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## 1. Basis of Presentation

The accompanying consolidated financial statements of Keihin Electric Express Railway Co., Ltd. (the "Company") and consolidated subsidiaries (collectively the "Group") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the 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 Financial Instruments and Exchange Law of Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

For the convenience of readers outside Japan, the accompanying consolidated financial statements as at and for the year ended March 31, 2009 have been presented in U.S. dollars by translating Japanese yen amounts at ¥98.23 =US\$1.00, the exchange rate prevailing as at March 31, 2009.

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## 2. Summary of Significant Accounting Policies

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

The accompanying consolidated financial statements include the accounts of the Company and all its subsidiaries (75 in 2009 and 76 in 2008) controlled directly or indirectly by the Group, and, in principle, all significant associated companies (3 in 2009 and 2008) over which the Group exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements by the equity method. Oppama Ekimae Building Co., Ltd. has newly become an associated company during the year ended March 31, 2009, but the equity method was not applied to this company, since the effect on the accompanying consolidated financial statements in terms of net income and retained earnings attributable to the Group would not be material, if the equity method had been applied.

Certain consolidated subsidiaries have different fiscal closing dates (December 31, January 31 or end of February), but those financial statements at respective closing dates are used in consolidation as they are, while significant transactions during the period between March 31 and each closing dates are adjusted as necessary.

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

Significant differences (goodwill or negative goodwill) 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 by the straight-line method over estimated periods (5 to 20 years) that the related investment effect will appear.

### *(b) Cash equivalents*

For the purposes of the consolidated statements of cash flows, the Company and subsidiaries consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

### *(c) Securities*

In general, securities are classified into three categories: trading, held-to-maturity or other securities.

Held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost.

Cost of securities sold is determined by the moving average method.

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

The allowance for bad debts on receivables is provided at 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

Effective April 1, 2008, inventories are stated at the lower of cost determined by the above methods or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses in accordance with the Accounting Standards Board of Japan (ASBJ) Statement No. 9, "Accounting Standard for Measurement of Inventories" issued on July 5, 2006. The effect of this change on the income was immaterial.

#### *(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 Kamioooka Keikyu 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.

Pursuant to the income tax reform in 2008, useful lives of machinery and equipment held by the Company and its consolidated subsidiaries were reviewed and consequently some of them were changed. The effect of this change on the income was immaterial.

Leased assets under finance lease arrangements which do not transfer ownership of the leased assets to the lessee are depreciated by the straight-line method over the respective lease periods without residual value.

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 (5 years).

#### *(h) Accrued bonuses for employees and directors and corporate auditors*

Accrued bonuses for employees and directors and corporate auditors are provided on an accrual basis based on the estimated amounts to be paid subsequent to the balance sheet date. These accounts are included in accrued expenses in the accompanying consolidated balance sheets.

#### *(i) Reserve for unused amounts of bus cards*

Reserve for unused amounts of bus cards is recorded at an amount estimated to be used in future out of the unused amounts of bus cards which were recognized as income when issued.

#### *(j) Liability for employees' retirement benefits*

The liabilities for employees' retirement benefits are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet dates, as adjusted for unrecognized net retirement obligation at transition,

unrecognized actuarial gain or loss and unrecognized past service cost. The net retirement benefit obligation at transition with respect to the subsidiaries is being amortized over a period of 15 years by the straight-line method. Actuarial gain and loss are amortized by the straight-line method over a period of average remaining service years (mainly 15 years) of employees at the time of occurrence from the following year of occurrence. Past service cost is amortized as incurred by the straight-line method over a period of average remaining service years (mainly 15 years) of employees at the time of occurrence.

#### *(k) Liability for directors' and corporate auditors' retirement benefits*

The Company and certain consolidated subsidiaries provide an accrual for retirement benefits to directors and corporate auditors based on the internal rule at an estimate of the amount which would be required to be paid if all directors and corporate auditors retired at the balance sheet date.

#### *(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*

Prior to April 1, 2008, finance leases which do not transfer ownership of the leased assets to the lessee were accounted for as operating lease transactions. On March 31, 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions", which revised the previous accounting standard for lease transactions issued in June 1993.

As a lessee: Under the previous accounting standard, finance leases which transfer ownership of the leased assets to the lessee were to be capitalized. However, other finance leases which do not transfer ownership of the leased assets to the lessee were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires the lessee that all finance lease transactions should be capitalized to recognize leased assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which commenced prior to April 1, 2008 and do not transfer ownership of the leased assets to the lessee to be accounted for as operating lease transactions.

As a lessor: Under the previous accounting standard, finance leases which transfer ownership of the lease assets to the lessee were to be treated as sales. However, other finance leases were permitted to be accounted for as

operating lease transactions if certain “as if sold” information is disclosed in the note to the lessor’s financial statements. The revised accounting requires the lessor that all finance leases which transfer ownership of the lease assets to the lessee should be recognized as lease receivables and all finance leases which do not transfer ownership of the lease assets to the lessee should be recognized as investments in lease assets.

The Group adopted the revised accounting standard effective April 1, 2008 and, as a lessee, finance leases which commenced prior to April 1, 2008 and do not transfer ownership of the leased assets to the lessee are accounted for as operating lease transactions as permitted by the revised accounting standard.

As a lessor, revenue from finance lease transactions and the related cost are recognized when the lease payment is received.

#### (n) Appropriation of retained earnings

Under the Corporation Law of Japan (the “Law”), 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.

#### (o) Treatment of railway business contributions for the construction

The Company receives a portion of the construction costs applicable to work undertaken to elevate railway lines and crossings, and for the improvement of grade crossings in the form of contributions for the construction provided by national and municipal governments. An amount equivalent to the contributions for the construction is recorded as a deduction from the acquisition costs of property and equipment purchased on completion of construction. In addition, the contributions for the construction amount received are recorded as an extraordinary gain in the consolidated statement of income. At the same time, the amount recorded as a deduction from the acquisition costs of property and equipment purchased is posted as an extraordinary loss on deduction of property and equipment.

### 3. Accounting change

As discussed in Note 2.(m), the Group adopted the revised accounting standard for lease transactions effective April 1, 2008 and finance leases are accounted for as if the leased assets were purchased or sold in the ordinary buy or sell transactions. As a lessee, finance leases which commenced prior to April 1, 2008 and do not transfer ownership of the leased assets to the lessee are accounted for as operating

lease transactions as permitted by the revised accounting standard. As a result of this accounting change, operating income and income before income taxes and minority interests for the year ended March 31, 2009 increased by ¥66 million (\$675 thousand) and ¥697 million (\$7,098 thousand), respectively.

### 4. Cash and Cash Equivalents

Cash on hand and at banks of consolidated balance sheets are reconciled to cash and cash equivalents of consolidated statements of cash flows as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	As at March 31,		
	2008	2009	2009
Cash on hand and at banks .....	¥51,145	¥42,631	\$433,990
Time deposits maturing over 3 months .....	(97)	(161)	(1,633)
Cash and cash equivalents .....	¥51,048	¥42,470	\$432,357

#### Noncash transactions:

Significant noncash transactions during the year ended March 31, 2009 were as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Increase in capital due to conversion of convertible bonds .....	¥ 4,274	\$ 43,515
Increase in capital surplus due to conversion of convertible bonds .....	4,274	43,515
Disposal of treasury stock due to conversion of convertible bonds .....	11,708	119,180
Decrease in convertible bonds due to conversion .....	¥20,256	\$206,210

## 5. Business combination

Major components of the assets and liabilities of Unionex Co., Ltd. which was consolidated through the acquisition of shares during the year ended March 31, 2009, are as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Current assets .....	¥2,082	\$21,200
Fixed assets .....	6,486	66,030
Current liabilities .....	4,151	42,259
Long-term liabilities .....	4,030	41,027

The difference in an amount of ¥4,302 million (\$43,792 thousand) between the cash and cash equivalents required for acquisition of the shares and cash and cash equivalents included in above current assets is reported as "Acquisition of shares in a newly consolidated subsidiary" in the accompanying consolidated statement of cash flows.

## 6. Securities

Information regarding marketable securities classified as held-to-maturity debt securities and other securities as at March 31, 2008 and 2009 is as follows:

### Marketable held-to-maturity debt securities

	(Millions of yen)			(Thousands of U.S. dollars)		
	As at March 31, 2008			As at March 31, 2009		
	Carrying value	Estimated fair value	Unrealized loss	Carrying value	Estimated fair value	Unrealized gain
Securities whose carrying value exceeds their fair value:						
Government bonds .....	¥15	¥15	¥(0)	\$102	\$102	\$0
Total .....	¥15	¥15	¥(0)	\$102	\$102	\$0
Securities whose fair value exceeds their carrying value:						
Government bonds .....	¥10	¥10	¥0	\$102	\$102	\$0
Total .....	¥10	¥10	¥0	\$102	\$102	\$0

Marketable other securities

	(Millions of yen)		
	As at March 31, 2008		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value:			
Stock .....	¥11,194	¥19,069	¥7,875
Government bonds .....	92	94	2
Subtotal .....	11,286	19,163	7,877
Securities whose carrying value exceeds their fair value			
Stock .....	3,883	3,127	(756)
Government bonds .....	37	37	(0)
Subtotal .....	3,920	3,164	(756)
Total .....	¥15,206	¥22,327	¥7,121

	(Millions of yen)			(Thousands of U.S. dollars)		
	As at March 31, 2009					
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value:						
Stock .....	¥ 7,063	¥ 9,161	¥2,098	\$ 71,897	\$ 93,261	\$21,364
Government bonds .....	92	94	2	940	959	19
Subtotal .....	7,155	9,255	2,100	72,837	94,220	21,383
Securities whose carrying value exceeds their fair value						
Stock .....	8,503	6,287	(2,216)	86,560	63,999	(22,561)
Government bonds .....	27	27	(0)	276	274	(2)
Subtotal .....	8,530	6,314	(2,216)	86,836	64,273	(22,563)
Total .....	¥15,685	¥15,569	¥ (116)	\$159,673	\$158,493	\$ (1,180)

Sales of securities classified as other securities with aggregate gain and loss are summarized as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	Year ended March 31,		
	2008	2009	2009
Sales proceeds .....	¥201	¥19	\$190
Aggregate gain .....	184	15	149
Aggregate loss .....	(7)	(0)	(0)

Major securities whose fair value is not readily determinable at March 31, 2008 and 2009 were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	As at March 31,		
	2008	2009	2009
Unlisted domestic corporate bonds (held-to-maturity debt securities) .....	¥ 14	¥ 2	\$ 20
Unlisted stock (Other securities) .....	16,283	18,178	185,056
Total .....	¥16,297	¥18,180	\$185,076

The redemption schedule for securities with maturity dates classified as other securities and held-to-maturity debt securities is summarized as follows:

	(Millions of yen)				(Thousands of U.S. dollars)			
	March 31, 2008				March 31, 2009			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years and thereafter	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years and thereafter
Government bonds .....	¥15	¥60	¥35	¥35	\$102	\$662	\$305	\$356
Corporate bonds .....	3	2	–	–	10	10	–	–
Total .....	¥18	¥62	¥35	¥35	\$112	\$672	\$305	\$356

## 7. Derivative Transactions

The Company and one consolidated subsidiary have entered into derivative financial instruments in order to manage certain risks arising from adverse fluctuations in interest rates. As at March 31, 2008 and 2009, the disclosure of fair value information of interest-rate derivative transactions has been omitted since all derivatives have been accounted for as hedges.

## 8. Inventories

Inventories are summarized as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	As at March 31,		
	2008	2009	2009
Merchandise and finished products .....	¥ 2,343	¥ 2,807	\$ 28,572
Real estate for sale .....	82,655	93,746	954,349
Work in process .....	4,246	2,577	26,239
Raw materials and stores .....	577	608	6,187
Total .....	¥89,821	¥99,738	\$1,015,347

## 9. Property and Equipment

Contributions for the construction of certain facilities including railway structures 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, 2008 and 2009, the Company deducted contributions for the construction of such facilities

of ¥1,083 million and ¥1,936 million (\$19,706 thousand), respectively, from the acquisition costs of the related property and equipment. The accumulated deductions from the costs of existing property and equipment amounted to ¥123,300 million and ¥125,236 million (\$1,274,922 thousand) as at March 31, 2008 and 2009, respectively.

## 10. Short-Term Debt, Long-Term Debt and Lease Obligations

As at March 31, 2008 and 2009, short-term debt consisted of the following:

	(Millions of yen)		(Thousands of U.S. dollars)
	As at March 31,		
	2008	2009	2009
Bank loans .....	¥ 86,245	¥ 94,894	\$ 966,038
Commercial paper .....	30,000	25,000	254,505
	¥116,245	¥119,894	\$1,220,543

Short-term bank loans represent notes or overdrafts. The annual interest rates applicable to the short-term bank loans outstanding as at March 31, 2008 and 2009 ranged from 1.10917% to 1.35917% and from 0.87000% to 1.07000%, respectively.

Commercial paper is unsecured and matures generally within three months. The interest rates applicable as at March 31, 2008 and 2009 ranged principally from 0.65092% to 0.67684% and from 0.31800% to 0.54980%, respectively.

Long-term debt as at March 31, 2008 and 2009 is summarized as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	As at March 31,		
	2008	2009	2009
1.15% convertible bonds due 2009 .....	¥ 21,946	¥ 0	\$ 0
0.72% bonds due 2008 .....	30,000	0	0
0.73% bonds due 2010 .....	30,000	30,000	305,406
1.98% bonds due 2016 .....	20,000	20,000	203,604
1.77% bonds due 2014 .....	10,000	10,000	101,801
2.05% bonds due 2017 .....	20,000	20,000	203,604
Other bonds issued by Unionex Co., Ltd. ....	–	1,173	11,940
Loans from banks and insurance companies at interest rates ranging from: 2008 – 0.72% to 6.7% 2009 – 0.60% to 6.7%			
Secured .....	121,064	126,987	1,292,753
Unsecured .....	122,577	170,832	1,739,101
	375,587	378,992	3,858,209
Less current portion .....	81,353	34,367	349,864
	¥294,234	¥344,625	\$3,508,345

The aggregate annual maturities of long-term debt outstanding subsequent to March 31, 2009 are summarized as follows:

Year ending March 31,	(Millions of yen)	(Thousands of U.S. dollars)
2010 .....	¥ 34,367	\$ 349,864
2011 .....	64,591	657,547
2012 .....	31,566	321,352
2013 .....	27,012	274,991
2014 .....	34,837	354,650
2015 and thereafter .....	186,619	1,899,805
	¥378,992	\$3,858,209

The aggregate annual maturities of lease obligations subsequent to March 31, 2009, which are recorded under “Other current liabilities” for current portion and “Other long-term liabilities” for non-current portion, are summarized as follows:

Year ending March 31,	(Millions of yen)	(Thousands of U.S. dollars)
2010 .....	¥ 38	\$ 388
2011 .....	38	388
2012 .....	39	389
2013 .....	37	379
2014 .....	17	173
	¥169	\$1,717

The assets pledged as collateral for long-term debt amounting to ¥121,064 million and ¥126,987 million (\$1,292,753 thousand) as at March 31, 2008 and 2009, respectively, were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	As at March 31,		
	2008	2009	2009
Property and equipment, at net book value			
Railway property .....	¥237,993	¥236,114	\$2,403,682
Other property .....	11,863	11,478	116,850
Others .....	190	4,259	43,363
	¥250,046	¥251,851	\$2,563,895

## 11. Employees' Retirement Benefits

The Company and 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 sheets as at March 31, 2008 and 2009 for the Company's and subsidiaries' defined benefit plans:

	(Millions of yen)		(Thousands of U.S. dollars)
	As at March 31,		
	2008	2009	2009
Retirement benefit obligation .....	¥(61,601)	¥(60,573)	\$(616,646)
Plan assets at fair value .....	57,312	41,725	424,771
Unfunded retirement benefit obligation .....	(4,289)	(18,848)	(191,875)
Unrecognized net retirement benefit obligation at transition .....	2,292	1,963	19,980
Unrecognized actuarial gain or loss .....	(5,044)	13,199	134,373
Unrecognized past service costs .....	(1,170)	(1,028)	(10,462)
Net retirement obligation .....	(8,211)	(4,714)	(47,984)
Prepaid pension cost .....	702	1,566	15,946
Employees' retirement benefits .....	¥ (8,913)	¥ (6,280)	\$ (63,930)

Components of retirement benefit expenses for the years ended March 31, 2008 and 2009 are as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	Year ended March 31,		
	2008	2009	2009
Service cost .....	¥2,335	¥2,343	\$23,846
Interest cost .....	1,236	1,181	12,025
Expected return on plan assets .....	(444)	(386)	(3,927)
Amortization of net retirement obligation at transition .....	327	329	3,348
Amortization of actuarial gain or loss .....	(890)	(180)	(1,835)
Amortization of past service cost .....	(142)	(142)	(1,444)
Total .....	¥2,422	¥3,145	\$32,013

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

	As at March 31,	
	2008	2009
Method of amortization .....	Straight-line method	<b>Straight-line method</b>
Discount rate .....	Mainly 2.0%	<b>Mainly 2.0%</b>
Expected rate of return on plan assets .....	Mainly 1.0%	<b>Mainly 1.0%</b>
Period of recognition of amortization of past service cost.....	Mainly 15 years	<b>Mainly 15 years</b>
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	<b>Mainly 15 years</b>
Period of recognition of net retirement benefit obligation at transition.....	15 years	<b>15 years</b>

## 12. Net Assets

On and after May 1, 2006, Japanese companies are subject to a new corporation law of Japan (the "Law"), which replaced the Japanese Commercial Code (the "Code"). The Law is generally applicable to events and transactions occurring on and after May 1, 2006, and for the fiscal year ending after that date.

Under the Law, companies can pay dividends at any time during the year in addition to the year-end dividend upon resolution at the shareholders' meeting.

The Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve, which is included in retained earnings or additional paid-in capital, which is included capital surplus depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Law, the total amount of additional paid-in capital and legal

reserve may be reversed without limitation. The Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders. The Company's legal reserve amounted to ¥6,666 million (\$67,856 thousand) as at March 31, 2008 and 2009. The Company's additional paid-in capital amounted to ¥13,587 million and ¥17,861 million (\$181,829 thousand) as at March 31, 2008 and 2009, respectively.

The accompanying consolidated financial statements do not include any provision for the year-end dividend of ¥3.0 (\$0.03) per share, aggregating ¥1,655 million (\$16,844 thousand) which was subsequently approved by the shareholders on June 26, 2009 as an appropriation of retained earnings in respect of the year ended March 31, 2009.

## 13. Selling, general and administrative expenses

Selling, general and administrative expenses included in "Cost and expenses of revenue from operations" for the years ended March 31, 2008 and 2009 consisted of the following:

	(Millions of yen)		(Thousands of U.S. dollars)
	Year ended March 31,		
	2008	2009	2009
Personnel expenses .....	¥14,244	<b>¥15,689</b>	<b>\$159,717</b>
Miscellaneous taxes .....	1,678	<b>1,724</b>	<b>17,555</b>
Depreciation .....	2,400	<b>2,985</b>	<b>30,387</b>
Amortization of goodwill .....	543	<b>641</b>	<b>6,522</b>
Other operating expenses .....	10,247	<b>11,743</b>	<b>119,544</b>
Total .....	¥29,112	<b>¥32,782</b>	<b>\$333,725</b>

#### 14. Impairment of property and equipment

In accordance with the accounting standard for impairment of fixed assets, the Group recorded a loss on impairment in connection with the properties for the years ended March 31, 2008 and 2009 as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	Year ended March 31,		
	2008	2009	2009
Buildings and structures .....	¥ 75	<b>¥2,254</b>	<b>\$22,942</b>
Land .....	73	<b>3,384</b>	<b>34,448</b>
Other .....	-	<b>389</b>	<b>3,965</b>
	<b>¥148</b>	<b>¥6,027</b>	<b>\$61,355</b>

The Company and its consolidated subsidiaries periodically review their fixed assets for impairment by grouping the assets in income generating units by business segment for management accounting purpose or by properties or stores whenever there is any indication of a significant decline in the fair value against its book value. Since above assets cannot expect revenues expected initially, the Group writes down the book value to the

recoverable value and records a loss on impairment. In computing the recoverable value of these assets, the recoverable value as at March 31, 2008 is measured at net realizable value based on the appraisal by the independent real estate appraiser and the recoverable value as at March 31, 2009 is measured at the value in use and computed by discounting future cash flows using the discount rate of 4.0%.

#### 15. Income Taxes

Income taxes applicable to the Company and subsidiaries comprise corporation, enterprise and inhabitants' taxes, which, in the aggregate, resulted in statutory tax rate of 40.69% for 2008 and 2009.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2008 and 2009 differ from the statutory tax rates for the following reasons:

	2008	2009
Statutory tax rate .....	40.69%	<b>40.69%</b>
Effect of:		
Expenses permanently not deductible for income tax purposes .....	1.25	<b>3.61</b>
Inhabitant's per capita taxes .....	0.19	<b>0.39</b>
Change in valuation allowance .....	-	<b>10.89</b>
Unrealized profit (loss) not subject to tax effect accounting .....	1.56	<b>0.47</b>
Other, net .....	(0.15)	<b>0.97</b>
Effective tax rate .....	<b>43.54%</b>	<b>57.02%</b>

The significant components of deferred tax assets and liabilities as at March 31, 2008 and 2009 were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	As at March 31,		
	2008	2009	2009
<b>Deferred tax assets:</b>			
Accrued bonuses .....	¥ 542	¥ 544	\$ 5,540
Accrued enterprise tax .....	668	286	2,910
Employees' retirement benefits .....	7,678	6,992	71,178
Tax loss carryforwards of consolidated subsidiaries .....	1,220	3,723	37,905
Depreciation .....	1,068	1,086	11,061
Impairment loss .....	2,847	5,152	52,445
Unrealized gain on intercompany transactions .....	1,035	1,238	12,598
Valuation loss of real estate .....	2,407	185	1,883
Valuation loss of investment in an affiliate .....	3,769	-	-
Other .....	3,034	3,238	32,966
Valuation allowance .....	(6,081)	(8,686)	(88,422)
<b>Total deferred tax assets .....</b>	<b>18,187</b>	<b>13,758</b>	<b>140,064</b>
<b>Deferred tax liabilities:</b>			
Reserves under Special Taxation Measures Law .....	205	205	2,090
Goodwill .....	210	383	3,904
Unrealized holding gains on securities .....	2,914	80	813
<b>Total deferred tax liabilities .....</b>	<b>3,329</b>	<b>668</b>	<b>6,807</b>
<b>Net deferred tax assets .....</b>	<b>¥14,858</b>	<b>¥13,090</b>	<b>\$133,257</b>

## 16. Contingent Liabilities

As at March 31, 2008 and 2009, the Company and subsidiaries were contingently liable as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	As at March 31,		
	2008	2009	2009
<b>Guarantees of indebtedness of:</b>			
Customers .....	¥75	¥579	\$5,889
Others .....	10	10	102
	¥85	¥589	\$5,991

## 17. Leases

As discussed in Note 2.(m), the Group adopted the revised accounting standard for lease transactions effective April 1, 2008.

### a) Finance leases

#### As a lessee:

As permitted by the revised accounting standard, finance leases which commenced prior to April 1, 2008 and do not transfer ownership of the leased assets to the lessee are accounted for as operating lease transactions.

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as at March 31, 2008 and 2009, and the related depreciation and interest expense for the years ended March 31, 2008 and 2009, which would have been reflected in the consolidated balance sheets, and the related statements of income if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases:

	(Millions of yen)		(Thousands of U.S. dollars)
	As at March 31,		
	2008	2009	2009
Acquisition costs:			
Machinery and rolling stock .....	¥ 81	¥140	\$1,428
Other equipment .....	441	432	4,392
	522	572	5,820
Less accumulated depreciation:			
Machinery and rolling stock .....	64	90	920
Other equipment .....	203	225	2,287
	267	315	3,207
Net book value:			
Machinery and rolling stock .....	17	50	508
Other equipment .....	238	207	2,105
	¥255	¥257	\$2,613
			(Thousands of U.S. dollars)
	(Millions of yen)		
	Year ended March 31,		
	2008	2009	2009
Depreciation .....	¥93	¥90	\$921
Interest expense .....	3	3	35

Lease expenses relating to finance lease transactions accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥96 million and ¥94 million (\$955 thousand) for the years ended March 31, 2008 and 2009, respectively.

The future minimum lease payments under finance leases, which do not transfer ownership of the leased assets to the lessee, as at March 31, 2008 and 2009 are as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	As at March 31,		
	2008	2009	2009
Within 1 year .....	¥ 80	¥ 88	\$ 896
Over 1 year .....	177	173	1,757
	¥257	¥261	\$2,653

**As a lessor:**

Investments in lease assets are summarized as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
<b>Current assets:</b>		
Gross lease receivables .....	¥ 275	\$ 2,802
Unearned interest income .....	259	2,636
Investments in lease assets-current .....	16	166
<b>Investments and other assets:</b>		
Gross lease receivables .....	6,495	66,123
Unearned interest income .....	4,272	43,490
Investments in lease assets-non-current .....	¥2,223	\$22,633

Maturities of gross lease receivables related to investments in lease assets subsequent to March 31, 2009 are as follows:

Year ending March 31,	(Millions of yen)	(Thousands of U.S. dollars)
<b>Current assets:</b>		
2010 .....	¥ 275	\$ 2,802
<b>Investments and other assets:</b>		
2011 .....	¥ 276	\$ 2,807
2012 .....	278	2,832
2013 .....	278	2,832
2014 .....	279	2,837
2015 and thereafter .....	5,384	54,815
	¥6,495	\$66,123

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as at March 31, 2008, and the related depreciation and interest revenue for the year ended March 31, 2008, which would have been reflected in the consolidated balance sheets and the related consolidated statements of income if finance lease accounting had been applied to the finance lease transactions which were accounted for as operating leases:

	(Millions of yen)
	As at March 31, 2008
<b>Acquisition costs:</b>	
Buildings and structures .....	¥2,408
Land .....	551
	2,959
<b>Less accumulated depreciation:</b>	
Buildings and structures .....	440
	440
<b>Net book value:</b>	
Buildings and structures .....	1,968
Land .....	551
	¥2,519
	(Millions of yen)
	Year ended March 31, 2008
Depreciation .....	¥ 80
Interest income .....	246

Lease revenues relating to finance lease transactions accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥273 million for the year ended March 31, 2008.

## b) Operating leases

The future lease payments under non-cancellable operating leases as a lessee as at March 31, 2008 and 2009 are as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	As at March 31,		
	2008	2009	2009
Within 1 year .....	¥ 6	¥ 191	\$ 1,950
Over 1 year .....	16	1,032	10,503
	¥22	¥1,223	\$12,453

## 18. 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.

	(Yen)		(U.S. dollars)
	March 31,		
	2008	2009	2009
Net income:			
Basic .....	¥25.55	¥13.54	\$0.138
Diluted .....	24.18	12.97	0.132
Net assets .....	303.11	320.20	3.2597
Cash dividends applicable to the year .....	6.00	6.00	0.061

Above information is computed using the following data:

	(Millions of yen or shares)		(Thousands of U.S. dollars)
	March 31,		
	2008	2009	2009
Basic net income per share:			
Net income .....	¥ 13,409	¥ 7,101	\$ 72,291
Net income attributable to common stock .....	¥ 13,409	¥ 7,101	\$ 72,291
Weighted average number of outstanding shares .....	524,734,874 shares	524,597,131 shares	
Diluted net income per share:			
Adjustments to net income .....	¥ 153	¥ 89	\$ 905
(of which, interest expenses, etc. (net of taxes)) .....	¥ (153)	¥ (89)	\$ (905)
Increase in number of common stock .....	36,245,130 shares	29,782,105 shares	
(of which, convertible bonds) .....	(36,245,130 shares)	(29,782,105 shares)	
(of which, new share subscription rights) .....	(0 share)	(0 share)	
Net assets per share:			
Total net assets per consolidated balance sheets .....	¥157,508	¥177,063	\$1,802,537
Total net assets attributable to common stock .....	¥157,069	¥176,596	\$1,797,785
Components of above difference (Minority interests) .....	¥ 439	¥ 467	\$ 4,752
Outstanding shares of common stock issued .....	537,413,854 shares	551,521,094 shares	
Treasury common stock .....	19,219,452 shares	3,805 shares	
Number of common stock used in computing net assets per share .....	518,194,402 shares	551,517,289 shares	

## 19. Segment Information

Business segment information is summarized as follows:

As at or for the year ended March 31, 2008	Millions of yen							Elimination/ Corporate	Consolidated
	Transportation	Real estate	Leisure services	Retailing	Other	Total			
<b>Revenues:</b>									
Outside customers ...	¥115,978	¥ 35,738	¥ 47,391	¥92,189	¥23,040	¥314,336	¥ -	¥314,336	
Intersegments .....	2,230	6,322	4,227	2,718	40,337	55,834	(55,834)	0	
	118,208	42,060	51,618	94,907	63,377	370,170	(55,834)	314,336	
Cost and expenses .....	100,909	35,531	49,930	93,140	58,860	338,371	(56,188)	282,183	
Operating income .....	¥ 17,299	¥ 6,528	¥ 1,688	¥ 1,767	¥ 4,517	¥ 31,799	¥ 354	¥ 32,153	
Assets .....	¥440,797	¥188,699	¥122,217	¥33,940	¥36,440	¥822,093	¥57,280	¥879,373	
Depreciation .....	¥ 19,684	¥ 3,636	¥ 4,931	¥ 1,406	¥ 656	¥ 30,313	¥ 0	¥ 30,313	
Impairment loss .....	¥ 0	¥ 148	¥ 0	¥ 0	¥ 0	¥ 148	¥ 0	¥ 148	
Capital expenditures ....	¥ 57,926	¥ 7,236	¥ 3,753	¥ 1,048	¥ 380	¥ 70,343	¥ 0	¥ 70,343	
	Millions of yen								
As at or for the year ended March 31, 2009	Transportation	Real estate	Leisure services	Retailing	Other	Total	Elimination/ Corporate	Consolidated	
<b>Revenues:</b>									
Outside customers .....	¥115,976	¥ 29,349	¥ 45,185	¥101,379	¥25,986	¥317,875	¥ -	¥317,875	
Intersegments .....	2,144	6,485	3,828	2,034	42,176	56,667	(56,667)	0	
	118,120	35,834	49,013	103,413	68,162	374,542	(56,667)	317,875	
Cost and expenses .....	100,894	29,872	48,465	102,407	63,825	345,463	(56,966)	288,497	
Operating income .....	¥ 17,226	¥ 5,962	¥ 548	¥ 1,006	¥ 4,337	¥ 29,079	¥ 299	¥ 29,378	
Assets .....	¥477,445	¥199,826	¥110,026	¥ 47,368	¥34,307	¥868,972	¥47,134	¥916,106	
Depreciation .....	¥ 20,228	¥ 4,120	¥ 4,745	¥ 1,586	¥ 616	¥ 31,295	¥ 0	¥ 31,295	
Impairment loss .....	¥ 0	¥ 0	¥ 5,446	¥ 0	¥ 581	¥ 6,027	¥ 0	¥ 6,027	
Capital expenditures .....	¥ 58,800	¥ 5,395	¥ 3,920	¥ 1,246	¥ 465	¥ 69,826	¥ 0	¥ 69,826	
	Thousands of U.S. dollar								
As at or for the year ended March 31, 2009	Transportation	Real estate	Leisure services	Retailing	Other	Total	Elimination/ Corporate	Consolidated	
<b>Revenues:</b>									
Outside customers .....	\$1,180,662	\$ 298,781	\$ 459,992	\$1,032,052	\$264,545	\$3,236,032	\$ -	\$3,236,032	
Intersegments .....	21,822	66,017	38,969	20,709	429,354	576,871	(576,871)	0	
	1,202,484	364,798	498,961	1,052,761	693,899	3,812,903	(576,871)	3,236,032	
Cost and expenses .....	1,027,124	304,101	493,382	1,042,523	649,748	3,516,878	(579,919)	2,936,959	
Operating income .....	\$ 175,360	\$ 60,697	\$ 5,579	\$ 10,238	\$ 44,151	\$ 296,025	\$ 3,048	\$ 299,073	
Assets .....	\$4,860,483	\$2,034,271	\$1,120,090	\$ 482,205	\$349,247	\$8,846,296	\$479,840	\$9,326,136	
Depreciation .....	\$ 205,927	\$ 41,940	\$ 48,305	\$ 16,151	\$ 6,266	\$ 318,589	\$ 0	\$ 318,589	
Impairment loss .....	\$ 0	\$ 0	\$ 55,437	\$ 0	\$ 5,918	\$ 61,355	\$ 0	\$ 61,355	
Capital expenditures .....	\$ 598,593	\$ 54,920	\$ 39,910	\$ 12,688	\$ 4,726	\$ 710,837	\$ 0	\$ 710,837	

Notes:

1. Segmentation method:

Business segments are classified based on Standard Industrial Classifications in Japan to disclose the diversified nature of the Company's business in an appropriate manner.

2. Major business of each business segment:

a. Transportation: Railway, bus, taxi operations and etc.

b. Real estate: Sales and leasing of land and buildings

c. Leisure services: Hotels, leisure facilities, golf course operations, restaurants, aquarium, etc.

d. Retailing: Sales of merchandises at department stores and other stores

e. Other: Construction, maintenance of equipments, repair of transportation equipment, building management and operations of driving schools

3. Assets included in "Elimination/Corporate" amounted to ¥79,705 million and ¥69,844 million (\$711,025 thousand) for the years ended March 31, 2008 and 2009, respectively. Major components of such assets were cash and cash equivalents and investment securities of the Company.

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## 20. Subsequent Events

The Company issued the unsecured bonds on June 15, 2009 as follows:

	30th unsecured bonds (with pari passu covenant with other bonds)	<b>31st unsecured bonds (with pari passu covenant with other bonds)</b>
Due date of payment.....	June 15, 2009	<b>June 15, 2009</b>
Aggregate amount of issuance .....	¥10 billion (\$101,802 million)	<b>¥10 billion (\$101,802 million)</b>
Issue price .....	¥100 (\$1.02) per face value of ¥100	<b>¥100 (\$1.02) per face value of ¥100</b>
Annual interest rate .....	1.37% p.a.	<b>1.96% p.a.</b>
Dated of redemption .....	June 13, 2014	<b>June 14, 2019</b>
Redemption method.....	Lump-sum payment at maturity	<b>Lump-sum payment at maturity</b>
Use of fund.....	Capital investment	<b>Capital investment</b>