 113,713 |
| Notes and accounts payable, trade | 20,608 | 20,008 | 161,485 |
| Consumption tax payable | 1,784 | 1,446 | 11,671 |
| Income taxes payable | 6,463 | 4,921 | 39,718 |
| Reserve for employees' bonuses | 3,850 | 3,477 | 28,063 |
| Advances received | 11,609 | 7,510 | 60,613 |
| Other current liabilities | 41,119 | 40,026 | 323,050 |
| Total current liabilities | 141,856 | 134,300 | 1,083,939 |
| **Long-Term Debt** (Note 7) | 202,727 | 191,609 | 1,546,481 |
| **Deferred Tax Liabilities** | — | 8,488 | 68,507 |
| **Reserve for Retirement Benefits** (Note 9) | 27,858 | 45,745 | 369,209 |
| **Reserve for Retirement Benefits to Directors and Corporate Auditors** (Note 9) | 759 | 805 | 6,497 |
| **Special Reserve for Expansion of Railway Transport Capacity** (Note 10) | 18,770 | 16,423 | 132,550 |
| **Other Non-Current Liabilities** | 17,120 | 18,216 | 147,022 |
| Total liabilities | 409,090 | 415,586 | 3,354,205 |
| **Minority Shareholders' Equity in Consolidated Subsidiaries** | 1,544 | 1,213 | 9,790 |
| **Shareholders' Equity** (Note 11): | | | |
| Common stock, ¥50 par value | | | |
| Authorised 2000: 1,581,743,000 shares | | | |
| 2001: 1,580,230,000 shares | | | |
| Issued 2000: 644,267,152 shares | 59,024 | — | — |
| 2001: 642,754,152 shares | — | 59,024 | 476,384 |
| Additional paid-in capital | 42,125 | 42,019 | 339,136 |
| Retained earnings | 50,235 | 49,764 | 401,647 |
| Unrealized gains on other securities, net of tax | — | 20,160 | 162,712 |
| Treasury stock, at cost | | | |
| Shares 2000: 7,885 shares | (3) | — | — |
| 2001: 1,349 shares | — | (1) | (8) |
| Total shareholders' equity | 151,381 | 170,966 | 1,379,871 |
| **Contingent Liabilities** (Note 13) | — | — | — |
| | ¥562,015 | ¥587,765 | $4,743,866 |

# Consolidated Statements of Income and Retained Earnings

For the years ended 31st March, 1999, 2000 and 2001

| | Millions of Yen | | | Thousands of U.S. Dollars (Note 3) |
|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2001 |
| Operating Revenues | ¥435,362 | ¥422,828 | ¥421,653 | $3,403,172 |
| Operating Costs and Expenses: | | | | |
| Operating costs | 367,350 | 355,123 | 346,324 | 2,795,190 |
| Selling, general and administrative expenses | 46,263 | 43,029 | 45,884 | 370,331 |
| | 413,613 | 398,152 | 392,208 | 3,165,521 |
| Operating income | 21,749 | 24,676 | 29,445 | 237,651 |
| Non-Operating Income (Expenses): | | | | |
| Interest and dividend income | 3,325 | 887 | 867 | 6,998 |
| Interest expense | (8,755) | (7,856) | (7,382) | (59,580) |
| Loss on disposal of property and equipment | — | (723) | (1,341) | (10,823) |
| Subsidy received from Tokyo Metropolitan Government and other | — | — | 3,895 | 31,437 |
| Advance depreciation of fixed assets | — | — | (3,895) | (31,437) |
| Equity in earnings of affiliates and unconsolidated subsidiaries | 88 | 93 | 98 | 791 |
| Gain on sales of investments in securities | — | — | 65 | 525 |
| Loss on revaluation of investments in securities | — | — | (854) | (6,893) |
| Loss on sales of securities and other investments | (2,755) | — | — | — |
| Loss on sales of short-term investments | (1,694) | — | — | — |
| Reversal of special reserve for expansion of railway transport capacity | 2,346 | 2,346 | 2,346 | 18,935 |
| Cumulative effect of change in accounting for retirement benefits | — | (4,692) | — | — |
| Amortization of transition amount related to retirement benefits | — | — | (17,067) | (137,748) |
| Special retirement payments | — | (2,635) | (1,057) | (8,531) |
| Provision for reserve for retirement benefits | (689) | (1,036) | — | — |
| Loss on revaluation of real estate inventories for sale | — | (832) | — | — |
| Other, net | (264) | 590 | 666 | 5,374 |
| | (8,398) | (13,858) | (23,659) | (190,952) |
| Income before income taxes and minority interest in income (loss) of consolidated subsidiaries | 13,351 | 10,818 | 5,786 | 46,699 |
| Income Taxes (Note 8): | | | | |
| Current | 8,385 | 9,573 | 8,776 | 70,831 |
| Deferred | (1,735) | (5,098) | (6,275) | (50,645) |
| | 6,650 | 4,475 | 2,501 | 20,186 |
| Income before minority interest in income (loss) of consolidated subsidiaries | 6,701 | 6,343 | 3,285 | 26,513 |
| Minority Interest in Income (Loss) of Consolidated Subsidiaries | (76) | (142) | (364) | (2,938) |
| Net income | 6,777 | 6,485 | 3,649 | 29,451 |
| Retained Earnings: | | | | |
| Balance at beginning of year | 42,068 | 47,493 | 50,235 | 405,448 |
| Cumulative effect of change in accounting for income taxes | 3,052 | — | — | — |
| Appropriations: | | | | |
| Cash dividends | (4,306) | (3,645) | (3,539) | (28,563) |
| Directors' bonuses | (98) | (98) | (95) | (767) |
| Transfer to additional paid-in capital | — | — | (486) | (3,922) |
| Balance at end of year | ¥ 47,493 | ¥ 50,235 | ¥ 49,764 | $ 401,647 |

| | Yen | | | U.S. Dollars (Note 3) |
|---|---|---|---|---|
| Net Income per Share: | | | | |
| Basic | ¥ 10.23 | ¥ 9.87 | ¥ 5.68 | $ 0.046 |
| Diluted | 10.22 | 9.86 | — | — |
| Weighted average number of shares outstanding (in thousands) | 662,518 | 657,339 | 642,751 | |

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Cash Flows

For the years ended 31st March, 1999, 2000 and 2001

| | Millions of Yen | | | Thousands of U.S. Dollars (Note 3) |
|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2001 |
| **Cash Flows from Operating Activities:** | | | | |
| Net income before income taxes and minority interest in income (loss) of consolidated subsidiaries | ¥13,351 | ¥10,818 | ¥ 5,786 | $ 46,699 |
| Adjustments for: | | | | |
| Depreciation and amortization | 28,188 | 27,091 | 30,172 | 243,519 |
| (Decrease) Increase in reserve for retirement benefits | 297 | (1,814) | 13,241 | 106,869 |
| (Decrease) Increase in special reserve for expansion of railway transport capacity | (2,346) | (2,346) | (2,346) | (18,935) |
| Cumulative effect of change in accounting for retirement benefits | — | 4,692 | — | — |
| Loss on revaluation of real estate inventories for sale | — | 832 | 218 | 1,760 |
| Loss on revaluation of investments in securities | — | — | 854 | 6,893 |
| Loss on sales of short-term investments | 1,694 | — | — | — |
| Loss on sales of securities and other investments | 2,755 | — | — | — |
| Loss on disposal of property and equipment | 1,586 | 723 | 1,231 | 9,935 |
| Advance depreciation of fixed assets | — | — | 4,746 | 38,305 |
| Interest and dividend income | (3,325) | (887) | (867) | (6,998) |
| Interest expense | 8,755 | 7,856 | 7,382 | 59,580 |
| Subsidy received from Tokyo Metropolitan Government and other | (547) | (549) | (4,462) | (36,013) |
| Decrease in notes and accounts receivables | 528 | 704 | (2,035) | (16,425) |
| Decrease in inventories | 782 | 724 | 2,444 | 19,726 |
| (Decrease) Increase in notes and accounts payable | (2,687) | 4,713 | 1,441 | 11,630 |
| Other, net | (210) | (1,780) | (459) | (3,704) |
| Subtotal | 48,821 | 50,777 | 57,346 | 462,841 |
| Interest and dividends received | 3,329 | 891 | 903 | 7,288 |
| Interest paid | (8,747) | (7,921) | (6,719) | (54,229) |
| Income taxes paid | (6,624) | (8,946) | (10,317) | (83,269) |
| Net cash provided by operating activities | 36,779 | 34,801 | 41,213 | 332,631 |
| **Cash Flows from Investing Activities:** | | | | |
| Payments for purchase of property and equipment | (29,120) | (26,120) | (39,965) | (322,558) |
| Proceeds from sales of property and equipment | 1,318 | 499 | 296 | 2,389 |
| Payments for purchase of short-term investments | (2,376) | (613) | (301) | (2,429) |
| Proceeds from sales of short-term investments | 11,681 | 741 | 341 | 2,752 |
| Payments for purchase of securities and other investments | (2,765) | (172) | (134) | (1,082) |
| Proceeds from sales of securities and other investments | 2,144 | 97 | 241 | 1,945 |
| Subsidy received from Tokyo Metropolitan Government and other | 1,474 | 1,735 | 2,002 | 16,158 |
| Other, net | (294) | (1,287) | (1,512) | (12,203) |
| Net cash used in investing activities | (17,938) | (25,120) | (39,032) | (315,028) |
| **Cash Flows from Financing Activities:** | | | | |
| Decrease in short-term bank borrowings | (2,101) | (4,045) | (334) | (2,696) |
| Increase in long-term debt | 34,343 | 14,235 | 3,600 | 29,056 |
| Repayment of long-term debt | (25,843) | (19,417) | (16,736) | (135,077) |
| Purchase of treasury stock to offset additional paid-in capital | — | (6,480) | (592) | (4,778) |
| Cash dividends paid | (4,306) | (3,645) | (3,539) | (28,563) |
| Other, net | 2 | (1) | 1 | 8 |
| Net cash provided by (used in) financing activities | 2,095 | (19,353) | (17,600) | (142,050) |
| **Exchange Gain on Cash and Cash Equivalents** | — | 7 | 12 | 97 |
| **Cash and Cash Equivalents Increase Due to Consolidation of Subsidiaries** | — | 300 | — | — |
| **Net Increase in Cash and Cash Equivalents** | 20,936 | (9,365) | (15,407) | (124,350) |
| **Cash and Cash Equivalents at Beginning of Year** | 48,218 | 69,154 | 59,789 | 482,558 |
| **Cash and Cash Equivalents at End of Year** (Note 4) | ¥69,154 | ¥59,789 | ¥44,382 | $358,208 |

The accompanying notes are an integral part of these statements.

# Notes to the Consolidated Financial Statements

## 1. Basis of Presenting Consolidated Financial Statements

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

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

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

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

## 2. Summary of Significant Accounting Policies

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

The consolidated financial statements include the accounts of Keio Electric Railway Co., Ltd. (the "Company") and its 24 significant subsidiaries. The Company has adopted the equity method of accounting for investments in 8 unconsolidated subsidiaries and an affiliate which have significant impact on the financial status of the Companies.

### (2) Elimination and Consolidation

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

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

### (3) Cash and Cash Equivalents

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

### (4) Inventories

Real estate inventories for sales are stated at 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 using the retail cost method.

Effective 1st April, 2000, the Companies changed their accounting method for inventory valuation from the cost method to the lower of cost or market value, cost being determined by the identified cost method. This change was made to adopt a more conservative method of inventory valuation, considering the current trends of downward pressure on real estate prices which is likely to continue. The effect of this change was to decrease operating income and income before income taxes and minority interest in income (loss) of consolidated subsidiaries by ¥218 million ($1,760 thousand), as compared with the amount which would have been reported if the previous method had been applied consistently.

### (5) Financial Instruments

Until the year ended 31st March, 2000, marketable securities included in short-term investments (current portfolio) and investments in securities (non-current portfolio), both listed on stock exchanges and those not listed were principally valued at cost, cost being determined by the moving average method.

Effective from the year ended 31st March, 2001, the Companies adopted the new Japanese accounting standard for financial instruments, which is effective for periods beginning on or after 1st April, 2000.

i) Securities

Securities held by the Companies are, under the new standard, classified as follows:

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

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

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

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

Under the new standard, debt securities due within one year are presented as "current" and all other securities are presented as "non-current". The securities held by the Companies have been reclassified as of 1st April, 2000 (the beginning of the year). As a result of such reclassification, the securities in the current portfolio have decreased by ¥3,052 million and the securities in the non-current portfolio have increased by the same amount.

**(6) Property and Equipment**

Property and equipment is stated at cost.

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

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

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

iii) Other property and equipment
Declining-balance method

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

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

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

**(7) Leases**

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

**(8) Amortization**

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

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

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

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

## (9) Income Taxes

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

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

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

## (10) Accounting for Reserves

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

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

In the year ended 31st March, 2000, the Company and certain subsidiaries changed to provide employees' bonuses one more time annually, in March. The account payable for such bonuses amounted to ¥2,314 million, and was included in "Other current liabilities" at 31st March, 2000.

### *ii. Reserve for retirement benefits*

Until the year ended 31st March, 2000, the employees of the Companies were generally covered by a retirement pension plan and a retirement benefit plan. With respect to the retirement benefit costs covered under the retirement benefit plan, the Companies provided a reserve covering 40% of the amount which would be required if all eligible employees voluntarily retired as of the balance sheet date.

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

The cumulative effect of this change was charged to income for the year ended 31st March, 2000. As a result of this change, non-operating expenses for the year ended 31st March, 2000 increased by ¥4,692 million and income before income taxes and minority interest in income (loss) of consolidated subsidiaries decreased by the same amount, as compared with the amount which would have been reported if the previous method had been applied consistently.

Effective from the year ended 31st March, 2001, the Companies adopted the new Japanese accounting standard for retirement benefits, which is effective for periods beginning on or after 1st April, 2000. In accordance with the new standard, the reserve for retirement benefits as of 31st March, 2001 represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets except that, as permitted under the new standard, the unrecognized actuarial differences are amortized on a straight-line basis over the period of principally 15 years from the year following that in which they arise. The transition amount arising from adopting the new standard of ¥17,067 million at 1st April, 2000 (the beginning of the year) has been charged to income for the year ended 31st March, 2001. As a result of adopting the new standard, the net pension expense for the year ended 31st March, 2001 has increased by ¥15,757 million ($127,175 thousand) and income before income taxes and minority interest in income (loss) of consolidated subsidiaries has decreased by ¥15,757 million ($127,175 thousand) as compared with the amounts which would have been reported if the previous standard had been applied consistently.

### *iii. Reserve for retirement benefits to directors and corporate auditors*

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

## (11) Net Income per Share

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

Diluted net income per share was not applicable for the year ended 31st March, 2001 because of no dilution.

### (12) Accounting for Consumption Tax

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

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

## 3. United States Dollar Amounts

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

As the amounts shown in U.S. dollars are for convenience only, and are not intended to be computed in accordance with generally accepted translation procedures, the rate of ¥123.90 = U.S.$1, the approximate current rate at 30th March, 2001, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

## 4. Reconciliation of Cash and Cash Equivalents in the Consolidated Statements of Cash Flows and Account Balances on the

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2000 | 2001 | 2001 |
| Cash and bank deposits | ¥49,073 | ¥26,380 | $212,914 |
| Marketable securities | 15,309 | 16,618 | 134,124 |
| Purchase contracts for securities with a sell-back clause included in "Short-term loans" | — | 3,600 | 29,056 |
| Time deposits with deposit term of over 3 months | (1,280) | (1,998) | (16,126) |
| Corporate shares, and government and corporate bonds due after 3 months | (3,313) | (218) | (1,760) |
| Cash and cash equivalents | ¥59,789 | ¥44,382 | $358,208 |

## 5. Marketable Securities and Investments in Securities

Marketable securities included in short-term investments and investments in securities at 31st March, 2000 and 2001 consisted of:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2000 | 2001 | 2001 |
| Marketable securities (Current portfolio): | | | |
| Listed corporate shares | ¥ 2,737 | ¥ — | $ — |
| Government and corporate bonds and unlisted corporate shares | 12,572 | 16,618 | 134,124 |
| | ¥15,309 | ¥16,618 | $134,124 |
| Investments in securities (Non-current portfolio): | | | |
| Listed corporate shares | ¥19,430 | ¥56,213 | $453,696 |
| Government and corporate bonds and unlisted corporate shares | 12,456 | 12,669 | 102,252 |
| | ¥31,886 | ¥68,882 | $555,948 |

The Companies reclassified listed corporate shares with a book value of ¥6 million from the "current" portfolio into the "non-current" portfolio, during the year ended 31st March, 2000, because the Company's reason for holding such securities changed.

The Companies reclassified purchase contracts for securities with a sell-back clause, with a book value of ¥3,600 million ($29,056 thousand), from marketable securities to short-term loans and reclassified negotiable certificates of deposit with a book value of ¥16,400 million ($132,365 thousand) from cash and bank deposits to marketable securities, during the year ended 31st March, 2001.

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

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

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, 2001 are summarized as follows:

| | 2001 | | | |
|---|---|---|---|---|
| | Millions of Yen | | | |
| | Cost | Carrying Amount | Gross Unrealized Gains | Gross Unrealized Losses |
| Other securities: | | | | |
| Listed shares | ¥21,394 | ¥56,213 | ¥35,566 | ¥747 |
| Bonds | 10,035 | 10,060 | 88 | 63 |
| Others | 16,586 | 16,588 | 2 | — |
| | ¥48,015 | ¥82,861 | ¥35,656 | ¥810 |

| | 2001 | | | |
|---|---|---|---|---|
| | Thousands of U.S. Dollars | | | |
| | Cost | Carrying Amount | Gross Unrealized Gains | Gross Unrealized Losses |
| Listed shares | $172,671 | $453,696 | $287,054 | $6,029 |
| Bonds | 80,993 | 81,195 | 710 | 508 |
| Others | 133,866 | 133,882 | 16 | — |
| | $387,530 | $668,773 | $287,780 | $6,537 |

The carrying amount of securities for which a fair value is not available at 31st March, 2001 is summarized as follows:

| | 2001 | |
|---|---|---|
| | Carrying Amount | |
| | Millions of Yen | Thousands of U.S. Dollars |
| Other securities: | | |
| Unlisted shares | ¥2,634 | $21,259 |
| Others | 5 | 40 |
| | ¥2,639 | $21,299 |

## 6. Accumulated Depreciation

Accumulated depreciation deducted from the cost of property and equipment in the accompanying consolidated balance sheets amounted to ¥342,711 million and ¥364,588 million ($2,942,599 thousand) at 31st March, 2000 and 2001, respectively.

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

Short-term bank borrowings are generally represented by bank overdrafts. The weighted average interest rates applicable to such loans outstanding were 0.8 per cent. and 0.6 per cent. per annum for the year ended 31st March, 2000 and 2001, respectively.

Long-term debt at 31st March, 2000 and 2001 consisted of:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2000 | 2001 | 2001 |
| Long-term loans from banks and other financial institutions secured primarily by collateral, due from 2002 to 2020 at the weighted average rate of 3.3 per cent. per annum | ¥146,211 | ¥135,891 | $1,096,780 |
| 2.0 per cent. convertible debentures due March 2003 (Series No.15) | 1,421 | 1,421 | 11,469 |
| 3.075 per cent. Yen bonds due April 2012 (Series No.18) | 20,000 | 20,000 | 161,421 |
| 2.7 per cent. Yen bonds due April 2007 (Series No.19) | 10,000 | 10,000 | 80,710 |
| 2.7 per cent. Yen bonds due August 2013 (Series No. 20) | 10,000 | 10,000 | 80,710 |
| 2.175 per cent. Yen bonds due August 2008 (Series No. 21) | 10,000 | 10,000 | 80,710 |
| Long-term accounts payable | 18,361 | 18,386 | 148,394 |
| | 215,993 | 205,698 | 1,660,194 |
| Less: current portion (amount due within one year) | (13,266) | (14,089) | (113,713) |
| | ¥202,727 | ¥191,609 | $1,546,481 |

The 2.0 per cent. convertible debentures were issued in December 1987 at the principal amount of ¥20,000 million. At 31st March, 2000 and 2001, respectively, 2,313 thousand shares of the Company's common stock were issuable at the conversion price of ¥757.9 per share on full conversion of the convertible debentures.

Convertible debentures of ¥332 million were eliminated as part of the eliminate of inter-company account balances for the purposes of presenting the consolidated financial statements at 31st March, 2000 and 2001.

The long-term accounts payable are due March 2016, and are interest bearing.

The Companies' assets pledged as collateral for long-term debt (including the current portion of long-term debt) at 31st March, 2001 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| | 2001 | 2001 |
| At net book value: | | |
| Property and equipment | ¥224,388 | $1,811,041 |
| Other | 1,138 | 9,185 |
| | ¥225,526 | $1,820,226 |

The aggregate annual maturities of long-term loans from banks and other financial institutions within the 5 years following 31st March, 2001 are as follows:

| Year ending 31st March, | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| 2003 | ¥13,121 | $105,900 |
| 2004 | 13,678 | 110,396 |
| 2005 | 13,787 | 111,275 |
| 2006 | 14,040 | 113,317 |
| | ¥54,626 | $440,888 |

## 8. Income Taxes

The statutory tax rate used for calculating deferred tax assets as of 31st March, 2000 and 2001 was 42.1%.

At 31st March, 2000 and 2001, significant components of deferred tax assets were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2000 | 2001 | 2001 |
| Deferred tax assets: | | | |
| Loss on revaluation of real estate for sale | ¥ 350 | ¥ — | $ — |
| Reserve for employees' bonuses | 485 | 691 | 5,577 |
| Enterprise tax payable | 572 | 444 | 3,583 |
| Reserve for retirement benefits | 5,154 | 11,642 | 93,963 |
| Loss carryforwards | 1,108 | 268 | 2,163 |
| Unrealized profit on sales of property and equipment | 1,484 | 1,449 | 11,695 |
| Other | 725 | 1,659 | 13,390 |
| Total deferred tax assets | ¥9,878 | ¥16,153 | $130,371 |
| Deferred tax liabilities: | | | |
| Unrealised gains on available-for-sale securities | — | (14,653) | (118,265) |
| Total deferred tax liabilities | — | (14,653) | (118,265) |
| Net deferred tax assets | ¥9,878 | ¥ 1,500 | $ 12,106 |

## 9. Retirement Plan

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

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

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

The reserve for retirement benefits as of 31st March, 2001 is analysed as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Projected benefit obligations | ¥(106,697) | $(861,154) |
| Plan assets | 54,580 | 440,516 |
| | (52,117) | (420,638) |
| Unrecognized actuarial differences | 6,745 | 54,439 |
| | (45,372) | (366,199) |
| Prepaid pension cost | 373 | 3,010 |
| | ¥ (45,745) | $ 369,209 |

The net pension expense related to retirement benefits for the year ended 31st March, 2001 was as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Service cost | ¥ 4,233 | $ 34,165 |
| Interest cost | 3,136 | 25,311 |
| Expected return on plan assets | (1,671) | (13,487) |
| Amortization of transition amount | 17,067 | 137,748 |
| Net pension expense | ¥22,765 | $183,737 |

Assumptions used in calculation of the above information were as follows:

| | As of March 31, 2001 |
|---|---|
| Discount rate | Principally 3.0% |
| Expected rate of return on plan assets | Principally 3.0% |
| Method of attributing the projected benefits to periods of service | Straight-line basis |
| Amortization of transition amount | 1 year |
| Amortization of unrecognized actuarial differences | Principally 15 years |

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

## 10. Special Reserve for Expansion of Railway Transport Capacity

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

## 11. Shareholders' Equity

During the years ended 31st March, 1999, 2000 and 2001, 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, 1998 | 662,524 | ¥59,024 | ¥48,605 |
| Balance at 31st March, 1999 | 662,524 | 59,024 | 48,605 |
| Purchase of treasury stock to offset additional paid-in capital | (18,257) | — | (6,480) |
| Balance at 31st March, 2000 | 644,267 | 59,024 | 42,125 |
| Purchase of treasury stock to offset additional paid-in capital | (1,513) | — | (592) |
| Addition due to merger | — | — | 486 |
| Balance at 31st March, 2001 | 642,754 | ¥59,024 | ¥42,019 |

| | Thousands of U.S. Dollars | |
|---|---|---|
| | Common Stock | Additional Paid-in Capital |
| Balance at 31st March, 2000 | $476,384 | $339,992 |
| Purchase of treasury stock to offset additional paid-in capital | — | (4,778) |
| Addition due to merger | — | 3,922 |
| Balance at 31st March, 2001 | $476,384 | $339,136 |

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

## 12. Lease Transactions

Lease rental expenses paid by the Companies on finance lease contracts without transfer of ownership for the years ended 31st March, 1999, 2000 and 2001 were ¥726 million, ¥707 million and ¥655 million ($5,287 thousand), respectively.

The scheduled maturities of future lease rental payments under such finance lease contracts at 31st March, 2001 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Due within one year | ¥ 502 | $ 4,052 |
| Due after one year | 959 | 7,740 |
| Total | ¥1,461 | $11,792 |

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

The acquisition cost, accumulated depreciation, net book value at March 31, 2000 and 2001, and depreciation expenses for the years ended March 31 2000 and 2001, that would have been applicable if such leased assets had been capitalized, are summarized as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2000 | 2001 | 2001 |
| Acquisition cost | ¥3,503 | ¥3,965 | $32,002 |
| Accumulated depreciation | 1,843 | 2,504 | 20,210 |
| Net book value | ¥1,660 | ¥1,461 | $11,792 |
| Depreciation | ¥ 707 | ¥ 655 | $ 5,287 |

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

## 13. Contingent Liabilities

At 31st March, 2001 the Companies were contingently liable under guarantees for borrowings from financial institutions as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Loans borrowed by: | | |
| Employees for housing | ¥4,419 | $35,666 |
| Other | 307 | 2,478 |
| | ¥4,726 | $38,144 |

Under the Company's debt assumption agreements with banks, the Company transferred its liabilities to banks and eliminated the balance of the liabilities from the balance sheet. At 31st March, 2001, the Company was contingently liable for such liabilities under the debt assumption agreement as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Long-term debt: | | |
| Due within one year | ¥460 | $3,713 |
| Due after one year | 330 | 2,663 |
| | ¥790 | $6,376 |

## 14. Segment Information

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

Major corporate assets, which are not attributable to industry segments and 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 and other assets held in its administration department. Such assets amounted to ¥66,717 million at 31st March, 2000 and ¥82,539 million ($666,174 thousand) at 31st March, 2001.

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

The result of adoption of the new Japanese accounting standard for retirement benefits explained in Note 2 (10) ii of the Notes to Consolidated Financial Statements at 31st March, 2001 was as follows:

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | Trans-portation | Merchandise Sales | Real Estate | Leisure | Other | Total |
| Increase (decrease) in operating income | ¥ 315 | ¥ 539 | ¥ (3) | ¥ 258 | ¥ 202 | ¥ 1,311 |

| | Thousands of U.S. Dollars | | | | | |
|---|---|---|---|---|---|---|
| | Trans-portation | Merchandise Sales | Real Estate | Leisure | Other | Total |
| Increase (decrease) in operating income | $2,543 | $4,350 | $(24) | $2,082 | $1,630 | $10,581 |

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 segment as of 31st March, 2000 and 2001 and for the years then ended is summarized as follows:

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

| | Transportation | Merchandise Sales | Real Estate |
|---|---|---|---|
| 2001: | | | |
| Operating revenues: | | | |
| Customers | ¥ 121,440 | ¥ 178,598 | ¥ 16,818 |
| Intersegment | 3,191 | 2,435 | 13,912 |
| Total | 124,631 | 181,033 | 30,730 |
| Operating costs and expenses | 108,198 | 179,231 | 23,486 |
| Operating income | ¥ 16,433 | ¥ 1,802 | ¥ 7,244 |
| Assets (at year-end) | ¥ 249,377 | ¥ 46,859 | ¥ 166,708 |
| Depreciation | 18,206 | 1,397 | 9,142 |
| Capital expenditure | 15,150 | 1,583 | 24,219 |

| | Transportation | Merchandise Sales | Real Estate |
|---|---|---|---|
| 2001: | | | |
| Operating revenues: | | | |
| Customers | $ 980,145 | $1,441,469 | $ 135,739 |
| Intersegment | 25,755 | 19,653 | 112,284 |
| Total | 1,005,900 | 1,461,122 | 248,023 |
| Operating costs and expenses | 873,269 | 1,446,578 | 189,556 |
| Operating income | $ 132,631 | $ 14,544 | $ 58,467 |
| Assets (at year-end) | $2,012,728 | $ 378,200 | $1,345,504 |
| Depreciation | 146,941 | 11,275 | 73,785 |
| Capital expenditure | 122,276 | 12,776 | 195,472 |

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

| Leisure | Other | Subtotal | Elimination or Corporate | Consolidated |
|---|---|---|---|---|
| Millions of Yen | | | | |
| ¥ 82,977 | ¥ 21,820 | ¥ 421,653 | ¥ — | ¥ 421,653 |
| 4,173 | 15,382 | 39,093 | (39,093) | — |
| 87,150 | 37,202 | 460,746 | (39,093) | 421,653 |
| 85,449 | 35,488 | 431,852 | (39,644) | 392,208 |
| ¥ 1,701 | ¥ 1,714 | ¥ 28,894 | ¥ 551 | ¥ 29,445 |
| ¥ 30,851 | ¥ 33,109 | ¥ 526,904 | ¥ 60,861 | ¥ 587,765 |
| 1,048 | 212 | 30,005 | (64) | 29,941 |
| 1,049 | 188 | 42,189 | (38) | 42,151 |

| Leisure | Other | Subtotal | Elimination or Corporate | Consolidated |
|---|---|---|---|---|
| Thousands of U.S. Dollars | | | | |
| $669,710 | $176,109 | $3,403,172 | $ — | $3,403,172 |
| 33,680 | 124,148 | 315,520 | (315,520) | — |
| 703,390 | 300,257 | 3,718,692 | (315,520) | 3,403,172 |
| 689,661 | 286,424 | 3,485,488 | (319,967) | 3,165,521 |
| $ 13,729 | $ 13,833 | $ 233,204 | $ 4,447 | $ 237,651 |
| $248,999 | $267,224 | $4,252,655 | $491,211 | $4,743,866 |
| 8,459 | 1,711 | 242,171 | (516) | 241,655 |
| 8,467 | 1,517 | 340,508 | (306) | 340,202 |

## 15. Subsequent Events

Appropriation of the Company's retained earnings applicable to the year ended 31st March, 2001 which was proposed by the Board of Directors and approved at the shareholders' meeting held on 28th June, 2001, is summarized as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Retained earnings at 31st March, 2001 | ¥15,191 | $82,252 |
| Appropriated: | | |
| Cash dividends (¥3.00 per share) | 1,928 | 15,561 |
| Transfer to legal reserve | 203 | 1,638 |
| Directors' bonuses | 95 | 767 |
| Retained earnings to be carried forward to the next year | ¥12,965 | $64,286 |

## 16. Reclassification

Certain reclassifications of previously reported amounts have been made to the consolidated balance sheets at 31st March, 2000 and the consolidated statements of income and retained earnings for the years ended 31st March, 1999 and 2000 to conform to the current year presentation. Such reclassifications had no effect on net assets or net income.

# Report of Independent Accountants

**To: The Board of Directors**
**Keio Electric Railway Co., Ltd.**

We have audited the accompanying consolidated balance sheets of Keio Electric Railway Co., Ltd. and its consolidated subsidiaries as of 31st March, 2000 and 2001, and the related consolidated statements of income and retained earnings and cash flows for each of the three years in the period ended 31st March, 2001, all expressed in Japanese Yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Keio Electric Railway Co., Ltd. and its consolidated subsidiaries as of 31st March, 2000 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended 31st March, 2001, in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis, except for the change made as of 1st April, 1999, with which we concur, in the accounting for retirement benefits as described in Note 2 (10) to the accompanying consolidated financial statements.

As described in Note 2, Keio Electric Railway Co., Ltd. and its consolidated subsidiaries have adopted the new Japanese accounting standards for preparation of consolidated financial statements and research and development costs, effective for the year ended 31st March, 2000, and have adopted the new Japanese accounting standards for financial instruments and retirement benefits, effective for the year ended 31st March, 2001.

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

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation

Tokyo, Japan

28th June, 2001

## BOARD OF DIRECTORS AND AUDITORS

(As of 28th June, 2001)

**Chairman**
Hiroichi Nishiyama

**President**
Masayuki Saigusa

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

**Directors**
Koichi Suzuki
Etsuji Maeda
Toyoaki Suzuki
Kenkichi Matsuki
Shuichi Shimakura
Nobuyuki Adachi
Hiroshi Hayasaki
Kan Kato
Shinichi Murayama
Hiroshi Ihara
Susumu Noritake
Akira Horii
Yoshio Murakami
Ryota Shimomura

**Corporate Auditors**
Konjiro Nakano
Toshiharu Hanafusa
Rikio Nagahama
Takao Nakagawa

## CORPORATE DATA

(As of 31st March, 2001)

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

**Date of Founding:** 21th 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:** 32,703

**Number of Employees:** 3,752
(Consolidated basis: 13,552)

**Stock Exchange Listing:** Tokyo Stock Exchange

**Transfer Agent:** The Sumitomo Trust and Banking Company, Limited
Stock Transfer Agency Division
1-10, Nikko-cho, Fuchu, Tokyo 183-8701, Japan
Phone: 042-351-2211

**Principal Shareholders:**

| Name | Number of Shares Held (thousands) | Percentage of Total Shares Issued (%) |
|---|---|---|
| Nippon Life Insurance Company | 46,083 | 7.17 |
| The Dai-ichi Mutual Life Insurance Company | 35,278 | 5.49 |
| Taiyo Mutual Life Insurance Company | 29,310 | 4.56 |
| The Sumitomo Trust and Banking Company, Limited | 24,241 | 3.77 |
| The Industrial Bank of Japan, Limited | 18,447 | 2.87 |
| Trustee of general trust: The Sakura Trust and Banking Company, Limited (Truster: The Chuo Mitsui Trust and Banking Company, Limited) | 17,585 | 2.74 |
| The Sumitomo Mutual Life Insurance Company | 12,998 | 2.02 |
| The Bank of Tokyo-Mitsubishi, Limited | 12,700 | 1.98 |
| The Toyo Trust and Banking Company, Limited (Trust Account A) | 12,035 | 1.87 |

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