

Annual Report

Year ended 31st March, 2005

2005



KEIO

Profile

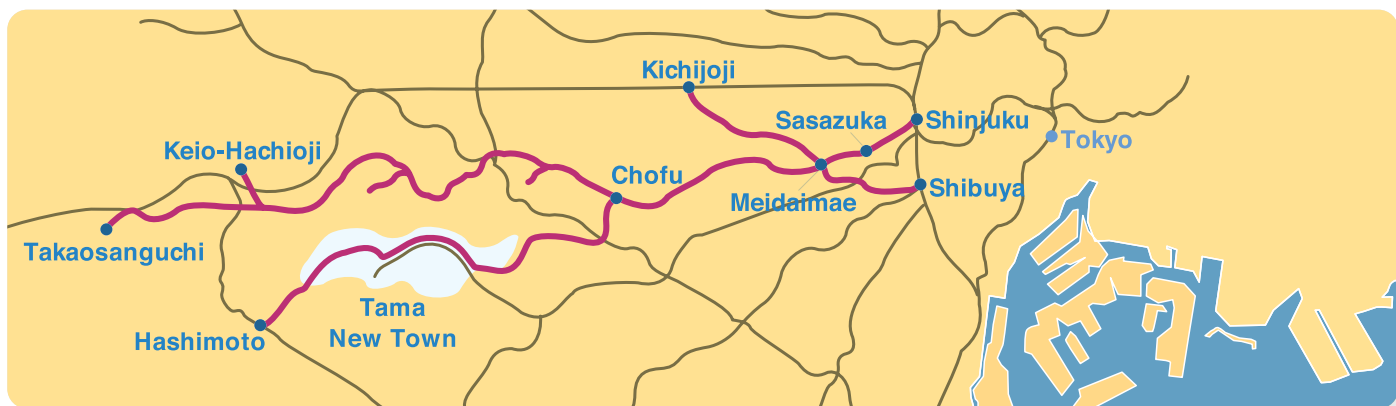
The Company was founded in 1910 as the Keio Denki Kido Co., Ltd. and began operations in 1913. Since then, for nearly a century, our railway and bus services have been major arteries for the greater Tokyo area, providing transportation for significant numbers of passengers. Since the latter half of the 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, formerly named Keio Electric Railway Co., Ltd., the Keio Group, 42 companies in total, engages in transportation, merchandise sales, real estate, leisure services, and construction and other businesses. These businesses focus on

areas served by the Keio Line, which extends from Shinjuku to Tokyo's southwestern suburbs of Hachioji and Tama. Shinjuku, a major business center in Japan, gained even more importance in 1991, when the Tokyo Metropolitan Government moved its offices there. Hachioji and Tama have seen an influx of universities and corporations in recent years, resulting in the growth of "New Town" developments in those areas.

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

(Keio Electric Railway Co., Ltd. changed its English name to Keio Corporation on June 29, 2005)



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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

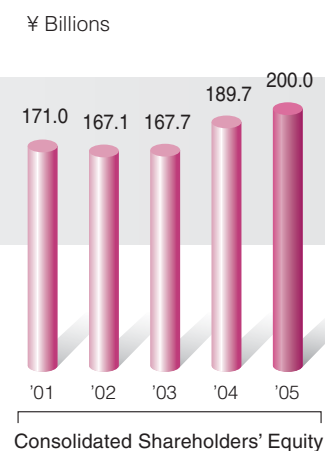
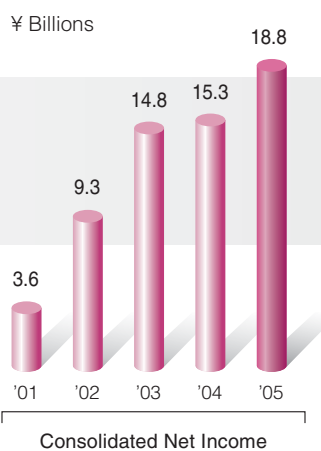
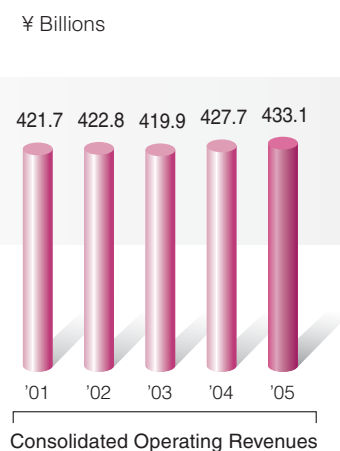
Years ended 31st March	Millions of Yen			Thousands of U.S. Dollars
	2003	2004	2005	2005
For the year:				
Operating revenues	¥ 419,920	¥ 427,722	¥ 433,071	\$ 4,032,696
Operating income	35,826	36,223	37,096	345,437
Net income	14,785	15,317	18,764	174,730
Per share data				
Net income – basic	¥ 22.96	¥ 24.13	¥ 29.91	\$ 0.279
Net income – diluted	22.92	–	–	–
Cash dividends	6.00	6.00	6.00	0.056
At year-end:				
Total assets	¥ 530,799	¥ 558,708	¥ 571,311	\$ 5,319,967
Total shareholders' equity	167,724	189,749	199,997	1,862,344

Non-Consolidated Data

Keio Corporation

Years ended 31st March	Millions of Yen			Thousands of U.S. Dollars
	2003	2004	2005	2005
For the year:				
Operating revenues	¥ 113,390	¥ 111,377	¥ 116,359	\$ 1,083,517
Operating income	26,718	27,737	28,094	261,607
Net income	9,898	10,546	13,849	128,955
Per share data				
Net income – basic	¥ 15.33	¥ 16.57	¥ 22.04	\$ 0.205
Net income – diluted	15.31	–	–	–
Cash dividends	6.00	6.00	6.00	0.056
At year-end:				
Total assets	¥ 444,991	¥ 470,644	¥ 483,322	\$ 4,500,627
Total shareholders' equity	134,133	150,957	156,350	1,455,908

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 ¥107.39 to U.S.\$1.





To Our Shareholders

The Keio Group Targets Achievement of Consolidated Performance Goals and a Reputation as the “Top Brand in Trust” in the Industry.

Keio Group records consolidated net income of ¥18.8 billion, declares annual cash dividend of ¥6.00 per share

In the fiscal year under review, the mild recovery in the Japanese economy continued. The Keio Group carried out steady and efficient business operations centered on Keio Corporation, working to maintain or improve its earning power. Reflecting these efforts, the Group’s consolidated net income amounted to ¥18.8 billion, while Keio Corporation posted net income of ¥13.8 billion.

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

Under its Medium-Term Business Plan, which commenced in fiscal 2003, the Keio Group is seeking to create a group capable of sustainable growth under difficult business conditions and over the long term. At the same time, the Group is keeping a careful eye on profitability.

Working to attain consolidated performance goals

In the Transportation Group, full-scale construction of the Chofu Tunnel and Underground Station Project got underway in fiscal 2004. In addition, the group made its train stations “barrier-free” and carried out other renovations. During the fiscal year, the Merchandise Sales Group opened its large-scale commercial complex, Keio Takahata Shopping Center, as well as actively renovating sales floor space at its Keio Department Stores. The Leisure Services Group expanded their operations in Tokyo, opening PRESSO INN hotels, which specialize in no-frills services, in Ikebukuro and Gotanda, as well as another in Shinjuku in May 2005 after the end of the fiscal year.

In the current fiscal year, the Keio Group intends to leverage its comprehensive power to reach its goal of consolidated net income of ¥20.0 billion in the final year of its Medium-Term Business Plan. In addition, the Group will proceed with the creation of the next medium-term business plan, in which it will target such issues as increasing its overall competitiveness by establishing business bases along the Group’s railway lines and expanding its earnings by concentrating its efforts on developing businesses with significant growth potential.



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

In accordance with the Keio Group Management Vision, we are taking steps to further strengthen our corporate governance. By speeding up our decision-making process and by reinforcing the supervisory function of the board of directors, we aim to maintain the trust of all our stakeholders and to enhance the overall corporate value of the Keio Group.

In April 2005, we established basic policies regarding our internal control system with the goal of achieving compliance, reliable financial reporting, and effective and efficient administration. Based on these actions, the entire Group will target balanced operations, and aim to achieve sustainable growth.

We have also established an organization within the Group in charge of continuous promotion of environmental activities. In December 2004, as part of those efforts, we created a Keio Group Basic Environmental Policy. We also actively implemented measures from the perspective of fulfilling our corporate responsibility, such as our Keio Sincere Staff Program, which encourages the hiring of handicapped people, and opening Takaonomori Wakuwaku Village, a social educational center.

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

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

June 2005

A handwritten signature in black ink, which appears to read "Kan Kato". The signature is fluid and cursive, with a long, sweeping tail that extends to the right.

Kan Kato
President

Progress Report on the Keio Group's Medium-Term Business Plan

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

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

KEY MEASURES

1

Strengthen the Group's competitive edge

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

2

Demonstrate the Group's collective strength

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

3

Upgrade the Group's management systems

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

Strengthen Financial Position

- The Keio Group is planning total investments of ¥146.0 billion within three years (fiscal 2003 to fiscal 2005). The Group also plans to limit its interest-bearing liabilities to the amount outstanding in fiscal 2002, and plans to provide for almost all of the new investments from cash flow generated in each fiscal year.
- As a result, the ratio of interest-bearing liabilities to earnings before interest, taxes, depreciation and amortization (EBITDA) decreased from 3.5 times in fiscal 2002 to 3.3 times in fiscal 2004. The Group has stated its objective to reduce the ratio to 3.2 times in fiscal 2005.

	Fiscal 2002 (Actual)	Fiscal 2003 (Actual)	Fiscal 2004 (Actual)	Fiscal 2005 (Target)
Interest-bearing liabilities/EBITDA (Times)	3.5	3.3	3.3	3.2
Interest-bearing liabilities (¥ Billions)	219.9	209.6	213.4	220.0
Earnings before interest, taxes and depreciation (EBITDA) (¥ Billions)	63.4	63.8	64.6	68.0

Performance in the Fiscal Year Ended March 31, 2005

Consolidated Operating Revenues

Revenues from the Merchandise Sales Group were down due to the lack of a major boost to department store sales like the special sale held in the previous fiscal year commemorating the Hanshin Tigers' winning of the Japanese professional baseball league championship. Transportation Group revenues declined due a bad year for taxi services. Nevertheless, revenue growth by the Real Estate, Leisure Services, and Other groups supported an overall 1.3% increase in operating revenues, to ¥433,071 million.

Major contributors to revenues were growth in revenues from the sale of real estate, the opening of new rental facilities, a recovery in travel and hotel businesses from the impact of the severe acute respiratory syndrome (SARS) epidemic, and increased civil engineering and construction orders. The opening of several hotels that specialize in no-frills services also contributed to greater revenues.

Consolidated Net Income

In fiscal 2004, an increase in retirement benefit expenses of Keio Corporation resulted in a decline in profits by the Transportation Group. The increase arose from the shortening of the amortization period for a difference in the number of years used in the calculation of retirement benefit obligations from 15 years to 5 years. The Merchandise Sales Group also posted lower income. However, profits were up for the Real Estate, Leisure Services, and Other groups. Overall, consolidated operating income rose 2.4%, to ¥37,096 million, while consolidated net income jumped 22.5%, to ¥18,764 million thanks to a decline in impairment losses compared with the previous fiscal year.

Consolidated Return on Assets (ROA)

Consolidated ROA is calculated as ordinary income plus interest expense divided by average total assets. The figure for average total assets is calculated after removing the adjustment amount resulting from the market-to-market valuation of securities.

In fiscal 2004, consolidated ROA edged down 0.1 percentage points, to 6.8% because of the expansion in assets during the fiscal year.

*ROA=(Ordinary Income + Interest Expense) / Average Total Assets x 100

Ordinary income is operating income plus nonoperating income from interest and dividends received and other items less nonoperating expenses, such as interest.

Consolidated Return on Equity (ROE)

Consolidated ROE is calculated as net income divided by average shareholders' equity. The figure for shareholders' equity is calculated after removing the adjustment amount resulting from the market-to-market valuation of securities.

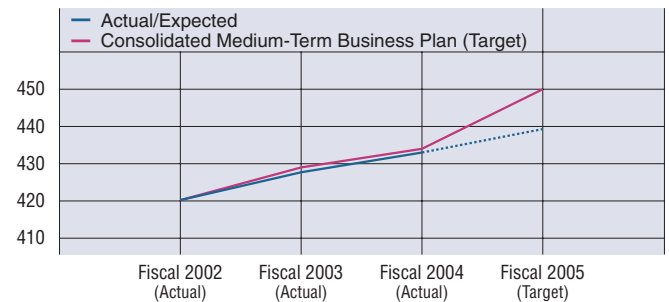
In fiscal 2004, consolidated ROE rose 1.5 percentage points, to 10.7% because of the growth in net income during the fiscal year.

The Keio Group makes its investments with due regard for return on investment. Accordingly, capital investment in our lifestyle-related businesses fell below original planned figures in fiscal 2004, resulting in consolidated operating revenues also dipping below the original target of ¥434,000 million.

On the other hand, profitability outperformed original goals. Because of the greater than planned revenues of the Transportation and Real Estate groups, consolidated net income, ROA, and ROE all exceed original planned figures of ¥16,700 million, 5.9%, and 9.6%, respectively.

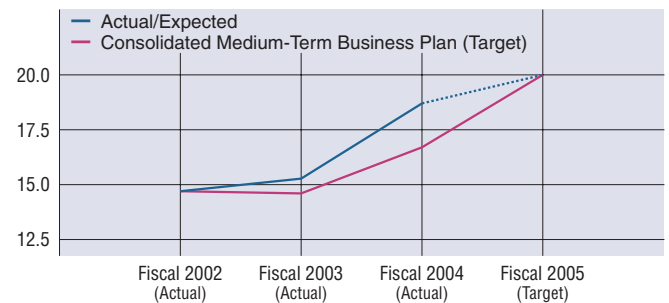
Consolidated Operating Revenues

¥ Billions



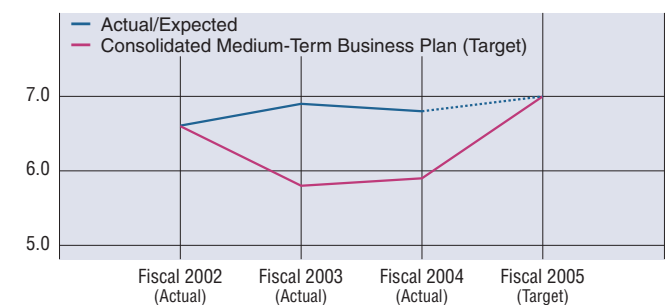
Consolidated Net Income

¥ Billions



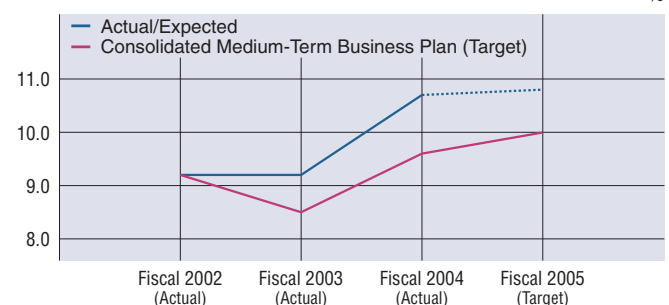
Consolidated ROA*

%



Consolidated ROE

%

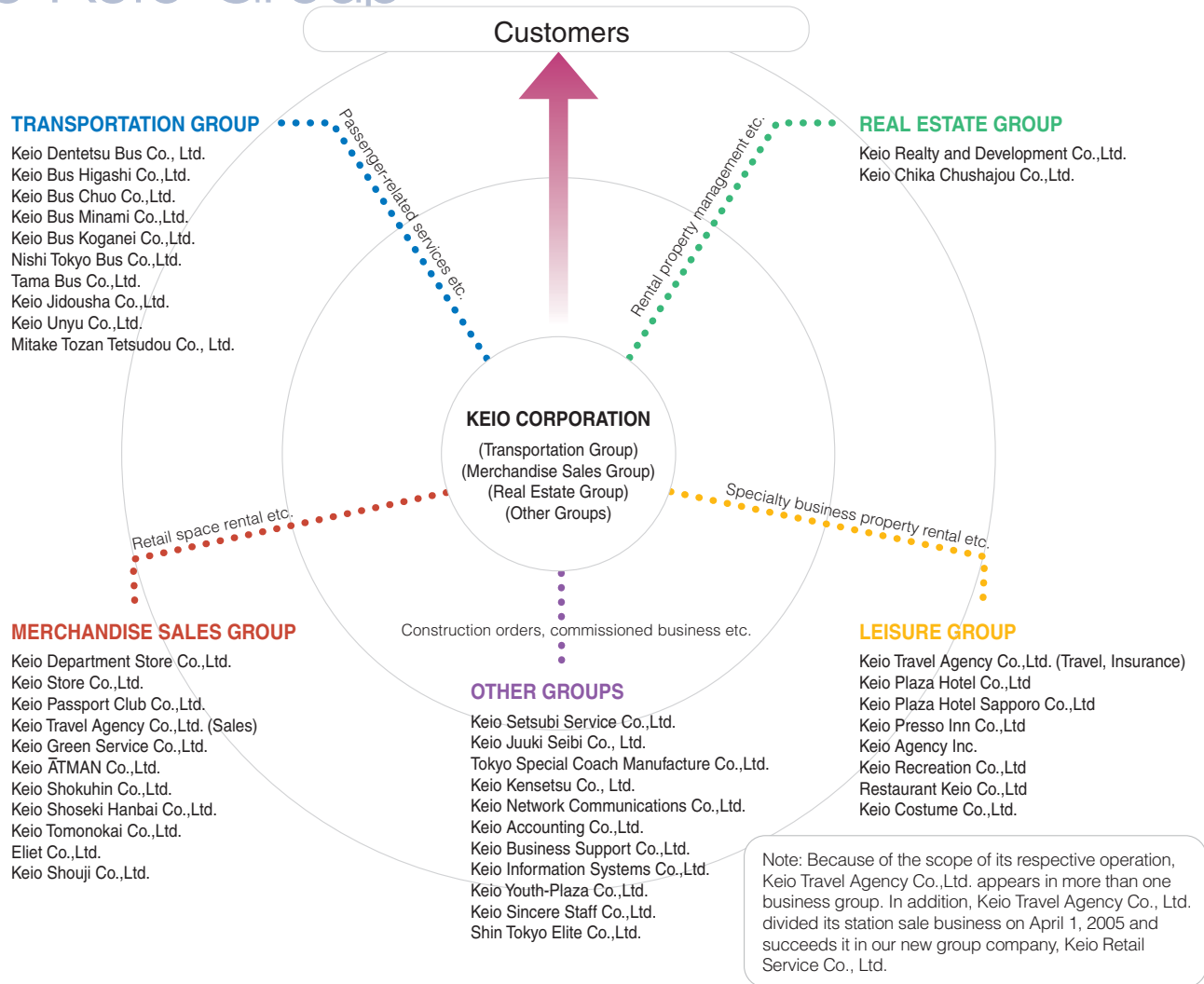




Review of Operations by Business Segment

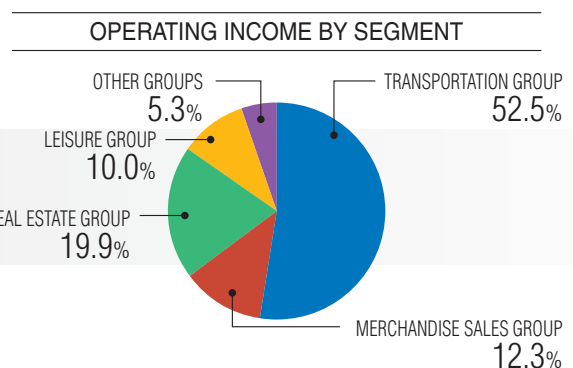
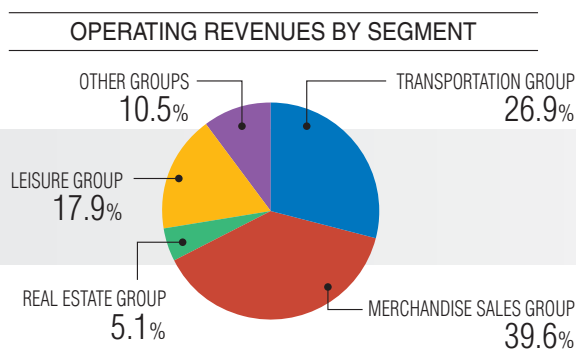
(As of 31st March, 2005)

The Keio Group



Operating Revenues and Operating Income by Segment

The figures in these graphs include the elimination between segments.



Performance

For the fiscal year ended March 31, 2005, consolidated operating revenues totaled ¥433,071 million, rising 1.3% from the previous fiscal year. Operating income expanded 2.4% year on year, to ¥37,096 million, while net income increased 22.5%, to ¥18,764 million.

Performance by business sector was as follows

Transportation Group

The number of passenger declined compared with the previous fiscal year because last year was a leap year. Nevertheless, the figure was almost the same as in the prior fiscal year because of increased housing development mostly along the Sagami-hara Line. As a result, passenger transportation revenues edged up 0.2%.

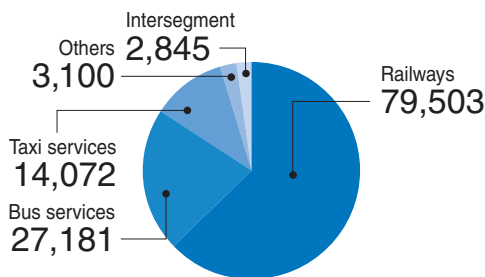
In its bus service business, the Transportation Group made efforts to improve the convenience of its services, such as increasing late night bus services on regularly scheduled routes. These actions resulted in a 2.3% increase in the number of passengers and growth in bus service revenues. Conversely, poor operating conditions for taxis produced a decline in taxi service revenues.

Overall, Transportation Group operating revenues edged down 0.2%, to ¥126,701 million. Operating income fell 2.4%, to ¥19,671 million due to higher retirement benefit expenses.



The Sagami-hara Line

Transportation Group Operating Revenues (¥Millions)

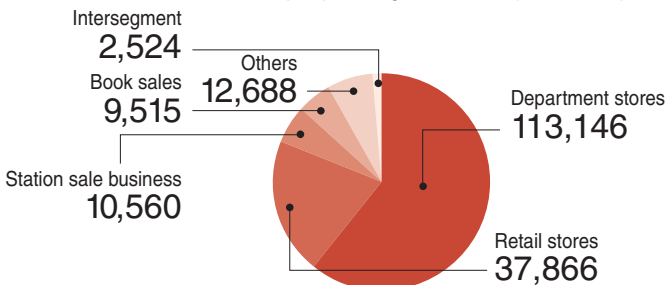


The late night bus

Merchandise Sales Group

Aggressive openings of bookstores produced revenue growth in the Merchandise Sales Group's book selling business. However, revenues were down overall because of such factors as the lack of the special sale held by department stores in the previous fiscal year commemorating the Hanshin Tigers' winning of the Japanese professional baseball league championship and the temporary closure of retail stores for renovation. Operating revenues declined 2.6%, to ¥186,299 million, while operating income slid 8.1%, to ¥4,603 million.

Merchandise Sales Group Operating Revenues (¥Millions)



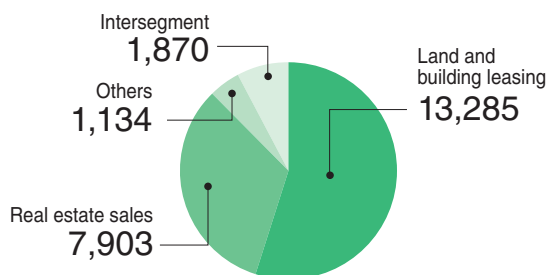
BOOKS KEIBUNDO Kichijoji (Book Store)

Real Estate Group

The Real Estate Group registered substantial growth in revenues from the sale of its share of a jointly owned office building. The Group's leasing business also posted increased revenues due to the full-scale start of operations of the Keio Shinagawa Building and the purchase of a rental property, the Kichijoji Eco Building.

Reflecting these events, operating revenues increased 26.3%, to ¥24,192 million. Operating income advanced 12.1%, to ¥7,433 million.

Real Estate Group Operating Revenues (¥Millions)

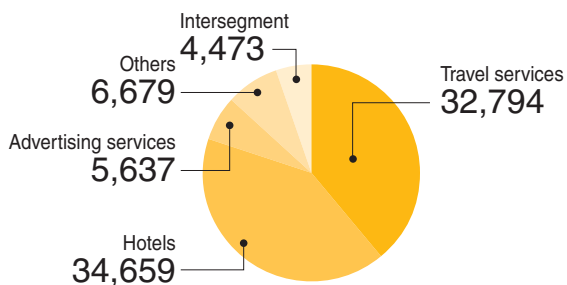


The Keio Kichijoji Station Building
(Formerly named the Kichijoji Eco Building)

Leisure Group

In addition to the recovery in the travel and hotel businesses from the impact of the SARS epidemic, the Leisure Group opened its third and fourth no-frills hotels for businessmen during the fiscal year. Operating revenues rose 3.3%, to ¥84,242 million, while operating income climbed 22.9%, to ¥3,752 million.

Leisure Group Operating Revenues (¥Millions)

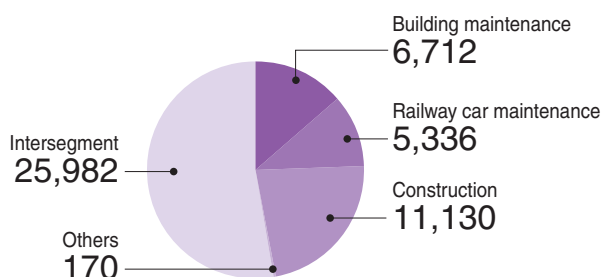


Keio PRESSO INN Gotanda

Other Groups

Thanks to efforts to increased orders in the civil engineering and construction business, the operating revenues of this group expanded 18.0%, to ¥49,330 million. Operating income, meanwhile, jumped 40.4%, to ¥1,978 million.

Other Groups Operating Revenues (¥Millions)



Takaonomori Wakuwaku Village
(Under construction)



Basic Stance on Corporate Governance and Enhancement

Basic Stance

The Keio Group considers the speeding up of its decision-making process and the strengthening and maintenance of transparency of its management function to be a key task for the enhancement and strengthening of its corporate governance system based on the

Keio Group Management Vision. The Group employs an auditing system, and is committed to enhancing and strengthening its corporate governance under the current system.

Measures

Management and Other Organizations for Making, Executing, and Overseeing Business Decisions

Keio Corporation's Board of Directors is comprised of 18 members, including 2 outside directors and 5 presidents and a chairman of the major companies of the Group. In addition to items defined by law, the Board of Directors makes decisions on important business issues, and oversees business operations.

The Company seeks to achieve overall Group management through the participation of the presidents of Group companies on the Board of Directors. The Company has established an Assets and Loan Management Committee and entrusted it with some decision-making functions of the Board of Directors to enable systematic business execution based on rapid decision-making. There is also a Managing Directors Committee at which major business proposals based on policies decided by the Board of Directors are discussed.

To strengthen and promote Group management, there is a Group Executive Council, composed of the Group's full-time directors and the presidents of the main companies in the Keio Group. The Council discusses management issues related to the entire Group. There is also a Keio Group Presidents Meeting, which is held regularly to promote an exchange of

information and opinions on the Group's policies and businesses.

Keio Corporation has four corporate auditors, two of whom are outside auditors. In principle, the corporate auditors hold an audit meeting every month and monitor the job performance of directors by attending Board of Directors, Assets and Loan Management Committee, and Managing Directors Committee meetings, expressing their opinions as necessary.

The corporate auditors of companies of the Keio Group also regularly hold a Group Auditors Meeting to address issues related to enhancing and strengthening the overall audit function of the Keio Group.

The internal audit function of Keio Corporation is carried out by the Audit Department, which is comprised of 19 staff members and reports directly to the President. The Audit Department performs audits of the Company and other companies in the Group. The department promotes the improvement of the internal audit system by reporting the results of these audits to the President, corporate auditors, and other related sections.

Efforts to Enhance Corporate Governance Over the Past Year

In April 2004, the Company established the Assets and Loan Management Committee and entrusted it with some decision-making functions of the Board of Directors to enable systematic business execution based on rapid decision-making. During the fiscal year under review, the Committee met five times. The Company also reinforced the supervisory function of the Board of Directors during the fiscal year by requiring the Managing Directors Committee, the internal decision making body for business operations, to report its decisions to the Board of Directors.

Also in April 2004, the Group introduced its Keio Group

Compliance Program. Among specific actions, the Program created a Keio Group Code of Conduct, published a Group Compliance Manual, established a Compliance Committee chaired by the director in charge of compliance, and set up the Keio Helpline (Business Ethics Hotline).

In March 2005, to establish an internal control system within the Group, the Company's Board of Directors decided on basic policies and regulations regarding the internal control system for the Keio Group. These policies and regulations became effective April 1, 2005.



Risk Factors

Risks that could possibly exert a strong influence on the investment decision of investors are described below. Aware of these risks, the Keio Group takes steps to avoid these events occurring, and should they occur, to minimize their impact. Forward-looking statements

have been determined by the management of the Keio Group based on the information available at the time of the submission of Keio Corporation's Securities Report (June 29, 2005).

Natural Disasters and Other Accidents

The Keio Group operates many facilities and computer systems and other equipment in its Transportation Group and other businesses. In the event of the occurrence of a natural disaster, such as an earthquake or typhoon; a disaster, such as a terrorist attack or other illegal incidents; an accident, including one caused by human error

or some other form of trouble, it could hinder the Group's operations or result in significant repair expenses for facilities and equipment. Any of these events could have a negative impact on the performance and financial position of the Group.

Progressive Decline in Family Size and Aging of Communities

The Keio Group develops businesses around its Transportation Group for which the major market is the area along its railway lines. Because of the progressive decline in the size of families in Japan and the continued aging of communities along its railway lines, especially the Tama region, the Group anticipates the need for

capital investment to introduce greater safety measures, "barrier-free" facilities, and other facilities. In addition, due to the future decline in the local population, demand will decline for the Group's railway, bus, taxi, and other transportation services. These factors could impact negatively on the performance and financial position of the Group.

Setting and Revision of Passenger Fares

Under the law for the railway business, passenger fares in the railway transportation business segment are set and revised by the Ministry of Land, Infrastructure and Transport, who authorizes fares and fare changes after investigating whether fares exceed a level

determined by adding an appropriate profit margin to the proper costs incurred (total costing) to ensure efficient management. Since the Group's operations are restricted by this system, it could seriously affect the performance and financial position of the Group.

Management of Personal Information

In connection with its credit card and other businesses, the Keio Group possesses personal information about its customers. In line with the April 2005 full enforcement of the law protecting personal information, the Group has decided on and publicly announced the Keio Group Personal Information Protection Policy and established the Keio Group Personal Information Management System. Based on this policy and system, the Group is striving to properly manage

personal information.

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

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.

Disclosure

When an accident or some other incident occurs in operations, the Group strives to restore normal operations as rapidly as possible and to quickly disclose accurate information. Nevertheless, should inappropriate information be disclosed due to the tardiness of the

initial response, public confidence in the Group might decline, which could have negative repercussions on the performance and financial position of the Group.

Market Interest Rate Fluctuation and the Company's Ratings

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

Although the Keio Group has received an AA rating from the main rating agencies in Japan, the Group must be careful because

there is a constant possibility that the rating could be downgraded should an increase in interest-bearing debt occur without a rational explanation. If the rating was downgraded, the Group's cost of funds would increase, which could have a negative impact on the performance and financial position of the Group.

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

Keio Corporation and its consolidated subsidiaries

Consolidated Balance Sheets

As of 31st March 2004 and 2005

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2005	2005
Current Assets:			
Cash and bank deposits (Note 4)	¥ 24,312	¥ 22,240	\$ 207,093
Short-term investments (Notes 4 and 5)	20	35	326
Notes and accounts receivable, trade	25,817	26,239	244,337
Allowances for doubtful accounts	(274)	(245)	(2,285)
Inventories	29,152	28,158	262,200
Deferred tax assets (Note 9)	4,159	3,682	34,286
Other current assets	5,907	2,886	26,877
Total current assets	89,093	82,995	772,834
Investments and Advances:			
Investments in securities (Note 5)	57,497	56,400	525,188
Investments in affiliates and unconsolidated subsidiaries	1,447	1,505	14,011
	58,944	57,905	539,199
Property and Equipment, at book value (Notes 6 and 7):			
Land	96,848	105,386	981,341
Buildings and structures	234,197	240,156	2,236,300
Machinery, rolling stock and equipment	32,640	32,780	305,238
Tools, furniture and fixtures	8,337	8,456	78,740
Construction- in- progress	15,249	19,860	184,930
	387,271	406,638	3,786,549
Intangible fixed assets	3,777	3,318	30,898
Deferred tax assets (Note 9)	7,941	8,366	77,910
Other assets	11,682	12,089	112,577
	¥ 558,708	¥ 571,311	\$5,319,967

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2005	2005
Current Liabilities:			
Short-term bank borrowings (Note 7)	¥ 39,399	¥ 38,319	\$ 356,821
Current portion of long-term debt (Note 7)	12,837	12,092	112,597
Notes and accounts payable, trade	21,782	23,096	215,063
Consumption taxes payable	1,609	1,017	9,473
Income taxes payable	10,959	7,501	69,847
Reserve for employees' bonuses	3,031	2,646	24,640
Advances received	8,756	9,438	87,888
Other current liabilities	43,673	46,753	435,360
Total current liabilities	142,046	140,862	1,311,689
Long-term debt (Note 7)	157,470	163,068	1,518,465
Reserve for retirement benefits (Note 10)	31,436	28,395	264,412
Reserve for retirement benefits to directors and corporate auditors (Note 10)	676	666	6,201
Special reserve for expansion of railway transport capacity (Note 11)	9,385	7,039	65,542
Deferred tax liabilities (Note 9)	5,323	5,684	52,932
Other non-current liabilities	22,623	25,600	238,382
Total liabilities	368,959	371,314	3,457,623
Shareholders' Equity (Note 12):			
Common stock :			
Authorized 1,580,230,000 shares			
Issued 642,754,152 shares	59,024	59,024	549,621
Additional paid-in capital	42,017	42,016	391,250
Retained earnings	77,688	92,602	862,293
Unrealized gains on other securities, net of tax	19,959	19,624	182,741
Treasury stock, at cost			
2004 : 14,947,934 shares	(8,939)	-	-
2005 : 22,297,492 shares	-	(13,269)	(123,561)
Total shareholders' equity	189,749	199,997	1,862,344
Contingent Liabilities (Note 14)	¥ 558,708	¥ 571,311	\$ 5,319,967

Keio Corporation and its consolidated subsidiaries

Consolidated Statements of Income and Retained Earnings

For the years ended 31st March 2003, 2004 and 2005

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2003	2004	2005	2005
Operating Revenues	¥ 419,920	¥ 427,722	¥ 433,071	\$ 4,032,696
Operating Costs and Expenses:				
Operating costs	338,644	343,009	346,242	3,224,156
Selling, general and administrative expenses	45,450	48,490	49,733	463,103
	<u>384,094</u>	<u>391,499</u>	<u>395,975</u>	<u>3,687,259</u>
Operating income	35,826	36,223	37,096	345,437
Non-Operating Income (Expenses):				
Interest and dividend income	540	434	505	4,708
Interest expense	(6,132)	(5,424)	(4,985)	(46,415)
Loss on disposal of property and equipment	(1,200)	(2,328)	(1,563)	(14,554)
Subsidy received from Tokyo Metropolitan Government, etc.	1,238	785	677	6,304
Advance depreciation of fixed assets	(1,465)	(843)	(1,137)	(10,591)
Equity in earnings of affiliates and unconsolidated subsidiaries	62	75	62	574
Gain (Loss) on sale of investments in securities	(426)	1,293	858	7,995
Loss on revaluation of investments in securities	(1,876)	(368)	(118)	(1,103)
Loss on revaluation of real estate inventories for sale	—	—	(841)	(7,830)
Reversal of special reserve for expansion of railway transport capacity	2,346	2,346	2,346	21,847
Gain on sale of property and equipment	—	203	473	4,402
Impairment loss	—	(4,957)	(733)	(6,828)
Special retirement payments	(1,848)	—	—	—
Loss on the amendment of the retirement benefits plan	—	—	(689)	(6,414)
Other, net	(518)	(327)	36	339
	<u>(9,279)</u>	<u>(9,111)</u>	<u>(5,108)</u>	<u>(47,566)</u>
Income before income taxes and minority interest in income of consolidated subsidiaries	26,547	27,112	31,988	297,871
Income Taxes (Note 9):				
Current	8,956	14,820	12,581	117,155
Deferred	2,770	(3,043)	643	5,986
	<u>11,726</u>	<u>11,777</u>	<u>13,224</u>	<u>123,141</u>
Income before minority interest in income of consolidated subsidiaries	14,821	15,335	18,764	174,730
Minority interest in income of consolidated subsidiaries	36	18	—	—
Net income	14,785	15,317	18,764	174,730
Retained Earnings:				
Balance at beginning of year	55,423	66,579	77,688	723,421
Appropriations:				
Cash dividends	(3,534)	(4,113)	(3,755)	(34,973)
Directors' bonuses	(95)	(95)	(95)	(885)
Balance at end of year	¥ 66,579	¥ 77,688	¥ 92,602	\$ 862,293
		Yen		U.S. Dollars (Note 3)
Net Income Per Share:				
Basic	¥ 22.96	¥ 24.13	¥ 29.91	\$ 0.279
Diluted	22.92	—	—	—
Weighted average number of shares outstanding (in thousands)	639,702	630,779	624,116	

The accompanying notes are an integral part of these statements.

Keio Corporation and its consolidated subsidiaries

Consolidated Statements of Cash Flows

For the years ended 31st March 2003, 2004 and 2005

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2003	2004	2005	2005
Cash flows from operating activities:				
Income before income taxes and minority interest in income of consolidated subsidiaries	¥ 26,547	¥ 27,112	¥ 31,988	\$ 297,871
Adjustments for:				
Depreciation and amortization	27,816	27,517	27,509	256,163
Impairment loss	—	4,957	733	6,828
(Decrease) Increase in reserve for retirement benefits	(8,627)	(2,224)	(3,041)	(28,318)
Decrease in special reserve for expansion of railway transport capacity	(2,346)	(2,346)	(2,346)	(21,847)
Loss on revaluation of real estate inventories for sale	411	610	841	7,830
Loss on revaluation of investments in securities	1,876	368	118	1,103
Loss on disposal of property and equipment	1,564	2,545	1,623	15,114
Advance depreciation of fixed assets	1,465	843	1,137	10,591
Interest and dividend income	(540)	(434)	(505)	(4,708)
Interest expense	6,132	5,424	4,985	46,415
Subsidy received from Tokyo Metropolitan Government, etc.	(1,238)	(785)	(677)	(6,304)
Loss (Gain) on sale of investments in securities	426	(1,293)	(858)	(7,995)
Decrease (Increase) in notes and accounts receivable	(34)	(568)	(422)	(3,928)
Decrease (Increase) in inventories	(110)	1,337	1,110	10,333
Increase (Decrease) in notes and accounts payable	(5,854)	1,633	605	5,636
Other, net	142	8,801	4,090	38,087
Subtotal	47,630	73,497	66,890	622,871
Interest and dividends received	556	317	510	4,746
Interest paid	(6,171)	(5,435)	(4,996)	(46,521)
Income taxes paid	(12,239)	(8,288)	(16,880)	(157,183)
Net cash provided by operating activities	29,776	60,091	45,524	423,913
Cash flows from investing activities:				
Payments for purchase of property and equipment	(35,490)	(39,765)	(48,320)	(449,945)
Proceeds from sale of property and equipment	157	581	780	7,261
Payments for purchase of short-term investments	0	—	—	—
Proceeds from sale of short-term investments	46	968	20	186
Payments for purchase of securities and other investments	(4,002)	(403)	(56)	(516)
Proceeds from sale of securities and other investments	9,612	2,576	1,458	13,573
Subsidy received from Tokyo Metropolitan Government, etc.	1,474	1,237	1,090	10,150
Other, net	(3,783)	(4,588)	(923)	(8,594)
Net cash used in investing activities	(31,986)	(39,394)	(45,951)	(427,885)
Cash flows from financing activities:				
Decrease in short-term bank borrowings	(537)	(2,171)	(1,080)	(10,057)
Increase in long-term debt	6,640	7,210	9,050	84,272
Repayment of long-term debt	(18,175)	(15,295)	(14,197)	(132,207)
Proceeds from issuance of bonds	—	—	10,000	93,119
Purchase of treasury stock	(3,962)	(4,939)	(4,420)	(41,158)
Cash dividends paid	(3,534)	(4,113)	(3,756)	(34,973)
Other, net	—	22	89	828
Net cash used in financing activities	(19,568)	(19,286)	(4,314)	(40,176)
Exchange gain (loss) on cash and cash equivalents	(2)	3	5	52
Cash and cash equivalents increase due to consolidation of subsidiaries	—	—	0	0
Net increase (decrease) in cash and cash equivalents	(21,780)	1,414	(4,736)	(44,096)
Cash and cash equivalents at beginning of year	46,295	24,515	25,929	241,442
Cash and cash equivalents at end of year (Note 4)	¥ 24,515	¥ 25,929	¥ 21,193	\$ 197,346

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

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

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

2. Summary of Significant Accounting Policies

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

The consolidated financial statements include the accounts of Keio Corporation and its 35 significant subsidiaries as of 31st March 2005. 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 2005.

(2) Elimination and Consolidation

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

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

(3) Cash and Cash Equivalents

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

(4) Inventories

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

(5) Financial Instruments

Securities

Securities held by the Companies are classified as follows:

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

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

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

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

(6) Accounting Standard for Impairment of Fixed Assets

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

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

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

The effect to each segment is referred to the Note 15.

(7) Property and Equipment

Property and equipment is stated at cost.

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

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

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

(8) Leases

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

(9) Amortization

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

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

(10) Deferred Charges

Bond issuance cost is charged to income as incurred.

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

(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.

ii. Reserve for retirement benefits

Effective from the year ended 31st March 2001, the Companies adopted the new Japanese Accounting Standard for Retirement Benefits, effective for periods beginning on or after 1st April 2000. In accordance with the new standard, the "Reserve for retirement benefits" as of 31st March 2004 and 2005 represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets except that, as permitted under the new standard, unrecognized actuarial differences which arise in the Company are amortized on a declining-balance basis and they which arise in subsidiaries are amortized on a straight-line basis over a period of principally 5 years from the year following that in which they arise, and unrecognized prior service cost is amortized on a straight-line basis over a period of principally 14 years from the year in which it arises.

From the year ended 31st March 2005, the Company changed the amortizing periods for the unrecognized actuarial differences from

15 years to 5 years, and the unrecognized prior service cost from 15 years to 14 years, because the average remaining service period of its employee declined below 15 years as of 31st March 2005.

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.

(13) Accounting Standard for the Real Estate Businesses

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

(14) Net Income per Share

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

Effective from the year ended 31st March 2003, the Company adopted the new Japanese accounting standard for computation of net income per share. Prior to adopting the new standard, the computation of basic net income per share and diluted net income per share were based on the net income shown on the consolidated statement of income and retained earnings. However the new standard requires that net income should be adjusted by deducting bonuses paid to directors and statutory auditors as well as the payment of dividends to shareholders of preferred stocks to be recognized as an appropriation of retained earnings, from net income shown in consolidated statement of income and retained earnings.

Diluted net income per share was not applicable for the years ended 31st March 2004 and 2005 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 shown on the consolidated balance sheets.

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

3. United States Dollar Amounts

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

As the amounts shown in U.S. dollars are for convenience only, and are not intended to be computed in accordance with generally accepted translation procedures, the rate of ¥107.39=U.S.\$1, the approximate current rate at 31st March 2005, 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
	2004	2005	2005
Cash and bank deposits	¥ 24,312	¥ 22,240	\$ 207,093
Marketable securities	20	35	326
Purchase contracts for securities with a sell-back clause included in short-term loans	3,000	-	-
Time deposits with deposit term of over 3 months	(1,383)	(1,047)	(9,747)
Government and corporate bonds due after 3 months	(20)	(35)	(326)
Cash and cash equivalents	¥ 25,929	¥ 21,193	\$ 197,346

5. Marketable Securities and Investments in Securities

Marketable securities included in "Short-term investments" and "Investments in securities" at 31st March 2004 and 2005 consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
Marketable securities (Current portfolio):			
Government and corporate bonds	¥ 20	¥ 35	\$ 326
	20	35	326
Investments in securities (Non-current portfolio):			
Listed corporate shares	53,057	51,844	482,765
Government and corporate bonds and unlisted corporate shares	4,440	4,556	42,423
	¥ 57,497	¥ 56,400	\$ 525,188

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 2004 and 2005 are summarized as follows:

Other securities:

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

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

	2005			
	Thousands of U.S. Dollars			
	Cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Listed shares	\$ 174,881	\$ 482,766	\$ 307,900	\$ 15
Bonds	28,872	29,630	765	6
Others	1,520	1,477	-	44
	\$ 205,273	\$ 513,873	\$ 308,665	\$ 65

The profit and loss on sale of other securities for the year ended 31st March 2005 is as follows:

Other securities:

	2005	
	Millions of Yen	Thousands of U.S. Dollars
Carrying amount	¥ 657	\$ 6,120
Profit on sale	859	7,995
Loss on sale	0	2

The carrying amount of securities for which a fair value is not available at 31st March 2004 and 2005 is summarized as follows:

Other securities:

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
Unlisted shares	¥ 1,256	¥ 1,185	\$ 11,033
Others	1	65	608
	¥ 1,257	¥ 1,250	\$ 11,641

6. Accumulated Depreciation

Accumulated depreciation, deducted from the cost of property and equipment in the accompanying consolidated balance sheets, amounted to ¥417,380 million and ¥429,676 million (\$4,001,079 thousand) at 31st March 2004 and 2005, respectively. Impairment losses are included in the accumulated depreciation at 31st March 2004 and 2005.

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

“Short-term bank borrowings” generally represent bank overdrafts. The weighted average interest rate applicable to such borrowings was 0.6 per cent per annum for the years ended 31st March 2004 and 2005.

“Long-term debt” at 31st March 2004 and 2005 consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
Long-term loans from banks and other financial institutions secured primarily by collateral, due from 2005 to 2024 at the weighted average rate of 2.8 per cent per annum	¥ 112,409	¥ 108,545	\$ 1,010,749
3.075 per cent yen bonds due April 2012 (Series No. 18)	20,000	20,000	186,236
2.7 per cent yen bonds due April 2007 (Series No. 19)	10,000	10,000	93,119
2.7 per cent yen bonds due August 2013 (Series No. 20)	10,000	10,000	93,119
2.175 per cent yen bonds due August 2008 (Series No. 21)	10,000	10,000	93,119
1.640 per cent yen bonds due March 2015 (Series No. 22)	–	10,000	93,119
Long-term accounts payable	7,898	6,615	61,601
	170,307	175,160	1,631,062
Less: current portion (amount due within one year)	(12,837)	(12,764)	(118,851)
	¥ 157,470	¥ 162,396	\$ 1,512,211

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 2004 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
At net book value			
Property and equipment	¥ 196,545	¥ 194,154	\$ 1,807,937
Other	1,143	1,165	10,847
	¥ 197,688	¥ 195,319	\$ 1,818,784

The aggregate annual maturities of long-term loans from banks and other financial institutions in the 5 years following 31st March 2005 are as follows:

Year ending 31st March	Millions of Yen	Thousands of U.S. Dollars
2006	¥ 12,764	\$ 118,852
2007	18,841	175,440
2008	12,447	115,904
2009	12,158	113,217
2010	10,481	97,602
	¥ 66,691	\$ 621,015

The detail of impairment loss for the years ended March 31, 2004 and 2005 is as follows :

	Millions of Yen		Thousands of U.S. Dollars	
	2004	2005	2004	2005
Property and equipment	¥ 4,954	¥ 712	\$ 6,633	
- Land	216	258	2,407	
- Building and structures	4,709	409	3,806	
- Machinery , rolling stock and equipment	0	39	361	
-Other	29	6	59	
Intangible fixed assets	3	0	2	
Other assets	-	21	193	
Total	¥ 4,957	¥ 733	\$ 6,828	

8. Impairment Loss on Fixed Assets

The Companies sorted out their fixed assets into several groups based on divisions or objects/stores in management accounting.

Impairment losses on fixed assets for the years ended March 31, 2004 and 2005 consisted of the following:

For the years ended March 31					
2004			2005		
Use	Type of assets	Location	Use	Type of assets	Location
Mainly hotel facilities (1 item)	Land, buildings and structures, etc	Tama City, Tokyo	Mainly commercial facilities (1 item)	Buildings and structures, etc	Suginami-ku, Tokyo
Mainly commercial facilities (4 items)	Land, buildings and structures, etc	Hachioji City, Tokyo, etc	Idle land (1 item)	Land	Tama City, Tokyo
Mainly leasehold properties (2 items)	Land, buildings and structures, etc	Nakano-ku, Tokyo	Mainly leisure facilities (1 item)	Buildings and structures, etc	Nakakubiki-gun, Niigata Prefecture

The Companies recognized impairment losses because (a) for the hotel facilities and commercial facilities, the actual revenue is less than the expectation due to the long term depression of the market, (b) for leasehold properties, they are scheduled to be demolished or their market values have significantly declined, (c) for idle land, its market values has significantly declined, and (d) for leisure facilities, their market values has significantly declined.

The measurement of the recoverable amount of hotel facilities, certain commercial facilities, idle land, leisure facilities were measured and recorded at the net selling price, based on the real estate appraisal.

And the recoverable amount of the main commercial facilities, leasehold properties were measured and recorded at the value in use based on the net present values of future cash in flows with the discount rate of 5%. The leasehold properties to be disposed are substantially written off.

9. Income Taxes

The statutory tax rate used for calculating deferred tax assets as of 31st March 2004 and 2005 was 40.69%.

At 31st March 2004 and 2005, significant components of deferred tax assets were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
Deferred tax assets:			
Reserve for employees' bonuses	¥ 1,277	¥ 1,097	\$ 10,210
Enterprise tax payable	994	699	6,512
Reserve for retirement benefits	9,638	9,592	89,318
Reserve for directors' retirement benefits	275	271	2,524
Loss on revaluation of property and equipment	1,927	1,764	16,429
Unrealized profit on sale of property and equipment	1,631	1,608	14,972
Loss on revaluation of golf club membership	232	239	2,223
Impairment loss	1,930	1,926	17,936
Accruals for reward card	405	400	3,727
Other	2,184	2,255	20,998
Total deferred tax assets	¥ 20,493	¥ 19,851	\$ 184,849
Deferred tax liabilities:			
Unrealized gains on other securities	(13,716)	(13,487)	(125,585)
Total deferred tax liabilities	(13,716)	(13,487)	(125,585)
Net deferred tax assets	¥ 6,777	¥ 6,364	\$ 59,264

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

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
The valuation allowances	¥ 201	¥ 313	\$ 2,912

The reconciliation of the difference between the statutory tax rate and the effective income tax rate for the years ended 31st March 2004 and 2005 were not disclosed because such difference was less than 5 % of statutory tax rate.

10. Retirement Plan

Employees (excluding directors and corporate auditors) of the Company with more than three years service are generally entitled to lump-sum retirement payments determined by reference to their average rate of pay, length of service and conditions under which termination occurs. The Company has adopted a funded non-contributory pension plan to cover such retirement benefits. The pension plan of the Company provides for 90 per cent of the retirement benefits payable to retiring employees at the age of 55 or older with 15 years of service or more (amended on 1st October 2001) with the Company. Employees retiring at the age of 54 or younger or with service of less than 15 years are entitled to lump sum payments to be made by the Company.

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

The "Reserve for retirement benefits" as of 31st March 2004 and 2005 can be analyzed as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
Projected benefit obligations	¥ (98,587)	¥ (96,730)	\$ (900,738)
Plan assets	63,226	70,308	654,697
	(35,361)	(26,422)	(246,041)
Unrecognized actuarial differences	14,282	8,744	81,424
Unrecognized prior service cost	(8,503)	(7,671)	(71,430)
Unrecognized plan assets	—	(1,438)	(13,393)
	(29,582)	(26,787)	(249,440)
Prepaid pension cost	1,854	1,608	14,972
	¥ (31,436)	¥ (28,395)	\$ (264,412)

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

The net pension expense for the years ended 31st March 2003, 2004 and 2005 was as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2003	2004	2005	2005
Service cost	¥ 3,370	¥ 3,221	¥ 2,977	\$ 27,719
Interest cost	2,794	2,256	1,912	17,799
Expected return on plan assets	(361)	(334)	(429)	(3,991)
Amortization of unrecognized actuarial difference	1,600	3,111	4,497	41,877
Amortization of prior service cost	(679)	(737)	(793)	(7,381)
Net pension expense	¥ 6,724	¥ 7,517	¥ 8,164	\$ 76,023

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

	As of 31st March 2004		As of 31st March 2005	
Discount rate	Principally	2.0%	Principally	2.0%
Expected rate of return on plan assets	Principally	0.5%	Principally	0.5%
Method of attributing the projected benefits to periods of service	Straight-line basis		Straight-line basis	
Amortization of unrecognized actuarial differences	Principally	15 years	Principally	5 years
Amortization of prior service cost	Principally	15 years	Principally	14 years

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

11. Special Reserve for Expansion of Railway Transport Capacity

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

12. Shareholders' Equity

During the years ended 31st March 2003, 2004 and 2005, 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 2002	642,754	59,024	42,019
Balance at 31st March 2003	642,754	59,024	42,019
Loss from disposal of treasury stock			(2)
Balance at 31st March 2004	642,754	¥ 59,024	¥ 42,017
Loss from disposal of treasury stock			(1)
Balance at 31st March 2005	642,754	¥ 59,024	¥ 42,016

	Thousands of U.S. Dollars	
	Common stock	Additional paid-in capital
Balance at 31st March 2004	\$ 549,621	\$ 391,256
Balance at 31st March 2005	\$ 549,621	\$ 391,256

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

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

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

13. Lease Transactions

Lease rental expenses paid by the Companies under finance lease contracts without transfer of ownership for the years ended 31st March 2003, 2004 and 2005 were ¥764 million, ¥801 million and ¥786 million (\$7,320 thousand), respectively.

The scheduled maturities of future lease rental payments under such finance lease contracts at 31st March 2005 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 702	\$ 6,535
Due after one year	1,005	9,362
Total	¥ 1,707	\$ 15,897

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

The acquisition cost, accumulated depreciation, net book value at 31st March 2004 and 2005, and depreciation expense for the years ended 31st March 2004 and 2005, that would have been applicable if such leased assets had been capitalized, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	2005
Acquisition cost	¥ 3,875	¥ 3,852	\$ 35,866
Accumulated depreciation	(2,099)	(2,145)	(19,969)
Net book value	1,776	1,707	15,897
Depreciation	¥ 801	¥ 786	\$ 7,320

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

14. Contingent Liabilities

At 31st March 2005 the Companies were contingently liable under guarantees for borrowings from financial institutions as follows:

	Millions of Yen	Thousands of U.S. Dollars
Loans borrowed by:		
Employees for housing	¥ 2,351	\$ 21,890
Other	2,221	20,680
	¥ 4,572	\$ 42,570

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 ¥71,121 million at 31st March 2004 and ¥67,898 million (\$632,252 thousand) at 31st March 2005.

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 2003, 2004 and 2005 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
2003:								
Operating revenues:								
Customers	¥ 122,058	¥ 182,680	¥ 15,315	¥ 80,271	¥ 19,596	¥ 419,920	¥ -	¥ 419,920
Intersegment	3,240	2,332	1,736	4,187	21,370	32,865	(32,865)	-
Total	125,298	185,012	17,051	84,458	40,966	452,785	(32,865)	419,920
Operating costs and expenses	105,539	179,314	11,329	80,953	39,456	416,591	(32,497)	384,094
Operating income	¥ 19,759	¥ 5,698	¥ 5,722	¥ 3,505	¥ 1,510	¥ 36,194	¥ (368)	¥ 35,826
Assets (at year-end)								
Depreciation	¥ 246,353	¥ 77,341	¥ 93,663	¥ 83,706	¥ 54,979	¥ 556,042	¥ (25,243)	¥ 530,799
Capital expenditure	16,608	3,441	3,266	3,857	424	27,596	(55)	27,541
	14,872	5,858	8,522	4,629	788	34,669	(56)	34,613

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

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

Thousands of U.S. Dollars

	Transportation	Merchandise Sales	Real Estate	Leisure	Other	Sub Total	Elimination or Corporate	Consolidated
2005:								
Operating revenues:								
Customers	\$ 1,153,327	\$ 1,711,289	\$ 207,864	\$ 742,799	\$ 217,418	\$ 4,032,696	\$ -	\$ 4,032,696
Intersegment	26,493	23,503	17,412	41,653	241,936	350,998	(350,997)	-
Total	1,179,820	1,734,792	225,276	784,452	459,354	4,383,694	(350,997)	4,032,696
Operating costs and expenses	996,645	1,691,929	156,063	749,514	440,934	4,035,084	(347,824)	3,687,259
Operating income	183,175	42,863	69,213	34,938	18,420	348,610	(3,173)	345,437
Assets (at year-end)	2,333,313	757,720	966,813	841,132	647,675	5,546,653	(226,686)	5,319,967
Depreciation	145,893	32,480	38,088	35,318	4,959	256,737	(574)	256,163
Impairment loss	-	110	-	4,311	2,407	6,828	-	6,828
Capital expenditure	\$ 246,962	\$ 50,442	\$ 94,755	\$ 66,228	\$ 5,108	\$ 463,495	\$ (259)	\$ 463,236

16. Subsequent Events

Appropriation of the Company's retained earnings applicable to the year ended 31st March 2005 proposed by the Board of Directors and approved at the shareholders' meeting held on 29th June 2005 is summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Retained earnings at 31st March 2005	¥ 41,594	¥ 387,314
Appropriated :		
Cash dividends (¥3.00per share)	1,862	17,333
Directors' bonuses	95	885
Retained earnings to be carried forward to next year	¥ 39,637	¥ 369,096

Report of Independent Auditors

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS 

Kasumigaseki Bldg. 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku,
Tokyo 100-6088, Japan

Report of Independent Auditors

To the Board of Directors and Shareholders of
Keio Corporation

We have audited the accompanying consolidated balance sheets of Keio Corporation and its consolidated subsidiaries as of 31st March 2004 and 2005, 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 2005, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Keio Corporation and its consolidated subsidiaries as of 31st March 2004 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended 31st March 2005, in conformity with accounting principles and practices generally accepted in Japan (see Note 1).

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

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

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
29th June 2005

Board of Directors and Auditors (As of 29th June, 2005)

Chairman

Masayuki Saigusa

President

Kan Kato

Managing Directors

Ryota Shimomura
Toyoaki Suzuki
Kenkichi Matsuki
Shuichi Shimakura

Directors

Tadashi Nagata
Shizuo Hayashi
Norifumi Miyachi
Yasuo Gomi
Hiroshi Hayasaki
Mitsuhiro Ishibashi
Yoichi Miyata

Hiromasa Tsubochi
Koichi Suzuki
Shigeo Tanaka
Hiroyuki Okushima
Masahiro Naito

Corporate Auditors

Konjiro Nakano
Kenichi Saichi
Kunihiro Kawashima
Chikao Tsuchiya

Corporate Data (As of 31st March, 2005)

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:	30,566
Number of Employees:	2,130 (Consolidated Basis : 12,610)
Stock Exchange Listing:	Tokyo Stock Exchange
Transfer Agent:	The Sumitomo Trust and Banking Company, Limited Stock Transfer Agency Division 1-10, Nikko-cho, Fuchu, Tokyo 183-8701, Japan Phone: 0120-176-417

Principal Shareholders

Name	Number of Shares Held (thousands)	Percentage of Total Shares Issued (%)
Nippon Life Insurance Company	44,948	6.99
The Dai-ichi Mutual Life Insurance Company	31,750	4.94
Taiyo Life Insurance Company	29,310	4.56
The Master Trust Bank of Japan, Ltd. (Trust account)	24,573	3.82
The Sumitomo Trust and Banking Company, Limited	18,240	2.84
Japan Trustee Services Bank, Ltd. (Trust account)	18,136	2.82
Mizuho Corporate Bank, Ltd.	10,580	1.65
The Bank of Tokyo-Mitsubishi, Ltd.	10,089	1.57
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



KEIO CORPORATION

A horizontal bar composed of five colored segments: red, yellow, blue, green, and purple, positioned directly below the text "KEIO CORPORATION".

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