

# CONSOLIDATED BALANCE SHEETS

KEIHIN ELECTRIC EXPRESS RAILWAY CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
As at March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
<b>ASSETS:</b>			
<b>Current assets:</b>			
Cash and cash equivalents . . . . .	¥ 22,684	¥ 28,667	\$ 231,374
Time deposits . . . . .	4,587	3,011	24,301
Marketable securities (Note 3) . . . . .	23,898	590	4,765
Accounts receivables . . . . .	20,258	22,078	178,190
Inventories (Note 5) . . . . .	103,153	99,008	799,100
Deferred tax assets (Note 10) . . . . .	1,717	2,271	18,330
Prepaid expenses and other current assets . . . . .	3,064	5,607	45,252
Total current assets . . . . .	179,361	161,232	1,301,312
<b>Investments and long-term loans:</b>			
Investments in:			
Unconsolidated subsidiaries and affiliates . . . . .	853	803	6,480
Others (Note 3) . . . . .	9,129	24,042	194,047
Long-term loans to:			
Unconsolidated subsidiaries and affiliates . . . . .	400	400	0
Others . . . . .	3,716	3,207	29,112
Other investments . . . . .	24,099	23,608	190,538
	38,197	52,060	420,177
<b>Property and equipment (Notes 6 and 7):</b>			
Land . . . . .	132,003	132,629	1,070,452
Buildings and structures . . . . .	494,472	502,082	4,052,318
Machinery, equipment and rolling stock . . . . .	195,829	202,571	1,634,950
Construction in progress . . . . .	39,425	40,176	324,264
	861,729	877,458	7,081,984
Less accumulated depreciation . . . . .	338,450	358,335	2,892,132
<b>Property and equipment, at net book value . . . . .</b>	<b>523,279</b>	<b>519,123</b>	<b>4,189,852</b>
<b>Intangible assets . . . . .</b>	<b>4,979</b>	<b>4,761</b>	<b>38,426</b>
<b>Deferred tax assets (Note 10) . . . . .</b>	<b>3,476</b>	<b>4,346</b>	<b>35,075</b>
<b>Deferred charges . . . . .</b>	<b>1,247</b>	<b>474</b>	<b>3,827</b>
	¥750,539	¥741,996	\$5,988,669

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
<b>Current liabilities:</b>			
Short-term debt (Note 7) . . . . .	¥ 71,528	¥ 94,524	\$ 762,904
Current portion of long-term debt (Note 7) . . . . .	50,168	53,198	429,364
Accounts payables . . . . .	29,127	37,547	303,046
Accrued expenses . . . . .	11,179	11,069	89,342
Accrued income taxes (Note 10) . . . . .	3,474	2,497	20,151
Advances received . . . . .	17,938	19,285	155,647
Deferred tax liabilities (Note 10) . . . . .	218	218	1,762
Other current liabilities . . . . .	25,201	24,036	193,994
Total current liabilities . . . . .	208,833	242,374	1,956,210
Long-term debt (Note 7) . . . . .	389,695	353,139	2,850,191
Employees' retirement benefits (Note 8) . . . . .	26,757	18,391	148,438
Other long-term liabilities . . . . .	28,345	30,395	245,317
Deferred tax liabilities (Note 10) . . . . .	666	666	5,372
Minority interests . . . . .	6,783	5,732	46,261
<b>Contingent liabilities (Note 11)</b>			
<b>Shareholders' equity (Notes 9 and 14):</b>			
Common stock, ¥50 par value:			
Authorized—1,800,000 thousand shares			
Issued—			
March 31, 2000: 512,775,335 shares . . . . .	31,999	—	—
March 31, 2001: 512,775,335 shares . . . . .	—	31,999	258,263
Capital surplus . . . . .	29,648	29,648	239,291
Retained earnings . . . . .	28,798	30,638	247,280
Less treasury stock, at cost . . . . .	(985)	(986)	(7,954)
Total shareholders' equity . . . . .	89,460	91,299	736,880
	¥750,539	¥741,996	\$5,988,669

# CONSOLIDATED STATEMENTS OF INCOME

KEIHIN ELECTRIC EXPRESS RAILWAY CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
Years ended March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
<b>Revenue from operations:</b> .....	¥306,372	<b>¥318,481</b>	<b>\$2,570,468</b>
<b>Cost and expenses of revenue from operations (Note 9)</b> .....	287,738	<b>295,797</b>	<b>2,387,386</b>
Operating income. ....	18,634	<b>22,684</b>	<b>183,082</b>
<b>Other income (expenses):</b>			
Interest and dividend income .....	969	<b>826</b>	<b>6,670</b>
Interest expense .....	(14,173)	<b>(12,304)</b>	<b>(99,303)</b>
Gain (loss) on sales of marketable and investment securities. ....	323	<b>(194)</b>	<b>(1,567)</b>
Gain on sales of property and equipment .....	587	<b>2,771</b>	<b>22,362</b>
Gain on contribution of securities to employees' retirement benefit trust .....	0	<b>28,296</b>	<b>228,379</b>
Amortization of net retirement benefit obligation at transition .....	0	<b>(28,295)</b>	<b>(228,371)</b>
Valuation loss on of investment securities .....	0	<b>(1,940)</b>	<b>(15,657)</b>
Other, net. ....	126	<b>(3,686)</b>	<b>(29,753)</b>
Income before income taxes and minority interests .....	6,466	<b>8,158</b>	<b>65,842</b>
<b>Income taxes (Note 10)</b>			
Current. ....	5,461	<b>5,292</b>	<b>42,710</b>
Deferred. ....	(1,268)	<b>(1,424)</b>	<b>(11,492)</b>
<b>Minority interests in earnings of consolidated subsidiaries.</b> .....	(25)	<b>(203)</b>	<b>(1,636)</b>
Net income. ....	¥ 2,298	<b>¥ 4,493</b>	<b>\$ 36,260</b>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

KEIHIN ELECTRIC EXPRESS RAILWAY CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
Years ended March 31, 2000 and 2001

	Number of shares issued	Millions of yen			
		Common stock	Capital surplus	Retained earnings	Treasury Stock
Balance as at March 31, 1999 . . . . .	512,774,239	¥31,998	¥29,647	¥29,856	¥(985)
Net income for the year . . . . .				2,298	
Cash dividends paid . . . . .				(2,525)	
Directors' and statutory auditors' bonuses . . . . .				(179)	
Increase in retained earnings resulting from inclusion of certain subsidiaries in consolidation . . . . .				582	
Decrease in retained earnings resulting from inclusion of certain affiliates in the equity method of accounting . . . . .				(11)	
Decrease in retained earnings due to changes in ownership in consolidated subsidiaries . . . . .				(580)	
Adjustment for adoption of tax effect accounting . . . . .				(643)	
Conversion of convertible bonds . . . . .	1,096	1	1		
Balance as at March 31, 2000 . . . . .	512,775,335	31,999	29,648	28,798	(985)
Net income for the year . . . . .				4,493	
Cash dividends paid . . . . .				(2,525)	
Directors' and statutory auditors' bonuses . . . . .				(128)	
Net increase in common stock in treasury . . . . .					(1)
Balance as at March 31, 2001 . . . . .	<b>512,775,335</b>	<b>¥31,999</b>	<b>¥29,648</b>	<b>¥30,638</b>	<b>¥(986)</b>

	Thousands of U.S. dollars (Note 1)			
	Common stock	Capital surplus	Retained earnings	Treasury Stock
Balance as at March 31, 2000 . . . . .	\$258,263	\$239,291	\$232,436	\$(7,953)
Net income for the year . . . . .			36,260	
Cash dividends paid . . . . .			(20,381)	
Directors' and statutory auditors' bonuses . . . . .			(1,035)	
Net increase in common stock in treasury . . . . .				(1)
Balance as at March 31, 2001 . . . . .	<b>\$258,263</b>	<b>\$239,291</b>	<b>\$247,280</b>	<b>\$(7,954)</b>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

KEIHIN ELECTRIC EXPRESS RAILWAY CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
Years ended March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
<b>Cash Flows from Operating Activities:</b>			
Income before income taxes and minority interests . . . . .	¥ 6,466	¥ 8,158	\$ 65,842
Depreciation and amortization . . . . .	29,654	28,833	232,716
Loss on disposal of property and equipment . . . . .	1,199	1,847	14,905
Provision for allowance for doubtful accounts . . . . .	370	107	863
Increase (Decrease) in accrued employee' bonuses . . . . .	152	(470)	(3,797)
Provision for employees' retirement benefits, less payments . . . . .	(225)	(8,366)	(67,517)
Interest and dividend income . . . . .	(969)	(827)	(6,670)
Exchange gain . . . . .	(628)	0	0
(Gain) loss on sales of marketable and investment securities . . . . .	(323)	194	1,567
Interest expense . . . . .	14,174	12,304	99,303
Valuation loss on marketable and investment securities . . . . .	754	1,940	15,657
Equity in earnings of affiliates . . . . .	(22)	(43)	(351)
Gain on contributions for construction . . . . .	(34,456)	(3,564)	(28,765)
Gain on termination of rights to exercise warrants . . . . .	(2,810)	0	0
Gain on sales of property and equipment . . . . .	(587)	(2,771)	(22,362)
Gain on contribution of securities to employees' retirement benefit trust . . . . .	0	(28,296)	(228,379)
Net obligations resulting from change of the accounting standard . . . . .	0	35,917	289,890
Advanced depreciation . . . . .	34,456	3,564	28,765
Valuation loss on real estate . . . . .	641	833	6,724
Increase in accounts receivable . . . . .	(1,237)	(1,743)	(14,069)
Decrease in inventories . . . . .	830	2,620	21,147
Increase in accounts payable . . . . .	3,962	6,225	50,244
Increase (Decrease) in accrued consumption taxes . . . . .	1,277	(1,069)	(8,631)
Other . . . . .	(73)	(2,182)	(17,615)
	52,605	53,211	429,467
Interest and dividend received . . . . .	969	825	6,656
Interest paid . . . . .	(15,119)	(12,393)	(100,026)
Income taxes paid . . . . .	(5,785)	(6,124)	(49,425)
Net cash provided by operating activities . . . . .	32,670	35,519	286,672
<b>Cash Flows from Investing Activities:</b>			
Decrease in time deposits . . . . .	283	1,577	12,724
Purchases of marketable securities . . . . .	(990)	(62)	(500)
Purchases of investment securities . . . . .	(312)	(2,516)	(20,302)
Proceeds from sales of investment securities . . . . .	676	356	2,872
Acquisition of property and equipment . . . . .	(31,162)	(26,840)	(216,622)
Proceeds from sales of property and equipment . . . . .	626	3,207	25,885
Increase in intangible assets . . . . .	(428)	(474)	(3,827)
(Increase) decrease in long-term loans . . . . .	(128)	329	2,652
Proceeds from contributions for construction . . . . .	6,226	7,443	60,076
Proceeds from sales of marketable securities . . . . .	1,346	923	7,450
Decrease (increase) in other investments . . . . .	4,702	(420)	(3,390)
Net cash used in investing activities . . . . .	(19,161)	(16,477)	(132,982)
<b>Cash Flows from Financing Activities:</b>			
Cash dividends . . . . .	(2,522)	(2,525)	(20,381)
(Decrease) increase in short-term debt . . . . .	(4,417)	22,996	185,603
Proceeds from long-term debt . . . . .	43,704	17,476	141,049
Repayment of long-term debt . . . . .	(67,482)	(51,003)	(411,642)
Other . . . . .	(52)	(3)	(29)
Net cash used in financing activities . . . . .	(30,769)	(13,059)	(105,400)
<b>Net (decrease) increase in cash and cash equivalents . . . . .</b>	<b>(17,260)</b>	<b>5,983</b>	<b>48,290</b>
<b>Cash and cash equivalents at beginning of the year . . . . .</b>	<b>38,061</b>	<b>22,684</b>	<b>183,084</b>
<b>Increase in cash and cash equivalents due to inclusion of certain subsidiaries in consolidation . . . . .</b>	<b>1,883</b>	<b>0</b>	<b>0</b>
<b>Cash and cash equivalents at end of the year . . . . .</b>	<b>¥ 22,684</b>	<b>¥ 28,667</b>	<b>\$ 231,374</b>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

KEIHIN ELECTRIC EXPRESS RAILWAY CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
Years ended March 31, 2000 and 2001

## 1 BASIS OF PRESENTATION

The accompanying consolidated financial statements of Keihin Electric Express Railway Co., Ltd. (the "Company") and its consolidated subsidiaries have been prepared in accordance with accounting principles and practices generally accepted and applied in Japan and have been compiled from those prepared by the Company as required under the Securities and Exchange Law of Japan. Accordingly, the accompanying 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.

For the convenience of the reader, the accompanying consolidated financial statements as at and for the year ended March 31, 2001 have been presented in U.S. dollars by translating Japanese yen amounts at ¥123.90= US\$1.00, the exchange rate prevailing as at March 30, 2001.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Principles of consolidation and accounting for investments in affiliates

Until the year ended March 31, 1999, the consolidated financial statements included the accounts of the Company and its significant subsidiaries, and investments in certain unconsolidated subsidiaries and affiliates were stated at cost.

In accordance with the revised accounting standards for consolidation, the accompanying consolidated financial statements for the year ended March 31, 2000 and 2001 include the accounts of the Company and all its subsidiaries controlled directly or indirectly by the Group, and companies over which the Group exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis.

Due to this change in the regulation relating to the scope of consolidation financial statements, to improve the consolidated financial information, the number of consolidated companies increased from 33 to 68 and the number of companies included in the consolidated financial statements on an equity method of accounting was 7 in the year ended March 31, 2000.

All significant intercompany balances and transactions have been eliminated in consolidation.

Significant differences arising from the cost of the companies' investments in subsidiaries and affiliates over the equity in their net assets at the dates of acquisition are amortized over a period of five years.

### (b) Cash equivalents

For the purposes of the consolidated balance sheets and statements of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

### (c) Marketable securities and investment securities

Until the year ended March 31, 2000, marketable securities and investment securities had been carried at cost determined by the moving average method.

A new accounting standard for financial instruments, which became effective April 1, 2000, requires that securities be classified into three categories: trading, held-to-maturity or other securities. Under the new standard, trading securities are carried at fair value, held-to-maturity securities are carried at amortized cost and other securities are carried at cost. Cost of securities sold is determined by the moving average method.

As at April 1, 2000, the Company and its consolidated subsidiaries assessed their intent to hold their investments securities and classified their investments as "held-to-maturity securities" or "other securities" and accounted for the securities as at March 31, 2001 in accordance with the new standard referred to above. As a result, marketable securities presented as current assets of ¥22,921 million (\$184,999 thousand) were reclassified to investment securities as at April 1, 2000. However, the adoption of this new standard had no material effect on the consolidated statement of income for the year ended March 31, 2001.

### (d) Allowance for doubtful accounts (directly deducted from accounts receivables and long-term loans)

The allowance for bad debts on receivables is provided at an estimated unrecoverable amounts. The allowance for other receivables is provided based on the historical rate of losses on receivables.

### (e) Inventories

Inventories are stated at cost determined by the following methods:

- Real estate for sale— the identified cost method
- Merchandise—principally, the retail method
- Other—principally, the moving average cost method

### (f) Property and equipment

Property and equipment is carried at cost. Depreciation of certain railway structures is determined by the replacement cost method and depreciation of other property and equipment is determined mainly by the declining-balance method, except for the Kamiooka Keikyū building and other buildings acquired subsequent to March 31, 1998 on which depreciation is computed by the straight-line method, at rates based on the estimated useful lives of the respective assets, ranging from 3 to 65 years for buildings and structures and from 3 to 20 years for machinery, equipment and rolling stock.

Where property and equipment have been retired or otherwise disposed of, the cost and related depreciation are reversed from the respective accounts and the net difference, less any amounts realized on disposal, is reflected in income.

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

### (g) Intangible assets

Intangible assets having a limited useful life are amortized by the straight-line method over their estimated useful lives.

#### (h) Deferred charges

Pre-operating and start-up costs are deferred and amortized over five years in accordance with the Commercial Code of Japan by the straight-line method.

#### (i) Employees' bonuses (included in accrued expenses)

Employees' bonuses are provided on an accrual basis based on the estimated amounts to be paid subsequent to the balance sheet date.

#### (j) Employees' retirement benefits

Until the year ended March 31, 2000, the liability for employees' retirement benefits had been stated at 40 per cent of the amount which would be required to be paid if all eligible employees retired voluntarily at the balance sheet date.

In addition, the company and certain subsidiaries followed the practice of funding the actuarially computed amount which includes current service cost and the amortization of past service cost.

Costs with respect to the pension plans are funded at an amount determined actuarially. Past service cost is being amortized over a period of 20 years.

The company and certain subsidiaries charged such past service cost to operations when payment became liable.

In accordance with a new accounting standard for retirement benefits which became effective April 1, 2000, the liability for employees' retirement benefits as at March 31, 2001 are provided mainly at an amount calculated based on the retirement benefit obligations and fair value of plan assets as at March 31, 2001 as adjusted for unrecognized net retirement obligation at transition, unrecognized actuarial gain or loss and unrecognized past service costs. The net retirement benefit obligation at transition with respect to the consolidated subsidiaries is being amortized over a period of 15 years by the straight-line method. The net retirement benefit obligation at transition with respect to the Company was fully charged to income for the year ended March 31, 2001. Actuarial gain and loss are amortized mainly by the straight-line method over a period of average remaining service years of employees at the time of occurrence from the following year of occurrence.

The effect of the adoption of the new standard for retirement benefits was to decrease income before income taxes and minority interest by ¥55 million (\$445 thousand) for the year ended March 31, 2001.

#### (k) Foreign currency translation

Notes denominated in foreign currencies hedged by forward foreign exchange contracts are translated into yen at the contracted rates of

exchange. Gains resulting from forward foreign exchange contracts are deferred and amortized over the contract periods.

#### (l) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

#### (m) Leases

Noncancelable lease transactions are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

#### (n) Appropriation of retained earnings

Under the Commercial Code of Japan, dividends and other appropriations of retained earnings with respect to a given fiscal year are made by resolution of the shareholders at a general meeting held subsequent to the end of such fiscal year. The accompanying consolidated financial statements do not, therefore, reflect such appropriations.

## 3 | FAIR VALUE OF MARKETABLE SECURITIES

The carrying and related fair values of current and noncurrent marketable securities as at March 31, 2000 were as follows:

	Millions of yen		
	Carrying value	Estimated fair value	Net unrealized Gain (loss)
(1) Current:			
Stock .....	¥20,478	¥71,418	¥50,940
Bonds .....	2,940	2,981	41
Others .....	180	140	(40)
Subtotal .....	¥23,598	¥74,539	¥50,941
(2) Noncurrent: .....			
Stock .....	¥1,810	¥1,785	¥(25)
Bonds .....	691	705	14
Subtotal .....	¥2,501	¥2,490	¥(11)
Total .....	¥26,099	¥77,029	¥50,930

Information regarding marketable securities classified as held-to-maturity debt securities as at March 31, 2001 is as follows:

## Marketable held-to-maturity debt securities

March 31, 2001	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Government bonds . . . . .	¥1,749	¥1,765	¥16	\$14,119	\$14,247	\$128
Corporate bonds . . . . .	700	717	17	5,649	5,783	134
Other debt securities . . . . .	0	0	0	0	0	0
Subtotal . . . . .	2,449	2,482	33	19,768	20,030	262
Securities whose acquisition cost exceeds their carrying value:						
Government bonds . . . . .	0	0	0	0	0	0
Corporate bonds . . . . .	65	65	(—)	521	521	(—)
Other debt securities . . . . .	0	0	0	0	0	0
Subtotal . . . . .	65	65	(—)	521	521	(—)
Total . . . . .	¥2,514	¥2,547	¥33	\$20,289	\$20,551	\$262

## Marketable other securities

March 31, 2001	Millions of yen	Thousands of U.S. dollars
Carrying value	¥16,932	\$136,661
Fair value	28,527	230,239
Unrealized gain equivalent	6,703	54,100
Deferred tax liabilities equivalent	4,861	39,229
Minority interest equivalent	31	249

The redemption schedule for securities with maturity dates classified as other securities is summarized as follows:

March 31, 2001	Millions of yen		Thousands of U.S. dollars	
	Due in one year or less	Due after one year through five years	Due in one year or less	Due after one year through five year
Government bonds . . . . .	¥126	¥1,733	\$1,021	\$13,993
Corporate bonds . . . . .	464	1,456	3,744	11,749
Other debt securities . . . . .	0	0	0	0
Total . . . . .	¥590	¥3,189	\$4,765	\$25,742

## 4 DERIVATIVE TRANSACTIONS

The consolidated subsidiary has entered into derivative financial instruments in order to manage certain risks arising from adverse fluctuations in interest rates.

Summarized below are the notional amounts and the estimated fair value of the derivative transactions outstanding as at March 31, 2000:

### Interest-related transactions

	Millions of yen		
	National amount	Fair value	Unrealized gain (loss)
Interest rate swaps:			
Receive/floating and pay/fixed . . . . .	¥587	¥(6)	¥(6)
Total . . . . .	¥587	¥(6)	¥(6)

As at March 31, 2001, the disclosure of fair value information of interest-rate derivative transactions has been omitted since all derivatives have been accounted for as hedges.

## 5 INVENTORIES

Inventories are summarized as follows:

As at March 31	Millions of yen			Thousands of U.S. dollars
	2000	2001	2001	
Real estate . . . . .	¥96,348	¥91,986	¥742,423	
Merchandise . . . . .	2,880	2,782	22,459	
Others . . . . .	3,925	4,240	34,218	
	¥103,153	¥99,008	¥799,100	

## 6 PROPERTY AND EQUIPMENT

Contributions for the construction of railway facilities granted by national and municipal governments are permitted to be deducted directly from the acquisition costs of the related property and equipment in accordance with the Corporation Tax Law. For the years ended March 31, 2000 and 2001, the Company deducted contributions for the construction of railway facilities of ¥34,456 million and ¥3,564 million (\$28,765 thousand), respectively, from the acquisition costs of railway structures. The accumulated deductions from the costs of existing property and equipment amounted to ¥106,570 million and ¥109,710 million (\$885,470 thousand) as at March 31, 2000 and 2001, respectively.

## 7 SHORT-TERM DEBT AND LONG-TERM DEBT

As at March 31, 2000 and 2001, short-term debt consisted of the following:

As at March 31	Millions of yen			Thousands of U.S. dollars
	2000	2001	2001	
Bank loans . . . . .	¥71,528	¥69,524	¥561,128	
Commercial paper . . . . .	0	25,000	201,776	
	¥71,528	¥94,524	¥762,904	

Short-term bank loans represented notes or overdrafts. The annual interest rates applicable to the short-term bank loans outstanding as at March 31, 2000 and 2001 ranged from 0.63 per cent. to 2.875 per cent. and from 0.38 per cent. to 1.95 per cent., respectively.

Commercial paper is unsecured and matures generally within three months. The interest rates applicable as at March 31, 2001 ranged principally from 0.097 per cent. to 0.1093 per cent.

Long-term debt is summarized as follows:

As at March 31	Millions of yen		Thousands of
	2000	2001	U.S. dollars
4.7 per cent. convertible bonds due 2001 . . .	¥ 19,999	¥ —	\$ —
1.5 per cent. convertible bonds due 2002 . . .	29,974	<b>29,974</b>	<b>241,921</b>
2.2 per cent. convertible bonds due 2004 . . .	14,048	<b>14,048</b>	<b>113,382</b>
1.15 per cent. convertible bonds due 2009 . .	39,995	<b>39,995</b>	<b>322,801</b>
2.1 per cent. bonds due 2003 . . . . .	30,000	<b>30,000</b>	<b>242,131</b>
2.575 per cent. bonds due 2005 . . . . .	15,000	<b>15,000</b>	<b>121,065</b>
1.85 per cent. bonds due 2005 . . . . .	15,000	<b>15,000</b>	<b>121,065</b>
1.7 per cent. bonds due 2004 . . . . .	15,000	<b>15,000</b>	<b>121,065</b>
2.14 per cent. bonds due 2006 . . . . .	15,000	<b>15,000</b>	<b>121,065</b>
Loans from banks and insurance companies at interest rates ranging from: 2000—0.99 per cent. to 7.5 per cent. 2001—0.7 per cent. to 6.9 per cent.			
Secured . . . . .	138,648	<b>132,409</b>	<b>1,069,028</b>
Unsecured . . . . .	107,199	<b>99,911</b>	<b>806,032</b>
	439,863	<b>406,337</b>	<b>3,279,555</b>
Less current portion . . . . .	50,168	<b>53,198</b>	<b>429,364</b>
	<b>¥389,695</b>	<b>¥353,139</b>	<b>\$2,850,191</b>

The aggregate annual maturities of long-term debt outstanding subsequent to March 31, 2001 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of
		U.S. dollars
2002 . . . . .	¥53,198	\$ 429,364
2003 . . . . .	54,228	437,677
2004 . . . . .	38,163	308,015
2005 . . . . .	51,194	413,185
2006 . . . . .	34,976	282,291
2007 and thereafter . . . . .	174,578	1,409,023
	<b>¥406,337</b>	<b>\$3,279,555</b>

Convertible bonds are convertible into common stock of the Company at the option of the holders at the conversion prices per share listed below, subject to adjustment in certain circumstances including the issuance of common stock at prices below fair market value. As at March 31, 2001, the number of shares which would be issuable upon conversion of the outstanding convertible bonds at current conversion prices was approximately 123,379 thousand shares.

	Conversion price per share	
	Yen	
1.5 per cent. convertible bonds due 2002 . . . . .	¥629.30	
2.2 per cent. convertible bonds due 2004 . . . . .	1,440.90	
1.15 per cent. convertible bonds due 2009 . . . . .	606.00	

The assets pledged as collateral for short-term bank loans amounting to ¥7,732 million and ¥417 million (\$3,364 thousand) and long-term debt amounting to ¥138,648 million and ¥132,408 million (\$1,068,672 thousand) as at March 31, 2000 and 2001, respectively, were as follows:

As at March 31	Millions of yen		Thousands of
	2000	2001	U.S. dollars
Property and equipment, at net book value:			
Railway . . . . .	¥244,584	<b>¥248,187</b>	<b>\$2,003,123</b>
Other . . . . .	24,502	<b>23,130</b>	<b>186,685</b>
	<b>¥269,086</b>	<b>¥271,317</b>	<b>\$2,189,808</b>

## 8 EMPLOYEES' RETIREMENT BENEFITS

The company and its consolidated subsidiaries have defined benefit plans, i.e., tax-qualified pension plans and lump-sum payment plans.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheet as at March 31, 2001 for the Company's and consolidated subsidiaries' defined benefit plans:

As at March 31	Millions of yen	Thousands of
		U.S. dollars
Retirement benefit obligation . . . . .	¥(78,643)	\$(634,728)
Plan assets at fair value . . . . .	55,495	447,903
Unfunded retirement benefit obligation . . . .	(23,148)	(186,825)
Unrecognized plan assets . . . . .	(4,047)	(32,663)
Unrecognized net retirement benefit obligation at transition . . . . .	5,675	45,799
Unrecognized actuarial gain or loss . . . . .	3,371	27,209
Unrecognized past service costs . . . . .	0	0
Net retirement obligation . . . . .	(18,149)	(146,480)
Prepaid pension cost . . . . .	242	1,955
Employees' retirement benefits . . . . .	<b>¥(18,391)</b>	<b>\$(148,435)</b>

Components of retirement benefit expenses for the year ended March 31, 2001 are outlined as follows:

	Millions of yen	Thousands of
	2001	
		U.S. dollars
Service cost . . . . .	<b>¥4,073</b>	<b>\$32,870</b>
Interest cost . . . . .	<b>2,276</b>	<b>18,372</b>
Expected return on plan assets . . . . .	<b>507</b>	<b>4,089</b>
Amortization of net retirement obligation at transition . . . . .	<b>28,915</b>	<b>233,371</b>
Amortization of actuarial gain or loss . . . . .	<b>0</b>	<b>0</b>
Amortization of past service cost . . . . .	<b>0</b>	<b>0</b>
Total . . . . .	<b>¥34,757</b>	<b>\$280,524</b>

The assumptions used in the accounting for the above plans are as follows:

March 31, 2001

Method of amortization . . . . .	Straight-line method
Discount rates . . . . .	Mainly 3%
Expected return on assets . . . . .	Mainly 2.5%
Period of recognition of actuarial gain or loss (which are amortized by the straight-line method over a period of average remaining service years of employees at the time of occurrence from the following year of occurrence.) . . . . .	Mainly 15 years
Period of recognition of net retirement benefit obligation . . . . .	15 years

## 9 | SHAREHOLDERS' EQUITY

The Commercial Code provides that an amount not exceeding one-half of the issue price of new shares may, with the approval of the Board of Directors, be accounted for as capital surplus on the condition that, at a minimum, the par value of the common stock is transferred to capital stock.

As at March 31, 2000 and 2001, 7,736 thousand shares of common stock of the Company were held by the consolidated subsidiaries.

Retained earnings include the legal reserve provided in accordance with the provisions of the Commercial Code. This reserve may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors, but is not available for the payment of dividends.

## 10 | INCOME TAXES

Income taxes applicable to the Company and its consolidated subsidiaries comprise corporation, enterprise and inhabitants' taxes, which, in the aggregate, resulted in statutory tax rate of approximately 42.05% for 2000 and 2001.

The effective tax rates reflected in the consolidated statements of income for the year ended March 31, 2000 and 2001 differ from the statutory tax rates for the following reasons:

	2000	2001
Statutory tax rates . . . . .	42.05%	<b>42.05%</b>
Effect of:		
Expenses permanently not deductible for income tax purposes . . . . .	5.42	<b>4.16</b>
Dividend income deductible for income tax purposes . . . . .	(2.08)	<b>(2.68)</b>
Inhabitants' per capita taxes . . . . .	1.47	<b>1.17</b>
Net effect of tax rate changes on deferred taxes . . . . .	5.83	—
Tax loss carryforwards of consolidated subsidiaries . . . . .	22.23	<b>10.52</b>
Unrealized profit not subject to tax effect accounting . . . . .	(1.16)	<b>(0.85)</b>
Change in valuation allowance . . . . .	(8.66)	<b>(5.45)</b>
Other, net . . . . .	(0.25)	<b>(1.51)</b>
Effective tax rates . . . . .	64.85%	<b>47.41%</b>

The significant components of deferred tax assets and liabilities as at March 31, 2000 and 2001 were as follows:

As at March 31	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Deferred tax assets:			
Accrued bonuses . . . . .	¥ 359	<b>¥ 447</b>	<b>\$ 3,609</b>
Accrued enterprise tax . . . . .	312	<b>197</b>	<b>1,593</b>
Employees' retirement benefits . . . . .	1,455	<b>2,207</b>	<b>17,815</b>
Tax loss carryforwards of			
consolidated subsidiaries . . . . .	8,463	<b>6,995</b>	<b>56,452</b>
Depreciation . . . . .	1,563	<b>1,577</b>	<b>12,731</b>
Unrealized gain on intercompany sales of fixed assets . . . . .	625	<b>936</b>	<b>7,550</b>
Other . . . . .	1,340	<b>2,441</b>	<b>19,698</b>
Valuation allowance . . . . .	(8,924)	<b>(8,183)</b>	<b>(66,043)</b>
Total deferred tax assets . . . . .	5,193	<b>6,617</b>	<b>53,405</b>
Deferred tax liabilities;			
Reserves under Special Taxation Measures Law . . . . .	218	<b>218</b>	<b>1,762</b>
Difference between the cost of investments and their underlying net equity at fair value . . . . .	666	<b>666</b>	<b>5,373</b>
Total deferred tax liabilities . . . . .	884	<b>884</b>	<b>7,135</b>
Net deferred tax assets . . . . .	¥4,309	<b>¥5,733</b>	<b>\$46,270</b>

## 11 | CONTINGENT LIABILITIES

As at March 31, 2000 and 2001, the Company and its consolidated subsidiaries were contingently liable as follows:

As at March 31	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Notes endorsed in the ordinary course of business . . . . .	¥ 861	<b>¥1,702</b>	<b>\$13,739</b>
Guarantees of indebtedness of:			
Affiliates . . . . .	¥458	<b>¥420</b>	<b>\$3,390</b>
Customers . . . . .	479	<b>463</b>	<b>2,873</b>
Employees . . . . .	59	<b>40</b>	<b>1,187</b>
Others . . . . .	184	<b>67</b>	<b>544</b>
	¥1,180	<b>¥ 990</b>	<b>\$ 7,994</b>

## 12 | LEASES

### a) Finance leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as at March 31, 2000 and 2001, which would have been reflected in the consolidated balance sheet if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases:

As at March 31	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
<b>Acquisition costs:</b>			
Machinery and rolling stock . . . . .	¥ 429	¥ 375	\$3,026
Other equipment . . . . .	2,786	2,301	18,573
	3,215	2,676	21,599
<b>Accumulated depreciation:</b>			
Machinery and rolling stock . . . . .	315	289	2,331
Other equipment . . . . .	1,875	1,373	11,085
	2,190	1,662	13,416
<b>Net book value:</b>			
Machinery and rolling stock . . . . .	114	86	695
Other equipment . . . . .	911	928	7,488
	¥1,025	¥1,014	\$8,183

Lease payments relating to finance lease transactions accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥592 million and ¥514 million (\$4,151 thousand) for the years ended March 31, 2000 and 2001, respectively.

Year ended March 31	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Depreciation expense . . . . .	¥575	¥476	\$3,843
Interest expense . . . . .	¥ 44	¥ 36	\$ 295

Future minimum lease payments (excluding the interest portion thereon) subsequent to March 31, 2001 for finance lease transactions accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2002 . . . . .	¥ 439	\$3,542
2003 and thereafter . . . . .	628	5,073
Total . . . . .	¥1,067	\$8,615

### b) Operating leases

Future minimum lease payments subsequent to March 31, 2001 for noncancelable operating leases transactions are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2002 . . . . .	¥ 4,550	\$ 36,723
2003 and thereafter . . . . .	35,779	288,774
Total . . . . .	¥40,329	\$325,497

Leases whose fees have not yet been determined have been excluded from the above table.

## 13 | AMOUNTS PER SHARE

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during each year. Diluted net income per share is based on the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of the shares of common stock to be issued upon the conversion of convertible bonds and the exercise of warrants.

Amounts per share of net assets are computed based on the number of shares of common stock outstanding at each balance sheet date.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years, together with the interim cash dividends paid.

	Millions of yen		U.S. dollars
	2000	2001	2001
<b>Net income:</b>			
Basic . . . . .	¥4.55	¥8.90	\$0.072
Diluted . . . . .	4.50	8.14	0.066
Net assets . . . . .	177.14	180.78	1.459
<b>Cash dividends applicable to the year:</b>			
to the year . . . . .	5.00	5.00	0.040

## 14 | SUBSEQUENT EVENT

The following appropriations of retained earnings, which have not been reflected in the accompanying consolidated financial statements, were approved at a meeting of the shareholders of the Company held on June 28, 2001:

Year ended March 31	Millions of yen	Thousands of U.S. dollars
Cash dividends—¥2.50 (\$0.020) per share....	¥1,282	\$10,347
Directors' and statutory auditors' bonuses.....	77	625

## 15 | SEGMENT INFORMATION

Business segment information is summarized as follows:

As at or for the year ended March 31, 2000	Millions of yen							Elimination/ Headquarters	Consolidated
	Transportation	Real estate	Tourism and leisure	Distribution	Other	Total			
Revenues:									
Outside customers	¥112,614	¥ 29,838	¥ 52,872	¥91,669	¥19,379	¥306,372			¥306,372
Intersegments	1,502	5,599	3,587	4,445	21,311	36,444	(36,444)		0
	114,116	35,437	56,459	96,114	40,690	342,816	(36,444)		306,372
Cost and expenses	100,027	26,889	59,551	97,604	40,309	324,380	(36,642)		287,738
Operating income (loss)	¥14,089	¥ 8,548	¥ (3,092)	¥ (1,490)	¥ 381	¥ 18,436	¥ 198		¥ 18,634
Assets	¥323,353	¥202,910	¥128,902	¥37,179	¥28,943	¥721,287	¥ 29,252		¥750,539
Depreciation	¥ 17,955	¥ 3,583	¥ 6,100	¥ 1,546	¥ 470	¥ 29,654	¥ 0		¥ 29,654
Capital expenditures	¥ 20,862	¥ 2,137	¥ 1,711	¥ 780	¥ 378	¥ 25,868	¥ 0		¥ 25,868

As at or for the year ended March 31, 2001	Millions of yen							Elimination/ Headquarters	Consolidated
	Transportation	Real estate	Tourism and leisure	Distribution	Other	Total			
Revenues:									
Outside customers	¥113,406	¥ 29,193	¥ 52,940	¥101,709	¥21,233	¥318,481			¥318,481
Intersegments	1,529	5,320	4,408	3,821	23,060	38,138	(38,138)		0
	114,935	34,513	57,348	105,530	44,293	356,619	(38,138)		318,481
Cost and expenses	99,448	28,003	58,100	105,842	42,829	334,222	(38,425)		295,797
Operating income (loss)	¥ 15,487	¥ 6,510	¥ (752)	¥ (312)	¥ 1,464	¥ 22,397	¥ 287		¥ 22,684
Assets	¥325,984	¥197,238	¥119,438	¥ 41,375	¥28,139	¥712,174	¥ 29,822		¥741,996
Depreciation	¥ 17,831	¥ 3,409	¥ 5,571	¥ 1,584	¥ 438	¥ 28,833	¥ 0		¥ 28,833
Capital expenditures	¥ 26,410	¥ 1,637	¥ 1,522	¥ 1,370	¥ 506	¥ 31,445	¥ 0		¥ 31,445

As at or for the year ended March 31, 2001	Thousand of U.S. dollar							Elimination/ Headquarters	Consolidated
	Transportation	Real estate	Tourism and leisure	Distribution	Other	Total			
Revenues:									
Outside customers	\$ 915,303	\$ 235,616	\$427,277	\$820,900	\$171,372	\$2,570,468			\$2,570,468
Intersegments	12,337	42,942	35,578	30,842	186,113	307,812	(307,812)		0
	927,640	278,558	462,855	851,742	357,485	2,878,280	(307,812)		2,570,468
Cost and expenses	802,650	226,016	468,925	854,251	345,673	2,697,515	(310,129)		2,387,386
Operating income (loss)	\$ 124,990	\$52,542	\$ (6,070)	\$ (2,509)	\$ 11,812	\$ 180,765	\$ 2,317		\$ 183,082
Assets	\$2,631,023	\$1,591,913	\$963,984	\$333,940	\$227,114	\$5,747,974	\$ 240,695		\$5,988,669
Depreciation	\$ 143,919	\$ 27,518	\$ 44,961	\$ 12,782	\$ 3,535	\$ 232,715	\$ 0		\$ 232,715
Capital expenditures	\$ 213,153	\$ 13,412	\$ 12,286	\$ 11,059	\$ 4,079	\$ 253,791	\$ 0		\$ 253,791

In accordance with a new accounting standard for retirement benefits as explained in Note 2, operating expenses for "Transportation", "Real estate" and "Other" decreased by ¥181 million (\$1,460 thousand), ¥306 million (\$2,470 thousand) and ¥8 million (\$66 thousand), and "Tourism and leisure" and "Distribution" increased by ¥196 million (\$1,583 thousand), and ¥245 million

(\$1,977 thousand), respectively, and operating income for "Transportation", "Real estate" and "Other" increased by the same respective amounts, and "Tourism and leisure" and "Distribution" decreased by the same respective amounts for the year ended March 31, 2001 as compared with the corresponding amounts for the previous year.

The Board of Directors and Shareholders  
Keihin Electric Express Railway Co., Ltd.

We have audited the consolidated balance sheets of Keihin Electric Express Railway Co., Ltd. and consolidated subsidiaries as of March 31, 2000 and 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the two years in the period ended March 31, 2001, all expressed in 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 accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Keihin Electric Express Railway Co., Ltd. and consolidated subsidiaries at March 31, 2000 and 2001, and the consolidated results of their operations and their cash flows for each of the two years in the period ended March 31, 2001 in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 1 to the consolidated financial statements, Keihin Electric Express Railway Co., Ltd. and consolidated subsidiaries have adopted new accounting standards for consolidation, research and development costs and tax-effect accounting effective the year ended March 31, 2000 and for employees' retirement benefits and financial instruments effective the year ended March 31, 2001 in the preparation of their consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2001 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*Century Ota Showa & Co.*

Century Ota Showa & Co.

Tokyo, Japan

June 28, 2001

*See Note 1 to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of Keihin Electric Express Railway Co., Ltd. and consolidated subsidiaries under Japanese accounting principles and practices.*