

# DIAMOND LEASE COMPANY LIMITED

Annual Report 2004

## *Profile*

Diamond Lease Company Limited was incorporated in 1971 with investment from key companies in the Mitsubishi Group. In 1985 we became listed on the Tokyo Stock Exchange, and we have steadily grown as a general leasing company while pursuing management that is thoroughly consistent with changes in the times. In January 2004 we acquired shares in The Daiwa Factor and Leasing Co., Ltd., a leasing company within the group of Risona Bank, Limited, a major Japanese bank. Through this transaction we made The Daiwa Factor and Leasing Co., Ltd., into a consolidated subsidiary, and with these and other actions we are taking initiative in investing in projects through which we can expect a significant synergy.

In April 2002 we began our three-year medium-term business plan, and have achieved all of numerical targets in the second year of this plan. During this time we have recorded our highest consolidated sales in history and have been able to increase our dividends for five fiscal years in a row. The strong performance represented by these and other figures has had a major impact on the stock market.

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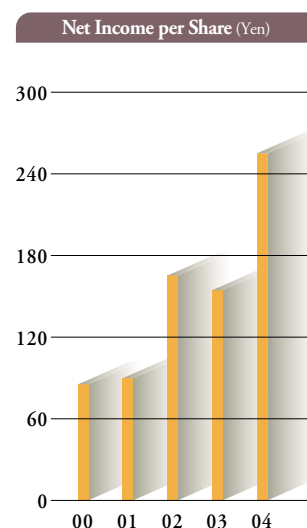
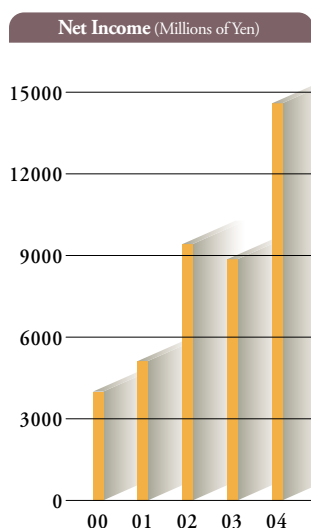
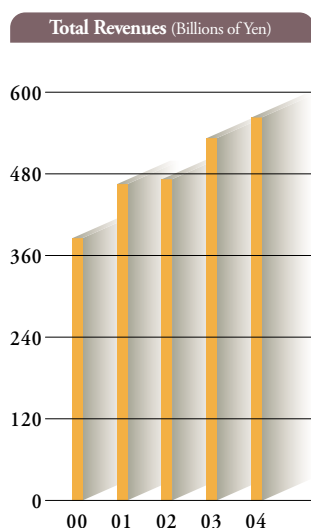
# Financial Highlights

Diamond Lease Company Limited and Consolidated Subsidiaries

Years Ended March 31

|   | Millions of Yen |             |             |             |             | Thousands of U.S. Dollars |
|---|-----------------|-------------|-------------|-------------|-------------|---------------------------|
|   | 2004            | 2003        | 2002        | 2001        | 2000        | 2004                      |
| <b>For the year:</b>  |                 |             |             |             |             |                           |
| Total revenues .....  | ¥ 562,805       | ¥ 532,484   | ¥ 472,052   | ¥ 464,980   | ¥ 385,481   | \$ 5,309,481              |
| Lease .....   | 380,394         | 379,870     | 339,137     | 312,490     | 271,100     | 3,588,623                 |
| Installment sales .....   | 164,436         | 136,557     | 115,200     | 131,212     | 97,641      | 1,551,283                 |
| Loans .....   | 10,151          | 9,627       | 11,300      | 12,121      | 8,103       | 95,764                    |
| Other .....   | 7,824           | 6,430       | 6,385       | 9,157       | 8,637       | 73,811                    |
| Net income .....  | 14,592          | 8,862       | 9,420       | 5,121       | 3,998       | 137,660                   |
| <b>At year-end:</b>   |                 |             |             |             |             |                           |
| Total assets .....  | ¥ 1,738,263     | ¥ 1,613,234 | ¥ 1,542,576 | ¥ 1,404,685 | ¥ 1,350,289 | \$ 16,398,708             |
| Shareholders' equity .....  | 89,070          | 70,214      | 64,091      | 55,012      | 53,119      | 840,283                   |
| Number of shares of common stock<br>outstanding (thousands) ..... | 56,959          | 56,962      | 56,971      | 56,979      | 56,979      |                           |
| <b>Per share of common stock:</b>                                 |                 |             |             |             |             |                           |
| Basic net income .....  | ¥ 255.12        | ¥ 154.52    | ¥ 164.27    | ¥ 89.87     | ¥ 85.32     | \$ 2.41                   |
| Cash dividends applicable to the year .....                       | 22.00           | 18.00       | 15.00       | 12.00       | 10.00       | 0.21                      |

Note: The U.S. dollar amounts represent translation of Japanese yen, for convenience only, at the rate of ¥106 = U.S.\$1.00 prevailing on March 31, 2004.



## *To Our Shareholders and Friends*

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### **Economic Environment**

Japan's economy during fiscal 2003 (April 1, 2003 through March 31, 2004) offered some grounds for optimism, as corporate performances recovered and the stock market improved. Many companies and some industrial sectors were able to experience a recovery even during difficult times, through taking steps such as employment adjustments and achieving structural reform. The manufacturing sector showed strong results in electronics and automobiles, with electronics enjoying growth in sales of digital cameras, DVD recorders, flat screen TVs, which are the three main hit new products, while the automotive sector had strong sales in personal cars. As a result real GDP grew 3.2% in fiscal 2003, and the year ended with bright prospects for an economic recovery.

Private capital expenditure, which has a significant impact on the leasing industry, also showed a steady recovery, particularly in the manufacturing industry. Although total leasing contracts on the part of members of the Japan Leasing Association in fiscal 2003 remained fairly stagnant, and only increased by 0.05% over the previous year to ¥7,377.8 billion (US\$69,602 million), the industry anticipates that strong growth will occur in the near future.

### **Consolidated Performance**

Under these circumstances, during the second year of our three-year medium-term business plan we devoted our company to accelerating various programs that had been assigned to each division such as sales and management, based on the steps taken in the initial year of that plan. As a result we were able to achieve all four categories of our quantitative goals in the second year of this business plan, or one year earlier than expected, thereby recording a strong performance.

At Diamond Lease we have traditionally taken initiative in making strategic alliances and investments, and in January 2004 we acquired 95% of the shares of The Daiwa Factor and Leasing Co., Ltd., making it a consolidated subsidiary of our company. At the same time we changed the name of this corporation to DFL Lease Co. Ltd. and sent officers from our company to serve at this subsidiary.

As a result of the above we and our consolidated subsidiaries were able to achieve the results set forth below. Our volume of new contracts on a principal base increased by ¥55.2 billion (US\$521 million) to ¥634.7 billion (US\$5,988 million), which is the highest total since the establishment of our company. As a result of continuing to steadily add leasing assets, we

On May 21, 2004, President Yasuyuki Hirai was installed as the chairman of the Japan Leasing Association. In his new position as chairman of an industrial association comprising approximately 300 corporate members, Mr. Hirai will fully utilize his capabilities in building the leasing industry, in addition to devoting himself to the management of Diamond Lease.

achieved the top rank in amount of assets within the industry in the leased assets balance of a company that engages exclusively in the leasing business. Total revenues increased by ¥30.3 billion (US\$286 million) over the previous fiscal year to ¥562.8 billion (US\$5,309 million), and operating income increased by ¥8.5 billion (US\$79 million) to ¥25.0 billion (US\$236 million). In net income as well we achieved our highest total ever, in the amount of ¥14.6 billion (US\$138 million). As a result we were able to increase our dividend payments for the fifth fiscal year in a row.

#### Prospects for the Fiscal Year Ending in March 2005

While there are prospects for solid increases in private capital expenditure within the Japanese economy, it appears that time will be required for a true recovery in personal consumption, and consequently we continue to be in a situation that does not allow us to relax.

In this environment, we will implement all of our programs without fail within every division during fiscal 2004 which is the final year of our medium-term business plan. The upcoming year will also be the tie-in year into our next medium-term business plan, and during this year as well we will take even more initiative in our management activities as we endeavor to live up to the expectations of all of our stakeholders including our shareholders and business associates.

Finally, we would like to personally thank all of our shareholders, clients and other business partners for all of their support in the past and we look forward to achieving even better results in the years ahead.



Chairman Yoji Onoe (seated) and President Yasuyuki Hirai

Yoji Onoe  
*Chairman*

Yasuyuki Hirai  
*President*

## *Enhancing Nationwide Opportunities*

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A leasing company in the Mitsubishi Group—Making full use of this position, Diamond Lease works to increase the volume of the information that it has, and to enlarge its sales volume by exploiting the channels of its major shareholders including The Bank of Tokyo-Mitsubishi, Ltd. (BTM), Mitsubishi Corporation, and The Mitsubishi Trust and Banking Corporation.

### **Comprehensive Support from the Mitsubishi Group**

As we were incorporated as the core leasing company of the Mitsubishi Group, we are building our business by making full use of the information networks of these three major corporate shareholders. Specific recent activities include a collaboration with BTM in factoring and a business alliance in the medical field. In the factoring business we proposed that we carry out factoring in the form of support for BTM which has led to considerable results. Within the medical field, we have developed a cooperative arrangement with BTM in which financing is provided to physicians starting new practices, in the form of a package of loans from BTM and leasing from our company. Using these powerful channels to secure efficient and attractive projects is one of the strengths of our company. It has also contributed to our ability to obtain



The main entrance of the New Tokyo building, our head office

financing, with the strong reputation of the group making us highly competitive in procuring direct financing from markets.

### **Fully Developed Domestic Sales Network**

At Diamond Lease we have marketing presences in major cities throughout Japan. Since establishing the Osaka Branch in 1972, we have steadily expanded our networks of branches to cover the entire country. The leasing business in Japan requires a thorough network of sales presences since small and medium sized enterprises account for the vast majority of contracts, even though the contract balance for large companies is greater in monetary terms.

Our marketing division in our head office also has various subdivisions that have specialized and sophisticated expertise. This division works with branches in each area to accommodate the diversifying needs of our customers. Each of our branches conducts marketing activities by seeking out and discovering information, and then working in close cooperation with specialists in the head office and persons responsible at the area level, in connection with projects that require a high degree of expertise in financing or in properties. The staff at the international division of our head office also provides support for clients who wish to expand overseas, through activities such as explaining the complicated tax systems of other countries based on the wealth of experience that this division has accumulated.

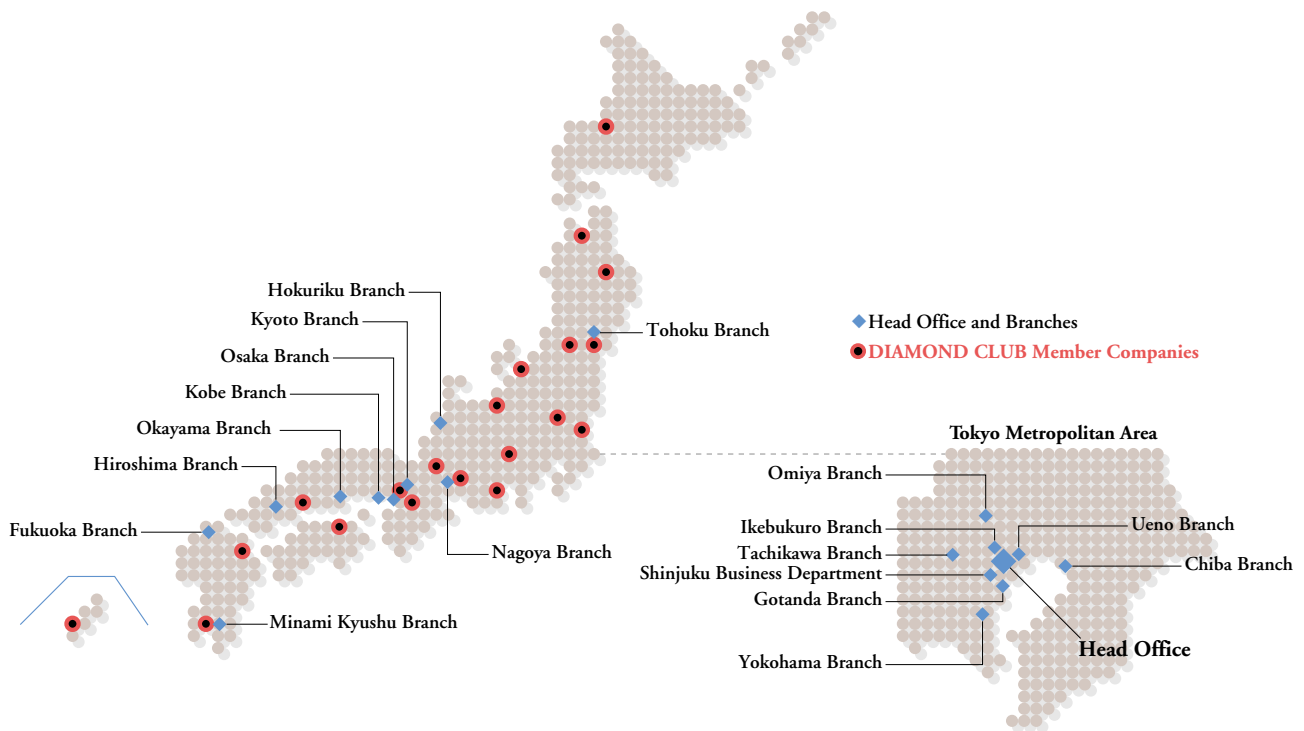
### Organization of the DIAMOND CLUB with Lease Companies Affiliated with Regional Banks

Diamond Lease has organized the DIAMOND CLUB with 20 leasing companies affiliated with prominent regional banks in areas throughout Japan. In addition to holding a minority share in each of these leasing companies, we communicate closely with these companies concerning trends in their clients and in the industry, and also facilitate frequent interaction among the personnel of our company and these other leasing companies. Our information exchanges include communication over an advanced and dedicated web, as well as even greater initiatives in exchanging information with respect to areas such as cooperative sales activities for particular projects.

At Diamond Lease we have begun providing a highly advanced computer system to each of the com-



panies in the DIAMOND CLUB by use of an application service provider (ASP) over the Internet. In addition we also provide products other than finance leases, and are pursuing business alliances, while supporting each other's activities, including cooperative proposals to customers seeking services that a company in the DIAMOND CLUB cannot provide alone, such as operating leases, real estate leases or factoring of sales receivables. Moreover, many of the companies in the DIAMOND CLUB contract maintenance and repair of the vehicles they lease to our consolidated subsidiary Diamond Auto Lease Co., Ltd. (DAL).





## *Expanding Worldwide Network*

In our international activities as well, we make full use of the information networks that each of our major subsidiaries have in regions throughout the world. By combining the organizational capabilities of the Mitsubishi Group with our own financial technology, we carry out marketing activities in order to acquire superior assets.

Note: Please see page 36 for a list of our offices and presences in locations throughout the world.

### *Diamond Lease Opens a Representative Office in Shanghai*



CHINA



#### **Shanghai**

In April 2003 we opened our Shanghai Representative Office in Shanghai, China, a country that is experiencing astounding economic growth. From October of last year we have had staff resident in this office full time. While at the present time business transactions with Japanese companies entering China are handled by our Hong Kong subsidiary Diamond Lease (Hong Kong) Limited in the form of cross border leasing schemes, we have established the representative office for the purpose of gathering and providing information since it is likely that there will be considerable

growth in interest on the part of Japanese affiliated companies in making capital expenditures, given the steady economic growth that is occurring in China. This office will pursue even further business activities towards China, through a team effort involving both the marketing divisions of our domestic head office as well as our Hong Kong subsidiary.

#### **Hong Kong**

Diamond Lease (Hong Kong) Limited (DLHK) was incorporated in April 1973, and since then this company has engaged in leasing and financing activities to accommodate the wide-ranging demands of companies in Hong Kong, which at the time was a free trade port. Moreover, since the return of Hong Kong to China in July 1997, this company has taken initiative in meeting the leasing and financing needs on the part of Japanese affiliated companies that are setting up presences in other parts of China.

In June 2003 DLHK formed a consortium of three companies including two Japanese companies, and incorporated a special purpose company (SPC) in Hong Kong. This SPC has launched a business of providing support for internal generator systems to Japanese affiliated companies, in order to address the problem of insufficient power in China, and for this purpose DLHK is also involved in the business in areas that include standing between the SPC and the customer and preparing lease agreements, as well as collecting fees.





## SINGAPORE

Diamond Lease (Singapore) Pte. Ltd. (DLS) was incorporated in September 2000, and has been staffed since September 2002, thereby enabling our company to increase our transactions with Japanese affiliated corporations in Southeast Asia. DLS is involved many areas of finance including leasing for the Singapore domestic market, installment sales, factoring and shipping. This company also takes initiative in marketing activities as a sales presence for cross-border transactions for Japanese affiliates in Thailand and the Philippines.



## INDONESIA

P.T. Diamond Lease Indonesia (DLI) was incorporated in March 1995. Since then it has been engaged in marketing activities concentrating on leasing to Japanese affiliates who have established a presence in Indonesia. The company accommodates a broad variety of needs on the part of its customers, with industrial equipment and commercial vehicles constituting the main properties that it handles.



## USA

Diamond Lease (U.S.A.), Inc. was incorporated in November 1985, and is mainly engaged in equipment leasing for Japanese affiliated corporations and other companies within the American market. The company has its head office in New York and also has sales staff located in Los Angeles and other major cities throughout the United States, from which it engages in activities that emphasize transactions in properties with a high resale value.



## IRELAND

Diamond Airfinance (Ireland) Limited was incorporated in May 1995, and mainly handles aircraft financing. There are few restrictions on its economic activities as the company is located within the EU, which makes it very convenient for business activities on the European continent. This company not only provides aircraft financing services but also anticipates financing opportunities for ocean vessels, semiconductor equipment and general manufacturing equipment to Japanese affiliates and foreign capitalized companies who are active on the European mainland.



# Comprehensive Financial Services

**Leases** Finance leases constitute the main area of leases that we handle, but in recent years we have devoted resources to operating leases as well as vendor leases in order to accommodate the diversified needs of our customers. Vendor leases have shown growth in sales under the brand *Partner Lease*, and from November 2003 we began a service which utilizes the electronic identification system of The Bank of Tokyo-Mitsubishi Ltd. (BTM). Moreover, auto-leases that are handled by our subsidiary Diamond Auto Lease Co., Ltd. (DAL) also recorded an increase in the number of contracts that are covered under maintenance leases.



**Installment Sales** For customers wishing to acquire title to an asset after paying the installment price, we also offer installment sales financing. In recent years we have handled industrial equipment, and particularly equipment from manufacturing semiconductors.

**Loans** We provide loans for capital expenditure and working capital to our corporate clients, and have also made a full-scale entry into the factoring business, which has attracted attention as a means to provide short-term operating capital to businesses. In order to implement our factoring business we have installed a dedicated computer system, and we are emphasizing our *Sale & Installment Back* transactions as a vehicle to factor the assets. Under these transactions we purchase assets owned by the customer and lease the assets back to the customer or sell them back through installment sales.

**Rentals** Our rental operations are primarily conducted by our subsidiary Diamond Rental System Co., Ltd. (DRS), and consist mainly of *PC Rental* which rents computers and peripherals, and rentals of office equipment and machinery. *PC Rental* was developed as a new product that sets a residual value after the expiration of the lease, and we began handling this product in fiscal 2003. Since the rental fee is set on the amount after deducting the residual value, we are able to offer a rental service at a low cost.

**Structured Finance** We have taken initiative in private finance initiatives (PFIs) through which local governments seek to exploit the efficiencies offered by the private sector in public projects. During fiscal 2003 we were able to obtain three contracts, and all of these were achieved through forming a consortium as the lead manager. By becoming the lead manager we were able to accumulate expertise in various areas from which we expect to achieve significant growth in the future.

**Investment Finance** In addition to providing financing mainly through leasing, we also offer products such securitization of leasing assets and leveraged leases, to meet the investment needs of our clients. This has expanded our customer base and has created a synergy with our leasing centered business.

**International Business** Diamond Lease is building its business on a global scale, together with its subsidiaries in the US and Asia. We offer leasing and financial services to overseas affiliates of Japanese companies, as well as companies in good-standing from the local areas. In October 2003 we opened a representative office in Shanghai as part of our effort to build a presence in China, which is experiencing rapid economic growth.

## Review of Operations



1. Project to build multipurpose facility for the Oike Junior High School in Kyoto



2. Project to improve the Katsura Campus of Kyoto University



3. Project to build new multipurpose welfare center in Okayama prefecture

### Private Finance Initiatives (PFIs)

We are increasing our business activities in PFIs, which are public sector projects that use investment from the private sector. During fiscal 2003 we formed a consortium with our company serving as the lead manager, and were able to win bids on three projects. Our company has been able to acquire a certain level of expertise in connection with consortiums that package a project in the form of a team made up of companies that include major construction companies, as well as property management and maintenance companies, and we have been able to obtain a cumulative total of four project orders. At the present time we are involved in the study process for bidding on around 10 projects, and we are working to invigorate our promotional activities towards getting project orders, as we consider this to be a market that offers prospects of future growth.

Since three out of the four orders that we have obtained have been through a consortium that we formed as the lead manager, we have been able to acquire a broad range of expertise in areas such as preparing proposals for PFIs and in packaging the membership of the consortium. Moreover, since we are a member of the consortium for the PFI, in principle financing from our company will be used at the time of implementation of the project.

The following are the three projects that we won in fiscal 2003, in the order of the most recent to the oldest. Please see the perspective view drawings for an overview of how the projects will look when finished.

1. A multipurpose facility for the Oike Junior High School in Kyoto. Order won in April 2004, total project cost of approximately ¥6.0 billion (US\$57 million).
2. Project to improve the Katsura Campus of Kyoto University. Order won in July 2003, total project

cost of approximately ¥10.9 billion (US\$103 million).

3. Project to build new multipurpose welfare center in Okayama prefecture. Order won in April 2003, total project cost of ¥5.4 billion (US\$51 million).

### Strategic Forward Looking Investments

At Diamond Lease we are taking initiative in connection with investment projects and business alliances that offer prospects of significant synergies in the future. These include our merger with Ryoshin Leasing Corporation in 1999; and our acquisition of shares in superior companies such as The Casio Lease Co., Ltd., in 2000, Hirogin Lease Co. Ltd., and Meijiseimei Leasing Co., Ltd., in 2002, as well as Mitsubishi Electric Credit Co., Ltd., in 2003. Through these and other efforts we have increased our size and have made investments that seek business synergies.

As part of these steps, in January 2004 we acquired 95% of the shares issued and outstanding of The Daiwa Factor and Leasing Co., Ltd., from Risona Bank, Limited, which is a major Japanese bank. At the same time we changed the name of this



corporation to DFL Lease Co. Ltd., and made it into a consolidated subsidiary of our company. This company is engaged in marketing activities with a main base of operation in the Kansai region of Japan, and has the following major financial indicators: total leases and installment receivables of approximately ¥70.0 billion (US\$660 million), and total revenues of approximately ¥30.0 billion (US\$283 million). After the present purchase of shares we have provided low interest loans as well as infrastructure support in areas such as computer systems and product lineup, and we have also sent staff to this company. Through these and other steps we are working to expand their base of operations, and at the same time to increase our share of the market in the Kansai area.

The leasing industry in Japan continues to be fiercely competitive and is currently experiencing an accelerated trend of restructuring. In this environment we are pursuing strategic investments and devoting resources to areas such as diversifying our sources of revenue and fostering our human resources. Over the years there has been a gradual reduction in lease properties offering high returns, and competition between companies continues to be severe. While the industry has approximately 300 companies, there is a growing polarization between those companies that are improving their performance and those companies whose performance is declining. Within this environment our recent share purchase provides us with an opportunity to increase our share in the Kansai region, as we will be able to make use of the customer base of the Risona Bank group, which has a powerful marketing network within this region. All results of DFL Lease Co. Ltd. will be included in our March 2005 settlement, enabling us to increase our market share beyond the five percent share that we currently have.



### Web Services

From November 2003 we have offered digital agreements to our corporate clients by using the BTM electronic identification service over our **e-Leasing** Direct system that we have provided for some time. The **e-Leasing** Direct system is a web-based service that automatically prepares documents such as quotations and agreements for leases. Traditionally in Japan almost all commercial transactions have been required to have an agreement prepared in paper form, but with the implementation of the Law on Electronic Signatures



and Certification Services in April 2001, legal commercial transactions have become possible over the Web by issuing an electronic certification received from a certification service, and it is also possible to evidence and confirm that the offering company is indeed the company making the offer.

In the **e-Leasing** Direct service offered by our company, we use BTM to confirm the client

companies, and to issue the required digital certificate after making an electronic contract. The electronic certificate constitutes a personal identification document over the Internet, which is stored in an IC card and delivered to the applying company. This is a secure and very convenient electronic identification service which is supported by the superior reputation of BTM, and enables completion of the administrative procedures for executing a contract, in approximately 10 minutes from the time of a quotation request through execution. At the same time it allows for digitization of internal memoranda on the part of applying companies, which assists them in streamlining their document processing. We are the first company in the leasing company to offer a service which combines procedures for electronic contracts for lease transactions with systemization of electronic memoranda on the part of the client company.

### Supporting the Shift Towards Use of Information Technology on the Part of Small and Medium Sized Enterprises (SMEs)

From March 2004 we have been offering *IT Promotion Finance*, in cooperation with Microsoft Co., Ltd., as a financial service tailored for information technology investment on the part of SMEs. In many cases financial constraints have forced companies of this size to forego investment computer systems that they have planned to introduce, and in order to address this need we have developed a service in cooperation with Microsoft that offers an easy to use package of financing vehicles such as leasing, installment sales and loans to a maximum of ¥5 million (US\$47 thousand) for the cost of purchasing computer systems including both software and hardware.

## *Financial Information*

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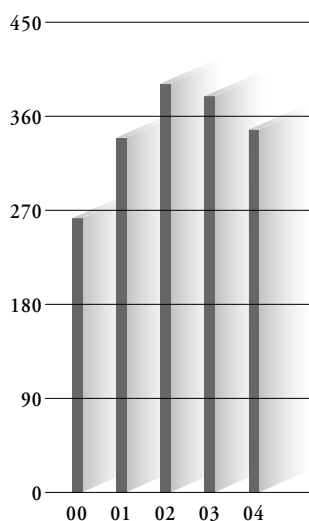
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## Financial Review

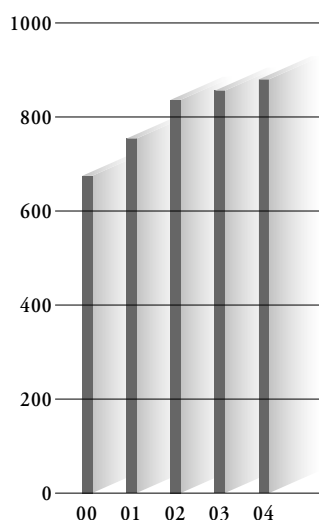
### New Lease Contracts

(Billions of Yen)



### Net Leased Assets

(Billions of Yen)



### Business Operations and Results

During fiscal 2003 (April 1, 2003 through March 31, 2004) the Japanese economy experienced a solid recovery in private capital expenditure, which had a major impact on the leasing industry although it was not enough to drive the economy as a whole. Total lease contracts on the part of all companies within the Japan Leasing Association amounted to ¥7,377.8 billion (US\$69,602 million) in fiscal 2003, representing a year-on-year increase of 0.05%. As part of this environment, our company has enhanced our alliances with our main shareholders and vendors, which was a core pillar of our medium-term business plan, and have placed even more emphasis on building low cost operations through improving our infrastructure in various areas including our channel strategies and computer system.

In January 2004 we acquired 95% of the shares in Daiwa Factor and Leasing Co., Ltd., from Risona Bank, Limited, which is a major Japanese bank. At the same time we changed the name of this corporation to DFL Lease Co. Ltd., and made it into a consolidated subsidiary of our company. While for fiscal 2003 the results of our new consolidated subsidiary DFL Lease Co. Ltd. are only reflected in our company through a totaling of the balance sheets, from fiscal 2004 all results of this subsidiary will be consolidated into our settlement.

In our marketing activities as well we have emphasized having diversified products to accommodate a broad range of financing needs, and as a result we achieved a 9.5% year-on-year increase in our volume of new contracts on a principal basis to ¥634.7 billion (US\$5,988 million), which is the highest total we have ever achieved. By segment, leases declined 8.4% to ¥347.2 billion (US\$3,275 million), while installment sales increased 7.3% to ¥116.9 billion (US\$1,103 million). We have also devoted further resources towards structured finance including private finance initiatives and factoring, and through these efforts our loan and other businesses recorded a major increase of 86.8% to ¥170.5 billion (US\$1,608 million).

### Revenues and Earnings

As a result of the above, our consolidated results for fiscal 2003 were as follows:

On a revenue basis, total revenues for our four segments increased by ¥30.3 billion (US\$286 million) or 5.7% year-on-year, to ¥562.8 billion (US\$5,309 million). The details include ¥380.4 billion (US\$3,589 million) in our leasing business, up ¥0.5 billion (US\$5 million) or 0.1%; installment sales of ¥164.4 billion (US\$1,551 million), up ¥27.9 billion (US\$263 million) or 20.4%; loan business of ¥10.2 billion (US\$96 million), up ¥0.5 billion (US\$5 million) or 5.4%; and other business of ¥7.8 billion (US\$74 million), an increase of ¥1.4 billion (US\$13 million) or 21.7%.

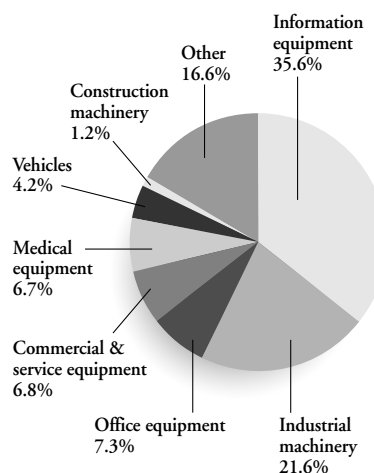
Total costs increased by ¥27.6 billion (US\$260 million) or 5.6% year-on-year, to ¥517.7 billion (US\$4,884 million). Gross profit increase ¥2.7 billion (US\$25 million) or 6.3% to ¥45.1 billion (US\$426 million). Operating income increased ¥8.5 billion (US\$80 million) or 51.2% to ¥25.0 billion (US\$236 million) as we benefited from a substantial decline in selling, general and administrative expenses mainly in the area of costs associated with the reserve for doubtful accounts. Extraordinary income for the period included ¥0.7 billion (US\$7 million) in capital gains on sale of investment securities, as well as ¥1.8 billion (US\$17 million) in recoveries of write-offs. The gains from these recoveries included a collection of ¥1.3 billion (US\$12 million) in receivables against Air Canada which had been added to the reserve for doubtful accounts in the fiscal 2002 settlement. As a result net income increased ¥5.7 billion (US\$54 million) or 64.6% year-on-year, to ¥14.6 billion (US\$138 million) which is the largest profit we have ever earned. Our return on equity also amounted to 18.3%, achieving the target for our medium-term business plan. Earnings per share increased ¥100.6, to ¥255.12 (US\$2.41).

For dividends in fiscal 2003 we paid an interim dividend of ¥10 and a year end dividend of ¥12 or ¥2 more than the previous year, thereby achieving an annual dividend of ¥22 (US21 cent) per year representing a dividend increase for the fifth year in a row.

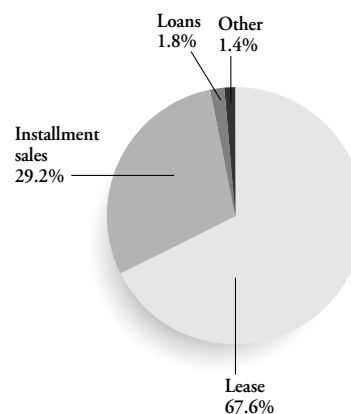
### Financial Position

As of the end of March 2004 operating assets were as follows:  
Net leased assets amounted to ¥880.1 billion (US\$8,302

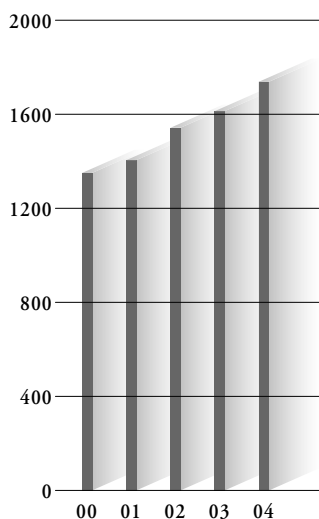
**New Lease Contracts by Product Category (%)**  
2004 (FY2003)



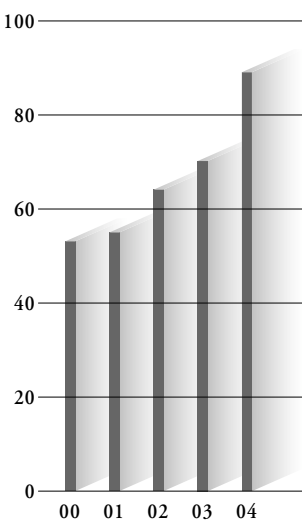
**Total Revenues Composition (%)**  
2004 (FY2003)



### Total Assets (Billions of Yen)



### Shareholders' Equity (Billions of Yen)



million), an increase of ¥24.3 billion (US\$229 million) or 2.8% over the previous year. Installment sales receivables (net of deferred installment credit profit) amounted to ¥303.0 billion (US\$2,858 million), an increase of ¥38.4 billion (US\$361 million) or 14.5%. Outstanding loans amounted to ¥335.0 billion (US\$3,161 million) an increase of ¥62.2 billion (US\$587 million) or 22.8%; while securities holdings classified as operating assets (operating securities) amounted to ¥27.2 billion (US\$257 million), down ¥7.2 billion (US\$68 million) or 20.9%. Consequently with these results, and with the addition of the operating assets of DFL Lease Co. Ltd. (formerly The Daiwa Factor and Leasing Co., Ltd.), total operating assets amounted to ¥1,545.2 billion (US\$14,577 million), up ¥117.6 billion (US\$1,109 million) or 8.2%.

As in the previous year, current assets experienced an increase in installment receivables and loan receivables as a result of solid performance in installment sales and the factoring business. And again as in the previous year, fixed assets mainly increased because of the increase in leased assets. Consequently total assets grew by ¥125.0 billion (US\$1,179 million) or 7.7% to ¥1,738.3 billion (US\$16,399 million). Shareholders' equity as of March 31, 2004 increased by ¥18.9 billion (US\$178 million) year-on-year to ¥89.1 billion (US\$840 million), with a booking of ¥5.8 billion (US\$55 million) in net unrealized gain on available-for-sale securities resulting from a recovery in the stock market. The capital adequacy ratio was 5.1%, thereby achieving our target value for the medium-term business plan. Equity per share amounted to ¥1,562.70 (US\$14.74).

### Funding

Our balance of interest-bearing debt on a consolidated basis increased by ¥89.5 billion (US\$844 million) against the previous year. This included a combined total of ¥42.7 billion (US\$403 million) from both our assumption of the debts of DLM Co., Ltd. (formerly Meijiseimei Leasing Co., Ltd.) as well as from the increase in the interest bearing debt as a result of the consolidated settlement of DFL Lease Co. Ltd. We have procured most of the funds required in association with the increase in operating assets by issuing bonds and commercial paper on terms that are

advantageous to our company. With the improvement in the environment for bond market, we made our first public offering of bonds in three years in the amount of ¥40.0 billion (US\$377 million) so that our balance as of the fiscal year end increased by ¥36.1 billion (US\$341 million), to ¥178.4 billion (US\$1,683 million), while commercial paper showed an increase of ¥19.7 billion (US\$186 million) to ¥487.3 billion (US\$4,597 million). As a result our percentage of direct financing from capital markets increased by 1.3% year-on-year, to 55.7%.

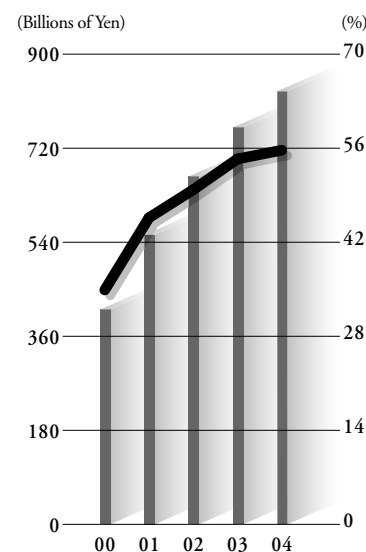
### Cash Flow

Operating activities generated a net cash outflow of ¥50.4 billion (US\$475 million) representing a decline of ¥3.1 billion (US\$29 million) or 5.8% against the previous year. This total is the sum of a cash outflow of ¥299.9 billion (US\$2,829 million) to purchase lease assets, and ¥123.9 billion (US\$1,169 million) associated with the increase in trade receivables; and cash inflow of income before income taxes and minority interests of ¥27.2 billion (US\$256 million), as well as depreciation and amortization of leased assets and scrapping costs of ¥323.1 billion (US\$3,048 million).

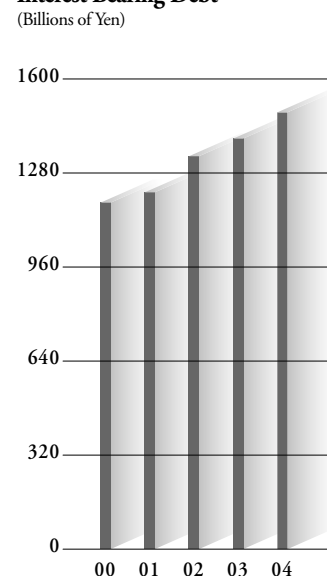
Cash flow from investment activities resulted in a net cash outflow of ¥15.0 billion (US\$141 million) for overall investments, representing a year-on-year decline of ¥1.3 billion (US\$12 million) or 9.5%. This total is a result of expenditures including those associated with purchases of assets for corporate use.

Our overall financial activities generated a total cash inflow of ¥63.4 billion (US\$598 million), representing a decline of ¥1.1 billion (US\$10 million) or 1.7% against the previous year. This total is the sum of a cash inflow of ¥61.1 billion (US\$576 million) from direct borrowing as a result of our greater emphasis on direct borrowing, and ¥3.4 billion (US\$32 million) in cash inflow from our indirect borrowings. As a result of the above, cash and cash equivalents stood at ¥4.4 billion (US\$41 million) at fiscal year end, down ¥2.2 billion (US\$21 million) or 33.4% from the previous year.

**Funding from Capital Markets** (Left Scale)  
**and Direct Funding Ratio** (Right Scale)



**Interest Bearing Debt**



## Consolidated Balance Sheets

Diamond Lease Company Limited and Consolidated Subsidiaries

March 31, 2004 and 2003

|  | Millions of Yen    |                    | Thousands of<br>U.S. Dollars (Note 1) |
|--|--------------------|--------------------|---------------------------------------|
|  | 2004               | 2003               | 2004                                  |
| <b>Assets</b>  |                    |                    |                                       |
| <b>Current assets:</b>   |                    |                    |                                       |
| Cash and cash equivalents .....  | ¥ 4,368            | ¥ 6,556            | \$ 41,207                             |
| Time deposits other than cash equivalents (Note 5) .....                     | 104                | 108                | 981                                   |
| Marketable securities (Note 3) .....   | 2,680              | 6,355              | 25,283                                |
| Receivables — trade (Note 11) :  |                    |                    |                                       |
| Lease .....  | 26,527             | 26,804             | 250,255                               |
| Installment sales .....  | 336,287            | 291,687            | 3,172,519                             |
| Loans .....  | 335,048            | 272,770            | 3,160,830                             |
| Allowance for doubtful receivables .....                                     | (4,736)            | (4,123)            | (44,679)                              |
| Deferred tax assets (Note 12) .....  | 1,760              | 1,205              | 16,604                                |
| Prepaid expenses and other .....   | 14,344             | 18,519             | 135,321                               |
| Total current assets .....   | 716,382            | 619,881            | 6,758,321                             |
| <b>Leased assets — At cost (Note 4) .....</b>                                | <b>2,241,729</b>   | <b>2,095,699</b>   | <b>21,148,387</b>                     |
| Accumulated depreciation .....   | (1,361,673)        | (1,239,893)        | (12,845,972)                          |
| Net leased assets .....  | 880,056            | 855,806            | 8,302,415                             |
| Advances for purchases at leased assets .....                                | 653                | 2,950              | 6,161                                 |
| Total leased assets .....  | 880,709            | 858,756            | 8,308,576                             |
| <b>Investments:</b>  |                    |                    |                                       |
| Investment securities (Note 3) .....   | 46,665             | 41,232             | 440,236                               |
| Investments in unconsolidated subsidiaries and<br>associated companies ..... | 13,657             | 13,315             | 128,840                               |
| Investments in equity other than capital stock .....                         | 31,401             | 19,794             | 296,236                               |
| Goodwill .....   | 4,784              | 5,086              | 45,132                                |
| Long-term receivables .....  | 8,569              | 15,652             | 80,839                                |
| Deferred tax assets (Note 12) .....  | 5,896              | 11,450             | 55,623                                |
| Other .....  | 24,759             | 23,656             | 233,575                               |
| Allowance for doubtful receivables .....                                     | (3,381)            | (4,037)            | (31,896)                              |
| Total investments .....  | 132,350            | 126,148            | 1,248,585                             |
| <b>Property and equipment — At cost .....</b>                                | <b>12,115</b>      | <b>11,520</b>      | <b>114,292</b>                        |
| Accumulated depreciation .....   | (3,293)            | (3,071)            | (31,066)                              |
| Net property and equipment .....   | 8,822              | 8,449              | 83,226                                |
| <b>Total .....</b>   | <b>¥ 1,738,263</b> | <b>¥ 1,613,234</b> | <b>\$ 16,398,708</b>                  |

See notes to consolidated financial statements.

|  | Millions of Yen    |                    | Thousands of<br>U.S. Dollars (Note 1) |
|--|--------------------|--------------------|---------------------------------------|
|  | 2004               | 2003               | 2004                                  |
| <b>Liabilities and shareholders' equity</b>                        |                    |                    |                                       |
| <b>Current liabilities:</b>  |                    |                    |                                       |
| Short-term borrowings (Notes 6 and 11) .....                       | ¥ 834,535          | ¥ 805,241          | \$ 7,872,972                          |
| Current maturities of long-term debt (Notes 5, 6 and 11) .....     | 278,856            | 215,123            | 2,630,717                             |
| Payables — trade:  |                    |                    |                                       |
| Notes .....  | 14,879             | 15,014             | 140,368                               |
| Accounts .....   | 61,540             | 49,749             | 580,566                               |
| Accrued expenses .....   | 7,792              | 7,989              | 73,509                                |
| Income taxes payable .....   | 5,688              | 4,008              | 53,660                                |
| Deposits from customers .....                                      | 5,119              | 5,086              | 48,293                                |
| Deferred profit on installment sales .....                         | 33,327             | 27,105             | 314,406                               |
| Other (Note 11) .....  | 10,935             | 10,875             | 103,160                               |
| Total current liabilities .....                                    | <u>1,252,671</u>   | <u>1,140,190</u>   | <u>11,817,651</u>                     |
| <b>Long-term liabilities:</b>                                      |                    |                    |                                       |
| Long-term debt, less current maturities (Notes 5, 6 and 11) .....  | 372,918            | 376,473            | 3,518,094                             |
| Liability for retirement benefits (Note 7) .....                   | 709                | 689                | 6,689                                 |
| Deferred tax liabilities (Note 12) .....                           | 825                | 841                | 7,783                                 |
| Other .....  | 19,896             | 23,013             | 187,698                               |
| Total long-term liabilities .....                                  | <u>394,348</u>     | <u>401,016</u>     | <u>3,720,264</u>                      |
| <b>Minority interests</b> .....                                    | <u>2,174</u>       | <u>1,814</u>       | <u>20,510</u>                         |
| <b>Commitments and contingent liabilities</b> (Notes 8, 13 and 14) |                    |                    |                                       |
| <b>Shareholders' equity</b> (Notes 9 and 16):                      |                    |                    |                                       |
| Common stock —   |                    |                    |                                       |
| authorized, 180,000,000 shares;                                    |                    |                    |                                       |
| issued, 56,980,000 shares in 2004 and 2003 .....                   | 16,440             | 16,440             | 155,094                               |
| Capital surplus .....  | 17,047             | 17,047             | 160,821                               |
| Retained earnings .....  | 52,753             | 39,389             | 497,670                               |
| Net unrealized gain (loss) on available-for-sale securities .....  | 5,831              | (1,085)            | 55,009                                |
| Foreign currency translation adjustments .....                     | (2,960)            | (1,543)            | (27,924)                              |
| Treasury stock, at cost  |                    |                    |                                       |
| 20,727 shares in 2004 and 18,449 shares in 2003 .....              | (41)               | (34)               | (387)                                 |
| Total shareholders' equity .....                                   | <u>89,070</u>      | <u>70,214</u>      | <u>840,283</u>                        |
| <b>Total</b> .....   | <u>¥ 1,738,263</u> | <u>¥ 1,613,234</u> | <u>\$ 16,398,708</u>                  |





# Consolidated Statements of Shareholders' Equity

Diamond Lease Company Limited and Consolidated Subsidiaries

Years Ended March 31, 2004 and 2003

|  | Thousands of<br>Shares |        | Millions of Yen |           | Thousands of<br>U.S. Dollars (Note 1) |
|--|------------------------|--------|-----------------|-----------|---------------------------------------|
|  | 2004                   | 2003   | 2004            | 2003      | 2004                                  |
| <b>Common stock</b>  |                        |        |                 |           |                                       |
| Beginning balance .....  | 56,980                 | 56,980 | ¥ 16,440        | ¥ 16,440  | \$ 155,094                            |
| Ending balance .....   | 56,980                 | 56,980 | ¥ 16,440        | ¥ 16,440  | \$ 155,094                            |
| <b>Capital surplus</b>   |                        |        |                 |           |                                       |
| Beginning balance .....  |                        |        | ¥ 17,047        | ¥ 17,047  | \$ 160,821                            |
| Ending balance .....   |                        |        | ¥ 17,047        | ¥ 17,047  | \$ 160,821                            |
| <b>Retained earnings</b>   |                        |        |                 |           |                                       |
| Beginning balance .....  |                        |        | ¥ 39,389        | ¥ 32,752  | \$ 371,595                            |
| Net income .....   |                        |        | 14,592          | 8,862     | 137,660                               |
| Cash dividends paid .....  |                        |        | (1,168)         | (940)     | (11,019)                              |
| Bonuses to directors .....   |                        |        | (60)            | (60)      | (566)                                 |
| Adjustment for newly consolidated subsidiary .....                         |                        |        |                 | (265)     |                                       |
| Adjustment for change in functional currency of a foreign subsidiary ..... |                        |        |                 | (960)     |                                       |
| Ending balance .....   |                        |        | ¥ 52,753        | ¥ 39,389  | \$ 497,670                            |
| <b>Net unrealized gain (loss) on available-for-sale securities</b>         |                        |        |                 |           |                                       |
| Beginning balance .....  |                        |        | ¥ (1,085)       | ¥ (368)   | \$ (10,236)                           |
| Adjustment for the period .....  |                        |        | 6,916           | (717)     | 65,245                                |
| Ending balance .....   |                        |        | ¥ 5,831         | ¥ (1,085) | \$ 55,009                             |
| <b>Foreign currency translation adjustments</b>                            |                        |        |                 |           |                                       |
| Beginning balance .....  |                        |        | ¥ (1,543)       | ¥ (1,766) | \$ (14,556)                           |
| Adjustment for the period .....  |                        |        | (1,417)         | 223       | (13,368)                              |
| Ending balance .....   |                        |        | ¥ (2,960)       | ¥ (1,543) | \$ (27,924)                           |
| <b>Treasury stock:</b>   |                        |        |                 |           |                                       |
| Beginning balance .....  | (18)                   | (9)    | ¥ (34)          | ¥ (14)    | \$ (321)                              |
| Treasury stock acquired, net .....   | (3)                    | (9)    | (7)             | (20)      | (66)                                  |
| Ending balance .....   | (21)                   | (18)   | ¥ (41)          | ¥ (34)    | \$ (387)                              |

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Diamond Lease Company Limited and Consolidated Subsidiaries

Years Ended March 31, 2004 and 2003

|  | Millions of Yen |           | Thousands of<br>U.S. Dollars (Note 1) |
|--|-----------------|-----------|---------------------------------------|
|  | 2004            | 2003      | 2004                                  |
| <b>Operating activities:</b>   |                 |           |                                       |
| Income before income taxes and minority interests .....                                | ¥ 27,159        | ¥ 15,564  | \$ 256,217                            |
| Adjustment for:  |                 |           |                                       |
| Income taxes — paid .....  | (8,623)         | (10,744)  | (81,349)                              |
| Depreciation and amortization .....  | 294,668         | 297,739   | 2,779,887                             |
| Reversal of doubtful receivables .....   | (812)           | (1,248)   | (7,661)                               |
| Loss on disposal of leased assets .....  | 31,048          | 25,833    | 292,906                               |
| Loss on devaluation of investment securities .....                                     | 62              | 1,939     | 585                                   |
| Reversal of (provision for) liability for retirement benefits .....                    | (67)            | 59        | (632)                                 |
| Changes in assets and liabilities:   |                 |           |                                       |
| Increase in trade receivables .....  | (123,663)       | (102,593) | (1,166,632)                           |
| Increase (decrease) in trade payables .....  | 9,306           | (10,841)  | 87,792                                |
| (Decrease) increase in interest payable .....  | (33)            | 1,986     | (311)                                 |
| Purchases of leased assets .....   | (299,919)       | (323,113) | (2,829,425)                           |
| Other — net .....  | 20,483          | 51,901    | 193,236                               |
| Total adjustments .....  | (77,550)        | (69,082)  | (731,604)                             |
| Net cash used in operating activities .....  | (50,391)        | (53,518)  | (475,387)                             |
| <b>Investing activities:</b>   |                 |           |                                       |
| Purchases of property and equipment .....  | (3,317)         | (2,783)   | (31,293)                              |
| Purchases of investment securities .....   | (641)           | (2,863)   | (6,047)                               |
| Proceeds from sales of investment securities .....                                     | 1,524           | 1,050     | 14,377                                |
| Purchases of DFL Lease Co. Ltd. ....   | (1,770)         |           | (16,698)                              |
| Increase in other assets .....   | (10,787)        | (9,096)   | (101,764)                             |
| Net cash used in investing activities .....  | (14,991)        | (13,692)  | (141,425)                             |
| <b>Financing activities:</b>   |                 |           |                                       |
| Repayments of long-term debt .....   | (169,108)       | (170,309) | (1,595,358)                           |
| Proceeds from long-term debt .....   | 195,370         | 126,147   | 1,843,113                             |
| Net proceeds from short-term borrowings .....  | 38,305          | 109,588   | 361,368                               |
| Cash dividends paid .....  | (1,168)         | (940)     | (11,019)                              |
| Other — net .....  | (36)            | (20)      | (340)                                 |
| Net cash provided by financing activities .....  | 63,363          | 64,466    | 597,764                               |
| Foreign currency translation adjustments on cash and cash equivalents .....            | (169)           | (363)     | (1,594)                               |
| Net decrease in cash and cash equivalents .....  | (2,188)         | (3,107)   | (20,642)                              |
| Cash and cash equivalents of newly consolidated subsidiary,<br>beginning of year ..... |                 | 614       |                                       |
| Cash and cash equivalents, beginning of year .....                                     | 6,556           | 9,049     | 61,849                                |
| Cash and cash equivalents, end of year .....   | ¥ 4,368         | ¥ 6,556   | \$ 41,207                             |

|  | Millions of Yen |      | Thousands of<br>U.S. Dollars (Note 1) |
|--|-----------------|------|---------------------------------------|
|  | 2004            | 2003 | 2004                                  |
| <b>Additional information:</b>   |                 |      |                                       |
| Assets acquired and liabilities assumed in acquisition,<br>as of March 31, 2004 (Note 10): |                 |      |                                       |
| Current assets acquired .....  | ¥ 13,491        |      | \$ 127,274                            |
| Leased assets, investments and property acquired .....                                     | 47,894          |      | 451,830                               |
| Goodwill .....   | 271             |      | 2,557                                 |
| Current liabilities assumed .....  | (41,535)        |      | (391,840)                             |
| Long-term liabilities assumed .....  | (17,858)        |      | (168,472)                             |
| Minority interests .....   | (100)           |      | (943)                                 |
| Acquisition cost .....   | 2,163           |      | 20,406                                |
| Cash and cash equivalents held by DFL Lease Co. Ltd. ....                                  | (393)           |      | (3,708)                               |
| Payment for purchases of DFL Lease Co. Ltd. ....   | ¥ 1,770         |      | \$ 16,698                             |

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Diamond Lease Company Limited and Consolidated Subsidiaries

Years Ended March 31, 2004 and 2003

## 1. Basis of Presenting Consolidated Financial Statements

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

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. In addition, certain reclassifications have been made in 2003 financial statements to conform to the classifications used in 2004.

The translation of Japanese yen into U.S. dollars is included solely for the convenience of readers outside Japan and has been made at the rate of ¥106 = US\$1.00, the exchange rate in effect at March 31, 2004. The translation should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at the above or any other rate.

## 2. Summary of Significant Accounting Policies

**a. Principles of Consolidation** — The accompanying consolidated financial statements as of March 31, 2004 include the accounts of the Company and its 42 (30 in 2003) significant subsidiaries.

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Companies have the ability to exercise significant influence are accounted for by the equity method.

Investment in an associated company is accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is shown as "Goodwill" in investments and amortized using the straight-line method over a period of 15 years.

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

**b. Cash Equivalents** — Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits and commercial paper, all of which mature or become due within three months of the date of acquisition.

**c. Lease Accounting** — The Company and its consolidated domestic subsidiaries account for all leases as operating leases. Under Japanese accounting standards for leases, except for the case in which the ownership of the leased property is transferred to the lessee, finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the consolidated financial statements.

The leased assets are initially recorded at their acquisition costs and depreciated over the term of the lease on a straight-line basis.

**d. Installment Sales** — The Companies record revenues and profits from installment sales at the due date of each receipt.

The Companies follow the industry practice of including installment receivables due after one year in current assets. Receivables due after one year amounted to ¥203,867 million (\$1,923,274 thousand) in 2004 and ¥192,643 million in 2003, respectively.

**e. Marketable and Investment Securities** — All securities are classified as available-for-sale securities. Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method.

Non-marketable available-for-sale securities are stated at cost determined by the moving average method.

The Company reviews the fair value of its available-for-sale securities on a regular basis to determine if the fair value of any individual security has declined below its cost and if such decline is other than temporary. If the decline in value is judged to be other than temporary, the security is written down to fair value. The resulting realized loss is included in the consolidated statements of income in the period in which the decline was deemed to be other than temporary.

**f. Property and Equipment** — Property and equipment held for the Company's own use are stated at cost.

Depreciation is computed based on the estimated useful lives of the assets under the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998 for assets held by the Company and consolidated domestic subsidiaries, and under the straight-line method for assets held by consolidated foreign sub-

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sidiaries.

The range of estimated useful lives of the assets are principally as follows:

Buildings: 2 to 50 years

Furniture and equipment: 2 to 20 years

**g. Retirement and Pension Plans**

**Employees' Retirement Benefits** — The Company has non-contributory funded pension plans for employees. Certain consolidated domestic subsidiaries have unfunded retirement benefit plans.

The liability for retirement benefits of the Company is computed based on projected benefit obligations and plan assets at the balance sheet date, while the liability for retirement benefits of the subsidiaries is provided at 100% of the amount which would be required if all employees had retired at the balance sheet date.

**Retirement Allowances for Directors and Corporate Auditors**

— Retirement allowances for directors and corporate auditors are recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at the balance sheet date.

**h. Income Taxes** — The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

**i. Translation of Foreign Currency Accounts**

**Foreign Currency Transactions** — All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date or, for hedged transactions, the applicable exchange rates. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

**Foreign Currency Financial Statements** — The balance sheet accounts and revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

**j. Derivative and Hedging Activities** — The Companies utilize derivative financial instruments, including foreign exchange forward contracts, currency option contracts and currency swap contracts, to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Companies also enter into interest rate swap contracts to manage its interest rate risk exposures

on certain assets and liabilities. The Companies do not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign exchange forward contracts, currency option contracts and currency swap contracts are utilized to hedge foreign exchange risk. Certain assets and liabilities denominated in foreign currencies are translated at the contracted rates if the contracts qualify for hedge accounting.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income. The other interest rate swaps which qualify for hedge accounting are measured at market value at the balance sheet date and the unrealized gains or losses are deferred until maturity as other liability or asset.

**k. Per Share Information** — Basic net income per share is computed by dividing net income available to common shareholders, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share is not disclosed because it is anti-dilutive.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

**l. New Accounting Pronouncements** — In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the

higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The Company is currently in the process of assessing the effect of adoption of these pronouncements.

### 3. Marketable and Investment Securities

Marketable and investment securities as of March 31, 2004 and 2003 consisted of the following:

|                              | Millions of Yen |          | Thousands of U.S. Dollars |
|------------------------------|-----------------|----------|---------------------------|
|                              | 2004            | 2003     | 2004                      |
| Current:                     |                 |          |                           |
| Debt securities .....        | ¥ 2,010         | ¥ 6,264  | \$ 18,962                 |
| Trust fund investments ..... | 670             | 91       | 6,321                     |
| Total .....                  | ¥ 2,680         | ¥ 6,355  | \$ 25,283                 |
| Non-current:                 |                 |          |                           |
| Equity securities .....      | ¥ 21,200        | ¥ 12,364 | \$ 200,000                |
| Debt securities .....        | 25,244          | 28,228   | 238,151                   |
| Trust fund investments ..... | 221             | 640      | 2,085                     |
| Total .....                  | ¥ 46,665        | ¥ 41,232 | \$ 440,236                |

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2004 and 2003 were as follows:

| March 31, 2004               | Millions of Yen |                  |                   |            |
|------------------------------|-----------------|------------------|-------------------|------------|
|                              | Cost            | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as:    |                 |                  |                   |            |
| Available-for-sale:          |                 |                  |                   |            |
| Equity securities .....      | ¥ 8,714         | ¥ 9,819          | ¥ 211             | ¥ 18,322   |
| Debt securities .....        | 27,538          | 284              | 569               | 27,253     |
| Trust fund investments ..... | 689             | 214              | 12                | 891        |
| March 31, 2003               | Millions of Yen |                  |                   |            |
|                              | Cost            | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as:    |                 |                  |                   |            |
| Available-for-sale:          |                 |                  |                   |            |
| Equity securities .....      | ¥ 7,566         | ¥ 1,892          | ¥ 669             | ¥ 8,789    |
| Debt securities .....        | 32,651          | 1,421            | 2,079             | 31,993     |
| Trust fund investments ..... | 769             |                  | 38                | 731        |

| March 31, 2004               | Thousands of U.S. Dollars |                  |                   |            |
|------------------------------|---------------------------|------------------|-------------------|------------|
|                              | Cost                      | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as:    |                           |                  |                   |            |
| Available-for-sale:          |                           |                  |                   |            |
| Equity securities .....      | \$ 82,208                 | \$ 92,632        | \$ 1,991          | \$ 172,849 |
| Debt securities .....        | 259,792                   | 2,679            | 5,368             | 257,103    |
| Trust fund investments ..... | 6,500                     | 2,019            | 113               | 8,406      |

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2004 and 2003 were as follows:

|                         | Carrying amount |         |                           |
|-------------------------|-----------------|---------|---------------------------|
|                         | Millions of Yen | 2003    | Thousands of U.S. Dollars |
|                         | 2004            | 2003    | 2004                      |
| Available-for-sale:     |                 |         |                           |
| Equity securities ..... | ¥ 2,878         | ¥ 3,575 | \$ 27,151                 |
| Debt securities .....   |                 | 2,499   |                           |
| Total .....             | ¥ 2,878         | ¥ 6,074 | \$ 27,151                 |

Proceeds from sales of available-for-sale securities for the years ended March 31, 2004 and 2003 were ¥875 million (\$8,255 thousand) and ¥1,623 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥711 million (\$6,708 thousand) and ¥12 million (\$113 thousand), respectively, for the year ended March 31, 2004 and ¥15 million and ¥21 million, respectively, for the year ended March 31, 2003.

The carrying values of debt securities and trust fund investments by contractual maturities for securities classified as available-for-sale at March 31, 2004 are as follows:

|                               | Millions of Yen    | Thousands of U.S. Dollars |
|-------------------------------|--------------------|---------------------------|
|                               | Available for sale | Available for sale        |
| Due in one year or less ..... | ¥ 2,680            | \$ 25,283                 |
| Due after one year            |                    |                           |
| through five years .....      | 1,491              | 14,066                    |
| Due after five years          |                    |                           |
| through ten years .....       | 51,188             | 482,906                   |
| Total .....                   | ¥ 55,359           | \$ 522,255                |

The total carrying values of nonmaturity bonds are not included in the above table.

#### 4. Leased Assets

Leased assets as of March 31, 2004 and 2003 were as follows:

|   | Millions of Yen |             | Thousands of<br>U.S. Dollars |
|---|-----------------|-------------|------------------------------|
|   | 2004            | 2003        | 2004                         |
| Computers and office equipment .....          | ¥ 1,057,260     | ¥ 1,062,053 | \$ 9,974,151                 |
| Industrial and Construction machinery .....   | 544,082         | 497,537     | 5,132,849                    |
| Other .....                                   | 640,387         | 536,109     | 6,041,387                    |
| Leased assets — at cost .....                 | 2,241,729       | 2,095,699   | 21,148,387                   |
| Accumulated depreciation .....                | (1,361,673)     | (1,239,893) | (12,845,972)                 |
| Total .....                                   | 880,056         | 855,806     | 8,302,415                    |
| Advances for purchases of leased assets ..... | 653             | 2,950       | 6,161                        |
| Total leased assets .....                     | ¥ 880,709       | ¥ 858,756   | \$ 8,308,576                 |

The minimum future rentals on lease contracts as of March 31, 2004 and 2003 were ¥895,426 million (\$8,447,415 thousand) and ¥879,563 million, respectively.

The aggregate annual maturities of the minimum future rentals on lease contracts as of March 31, 2004 were as follows:

| Year Ending March 31 | Millions of Yen | Thousands of<br>U.S. Dollars |
|----------------------|-----------------|------------------------------|
| 2005 .....           | ¥ 286,211       | \$ 2,700,104                 |
| 2006 .....           | 224,558         | 2,118,472                    |
| 2007 .....           | 155,795         | 1,469,764                    |
| 2008 .....           | 98,053          | 925,028                      |
| 2009 .....           | 50,150          | 473,113                      |
| Thereafter .....     | 80,659          | 760,934                      |
| Total .....          | ¥ 895,426       | \$ 8,447,415                 |

#### 5. Pledged Assets

As of March 31, 2004 the following assets were pledged as collateral for long-term debt and contingent liabilities.

|   | Millions of Yen | Thousands of<br>U.S. Dollars |
|---|-----------------|------------------------------|
| Time deposits other than cash equivalents ..... | ¥ 94            | \$ 887                       |
| Minimum future rentals on lease contracts ..... | 26,721          | 252,085                      |

The liabilities secured by the foregoing assets were as follows:

|   | Millions of Yen | Thousands of<br>U.S. Dollars |
|---|-----------------|------------------------------|
| Long-term debt including current maturities ..... | ¥ 16,063        | \$ 151,538                   |
| Contingent liabilities .....                      | 64              | 604                          |

## 6. Short-term Borrowings and Long-term Debt

Short-term borrowings as of March 31, 2004 and 2003 were as follows:

|   | Millions of Yen |           | Thousands of<br>U.S. Dollars |
|---|-----------------|-----------|------------------------------|
|   | 2004            | 2003      | 2004                         |
| Short-term loans from banks and other financial institutions with interest ranging: |                 |           |                              |
| 2004 — from 0.29% to 1.56% .....  | ¥ 347,235       |           | \$ 3,275,802                 |
| 2003 — from 0.34% to 1.70% .....  |                 | ¥ 337,641 |                              |
| Commercial paper with interest ranging:   |                 |           |                              |
| 2004 — from 0.02% to 0.10% .....  | 487,300         |           | 4,597,170                    |
| 2003 — from 0.06% to 0.25% .....  |                 | 467,600   |                              |
| Total .....   | ¥ 834,535       | ¥ 805,241 | \$ 7,872,972                 |

Substantially all of the Company's short-term bank loans are made under agreements, as is customary in Japan, which provide that, at the request of bank, the Company provide additional collateral or guarantors with respect to the loan. As of March 31, 2004, the Company has not received any such request.

Long-term debt as of March 31, 2004 and 2003 was as follows:

|   | Millions of Yen |           | Thousands of<br>U.S. Dollars |
|---|-----------------|-----------|------------------------------|
|   | 2004            | 2003      | 2004                         |
| Bonds   |                 |           |                              |
| Straight bonds and floating-rate bonds due 2004<br>with interest ranging from 0.12% to 2.13% .....        |                 | ¥ 76,400  |                              |
| Straight bonds and floating-rate bonds due 2005<br>with interest ranging from 0.14% to 2.00% .....        | ¥ 96,900        | 31,000    | \$ 914,151                   |
| Straight bonds and floating-rate bonds due 2006<br>with interest ranging from 0.25% to 1.52% .....        | 31,530          | 30,930    | 297,453                      |
| Straight bonds due 2007<br>with interest ranging from 0.43% to 2.03% .....                                | 8,000           | 3,000     | 75,472                       |
| Straight bonds due 2008<br>with interest ranging from 0.53% to 0.62% .....                                | 11,000          |           | 103,774                      |
| Straight bonds due 2009<br>with interest ranging from 0.50% to 0.84% .....                                | 31,000          | 1,000     | 292,453                      |
| Loans from the securitization of the minimum future<br>rentals on lease contracts with interest ranging:  |                 |           |                              |
| from 0.09% to 1.10%, due through 2007 .....   | 58,165          |           | 548,726                      |
| from 0.17% to 1.51%, due through 2007 .....   |                 | 45,910    |                              |
| Floating-rate, due through 2009 .....   | 104,303         |           | 983,991                      |
| Floating-rate, due through 2007 .....   |                 | 103,937   |                              |
| Loans from the banks and other financial institutions,<br>partially collateralized with interest ranging: |                 |           |                              |
| from 0.07% to 5.80%, due through 2016 .....   | 310,876         |           | 2,932,792                    |
| from 0.07% to 7.46%, due through 2016 .....   |                 | 299,419   |                              |
| Total .....   | 651,774         | 591,596   | 6,148,811                    |
| Current maturities .....  | (278,856)       | (215,123) | (2,630,717)                  |
| Long-term debt, less current maturities .....   | ¥ 372,918       | ¥ 376,473 | \$ 3,518,094                 |



The aggregate annual maturities of long-term debt at March 31, 2004 were as follows:

| Year Ending March 31 | Millions of Yen  | Thousands of U.S. Dollars |
|----------------------|------------------|---------------------------|
| 2005 .....           | ¥ 278,856        | \$ 2,630,717              |
| 2006 .....           | 149,381          | 1,409,255                 |
| 2007 .....           | 70,468           | 664,792                   |
| 2008 .....           | 54,364           | 512,868                   |
| 2009 .....           | 68,926           | 650,245                   |
| Thereafter .....     | 29,779           | 280,934                   |
| Total .....          | <u>¥ 651,774</u> | <u>\$ 6,148,811</u>       |

The Company executed a total of ¥130,000 million (\$1,226,415 thousand) revolving credit facilities with certain domestic banks for the year ended March 31, 2004.

## 7. Retirement and Pension Plans

The Company has non-contributory funded pension plans for employees. Certain consolidated domestic subsidiaries have unfunded retirement benefit plans.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from its domestic subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The liability for retirement benefits for directors and corporate auditors at March 31, 2004 and 2003 were ¥148 million (\$1,396 thousand) and ¥136 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The liability (asset) for employees' retirement benefits at March 31, 2004 and 2003 consisted of the following:

|                                       | Millions of Yen |              | Thousands of U.S. Dollars |
|---------------------------------------|-----------------|--------------|---------------------------|
|                                       | <b>2004</b>     | 2003         | <b>2004</b>               |
| Projected benefit obligation .....    | ¥ 5,461         | ¥ 4,350      | \$ 51,519                 |
| Fair value of plan assets .....       | (3,446)         | (3,007)      | (32,509)                  |
| Unrecognized prior service cost ..... | 190             |              | 1,792                     |
| Unrecognized actuarial loss .....     | (1,644)         | (981)        | (15,509)                  |
| Prepaid pension costs .....           |                 | 191          |                           |
| Net liability .....                   | <u>¥ 561</u>    | <u>¥ 553</u> | <u>\$ 5,293</u>           |

The components of net periodic benefit costs for the year ended March 31, 2004 and 2003 are as follows:

|   | Millions of Yen |              | Thousands of U.S. Dollars |
|---|-----------------|--------------|---------------------------|
|   | <b>2004</b>     | 2003         | <b>2004</b>               |
| Service cost .....                          | ¥ 296           | ¥ 305        | \$ 2,793                  |
| Interest cost .....                         | 102             | 100          | 962                       |
| Expected return on plan assets .....        | (51)            | (89)         | (481)                     |
| Amortization of prior service cost .....    | (15)            |              | (141)                     |
| Recognized actuarial loss .....             | 54              | 40           | 509                       |
| Additionally paid retirement benefits ..... | 19              | 62           | 179                       |
| Net periodic benefit costs .....            | <u>¥ 405</u>    | <u>¥ 418</u> | <u>\$ 3,821</u>           |

Assumptions used for the years ended March 31, 2004 and 2003 are set forth as follows:

|   | 2004           | 2003           |
|---|----------------|----------------|
| Discount rate .....                               | 1.7%           | 2.5%           |
| Expected rate of return on plan assets .....      | 1.7%           | 3.0%           |
| Amortization period of prior service cost .....   | 14 years       |                |
| Recognition period of actuarial gain / loss ..... | 18 to 20 years | 18 to 20 years |

## 8. Commitments and Contingent Liabilities

As of March 31, 2004, the Companies have commitments for the purchase of assets for leasing and installment sales, having a cost of approximately ¥69,661 million (\$657,179 thousand).

The Companies are contingently liable as of March 31, 2004 as guarantor or co-guarantor for borrowings of ¥6,617 million (\$62,425 thousand) for its unconsolidated subsidiaries and others.

The Companies have entered into various interest rate swaps in the ordinary course of business (Note 14).

## 9. Shareholders' Equity

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which various amendments have become effective since October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of the balance of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock balance may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥ 50,699 million (\$478,292 thousand) as of March 31, 2004, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semi-annual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

## 10. Acquisition of DFL Lease Co. Ltd.

On January 15, 2004, the Company acquired 95% of the issued shares of DFL Lease Co. Ltd. for ¥2,163 million (\$20,406 thousand).

## 11. Related Party Transactions

The transactions with affiliates and a principal shareholder for the years ended March 31, 2004 and 2003 were as follows:

|                                     | Millions of Yen |       | Thousands of<br>U.S. Dollars |
|-------------------------------------|-----------------|-------|------------------------------|
|                                     | 2004            | 2003  | 2004                         |
| Interest expense .....              | ¥ 882           | ¥ 931 | \$ 8,321                     |
| Interest income .....               | 532             |       | 5,019                        |
| Revenue                             |                 |       |                              |
| Lease .....                         | 5,249           |       | 49,519                       |
| Installment sales .....             | 1,965           |       | 18,538                       |
| Purchase of lease receivables ..... | 23,542          |       | 222,094                      |

Amounts due from and to affiliates and a principal shareholder as of March 31, 2004 and 2003 were as follows:

|  | Millions of Yen |         | Thousands of<br>U.S. Dollars |
|--|-----------------|---------|------------------------------|
|  | 2004            | 2003    | 2004                         |
| Receivables — trade:                   |                 |         |                              |
| Lease .....                            | ¥ 214           | ¥ 275   | \$ 2,019                     |
| Installment sales .....                | 2,970           | 2,954   | 28,019                       |
| Loans .....                            | 6,040           | 2,386   | 56,981                       |
| Short-term borrowings .....            | 100,350         | 100,350 | 946,698                      |
| Other current liabilities .....        | 186             | 186     | 1,755                        |
| Long-term debt .....                   | 16,381          | 15,266  | 154,538                      |
| Obligations under finance leases ..... | 11,627          |         | 109,689                      |

## 12. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42.0% for the years ended March 31, 2004 and 2003.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2004 and 2003 are as follows:

|  | Millions of Yen |          | Thousands of<br>U.S. Dollars |
|--|-----------------|----------|------------------------------|
|  | 2004            | 2003     | 2004                         |
| Deferred tax assets:                     |                 |          |                              |
| Allowance for doubtful receivables ..... | ¥ 5,290         | ¥ 7,250  | \$ 49,906                    |
| Tax loss carry forwards .....            | 4,050           | 885      | 38,208                       |
| Property and equipment .....             | 1,521           | 1,819    | 14,349                       |
| Trade receivables — Lease .....          | 729             |          | 6,877                        |
| Other .....                              | 2,913           | 3,298    | 27,481                       |
| Total .....                              | ¥ 14,503        | ¥ 13,252 | \$ 136,821                   |
| Less valuation allowance .....           | (2,643)         | (518)    | (24,934)                     |
| Less deferred tax liabilities .....      | (4,204)         | (79)     | (39,660)                     |
| Net deferred tax assets .....            | ¥ 7,656         | ¥ 12,655 | \$ 72,227                    |

|  | Millions of Yen |       | Thousands of<br>U.S. Dollars |
|--|-----------------|-------|------------------------------|
|  | 2004            | 2003  | 2004                         |
| Deferred tax liabilities:                                  |                 |       |                              |
| Net unrealized gain on available-for-sale securities ..... | ¥ 4,145         |       | \$ 39,104                    |
| Property and equipment .....                               | 863             | ¥ 863 | 8,142                        |
| Other .....  | 21              | 57    | 197                          |
| Total .....  | ¥ 5,029         | ¥ 920 | \$ 47,443                    |
| Less deferred tax assets .....                             | (4,204)         | (79)  | (39,660)                     |
| Net deferred tax liabilities .....                         | ¥ 825           | ¥ 841 | \$ 7,783                     |

The difference between the effective tax rate in the accompanying consolidated statements of income and the normal effective statutory tax rate for the year ended March 31, 2003 was not significant.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the year ended March 31, 2004 is as follows:

|  | 2004          |
|--|---------------|
| Normal effective statutory tax rate .....    | 42.0 %        |
| Valuation allowance .....                    | 2.7           |
| Amortization of consolidation goodwill ..... | 0.6           |
| Actual effective tax rate .....              | <u>45.3 %</u> |

### 13. Leases

The Companies lease certain equipment and other assets under finance leases. Total rental expenses under such lease for the years ended March 31, 2004 and 2003 were ¥7 million (\$66 thousand) and ¥23 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease which included obligations under subleases contracts, that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2004 and 2003 was as follows:

|                                      | Millions of Yen |         | Thousands of<br>U.S. Dollars |
|--------------------------------------|-----------------|---------|------------------------------|
|                                      | 2004            | 2003    | 2004                         |
| (1) Property and equipment           |                 |         |                              |
| Acquisition cost .....               | ¥ 76            | ¥ 66    | \$ 717                       |
| Accumulated depreciation .....       | (56)            | (54)    | (528)                        |
| Net leased property .....            | ¥ 20            | 12      | \$ 189                       |
| (2) Obligations under finance leases |                 |         |                              |
| Due within one year .....            | ¥ 1,344         | 2,311   | \$ 12,679                    |
| Due after one year .....             | 660             | 2,291   | 6,227                        |
| Total .....                          | ¥ 2,004         | ¥ 4,602 | \$ 18,906                    |

Depreciation expense which is not reflected in the accompanying consolidated statements of income, computed by the straight-line method, was ¥7 million (\$66 thousand) and ¥23 million for the years ended March 31, 2004 and 2003, respectively. The amount of obligations under finance leases includes the imputed interest expense portion.

## 14. Derivatives

The Companies enter into foreign currency forward contracts, currency option contracts and currency swap contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Companies also enter into interest rate swap contracts to manage its interest rate exposures on certain assets and liabilities.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities. The Companies do not hold or issue derivatives for trading purposes. Because the counterparties to these derivatives are limited to major international financial institutions, the Companies do not anticipate any losses arising from credit risk. Derivative transactions entered into by the Companies have been made in accordance with internal policies which regulate the authorization and credit limit amounts.

The companies had the following derivatives contracts outstanding at March 31, 2004 and 2003:

|   | Millions of Yen           |            |                        |                 |            |                        |
|---|---------------------------|------------|------------------------|-----------------|------------|------------------------|
|   | 2004                      |            |                        | 2003            |            |                        |
|   | Contract Amount           | Fair Value | Unrealized Gain / Loss | Contract Amount | Fair Value | Unrealized Gain / Loss |
| Currency swap contracts:                        |                           |            |                        |                 |            |                        |
| Yen payment, U.S.\$ receipt .....               |                           |            |                        | ¥ 997           | ¥ 7        | ¥ 7                    |
| U.S.\$ payment, Yen receipt .....               | ¥ 1,512                   | ¥ (73)     | ¥ (73)                 | 2,512           | (673)      | (673)                  |
| Euro payment, Yen receipt .....                 | 160                       | (3)        | (3)                    | 240             | (2)        | (2)                    |
| Interest rate swap contracts:                   |                           |            |                        |                 |            |                        |
| Floating rate payment, fixed rate receipt ..... | 2,000                     | 160        | 160                    | 2,095           | 240        | 240                    |
| Fixed rate payment, floating rate receipt ..... | 1,670                     | (34)       | (34)                   | 1,090           | (34)       | (34)                   |
| Currency option contracts:                      |                           |            |                        |                 |            |                        |
| Buying, call U.S.\$ .....                       | 46                        | 1          | (1)                    |                 |            |                        |
| Foreign currency forward contracts:             |                           |            |                        |                 |            |                        |
| Purchase U.S.\$ .....                           |                           |            |                        | 154             | (6)        | (6)                    |
|   | Thousands of U.S. Dollars |            |                        |                 |            |                        |
|   | 2004                      |            |                        |                 |            |                        |
|   | Contract Amount           | Fair Value | Unrealized Gain / Loss |                 |            |                        |
| Currency swap contracts:                        |                           |            |                        |                 |            |                        |
| U.S.\$ payment, Yen receipt .....               | \$ 14,264                 | \$ (689)   | \$ (689)               |                 |            |                        |
| Euro payment, Yen receipt .....                 | 1,509                     | (28)       | (28)                   |                 |            |                        |
| Interest rate swap contracts:                   |                           |            |                        |                 |            |                        |
| Floating rate payment, fixed rate receipt ..... | 18,868                    | 1,509      | 1,509                  |                 |            |                        |
| Fixed rate payment, floating rate receipt ..... | 15,755                    | (321)      | (321)                  |                 |            |                        |
| Currency option contracts:                      |                           |            |                        |                 |            |                        |
| Buying, call U.S.\$ .....                       | 434                       | 9          | (9)                    |                 |            |                        |

Foreign currency forward contracts which qualify for hedge accounting, are assigned to the associated assets and liabilities and are recorded on the consolidated balance sheets at March 31, 2004 and 2003, are excluded from the disclosure of market value information.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are excluded from the disclosure of market value information.

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Companies' exposure to credit or market risk.

## 15. Segment Information

Information about industry segments, geographic segments for the years ended March 31, 2004 and 2003 is as follows:

### Industry segments

|   |              | Millions of Yen           |              |            |                           |               |  |
|---|--------------|---------------------------|--------------|------------|---------------------------|---------------|--|
| Year Ended March 31, 2004                               | Lease        | Installment Sales         | Loans        | Other      | Eliminations or Corporate | Consolidated  |  |
| (1) Operating income                                    |              |                           |              |            |                           |               |  |
| Revenue from customers .....                            | ¥ 380,394    | ¥ 164,436                 | ¥ 10,151     | ¥ 7,824    |                           | ¥ 562,805     |  |
| Intersegment revenue .....                              | 127          |                           | 928          | 234        | ¥ (1,289)                 |               |  |
| Total sales .....                                       | 380,521      | 164,436                   | 11,079       | 8,058      | (1,289)                   | 562,805       |  |
| Operating expenses .....                                | 359,677      | 160,864                   | 7,123        | 5,575      | 4,595                     | 537,834       |  |
| Operating income (loss) .....                           | ¥ 20,844     | ¥ 3,572                   | ¥ 3,956      | ¥ 2,483    | ¥ (5,884)                 | ¥ 24,971      |  |
| (2) Total assets, depreciation and capital expenditures |              |                           |              |            |                           |               |  |
| Total assets .....                                      | ¥ 919,983    | ¥ 336,646                 | ¥ 510,041    | ¥ 36,625   | ¥ (65,032)                | ¥ 1,738,263   |  |
| Depreciation .....                                      | 292,031      |                           |              |            | 1,935                     | 293,966       |  |
| Capital expenditures .....                              | 299,919      |                           |              |            | 3,317                     | 303,236       |  |
|   |              | Thousands of U.S. Dollars |              |            |                           |               |  |
| Year Ended March 31, 2004                               | Lease        | Installment Sales         | Loans        | Other      | Eliminations or Corporate | Consolidated  |  |
| (1) Operating income                                    |              |                           |              |            |                           |               |  |
| Revenue from customers .....                            | \$ 3,588,623 | \$ 1,551,283              | \$ 95,764    | \$ 73,811  |                           | \$ 5,309,481  |  |
| Intersegment revenue .....                              | 1,198        |                           | 8,754        | 2,208      | \$ (12,160)               |               |  |
| Total sales .....                                       | 3,589,821    | 1,551,283                 | 104,518      | 76,019     | (12,160)                  | 5,309,481     |  |
| Operating expenses .....                                | 3,393,179    | 1,517,585                 | 67,198       | 52,594     | 43,350                    | 5,073,906     |  |
| Operating income (loss) .....                           | \$ 196,642   | \$ 33,698                 | \$ 37,320    | \$ 23,425  | \$ (55,510)               | \$ 235,575    |  |
| (2) Total assets, depreciation and capital expenditures |              |                           |              |            |                           |               |  |
| Total assets .....                                      | \$ 8,679,085 | \$ 3,175,906              | \$ 4,811,708 | \$ 345,519 | \$ (613,510)              | \$ 16,398,708 |  |
| Depreciation .....                                      | 2,755,009    |                           |              |            | 18,255                    | 2,773,264     |  |
| Capital expenditures .....                              | 2,829,425    |                           |              |            | 31,292                    | 2,860,717     |  |
|   |              | Millions of Yen           |              |            |                           |               |  |
| Year Ended March 31, 2003                               | Lease        | Installment Sales         | Loans        | Other      | Eliminations or Corporate | Consolidated  |  |
| (1) Operating income                                    |              |                           |              |            |                           |               |  |
| Revenue from customers .....                            | ¥ 379,870    | ¥ 136,557                 | ¥ 9,627      | ¥ 6,430    |                           | ¥ 532,484     |  |
| Intersegment revenue .....                              | 103          |                           | 927          | 273        | ¥ (1,303)                 |               |  |
| Total sales .....                                       | 379,973      | 136,557                   | 10,554       | 6,703      | (1,303)                   | 532,484       |  |
| Operating expenses .....                                | 360,729      | 132,321                   | 13,377       | 4,872      | 4,671                     | 515,970       |  |
| Operating income (loss) .....                           | ¥ 19,244     | ¥ 4,236                   | ¥ (2,823)    | ¥ 1,831    | ¥ (5,974)                 | ¥ 16,514      |  |
| (2) Total assets, depreciation and capital expenditures |              |                           |              |            |                           |               |  |
| Total assets .....                                      | ¥ 896,099    | ¥ 295,642                 | ¥ 424,977    | ¥ 43,449   | ¥ (46,933)                | ¥ 1,613,234   |  |
| Depreciation .....                                      | 295,674      |                           |              |            | 1,588                     | 297,262       |  |
| Capital expenditures .....                              | 323,113      |                           |              |            | 2,783                     | 325,896       |  |

## Geographic segments

| Year Ended March 31, 2004    | Millions of Yen |                |          |                           |              |
|------------------------------|-----------------|----------------|----------|---------------------------|--------------|
|                              | Japan           | Middle America | Other    | Eliminations or Corporate | Consolidated |
| (1) Operating income         |                 |                |          |                           |              |
| Revenue from customers ..... | ¥ 504,965       | ¥ 53,662       | ¥ 4,178  |                           | ¥ 562,805    |
| Intersegment revenue .....   | 49              |                |          | ¥ (49)                    |              |
| Total sales .....            | 505,014         | 53,662         | 4,178    | (49)                      | 562,805      |
| Operating expenses .....     | 474,397         | 53,326         | 3,816    | 6,295                     | 537,834      |
| Operating income .....       | ¥ 30,617        | ¥ 336          | ¥ 362    | ¥ (6,344)                 | ¥ 24,971     |
| (2) Total assets .....       | ¥ 1,535,599     | ¥ 23,510       | ¥ 80,622 | ¥ 98,532                  | ¥ 1,738,263  |

| Year Ended March 31, 2004    | Thousands of U.S. Dollars |                |            |                           |               |
|------------------------------|---------------------------|----------------|------------|---------------------------|---------------|
|                              | Japan                     | Middle America | Other      | Eliminations or Corporate | Consolidated  |
| (1) Operating income         |                           |                |            |                           |               |
| Revenue from customers ..... | \$ 4,763,821              | \$ 506,245     | \$ 39,415  |                           | \$ 5,309,481  |
| Intersegment revenue .....   | 462                       |                |            | \$ (462)                  |               |
| Total sales .....            | 4,764,283                 | 506,245        | 39,415     | (462)                     | 5,309,481     |
| Operating expenses .....     | 4,475,443                 | 503,075        | 36,000     | 59,388                    | 5,073,906     |
| Operating income .....       | \$ 288,840                | \$ 3,170       | \$ 3,415   | \$ (59,850)               | \$ 235,575    |
| (2) Total assets .....       | \$ 14,486,783             | \$ 221,792     | \$ 760,586 | \$ 929,547                | \$ 16,398,708 |

Sales and total assets of the Company and its domestic subsidiaries for the year ended March 31, 2003, represented more than 90% of consolidated sales and total assets. Accordingly, geographic segments were not required to be disclosed.

### Sales to foreign customers

Sales to foreign customers for the years ended March 31, 2004 and 2003, represented less than 10% of consolidated sales of each respective year. Accordingly, sales to foreign customers were not required to be disclosed.

## 16. Subsequent Event

On June 29, 2004, the shareholders authorized the appropriation of retained earnings as follows:

|  | Millions of Yen | Thousands of U.S. Dollars |
|--|-----------------|---------------------------|
| Appropriations:                                |                 |                           |
| Cash dividends of ¥12 (\$0.11) per share ..... | ¥ 684           | \$ 6,453                  |
| Bonuses to directors .....                     | 60              | 566                       |

# Deloitte.

Deloitte Touche Tohmatsu  
MS Shibaura Building  
4-13-23 Shibaura  
Minato-ku, Tokyo 108-8530  
Japan  
Tel: +81 (3) 3457 7321  
Fax: +81 (3) 3457 1694  
www.deloitte.com/jp

To the Board of Directors of  
Diamond Lease Company Limited:

We have audited the accompanying consolidated balance sheets of Diamond Lease Company Limited and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, 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, generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Diamond Lease Company Limited and consolidated subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

*Deloitte Touche Tohmatsu*

June 29, 2004

Member of  
Deloitte Touche Tohmatsu



## Service Network (Overseas & Domestic)

(as of June 30, 2004)

### Diamond Airfinance (Ireland) Limited

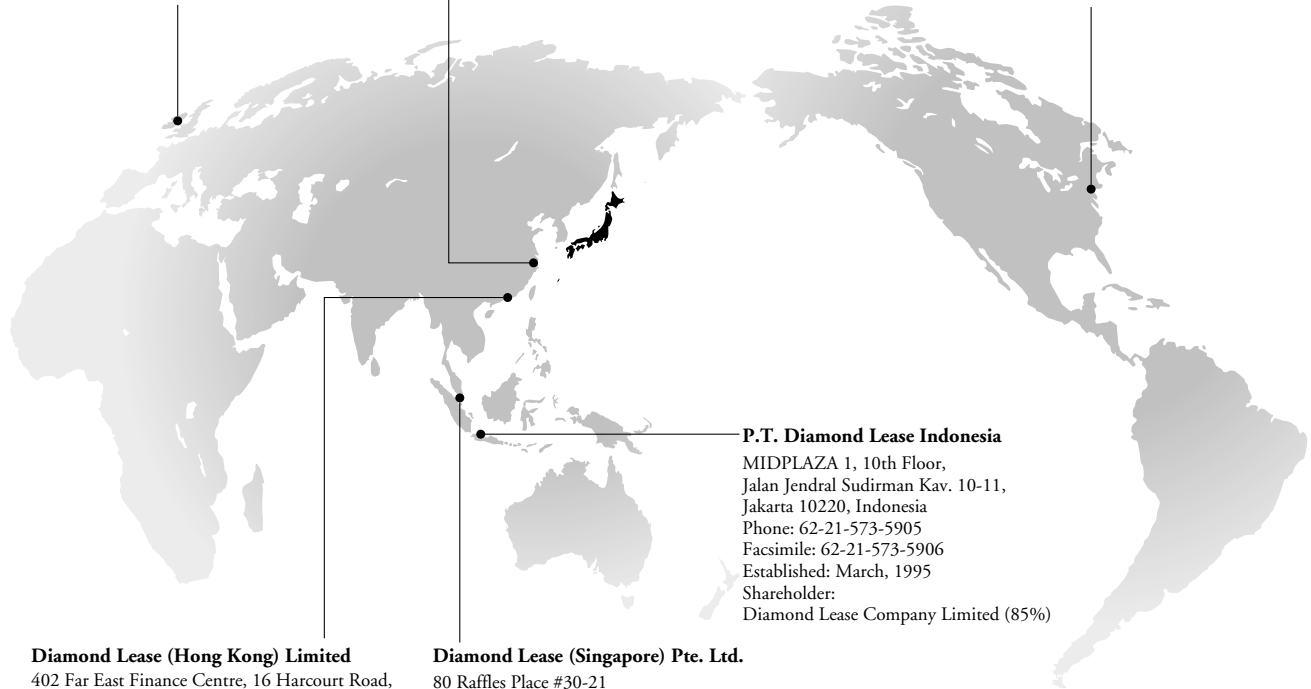
La Touche House  
International Financial Service Centre  
Custom House Docks, Dublin 1, Ireland  
Phone: 353-1-670-1822  
Facsimile: 353-1-670-1823  
Established: May, 1995  
Shareholder:  
Diamond Lease Company Limited (100%)

### Shanghai Representative Office

China Insurance Building Room 2808  
166 Lujiazui East Road, Pudong,  
Shanghai, PROC  
Phone: 8621-6841-9978  
Facsimile: 8621-6841-9987  
Established: April, 2003

### Diamond Lease (U.S.A.), Inc.

350 Fifth Avenue  
Empire State Building, Suite 616  
New York, NY 10118, U.S.A.  
Phone: 1-917-351-0820  
Facsimile: 1-917-351-0840  
Established: November, 1985  
Shareholder:  
Diamond Lease Company Limited (99%)



### P.T. Diamond Lease Indonesia

MIDPLAZA 1, 10th Floor,  
Jalan Jendral Sudirman Kav. 10-11,  
Jakarta 10220, Indonesia  
Phone: 62-21-573-5905  
Facsimile: 62-21-573-5906  
Established: March, 1995  
Shareholder:  
Diamond Lease Company Limited (85%)

### Diamond Lease (Hong Kong) Limited

402 Far East Finance Centre, 16 Harcourt Road,  
Hong Kong  
Phone: 852-2527-7620  
Facsimile: 852-2865-6471  
Established: April, 1973  
Shareholder:  
Diamond Lease Company Limited (100%)

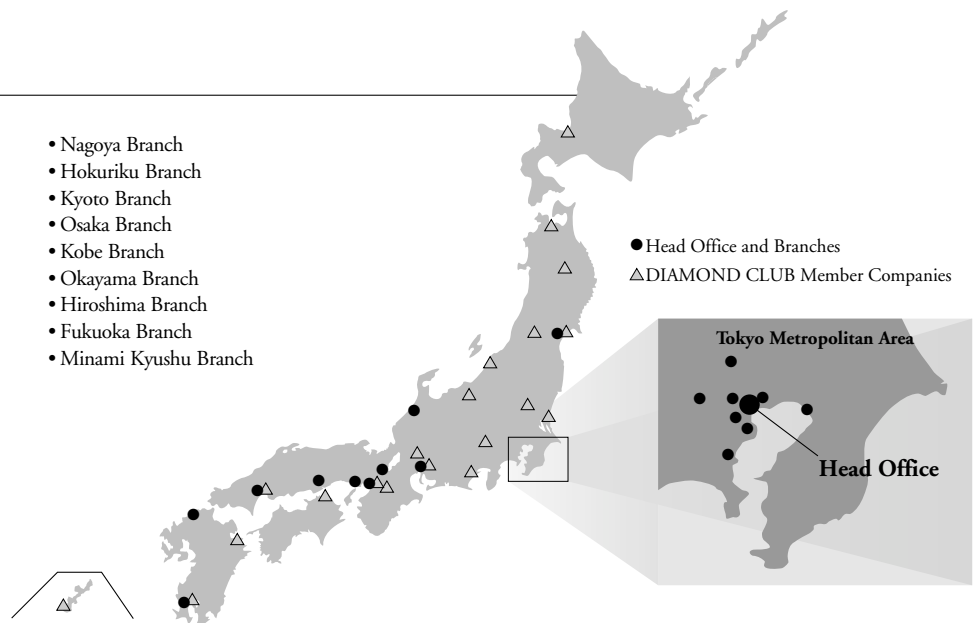
### Diamond Lease (Singapore) Pte. Ltd.

80 Raffles Place #30-21  
UOB Plaza 2  
Singapore 048624  
Phone: 65-6220-2515  
Facsimile: 65-6220-8780  
Established: September, 2000  
Shareholder: Diamond Lease (Hong Kong) Limited (100%)

## In Japan

- Head Office
- Shinjuku Business Department
- Ueno Branch
- Gotanda Branch
- Ikebukuro Branch
- Tachikawa Branch
- Tohoku Branch
- Omiya Branch
- Yokohama Branch
- Chiba Branch

- Nagoya Branch
- Hokuriku Branch
- Kyoto Branch
- Osaka Branch
- Kobe Branch
- Okayama Branch
- Hiroshima Branch
- Fukuoka Branch
- Minami Kyushu Branch



# Investor Information

(as of March 31, 2004)

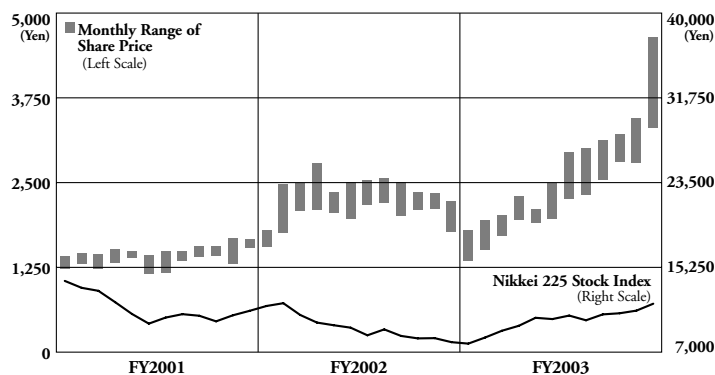
## Principal Shareholders

|   | Number of Shares Held (thousands) | Ownership (%) |
|---|-----------------------------------|---------------|
| Mitsubishi Corporation                        | 8,653                             | 15.19         |
| Japan Trustee Service Bank, Ltd.              | 3,379                             | 5.93          |
| Meiji Yasuda Life Insurance Company           | 3,105                             | 5.45          |
| The Bank of Tokyo-Mitsubishi, Ltd.            | 2,843                             | 4.99          |
| The Mitsubishi Trust and Banking Corporation  | 2,843                             | 4.99          |
| Marunouchi Yorozu Corporation                 | 2,477                             | 4.35          |
| DC Card Co., Ltd.                             | 2,417                             | 4.24          |
| Tori Co., Ltd.                                | 2,328                             | 4.09          |
| The Norinchukin Bank                          | 2,180                             | 3.83          |
| The Tokio Marine and Fire Insurance Co., Ltd. | 1,758                             | 3.09          |

## Common Stock Price Range

(Tokyo Stock Exchange)

|                      | FY2001  |         | FY2002  |         | FY2003  |         |
|----------------------|---------|---------|---------|---------|---------|---------|
|                      | High    | Low     | High    | Low     | High    | Low     |
| First Quarter .....  | ¥ 1,451 | ¥ 1,228 | ¥ 2,490 | ¥ 1,550 | ¥ 2,015 | ¥ 1,350 |
| Second Quarter ..... | 1,520   | 1,154   | 2,785   | 1,958   | 2,495   | 1,908   |
| Third Quarter .....  | 1,560   | 1,178   | 2,555   | 2,015   | 3,120   | 2,260   |
| Fourth Quarter ..... | 1,680   | 1,310   | 2,355   | 1,775   | 4,640   | 2,795   |



## Principal Group Companies

| Domestic                               | Ownership (%) |
|--|---------------|
| Diamond Auto Lease Co., Ltd.*          | 100           |
| DIA SPC Co., Ltd.*                     | 100           |
| The Casio Lease Co., Ltd.*             | 80            |
| Hirogin Lease Co. Ltd.*                | 80            |
| Diamond Rental System Co., Ltd.*       | 100           |
| DFL Lease Co. Ltd.*                    | 95            |
| Mitsubishi Electric Credit Co., Ltd.** | 45            |

\* Consolidated

\*\* A consolidated Subsidiary accounted for by equity method

| Overseas                                   | Ownership (%) |
|--|---------------|
| Diamond Lease (Hong Kong) Limited*         | 100           |
| Diamond Lease (U.S.A.), Inc.*              | 99            |
| Diamond Lease (U.K.) Limited*              | 100           |
| Diamond Lease (Cayman) Limited*            | 100           |
| P.T. Diamond Lease Indonesia*              | 85            |
| Ryoshin International (Hong Kong) Limited* | 100           |
| Ryoshin Lease International (Panama) S.A.* | 100           |
| Diamond Airfinance (Ireland) Limited*      | 100           |
| Dialease Maritime S.A.*                    | 100           |
| Diamond Lease (Singapore) Pte. Ltd.*       | *1)           |

\* Consolidated

\*1) Diamond Lease (Hong Kong) Limited owns 100% shares of the equity.

## *Board of Directors and Corporate Auditors*

(as of June 29, 2004)

### **Chairman**

Yoji Onoe

### **President**

Yasuyuki Hirai

### **Senior Managing Director**

Toru Hada

### **Managing Directors**

Tetsuo Iizumi

Tokutaro Sekine

Nobuyuki Baba

Kazuo Momose

### **Directors**

Masato Komura  
Senior Managing Director  
Chief Executive, Investment  
Meiji Yasuda Life Insurance Company

Hiroshi Kanasugi  
Member of the Board  
Senior Managing Director  
The Tokio Marine and Fire Insurance Co., Ltd.

Ichiro Mizuno  
Member of the Board  
Executive Vice President  
Chief Financial Officer  
Mitsubishi Corporation

### **Corporate Auditors**

Takeaki Takeuchi

Masaru Higashi

Katsutoshi Saito  
Senior Managing Director  
The Dai-ichi Mutual Life Insurance Company

Yoshihiro Maeda  
President  
Ryoshin DC Card Company, Ltd.

## *Corporate Data*

(as of March 31, 2004)

### **Company Name**

Diamond Lease Company Limited

### **Head Office**

3-1, Marunouchi 3-chome,  
Chiyoda-ku, Tokyo 100-8462, Japan  
Phone: 03-3287-6451  
Facsimile: 03-3287-6494  
URL: <http://www.dia-lease.co.jp/>

### **International Department**

3-1, Marunouchi 3-chome,  
Chiyoda-ku, Tokyo 100-8462, Japan  
Phone: 03-3287-6467  
Facsimile: 03-3287-6497

### **Date of Establishment**

April 12, 1971

### **Number of Authorized Shares**

180,000,000

### **Number of Issued Shares**

56,980,000

### **Paid-in Capital**

¥16,440,295,000

### **Number of Shareholders**

2,842

### **Number of Employees**

965

### **Fiscal Year**

April 1 to March 31

### **Transfer Agent**

The Mitsubishi Trust and Banking  
Corporation

### **Auditor**

Deloitte Touche Tohmatsu

### **Stock Listing**

First Section of the Tokyo Stock Exchange



**DIAMOND LEASE COMPANY LIMITED**

3-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo 100-8462, Japan

Phone: 03-3287-6451 Facsimile: 03-3287-6494

URL: <http://www.dia-lease.co.jp/>